

**CITY OF WATONGA OKLAHOMA
WATONGA, OKLAHOMA**

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

**FOR THE YEAR ENDED
JUNE 30, 2016**

CITY OF WATONGA, OKLAHOMA
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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Watonga, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watonga, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Watonga, Oklahoma's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, each major fund, and the aggregate remaining fund information of the City of Watonga, Oklahoma, as of June 30, 2016, 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.

Emphasis of Matter

As discussed in Note 1, the financial statements referred to above include only the primary government of the City of Watonga, Oklahoma, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. These primary government financial statements do not include financial data for the City's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the City's primary government.

As a result, the primary government financial statements do not purport to, and do not present fairly the financial position of the reporting entity of the City of Watonga, Oklahoma, as of June 30, 2016, the changes in its financial position or, where applicable, its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the reporting entity of the City of Watonga, Oklahoma, as of and for the year ended June 30, 2016, and our report thereon, dated December 19, 2016, expressed an unmodified opinion on those financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information, and net pension schedules on pages 4–10, 38–39 and 40–42 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, Oklahoma’s basic financial statements. The combining nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2016, on our consideration of the City of Watonga, Oklahoma’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Watonga, Oklahoma’s internal control over financial reporting and compliance.

FSW&B CPAs-PLLC

FSW&B CPAs-PLLC
Woodward, Oklahoma
December 19, 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, 2016. 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, 2016, the assets of the City exceeded its liabilities by \$20,709,715 (net position). Of this amount \$2,147,959 (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 \$20,103,256.
- The City's total net position are comprised of the following:
 - (1) Invested in capital assets, net of related debt of \$17,788,749 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 \$773,007.
 - (3) Unrestricted net position of \$2,147,959 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Total liabilities of the City increased by \$281 during the fiscal year.
- After transfers of \$1,032,407 from business-type activities to governmental activities, net position of governmental activities increased \$1,060,313 or 12.35%, and net position of business-type activities decreased \$453,854 or 4.01%. Overall the health of the City improved when compared to prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,149,217 or 80.17% 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, 2016 is \$20,709,715. This is a \$606,459 increase (depreciation expense is \$1,549,902- a non-cash expense) over June 30, 2015 net position of \$20,103,256. The City reported positive balances in total net position for both governmental and business-type activities, reporting \$9,854,824 and \$10,854,891, respectively. The City's overall financial position improved during fiscal year 2016.

