

**CITY OF WATONGA OKLAHOMA
WATONGA, OKLAHOMA**

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

**FOR THE YEAR ENDED
JUNE 30, 2014**

CITY OF WATONGA, OKLAHOMA
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For the fiscal year ended JUNE 30, 2014

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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 City of Watonga, State of Oklahoma, as of and for the year ended June 30, 2014, 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, 2014, 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 9-10 and 17-18 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Watonga, State of Oklahoma's basic financial statements.


Watonga, Oklahoma
January 31, 2015

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, 2014. 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, 2014, the assets of the City exceeded its liabilities by \$22,456,603 (net position). Of this amount \$771,383 (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 \$23,553,045.
- The City's total net position are comprised of the following:
 - (1) Invested in capital assets, net of related debt of \$20,427,368 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 \$1,257,852.
 - (3) Unrestricted net position of \$771,383 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Total liabilities of the City decreased by \$81,746 during the fiscal year.
- After transfers of \$362,904 from business-type activities to governmental activities, net position of governmental activities decreased \$1,049,941 or 8.72%, and net position of business-type activities decreased \$46,501 or 0.4%. 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 \$1,248,415 or 55.51% 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-types 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, 2014 are \$22,456,603. This is a \$1,096,442 decrease (of which \$1,506,987 is depreciation- a non-cash expense) over June 30, 2013 net position of \$23,553,045. The City reported positive balances in total net position for both governmental and business-type activities, reporting \$10,995,371 and \$11,461,232, respectively. The City's overall financial position declined during fiscal year 2014.

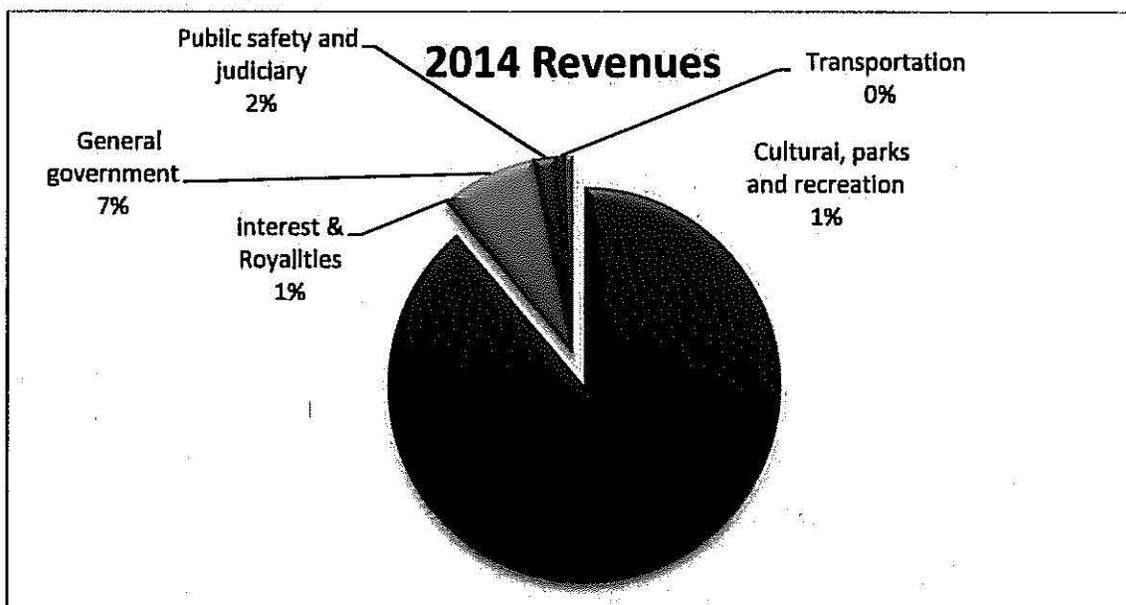
	Summary of Net Position						\$ Change	% Change
	Governmental Activities		Business-Type Activities		Total			
	2014	2013	2014	2013	2014	2013		
Current assets	\$ 2,867,036	\$ 3,467,390	\$ 1,082,134	\$ 1,206,421	\$ 3,949,170	\$ 4,673,811	\$ (724,641)	-16%
Non-current assets	-	0	-	-	-	-	-	100%
Capital assets, net	9,819,675	10,335,145	10,662,454	10,600,531	20,482,129	20,935,676	(453,547)	-2%
Total assets	12,686,711	13,802,535	11,744,588	11,806,952	24,431,299	25,609,487	(1,178,188)	-5%
Current liabilities	61,242	46,561	249,684	244,459	310,926	291,020	19,906	7%
Non-current liabilities	1,630,098	1,710,662	33,672	54,760	1,663,770	1,765,422	(101,652)	-6%
Total liabilities	1,691,340	1,757,223	283,356	299,219	1,974,696	2,056,442	(81,746)	-4%
Net assets								
Invested in capital assets, net of related debt	8,711,192	10,335,145	10,607,693	10,525,707	19,318,885	20,860,852	(1,541,967)	-7%
Restricted	736,237	1,547,498	-	-	736,237	1,547,498	(811,261)	-52%
Unrestricted	1,547,942	162,669	853,539	982,026	2,401,481	1,144,695	1,256,786	110%
Total net position	\$ 10,995,371	\$ 12,045,312	\$ 11,461,232	\$ 11,507,733	\$ 22,456,603	\$ 23,553,045	\$ (1,096,442)	-5%