Summary of Net Position

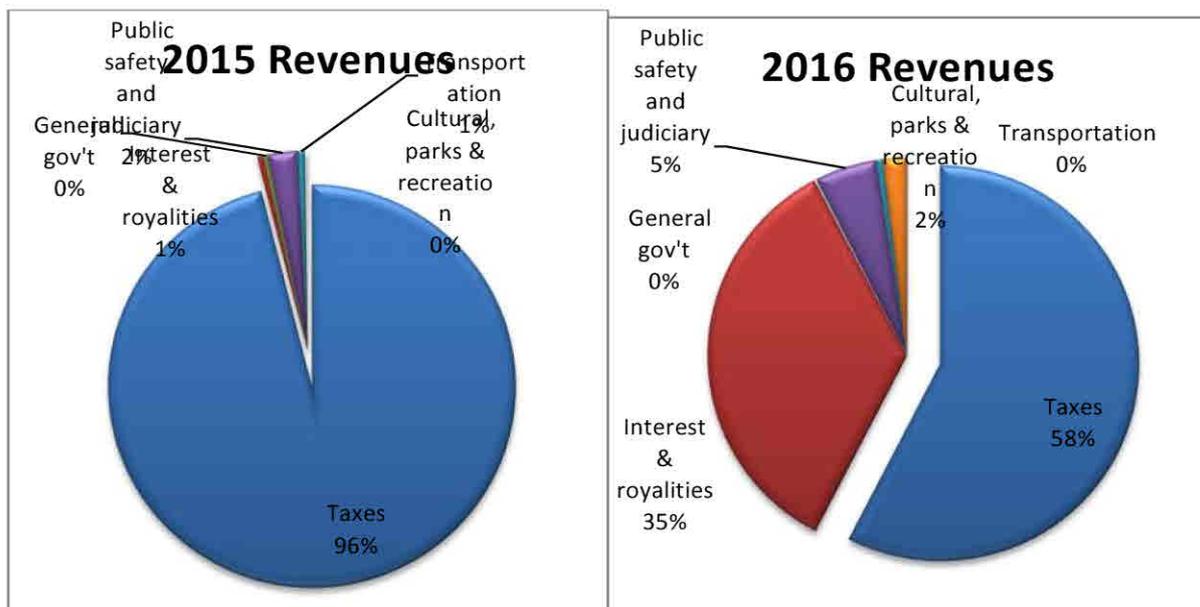
	Governmental Activities		Business-type Activities		Totals		\$ Change	% Change
	2016	2015	2016	2015	2016	2015		
Current and other assets	\$ 3,932,148	\$ 2,719,040	\$ 1,162,468	\$ 1,234,863	\$ 5,094,616	\$ 3,953,903	\$ 1,140,713	22.4%
Other noncurrent assets	-	16,966	-	-	-	16,966	\$ (16,966)	#DIV/0!
Capital assets	8,906,808	9,227,688	9,979,837	10,395,794	18,886,645	19,623,482	\$ (736,837)	-3.9%
Total assets	12,838,956	11,963,694	11,142,305	11,630,657	23,981,261	23,594,351	\$ 386,910	16%
Deferred outflows of resources	446,885	223,935	-	-	446,885	223,935	222,950	49.9%
Long-term liabilities	2,790,597	2,924,289	-	11,505	2,790,597	2,935,794	\$ (145,197)	-5.2%
Other liabilities	238,257	69,786	287,414	310,407	525,671	380,193	\$ 145,478	27.7%
Total liabilities	3,028,854	2,994,075	287,414	321,912	3,316,268	3,315,987	\$ 281	0.0%
Deferred inflows of resources	399,792	399,043	-	-	399,792	399,043	749	0.2%
Net position:								
Invested in capital assets, net of related debt	7,814,706	8,168,140	9,974,043	10,362,122	17,788,749	18,530,262	\$ (741,513)	-4.2%
Restricted	773,007	740,369	-	-	773,007	740,369	\$ 32,638	4.2%
Unrestricted	1,267,111	(113,998)	880,848	946,623	2,147,959	832,625	\$ 1,315,334	612%
Total net position	\$ 9,854,824	\$ 8,794,511	\$ 10,854,891	\$ 11,308,745	\$ 20,709,715	\$ 20,103,256	\$ 606,459	2.9%

Summary of Statement of Activities

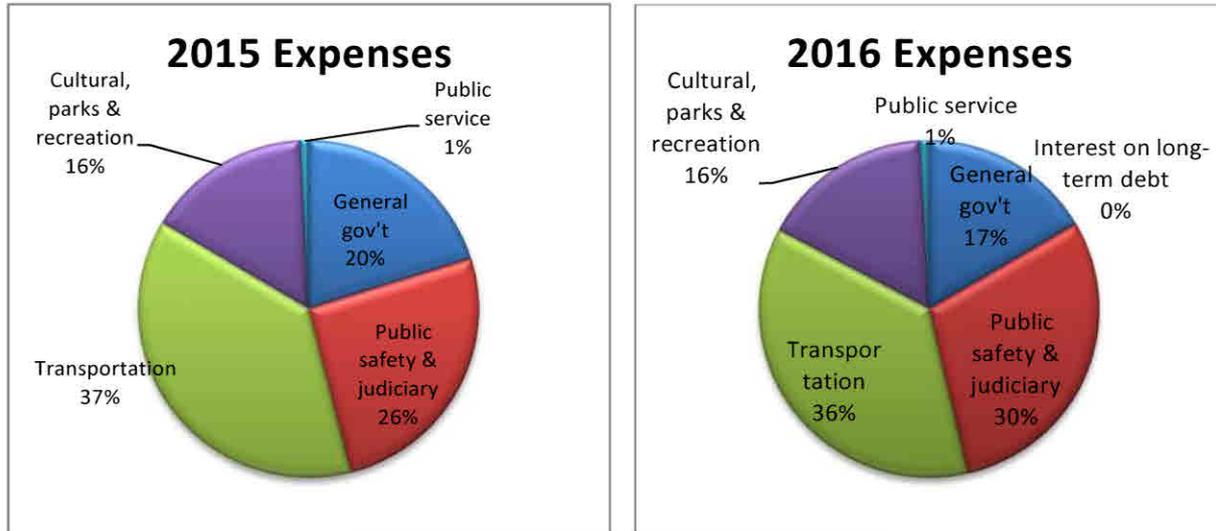
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2016	2015	2016	2015	2016	2015		
Revenues								
Program revenues	\$ 322,202	\$ 81,476	\$ 4,084,310	\$ 4,371,402	\$ 4,406,512	\$ 4,452,878	\$ (46,366)	-1%
Taxes and other general revenues	4,057,465	2,580,860	2,553	1,607	4,060,018	2,582,467	1,477,551	57%
Total revenues	4,379,667	2,662,336	4,086,863	4,373,009	8,466,530	7,035,345	1,431,185	20%
Expenses								
General government	587,011	666,956	-	-	587,011	666,956	(79,945)	-12%
Public safety and judiciary	1,051,943	851,063	-	-	1,051,943	851,063	200,880	24%
Transportation	1,289,690	1,241,250	-	-	1,289,690	1,241,250	48,440	4%
Cultural, parks, and recreation	579,604	518,925	-	-	579,604	518,925	60,679	12%
Public service	27,205	24,652	-	-	27,205	24,652	2,553	100%
Interest on long-term debt	3,321	-	-	-	3,321	-	3,321	100%
Electric	-	-	2,157,087	2,246,795	2,157,087	2,246,795	(89,708)	-4%
Water	-	-	330,190	344,330	330,190	344,330	(14,140)	-4%
Sewer	-	-	316,972	292,915	316,972	292,915	24,057	8%
Sanitation	-	-	230,426	226,134	230,426	226,134	4,292	2%
Healthcare	-	-	27,554	26,200	27,554	26,200	1,354	5%
Airport	-	-	224,950	206,617	224,950	206,617	18,333	9%
Administration	-	-	221,131	312,606	221,131	312,606	(91,475)	-29%
Total expenses	3,538,774	3,302,846	3,508,310	3,655,597	7,047,084	6,958,443	88,641	1%
Excess (deficiency) before transfers	\$ 840,893	\$ (640,510)	\$ 578,553	\$ 717,412	\$ 1,419,446	\$ 76,902	\$ 1,342,544	1746%
Transfers - internal	1,032,407	869,899	(1,032,407)	(869,899)	-	-	-	0%
Transfers to lessee- healthcare	(812,987)	(694,820)	-	-	(812,987)	(694,820)	(118,167)	0%
Increase (decrease) in net assets	\$ 1,060,313	\$ (465,431)	\$ (453,854)	\$ (152,487)	\$ 606,459	\$ (617,918)	\$ 1,224,377	-198%

Revenues for the City increased 20.34% over the prior year. This increase in revenues is mainly attributable to an increase in sales tax and oil & gas revenue. Operating expenses increased over prior fiscal year 2015 with a 1.27% change.

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

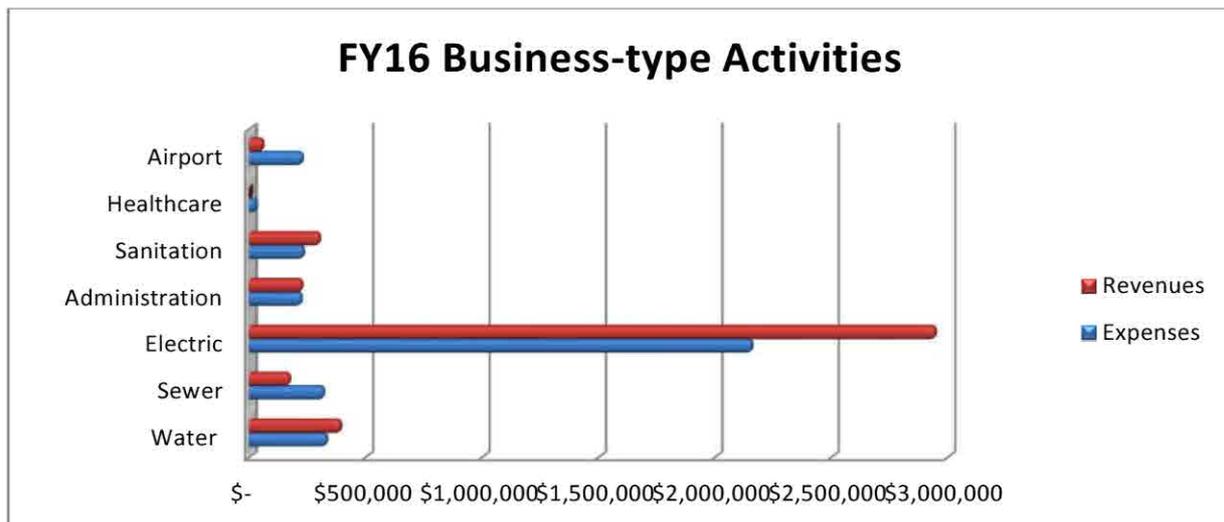


Taxes proved for 96% of the City's governmental revenues in fiscal year 2015. Public safety and judiciary followed as the second major revenue source accounting for 2% of governmental revenues.