Summary of Changes in Net Assets

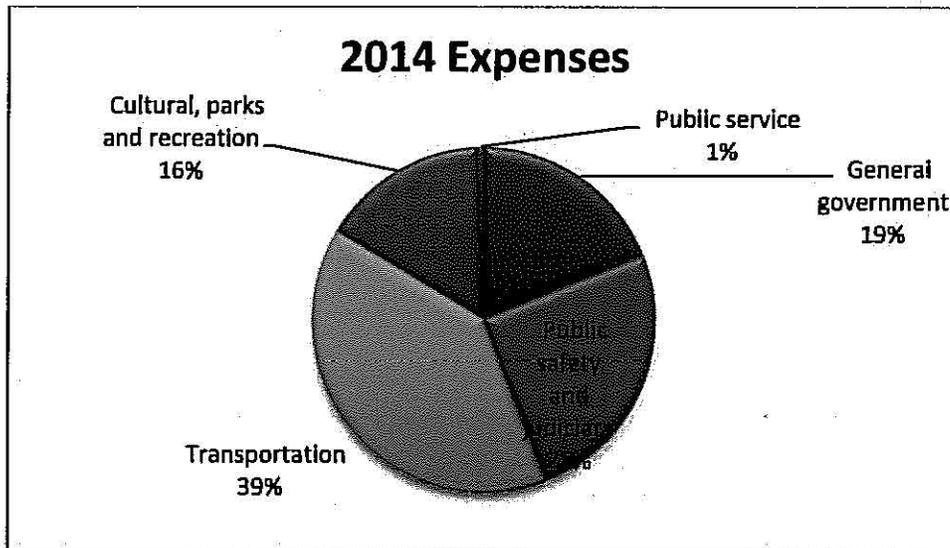
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2014	2013	2014	2013	2014	2013		
Revenues								
Program revenues	\$ 246,350	\$ 141,080	\$4,094,300	\$3,925,747	\$ 4,340,650	\$ 4,066,827	\$ 273,823	7%
Taxes and other general revenues	2,151,003	2,125,089	1,795	1,353	2,152,798	2,126,442	26,356	1%
Total revenues	2,397,353	2,266,169	4,096,095	3,927,100	6,493,448	6,193,269	300,179	5%
Expenses								
General government	591,350	591,202	-	-	591,350	591,202	148	0%
Public safety and judiciary	785,896	852,264	-	-	785,896	852,264	(66,368)	-8%
Transportation	1,234,440	1,301,637	-	-	1,234,440	1,301,637	(67,197)	-5%
Cultural, parks, and recreation	495,992	454,022	-	-	495,992	454,022	41,970	9%
Public service	18,950	17,740	-	-	18,950	17,740	1,210	100%
Economic development	-	-	2,272	17,075	2,272	17,075	(14,803)	100%
Electric	-	-	2,505,284	2,174,488	2,505,264	2,174,488	330,796	15%
Water	-	-	350,603	363,387	350,603	363,387	(12,784)	-4%
Sewer	-	-	266,546	277,672	266,546	277,672	(9,126)	-3%
Sanitation	-	-	132,138	85,892	132,138	85,892	46,246	54%
Healthcare	-	-	18,231	11,578	18,231	11,578	6,653	57%
Airport	-	-	196,834	167,704	196,834	167,704	29,130	17%
Administration	-	-	305,784	298,664	305,784	298,664	7,120	2%
Total expenses	3,126,628	3,216,865	3,779,692	3,396,460	6,906,320	6,613,325	292,995	4%
Excess (deficiency) before transfers	\$ (729,275)	\$ (950,696)	\$ 316,403	\$ 530,640	\$ (412,872)	\$ (420,056)	\$ 7,184	-2%
Transfers - internal	362,904	565,750	(362,904)	(565,750)	-	-	-	0%
Transfers to lessee- healthcare	(883,570)	(759,554)	-	(551,059)	(883,570)	(1,310,613)	627,043	0%
Increase (decrease) in net assets	\$(1,049,941)	\$(1,144,500)	\$ (46,501)	\$(586,169)	\$(1,096,442)	\$(1,730,669)	\$ 634,227	-37%

Revenues for the City increased 4.85% over the prior year. This decrease in revenues is mainly attributable to a decrease in sales tax and water & sanitation charges. Operating expenses increased over prior fiscal year 2013 with a 4.43% change.

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

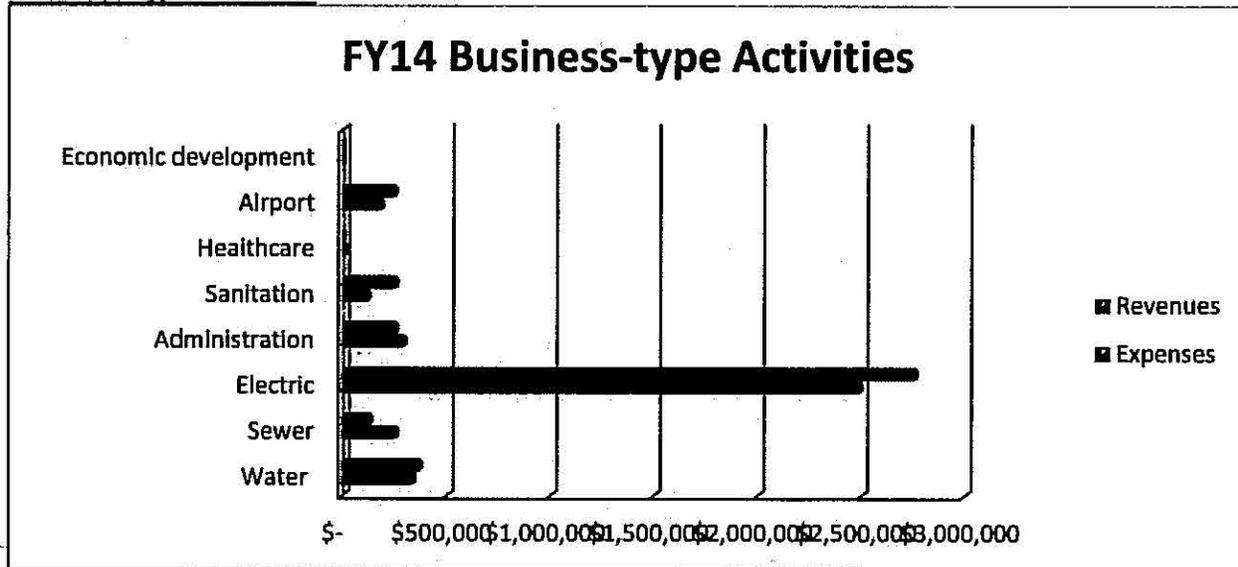


Taxes proved for 89% of the City's governmental revenues in fiscal year 2014. General government followed as the second major revenue source accounting for 7% of governmental revenues.



For the year ended June 30, 2014, total expenses for governmental activities were \$3,126,628. Of this amount, transportation with \$1,234,440 was the largest operating service department at 39% 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, 2014, 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 2014 was \$2,355,881. Actual expenses were \$122,450 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, 2014, the City had \$20,860,852 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 Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
	Land	\$ 650,540	\$ 650,540	\$ 73,020	\$ 73,020	\$ 723,560
Buildings	154,026	164,405	1,901,054	1,551,530	2,055,080	1,715,935
Machinery & equipment	901,065	752,793	340,687	346,930	1,241,752	1,099,723
Utility property & improvements	8,114,044	8,767,407	8,347,693	8,629,051	16,461,737	17,396,458
Totals	\$ 9,819,675	\$ 10,335,145	\$ 10,662,454	\$ 10,600,531	\$ 20,482,129	\$ 20,935,676

- In Governmental Activities, the most significant additions included a truck and compactor for the street department, a tack tank with gas engine, a 2014 Ford Interceptor SUV for the police department, security cameras, counters and carpet for the library, and computers.
- In Business-type activities capital additions included a trailer mounted high pressure sewer cleaner, airport taxiway lights and papis, and a new roof and exterior and interior painting at the hospital.

Long-Term Debt

At year-end, the City had \$1,674,761 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 Activities		Business-type Activities	
	2014	2013	2014	2013
Notes payable	-	-	54,761	74,825
Bonds payable	1,620,000	1,700,000	-	-
less current portion	-	-	(21,087)	(20,064)
Totals	\$ 1,620,000	\$ 1,700,000	\$ 33,674	\$ 54,761

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 decreased 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 is scheduled to open in the City of Watonga in early 2015. Improvement in the economic position continues to be cautiously projected.

Fiscal Year 2014

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 1.7%. 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, 2014

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 579,889	\$ 518,026	\$ 1,097,915
Investments	846,514	150,000	996,514
Due from other governments	151,591	-	151,591
Accounts receivable (net)	-	414,108	414,108
Total current assets	1,577,994	1,082,134	2,660,128
Restricted assets:			
Cash and cash equivalents	1,289,042	-	1,289,042
Total restricted assets	1,289,042	-	1,289,042
Noncurrent Assets:			
Land and construction in progress	650,540	69,070	719,610
Other capital assets (net of accumulated depreciation)	9,169,135	10,593,384	19,762,519
Total noncurrent assets	9,819,675	10,662,454	20,482,129
Total assets	\$ 12,686,711	\$ 11,744,588	\$ 24,431,299
 LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,980	\$ 201,325	\$ 203,305
Wages and benefits payable	28,933	5,578	34,511
Compensated absences	30,329	9,524	39,853
Other liabilities	-	12,168	12,168
Notes payable, current	-	21,089	21,089
Total current liabilities	61,242	249,684	310,926
Noncurrent liabilities:			
Notes payable	-	33,672	33,672
Bonds payable, net of premium	1,630,098	-	1,630,098
Total noncurrent liabilities	1,630,098	33,672	1,663,770
Total liabilities	1,691,340	283,356	1,974,696
 NET POSITION			
Invested in capital assets, net of related debt	8,711,192	10,607,693	19,318,885
Reserved for restricted purposes	736,237	-	736,237
Unrestricted	1,547,942	853,539	2,401,481
Total net position	\$ 10,995,371	\$ 11,461,232	\$ 22,456,603

City of Watonga, Oklahoma
Statement of Activities
Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		Net (Expense)/ Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants & Contributions
Governmental activities:					
General government	\$ 591,350	\$ 3,328	\$ 16,082	\$ 150,000	\$ (421,940)
Public safety and judiciary	785,896	40,271	5,974	-	(739,651)
Transportation	1,234,440	13,929	-	-	(1,220,511)
Cultural, parks and recreation	495,992	-	16,766	-	(479,226)
Public service	18,950	-	-	-	(18,950)
Total governmental activities	3,126,628	57,528	38,822	150,000	(2,880,278)
Business-type activities:					
Water	350,603	383,328	-	-	32,725
Sewer	268,546	143,328	-	-	(125,218)
Electric	2,505,284	2,770,502	-	-	265,218
Administration	305,784	267,606	-	-	(38,178)
Sanitation	132,138	267,363	-	-	135,225
Healthcare	18,231	-	-	-	(18,231)
Airport	196,834	40,813	-	221,360	65,339
Economic development	2,272	-	-	-	(2,272)
Total business-type activities	3,779,692	3,872,940	-	221,360	314,608
Total primary government	\$ 6,906,320	\$ 3,930,468	\$ 38,822	\$ 371,360	\$ (2,565,670)

City of Watonga, Oklahoma
Statement of Activities (continued)
Year Ended June 30, 2014

Changes in Net Position:

	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (2,880,278)	\$ 314,608	\$ (2,565,670)
General revenues:			
Taxes:			
Sales tax	1,658,418	-	1,658,418
Use tax	168,614	-	168,614
Franchise tax	32,341	-	32,341
Property tax	121,873	-	121,873
Other taxes	107,336	-	107,336
Oil and gas royalties	2,511	-	2,511
Investment income	15,287	1,795	17,082
Miscellaneous	44,623	-	44,623
Transfers-Internal activity	362,904	(362,904)	-
Transfers to lessee- healthcare	(683,570)	-	(683,570)
Total general revenues and transfers	1,830,337	(361,109)	1,469,228
Change in net position	(1,049,941)	(46,501)	(1,096,442)
Net position-beginning	12,045,312	11,507,733	23,553,045
Net position-ending	\$ 10,995,371	\$ 11,461,232	\$ 22,456,603

City of Watonga, Oklahoma
Balance Sheet
June 30, 2014

	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	\$ 381,579	\$ 55,210	\$ 91,627	\$ 88,932	\$ 80,580	\$ 1,108,483	\$ 62,520	\$ 1,868,931
Investments	846,514	-	-	-	-	-	-	846,514
Due from other governments	81,564	2,532	-	53,996	13,499	-	-	151,591
Total assets	\$ 1,309,657	\$ 57,742	\$ 91,627	\$ 142,928	\$ 94,079	\$ 1,108,483	\$ 62,520	\$ 2,867,036
LIABILITIES								
Accounts payable	\$ 1,980	-	-	-	-	-	-	\$ 1,980
Wages and benefits payable	28,933	-	-	-	-	-	-	28,933
Compensated absences	30,329	-	-	-	-	-	-	30,329
Total liabilities	\$ 61,242	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 61,242
FUND BALANCES								
Restricted	-	57,742	91,627	-	-	1,108,483	-	1,257,852
Committed	-	-	-	142,928	94,079	-	-	237,007
Assigned	-	-	-	-	-	-	62,520	62,520
Unassigned	1,248,415	-	-	-	-	-	-	1,248,415
Total fund balances	1,248,415	57,742	91,627	142,928	94,079	1,108,483	62,520	2,805,794
Total liabilities and fund balances	\$ 1,309,657	\$ 57,742	\$ 91,627	\$ 142,928	\$ 94,079	\$ 1,108,483	\$ 62,520	\$ 2,867,036