For the year ended June 30, 2016, total expenses for governmental activities were \$3,538,774. Of this amount, transportation with \$1,289,690 was the largest operating service department at 36% 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, 2016, revenues from electric, water, sanitation and administration services covered the cost of operating their respective departments.

General Fund Budgetary Highlights

The adopted budget for the General Fund for fiscal year 2016 was \$2,573,138. Actual expenses were \$37,582 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, 2016, the City had \$18,886,645 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			
	2016	2015	2016	2015	2016	2015
Land	\$ 650,540	\$ 650,540	\$ 73,020	\$ 73,020	\$ 723,560	\$ 723,560
Buildings	728,113	158,190	1,820,262	1,990,646	2,548,375	2,148,836
Machinery & equipment	1,017,694	827,377	329,124	355,481	1,346,818	1,182,858
Utility property & improvements	6,510,461	7,486,894	7,658,153	7,976,647	14,168,614	15,463,541
Construction in progress	-	-	99,278	-	99,278	0
Totals	\$ 8,906,808	\$ 9,123,001	\$ 9,979,837	\$ 10,395,794	\$ 18,886,645	\$ 19,518,795

- In Governmental Activities, the most significant additions included various computers; air conditioning units for city hall auditorium, cameras for city hall, 2015 Ford F150 crew cab for animal control, portable radios, a mobile field command, & one-link wireless for police, overhead doors for fire, F250 crew cab for fire department, EMS equipment from 522 district (2 ambulances, 2 Stryker cots, 2 Zoll monitors & 2 portable suction units), a Ford Utility interceptor for code enforcement, a new roof for the library, a hustler mower, Bobcat track loader, a 2016 Chevy Silverado for parks, various playground equipment, and a GPS irrigation system.
- In Business-type activities capital additions included sewer system upgrades, various transformers & pumps, lawn mower and storm detectors for the airport, and expenses towards the emergency room remodel for the hospital.

Long-Term Debt

At year-end, the City had \$1,445,794 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	
	2016	2015	2016	2015
Notes payable	-	-	5,794	33,672
Bonds payable	1,440,000	1,530,000	-	-
less current portion	-	-	(5,794)	(22,167)
Totals	\$ 1,440,000	\$ 1,530,000	\$ -	\$ 11,505

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 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 have not had a negative impact on the local economy since Blaine County is one of the hottest oil & gas areas in Oklahoma.

Fiscal Year 2016

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, 2016

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 721,580	\$ 516,836	\$ 1,238,416
Investments	1,924,723	150,000	2,074,723
Sales, use & other taxes receivable	171,812	-	171,812
Accounts receivable (net)	8,159	493,276	501,435
Internal balances	(2,356)	2,356	-
Total current assets	<u>2,823,918</u>	<u>1,162,468</u>	<u>3,986,386</u>
Restricted assets:			
Cash and cash equivalents	1,108,230	-	1,108,230
Total restricted assets	<u>1,108,230</u>	<u>-</u>	<u>1,108,230</u>
Noncurrent Assets:			
Land and construction in progress	650,540	172,298	822,838
Other capital assets (net of accumulated depreciation)	8,256,268	9,807,539	18,063,807
Total noncurrent assets	<u>8,906,808</u>	<u>9,979,837</u>	<u>18,886,645</u>
Total assets	<u><u>12,838,956</u></u>	<u><u>11,142,305</u></u>	<u><u>23,981,261</u></u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on pension obligations	\$ 446,885	\$ -	\$ 446,885
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 54,835	\$ 241,055	\$ 295,890
Wages and benefits payable	55,546	14,650	70,196
Interest payable	3,321	-	3,321
Compensated absences	34,555	9,524	44,079
Other liabilities	-	16,391	16,391
Notes payable, current	-	5,794	5,794
Bonds payable, current	90,000	-	90,000
Total current liabilities	<u>238,257</u>	<u>287,414</u>	<u>525,671</u>
Noncurrent liabilities:			
Pension liability	1,433,997	-	1,433,997
Notes payable	-	-	-
Bonds payable, net of premium	1,358,971	-	1,358,971
Total noncurrent liabilities	<u>2,792,968</u>	<u>-</u>	<u>2,792,968</u>
Total liabilities	<u><u>3,031,225</u></u>	<u><u>287,414</u></u>	<u><u>3,318,639</u></u>
DEFERRED INFLOWS OF RESOURCES			
Deferred charges on pension obligations	399,792	-	399,792
NET POSITION			
Invested in capital assets, net of related debt	7,814,706	9,974,043	17,788,749
Reserved for restricted purposes	773,007	-	773,007
Unrestricted	1,267,111	880,848	2,147,959
Total net position	<u><u>\$ 9,854,824</u></u>	<u><u>\$ 10,854,891</u></u>	<u><u>\$ 20,709,715</u></u>