Total fund balance- total governmental funds

\$ 2,805,794

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

Land and construction in process

650,540

Capital assets

25,176,481

Less: Accumulated depreciation

(16,007,346)

9,819,675

Long-term portion of liabilities are not due and payable in the current period and are not reported

Bonds payable, net

(1,630,098)

Net assets of governmental activities

\$ 10,995,371

City of Watonga, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2014

	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	\$ 829,209	\$ -	\$ -	\$ 663,367	\$ 165,842	\$ -	\$ -	\$ 1,658,418
Use tax	168,614	-	-	-	-	-	-	168,614
Franchise tax	32,341	-	-	-	-	-	-	32,341
Other taxes	78,544	28,792	-	-	-	-	-	107,336
Property taxes	-	-	121,873	-	-	-	-	121,873
Licenses and permits	3,328	-	-	-	-	-	-	3,328
Rents & royalties	2,511	-	-	-	-	-	-	2,511
Fines and forfeitures	40,234	-	-	-	-	-	-	40,234
Charges for services	635	13,198	-	-	-	-	-	13,831
Intergovernmental revenues	-	-	-	-	-	-	172,887	172,887
Donations	-	-	-	-	-	-	-	-
Other revenues	60,558	135	-	-	-	-	-	60,693
Interest	9,745	54	2,616	169	158	2,456	69	15,287
Total revenues	1,225,719	42,177	124,489	663,556	166,000	2,456	172,956	2,397,353
EXPENDITURES								
Current								
General government:								
General government	332,237	-	-	-	-	-	420	332,657
Managerial	14,195	-	-	-	-	-	-	14,195
City clerk	140,898	-	-	-	-	-	-	140,898
City treasurer	18,964	-	-	-	-	-	-	18,964
City attorney	30,829	-	-	-	-	-	-	30,829
Total general government	537,213	-	-	-	-	-	420	537,633
Public safety and judiciary:								
Municipal court	10,502	-	-	-	-	-	-	10,502
Police	470,620	-	-	-	-	-	-	470,620
Fire	247,558	-	-	-	-	-	-	247,558
Total public safety and judiciary	728,680	-	-	-	-	-	-	728,680
Transportation:								
Street	497,177	49,852	-	-	-	-	-	547,029
Total transportation	497,177	49,852	-	-	-	-	-	547,029
Cultural, parks and recreation:								
Library	205,281	-	-	-	-	-	8,598	213,859
Park	220,809	-	-	-	5,326	-	-	226,135
Total cultural, parks and recreation	426,070	-	-	-	5,326	-	8,598	439,994
Public services:								
Airport	18,950	-	-	-	-	-	-	18,950
Total public services	18,950	-	-	-	-	-	-	18,950
Capital outlay	40,929	9,766	-	-	210,561	-	30,725	291,981
Debt service:								
Principal	-	-	80,000	-	-	-	-	80,000
Interest	-	-	47,455	-	-	-	-	47,455
Fiscal charges	-	-	-	-	-	-	-	-
Total expenditures	2,249,019	59,618	127,455	-	215,887	-	39,743	2,691,722
Excess (deficiency) of revenues over expenditures	(1,023,300)	(17,441)	(2,966)	663,556	(49,887)	2,456	133,213	(294,369)
OTHER FINANCING SOURCES (USES)								
Transfers in	1,008,829	993	-	20,104	-	-	18,917	1,048,843
Transfers out	(108,356)	-	-	(1,063)	(45,563)	(255,343)	(275,814)	(685,939)
Transfers out to lessee- healthcare	-	-	-	(666,225)	-	(17,345)	-	(683,570)
Premium on bonds	-	-	-	-	-	-	-	-
Long-term debt issued	-	-	-	-	-	-	-	-
Total other financing sources and uses	900,473	993	-	(647,184)	(45,563)	(272,688)	(256,897)	(320,666)
Net change in fund balances	(122,827)	(16,448)	(2,966)	16,372	(95,450)	(270,232)	(123,484)	(615,035)
Fund balances - beginning	1,371,242	74,190	94,593	126,556	189,529	1,378,715	168,004	3,420,829
Fund balances - ending	\$ 1,248,415	\$ 57,742	\$ 91,627	\$ 142,928	\$ 94,079	\$ 1,108,483	\$ 62,520	\$ 2,805,794

City of Watonga, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2014

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 \$ (615,035)
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	291,981	
Depreciation expense	(807,451)	(515,470)

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	80,000	
Premium on bonds	564	564

Change in Net Position of Governmental Activities \$ (1,049,941)

City of Watonga, Oklahoma
General Fund
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2014

	Original Budget	Revisions	Revised Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES					
Sales tax	\$ 775,500	\$ 50,000	\$ 825,500	\$ 834,110	\$ 8,610
Use tax	71,200	100,000	171,200	176,889	5,189
Cigarette tax	1,925	15,000	16,925	19,960	3,035
Franchise Tax	27,198	4,000	31,198	32,341	1,143
Alcoholic beverage tax	51,990	-	51,990	58,024	6,034
Police Fines & Court Fees	19,020	15,000	34,020	40,271	6,251
Insure OK	10,184	4,000	14,184	15,935	1,751
Rentals, sales, miscellaneous	74,051	(30,000)	44,051	45,221	1,170
Oil & gas income	2,542	(524)	2,018	2,511	493
Licenses & permits	3,509	(200)	3,309	3,328	19
Interest Income	9,791	(500)	9,291	9,745	454
Grants	1,936	(1,936)	-	-	-
Golf fees	4,776	(4,776)	-	-	-
Watonga Housing Authority	1,864	(1,864)	-	-	-
Total revenues	1,055,486	148,200	1,203,686	1,237,835	34,149
EXPENDITURES					
General government:					
General government:	328,315	45,000	373,315	361,714	11,601
Managerial:	14,961	-	14,961	14,186	775
City Clerk:	144,200	-	144,200	140,373	3,827
City Treasurer:	18,920	-	18,920	18,909	11
City Attorney:	29,475	-	29,475	30,918	(1,443)
Total General government:	535,871	45,000	580,871	566,100	14,771
Public safety and judiciary:					
Municipal Court:	10,515	-	10,515	10,478	37
Police Department:	559,650	(50,000)	509,650	469,916	39,734
Fire Department:	289,225	(30,000)	259,225	245,127	14,098
Total	859,390	(80,000)	779,390	725,521	53,869
Transportation:					
Street:	562,260	(25,000)	537,260	493,984	43,276
Total	562,260	(25,000)	537,260	493,984	43,276
Culture and recreation:					
Library:	211,685	-	211,685	209,193	2,492
Park:	216,675	10,000	226,675	219,683	6,992
Total Culture and recreation:	428,360	10,000	438,360	428,876	9,484
Public services					
Airport:	20,000	-	20,000	18,950	1,050
Total Public services	20,000	-	20,000	18,950	1,050
Total expenditures	2,405,881	(50,000)	2,355,881	2,233,431	122,450
Revenue over (under) expenditures	(1,350,395)	198,200	(1,152,195)	(995,596)	156,599

City of Watonga, Oklahoma
 General Fund
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	1,200,000	(263,500)	936,500	900,473	(36,027)
Net other financing sources (uses)	<u>1,200,000</u>	<u>(263,500)</u>	<u>936,500</u>	<u>900,473</u>	<u>(36,027)</u>
Revenues and other financing sources over (under) expenditures and other uses	(150,395)	(65,300)	(215,695)	(95,123)	120,572
Fund balance at beginning of year (Non-GAAP budgetary basis)	1,371,242	1,371,242	1,371,242	1,352,629	(18,613)
Fund balance at end of year (Non-GAAP budgetary basis)	<u>\$ 1,220,847</u>	<u>\$ 1,305,942</u>	<u>\$ 1,155,547</u>	<u>\$ 1,257,506</u>	<u>\$ 101,959</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				(9,091)	
Fund balance at end of year (GAAP basis)				<u>\$ 1,248,415</u>	

City of Watonga, Oklahoma
Statement of Net Position
Proprietary Fund
June 30, 2014

	Light and Water Fund	Hospital Authority Fund	Public Works Authority	Total Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 493,232	\$ -	\$ 24,794	\$ 518,026
Investments	150,000	-	-	150,000
Accounts receivable, net	414,108	-	-	414,108
Total current assets	1,057,340	-	24,794	1,082,134
Noncurrent assets:				
Capital assets (net)	8,666,015	312,155	1,684,284	10,662,454
Total noncurrent assets	8,666,015	312,155	1,684,284	10,662,454
Total assets	\$ 9,723,355	\$ 312,155	\$ 1,709,078	\$ 11,744,588
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 201,325	\$ -	\$ -	\$ 201,325
Wages and benefits payable	15,102	-	-	15,102
Other liabilities	12,168	-	-	12,168
Notes payable, current	-	-	21,089	21,089
Total current liabilities	228,595	-	21,089	249,684
Noncurrent liabilities:				
Notes payable, non-current	-	-	33,672	33,672
Total noncurrent liabilities	-	-	33,672	33,672
Total liabilities	228,595	-	54,761	283,356
NET POSITION				
Invested in capital assets, net of related debt	8,666,015	312,155	1,629,523	10,607,693
Unrestricted	828,745	-	24,794	853,539
Total net position	\$ 9,494,760	\$ 312,155	\$ 1,654,317	\$ 11,461,232

City of Watonga, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2014

	<u>Light and Water Fund</u>	<u>Hospital Authority Fund</u>	<u>Public Works Authority</u>	<u>Economic Development Authority</u>	<u>Total Enterprise Funds</u>
<u>Operating revenues:</u>					
Charges for services:					
Water charges	\$ 383,328	\$ -	\$ -	\$ -	\$ 383,328
Sewer charges	143,328	-	-	-	143,328
Electric charges	2,770,502	-	-	-	2,770,502
Sanitation charges	267,363	-	-	-	267,363
Sale of fuel	-	-	17,303	-	17,303
Penalties	56,246	-	-	-	56,246
Total charges for services	<u>3,620,767</u>	-	<u>17,303</u>	-	<u>3,638,070</u>
Lease and rental income	-	-	23,510	-	23,510
Other fees and charges	211,360	-	-	-	211,360
Total operating revenues	<u>3,832,127</u>	-	<u>40,813</u>	-	<u>3,872,940</u>
<u>Operating expenses:</u>					
Cost of sales	2,062,836	-	-	-	2,062,836
Personal services	490,569	-	-	-	490,569
Materials and supplies	260,150	-	29,178	-	289,328
Other services and charges	209,511	-	22,352	2,272	234,135
Depreciation and amortization	539,289	18,231	142,016	-	699,536
Total operating expenses	<u>3,562,355</u>	<u>18,231</u>	<u>193,546</u>	<u>2,272</u>	<u>3,776,404</u>
Net operating income	269,772	(18,231)	(152,733)	(2,272)	96,536
<u>Nonoperating revenue (expense):</u>					
Grants operating	-	-	221,360	-	221,360
Investment income	1,762	-	33	-	1,795
Interest expense	-	-	(3,288)	-	(3,288)
Total nonoperating revenue/(expense)	<u>1,762</u>	<u>-</u>	<u>218,105</u>	<u>-</u>	<u>219,867</u>
Net income before contributions and transfers	271,534	(18,231)	65,372	(2,272)	316,403
<u>Contributions and transfers:</u>					
Transfers from other funds	344,949	255,343	60,297	-	660,589
Transfers to other funds	(1,023,493)	-	-	-	(1,023,493)
Change in net position	(407,010)	237,112	125,669	(2,272)	(46,501)
Net position-beginning of year	9,901,770	75,043	1,528,648	2,272	11,507,733
Net position-end of year	<u>\$ 9,494,760</u>	<u>\$ 312,155</u>	<u>\$ 1,654,317</u>	<u>\$ -</u>	<u>\$ 11,461,232</u>

City of Watonga, Oklahoma
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2014

	Light and Water Fund	Hospital Authority Fund	Public Works Authority	Economic Development Authority	Total Enterprise Funds
Cash flows from operating activities:					
Receipts from customers	\$ 3,910,602	\$ -	\$ 40,813	\$ -	\$ 3,951,415
Payments to suppliers	(2,525,956)	-	(51,530)	(2,272)	(2,579,758)
Payments to employees	(492,910)	-	-	-	(492,910)
Net cash provided (used) by operating activities	891,736	-	(10,717)	(2,272)	878,747
Cash flows from non-capital financing activities:					
Operating grants and contributions	-	-	221,360	-	221,360
Transfers from other funds	344,949	255,343	60,297	-	660,589
Transfers to other funds	(1,023,493)	-	-	-	(1,023,493)
Transfers to lessee- healthcare	-	-	-	-	-
Net cash provided (used) by non-capital financing activities	(678,544)	255,343	281,657	-	(141,544)
Cash flows from capital and related financing activities:					
Purchases of capital assets	(263,101)	(255,343)	(243,015)	-	(761,459)
Principal paid on capital debt	-	-	(20,063)	-	(20,063)
Interest paid on capital debt	-	-	(3,288)	-	(3,288)
Net cash provided (used) by capital and related financing activities	(263,101)	(255,343)	(266,366)	-	(784,810)
Cash flows from investing activities:					
Investment income	1,762	-	33	-	1,795
Net cash provided (used) by investing activities	1,762	-	33	-	1,795
Net increase (decrease) in cash and cash equivalents	(48,147)	-	4,607	(2,272)	(45,812)
Cash & cash equivalents, June 30, 2013	541,379	-	20,187	2,272	563,838
Cash & cash equivalents, June 30, 2014	<u>\$ 493,232</u>	<u>\$ -</u>	<u>\$ 24,794</u>	<u>\$ -</u>	<u>\$ 518,026</u>
Cash, including time deposits	\$ 493,232	\$ -	\$ 24,794	\$ -	\$ 518,026
Total cash and cash equivalents, end of year	<u>\$ 493,232</u>	<u>\$ -</u>	<u>\$ 24,794</u>	<u>\$ -</u>	<u>\$ 518,026</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ 269,772	\$ (18,231)	\$ (152,733)	\$ (2,272)	\$ 96,536
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	539,289	18,231	142,016	-	699,536
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	78,475	-	-	-	78,475
Increase (decrease) in accounts payable	789	-	-	-	789
Increase (decrease) in wages and benefits payable	(2,341)	-	-	-	(2,341)
Increase (decrease) in other liabilities	5,752	-	-	-	5,752
Total adjustments	621,964	18,231	142,016	-	782,211
Net cash provided (used) by operating activities	\$ 891,736	\$ -	\$ (10,717)	\$ (2,272)	\$ 878,747

City of Watonga, Oklahoma
Statement of Fiduciary Net Position
June 30, 2014

	<u>Agency Funds</u>	<u>Total Fiduciary Funds</u>
ASSETS		
Cash and cash equivalents	\$ 75,668	\$ 75,668
Investments	127,000	127,000
Total assets	<u>\$ 202,668</u>	<u>\$ 202,668</u>
LIABILITIES		
Bonds and deposits subject to refund	\$ 202,668	\$ 202,668
Total liabilities	<u>202,668</u>	<u>202,668</u>

City of Watonga, Oklahoma
Statement of Changes in Fiduciary Net Position
June 30, 2014

	<u>Meter Deposit Fund</u>	<u>Municipal Court Bond Fund</u>	<u>Total Agency Funds</u>
ASSETS			
Cash and cash equivalents	\$ 72,361	\$ 3,307	\$ 75,668
Cash and investments, restricted	127,000	-	127,000
Total assets	<u>\$ 199,361</u>	<u>\$ 3,307</u>	<u>\$ 202,668</u>
LIABILITIES			
Bonds and deposits subject to refund	\$ 199,361	\$ 3,307	\$ 202,668
Total liabilities	<u>\$ 199,361</u>	<u>\$ 3,307</u>	<u>\$ 202,668</u>

**City of Watonga, Oklahoma
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2014**

	<u>Grant Fund</u>	<u>Huff Savings</u>	<u>Library Fund</u>	<u>Total Non-Major Funds</u>
ASSETS				
Cash and cash equivalents	\$ 35,711	\$ 21,901	\$ 4,908	\$ 62,520
Total assets	<u>\$ 35,711</u>	<u>\$ 21,901</u>	<u>\$ 4,908</u>	<u>\$ 62,520</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Assigned	35,711	21,901	4,908	62,520
Total fund balances	<u>35,711</u>	<u>21,901</u>	<u>4,908</u>	<u>62,520</u>
Total liabilities and fund balances	<u>\$ 35,711</u>	<u>\$ 21,901</u>	<u>\$ 4,908</u>	<u>\$ 62,520</u>

City of Watonga, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2014

	Grant Fund	Huff Savings	Library Fund	Total Non-Major Funds
REVENUES				
Intergovernmental revenue	\$ 156,121	\$ -	\$ 16,766	\$ 172,887
Donations	-	-	-	-
Interest income	-	69	-	69
Total revenues	<u>156,121</u>	<u>69</u>	<u>16,766</u>	<u>172,956</u>
EXPENDITURES				
General government:				
General government	420	-	-	420
Total general government	<u>420</u>	<u>-</u>	<u>-</u>	<u>420</u>
Cultural, parks and recreation:				
Library	-	-	8,598	8,598
Total cultural, parks and recreation	-	-	<u>8,598</u>	<u>8,598</u>
Capital outlay	27,465	-	3,260	30,725
Total expenditures	<u>27,885</u>	<u>-</u>	<u>11,858</u>	<u>39,743</u>
Excess (deficiency) of revenues over expenditures	<u>128,236</u>	<u>69</u>	<u>4,908</u>	<u>133,213</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	16,145	2,772	-	18,917
Transfers out	(259,539)	(16,075)	-	(275,614)
Total other financing sources and uses	<u>(243,394)</u>	<u>(13,303)</u>	<u>-</u>	<u>(256,697)</u>
Net change in fund balances	(115,158)	(13,234)	4,908	(123,484)
Fund balances - beginning	150,869	35,135	-	186,004
Fund balances - ending	<u>\$ 35,711</u>	<u>\$ 21,901</u>	<u>\$ 4,908</u>	<u>\$ 62,520</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, 2014.

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.

Economic Development Authority

Accounts for the operating activities of the economic development of the City.

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, 2014, 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, 2014, 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

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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.

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, and police and fire department use. 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>	<u>Primary Government</u>			
	<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				
INVESTMENTS:				
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.

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Restricted Assets

	Cash
<i>Governmental Activities</i>	
Debt service sinking fund	\$ 91,627
Hospital sales tax	88,932
GO bonds- hospital	1,108,483
Total Governmental Activities	1,289,042
Total Restricted Assets	\$ 1,289,042

Capital Assets

Changes in Capital Assets

	Primary Government			
	Balance at June 30, 2013	Additions	Deletions	
<i>Governmental Activities</i>				
Land	\$ 650,540	\$ -	\$ -	\$ 650,540
Buildings & structures	2,962,122	19,445	-	2,981,567
Machinery, furniture, & equipment	2,761,243	272,536	-	3,033,779
Infrastructure & improvements	19,161,135	-	-	19,161,135
Total	25,535,040	291,981	-	25,827,021
Less accumulated depreciation	15,199,895	807,451	-	16,007,346
Governmental fixed assets, net	\$ 10,335,145	\$ (515,470)	\$ -	\$ 9,819,675
<i>Business-type Activities</i>				
Land	\$ 73,020	\$ -	\$ -	\$ 73,020
Buildings & structures	6,204,695	495,985	-	6,700,680
Machinery, furniture, & equipment	1,309,612	56,288	-	1,365,900
Infrastructure & improvements	17,904,041	209,186	-	18,113,227
Total	25,491,368	761,459	-	26,252,827
Less accumulated depreciation	14,890,837	699,536	-	15,590,373
Business-type fixed assets, net	\$ 10,600,531	\$ 61,923	\$ -	\$ 10,662,454
Total primary government	\$ 20,935,676	\$ (453,547)	\$ -	\$ 20,482,129

Business-type Activities

	Light and Water Fund	Watonga Hospital Authority	Public Works Authority	Total Business- Type
Land	\$ 48,070	\$ 3,950	\$ 21,000	\$ 73,020
Buildings & structures	222,856	883,509	5,594,315	6,700,680
Machinery, furniture, & equipment	1,082,595	-	283,305	1,365,900
Infrastructure & improvements	18,113,227	-	-	18,113,227
Total	19,466,748	887,459	5,898,620	26,252,827
Less accumulated depreciation	(10,800,733)	(575,304)	(4,214,336)	(15,590,373)
Business-type fixed assets, net	\$ 8,666,015	\$ 312,155	\$ 1,684,284	\$ 10,662,454

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Depreciation Expense

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General government	\$ 6,826	Water	\$ 221,238
Public safety & judiciary	57,216	Sewer	220,748
Transportation	687,411	Electric	65,591
Cultural, parks & recreation	55,998	Administration	11,825
Total depreciation expense	<u>\$ 807,451</u>	Sanitation	19,887
		Hospital	18,231
		Airport	142,016
		Total depreciation expense	<u>\$ 699,536</u>

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.

\$ 1,620,000

\$ 1,620,000

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.

54,761

\$ 54,761

Changes in Long-Term Debt

<u>Type of Debt</u>	<u>Balance at July 1, 2013</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2014</u>	<u>Due Within One Year</u>
Governmental activities:					
General Obligation bonds	\$ 1,700,000	\$ -	\$ 80,000	\$ 1,620,000	\$ -
Business-type activities:					
John Deere Credit	74,825	-	20,064	54,761	21,089
Total business-type activities	<u>\$ 74,825</u>	<u>\$ -</u>	<u>\$ 20,064</u>	<u>\$ 54,761</u>	<u>\$ 21,089</u>
Total primary government	<u>\$ 1,774,825</u>	<u>\$ -</u>	<u>\$ 100,064</u>	<u>\$ 1,674,761</u>	<u>\$ 21,089</u>

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Annual Debt Service Requirements

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2015	\$ 90,000	\$ 45,855	\$ 21,089	\$ 2,256
2016	90,000	44,055	22,167	1,179
2017	90,000	41,805	11,505	168
2018	90,000	39,555	-	-
2019	90,000	37,305	-	-
2020-2024	450,000	152,685	-	-
2025-2029	450,000	90,720	-	-
2030-2033	270,000	19,125	-	-
Totals	\$ 1,620,000	\$ 471,105	\$ 54,761	\$ 3,603

C. Interfund Balances

	Transfers In	Transfers Out
GENERAL FUND		
Light and Water Fund	\$ 1,007,500	\$ 85,410
Grant Fund	-	70
Hospital Special Revenue Fund	1,063	20,104
Sales Tax (Capital Improvement) Fund	266	-
Huff Savings	-	2,772
Total General Fund	1,008,829	108,356
STREET & ALLEY FUND		
Light & Water	993	-
Total Street & Alley Fund	993	-
HOSPITAL SPECIAL REVENUE FUND		
General Fund	20,104	1,063
Total Hospital Special Revenue Fund	20,104	1,063
SALES TAX (CAPITAL IMPROVEMENT) FUND		
General Fund	-	266
Public Works Authority	-	45,297
Total Sales Tax (Cap Improve) Fund	-	45,563
GENERAL OBLIGATION BOND FUND		
Hospital Authority	-	255,343
Total General Obligation Bond Fund	-	255,343
GRANT FUND		
General Fund	70	-
Huff Savings	16,075	-
Light & Water Fund	-	259,539
Total Grant Fund	16,145	259,539
HUFF SAVINGS		
General Fund	2,772	-
Grant Fund	-	16,075
Total Huff Savings	2,772	16,075
LIGHT AND WATER FUND		
General Fund	85,410	1,007,500
Street & Alley	-	993
Grant Fund	259,539	-
Public Works Authority	-	15,000
Total Light and Water Fund	344,949	1,023,493
PUBLIC WORKS AUTHORITY		
Sales Tax (Capital Improvement) Fund	45,297	-
Light & Water Fund	15,000	-
Total Public Works Authority	60,297	-
HOSPITAL AUTHORITY		
General Obligation Bond Fund	255,343	-
Total Hospital Authority	255,343	-
GRAND TOTAL	\$ 1,709,432	\$ 1,709,432

(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 Contribution 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

Plan Description

Substantially all of the City's regular, full time employees, with the exception of police officers and firefighters, participate in a defined contribution plan administered by the Oklahoma Municipal Retirement System (OMRF), a statewide fund established to administer pension plans for municipal employees. The defined contribution plan is funded through contributions as elected by each municipality. Participants are required to participate 4% of their covered compensation. The City contributes 18.8% of covered compensation. Participants are permitted to make voluntary deductible contributions to the plan.

The funds are credited to individual participant accounts and pooled for investment purposes through OMRF. All gains and/or losses are credited directly to each participant. Benefits vest after 10 years of service with normal retirement at age 65 and early retirement at age 55 with 10 years or more of service. Upon retirement, termination of employment, disability, or death, the vested portion of a participant's account is paid to the participant or beneficiary. This amount is based on an accumulation of employee and employer contributions, forfeitures, if applicable, and earnings or losses.

The following is a summary of eligibility, contribution methods and benefits provisions:

<u>Provision</u>	<u>OMRF Plan</u>
a. Eligible to Participate	Full-time, employees of the City or Authority, except police, firefighter, and other employees who are covered under another approved system.
b. Contributions Requirement	Yes
- Actuarially Determined	18.8% of covered payroll
- Employer Rate	4% of covered payroll
- Employee Rate	
c. Period Required to Vest	10 years of credited service
d. Eligibility for Distribution	<ul style="list-style-type: none"> - Normal retirement at age 65 with 10 years of service or age 62 with 30 or more years of service - Early Retirement after age 55 with 10 years or more of service. - Disability retirement upon disability with 10 years of service. - Termination before retirement age return of employee contributions with interest
e. Benefit Determination Base	Final average compensation – the average of the five highest consecutive annual salaries out of the last 10 calendar years of service. Accrued benefit is 3% of final average compensation multiplied by the number of year of credited service
f. Benefit Determination Methods:	
- Normal Retirement	Accrued benefit payable immediately.
- Early Retirement	Accrued benefit payable starting at normal retirement age or accrued benefit reduced 5% per year for commencement prior to normal retirement age
- Disability Retirement	Accrued benefit payable upon disablement without reduction for early payment
- Death Benefit	50% of accrued benefit is payable to spouse until death or remarriage, non-married participants 50% of the accrued benefit is payable for 5 years

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

- Prior to 10 Years Service

Return of employee contributions with accrued interest.

g. Form of Benefit Payments

Normal form of payment of the accrued benefit is a monthly lifetime annuity with 5 years certain. Other retirement benefits are available under actuarially equivalent optional forms

Funding Status and Progress

Actuarial Valuation Date	Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a/c)
01/01/11	3,280,366	4,501,853	1,221,487	72.9%	952,870	128.2%
01/01/12	3,275,114	4,722,972	1,447,858	69.3%	862,199	167.9%
01/01/13	3,334,700	4,647,775	1,313,075	71.7%	848,716	154.7%
01/01/14	3,454,171	4,676,765	1,222,594	73.9%	886,132	138.0%

a. Date of last Actuarial Valuation

March 2014

b. Significant Actuarial Assumptions Used:

- | | |
|----------------------------------|-------------------------------|
| 1. Rate of Return on Investments | 7.5% |
| 2. Projected Salary Increase | 4.0% - 7.42% |
| 3. Retirement Age | Normal and Early Rates |
| 4. Mortality Table | UP 1994 mortality (projected) |
| 5. Asset Value | Actuarial cost method |

c. Actuarial cost method

Entry age normal cost method

d. Amortization method

Level % of payroll

e. Fiscal Year 2014 Contributions Made

Total Contributions	\$212,113
Employee Contributions	\$37,065
Employer Contributions	\$175,048

A copy of the stand-alone plan financial report can be obtained from Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, OK 73105.

B. Oklahoma Police and Firefighter's Pension and Retirement Systems

Plan Description

The City participates in two statewide, cost-sharing, multiple-employer defined benefit plans on behalf of police officers and firefighters. The table below is a summary of eligibility factors contribution methods, and benefit provisions.

These two systems are administered by agencies of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations as necessary.

	Oklahoma Firefighter's Pension and Retirement System	Oklahoma Police Pension and Retirement System
Eligibility to participate	All full-time or voluntary firefighters of a participating municipality hired before age 45.	All full-time officers employed by a participating municipality; not less than 21 years of age or more than 45 years of age when hired
Authority establishing contribution obligations and benefits	State Statute	State Statute
Plan member's contribution rate	9% of covered payroll	9% of covered payroll
City's contribution rate	14% per year, per firefighter	14% of covered payroll
Period required to vest	10 years	10 years

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Benefits and eligibility for distribution (full time)	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.	20 years credited service, 2 1/2% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Benefits and eligibility for distribution (volunteer)	20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered.	NA
Deferred retirement option	Yes, 20 years credited service with continued service for 30 or more years.	Yes, 20 years credited service with option to participate in deferred option plan for a maximum of 5 years
<i>Annual Required Contributions</i>		
Provision for:		
Cost of living adjustment	Yes, if vested by 5/83	Yes
Death (duty, non-duty, post retirement)	Yes	Yes
Disability (duty, non-duty)	Yes	Yes
Cost of living allowances	Yes	Yes

Contributions are required by Oklahoma State Statute. Trend information showing the progress of the systems in accumulating sufficient assets to pay benefits when due is presented in the annual financial reports of the respective plans. Copies of these reports may be obtained from the respective state retirement systems; Oklahoma Firefighter Pension and Retirement System at 4545 N. Lincoln Blvd., Ste. 265, Oklahoma City, OK 73105 and the Oklahoma Police Pension and Retirement System 1001 N.W. 63rd Street, Suite 305, Oklahoma City, OK 73116-7335.

(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.

WILLIAM K. GAUER
CERTIFIED PUBLIC ACCOUNTANT

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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 City of Watonga, State of Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Watonga, State of Oklahoma's basic financial statements, and have issued our report thereon dated January 31, 2015.

Internal Control over Financial Reporting

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

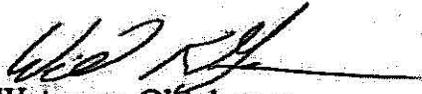
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not 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 City of Watonga, State 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
January 31, 2015