City of Watonga, Oklahoma
Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government	\$ 587,011	\$ 7,257	\$ 250	\$ -	\$ (579,504)
Public safety and judiciary	1,051,943	119,993	11,580	79,000	(841,370)
Transportation	1,289,690	22,454	-	-	(1,267,236)
Cultural, parks and recreation	579,604	-	8,823	72,845	(497,936)
Public service	27,205	-	-	-	(27,205)
Interest on long-term debt	3,321	-	-	-	(3,321)
Total governmental activities	<u>3,538,774</u>	<u>149,704</u>	<u>20,653</u>	<u>151,845</u>	<u>(3,216,572)</u>
Business-type activities:					
Water	330,190	390,453	-	-	60,263
Sewer	316,972	170,647	-	-	(146,325)
Electric	2,157,087	2,944,335	-	-	787,248
Administration	221,131	223,254	-	-	2,123
Sanitation	230,426	299,594	-	-	69,168
Healthcare	27,554	-	-	-	(27,554)
Airport	224,950	56,027	-	-	(168,923)
Economic development	-	-	-	-	-
Total business-type activities	<u>3,508,310</u>	<u>4,084,310</u>	<u>-</u>	<u>-</u>	<u>576,000</u>
Total primary government	<u>\$ 7,047,084</u>	<u>\$ 4,234,014</u>	<u>\$ 20,653</u>	<u>\$ 151,845</u>	<u>\$ (2,640,572)</u>

City of Watonga, Oklahoma
Statement of Activities (continued)
Year Ended June 30, 2016

Changes in Net Position:

	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (3,216,572)	\$ 576,000	\$ (2,640,572)
General revenues:			
Taxes:			
Sales tax	1,997,958	-	1,997,958
Use tax	123,921	-	123,921
Franchise tax	24,990	-	24,990
Property tax	145,896	-	145,896
Other taxes	115,787	-	115,787
Oil and gas royalties	1,439,567	-	1,439,567
Investment income	11,805	2,553	14,358
Pension change	155,993	-	155,993
Miscellaneous	41,548	-	41,548
Transfers-Internal activity	1,032,407	(1,032,407)	-
Tranfers to lessee- healthcare	(812,987)	-	(812,987)
Total general revenues and transfers	<u>4,276,885</u>	<u>(1,029,854)</u>	<u>3,247,031</u>
Change in net position	1,060,313	(453,854)	606,459
Net position-beginning	8,689,824	11,308,745	19,998,569
Restatement for armory	104,687	-	104,687
Net position-ending	<u>\$ 9,854,824</u>	<u>\$ 10,854,891</u>	<u>\$ 20,709,715</u>

City of Watonga, Oklahoma
Balance Sheet
June 30, 2016

	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	\$ 452,020	\$ 19,332	\$ 106,128	\$ -	\$ 123,837	\$ 1,002,102	\$ 126,391	\$ 1,829,810
Investments	1,714,723	-	-	-	150,000	-	60,000	1,924,723
Sales, use & other taxes receivable	92,943	2,314	-	61,244	15,311	-	-	171,812
Revenue receivable	8,159	-	-	-	-	-	-	8,159
Total assets	<u>\$ 2,267,845</u>	<u>\$ 21,646</u>	<u>\$ 106,128</u>	<u>\$ 61,244</u>	<u>\$ 289,148</u>	<u>\$ 1,002,102</u>	<u>\$ 186,391</u>	<u>\$ 3,934,504</u>
LIABILITIES								
Accounts payable	\$ 26,171	\$ -	\$ -	\$ -	\$ 28,664	\$ -	\$ -	\$ 54,835
Wages and benefits payable	55,546	-	-	-	-	-	-	55,546
Compensated absences	34,555	-	-	-	-	-	-	34,555
Due to other funds	2,356	-	-	-	-	-	-	2,356
Total liabilities	<u>118,628</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,664</u>	<u>-</u>	<u>-</u>	<u>147,292</u>
FUND BALANCES								
Restricted	-	21,646	106,128	-	-	1,002,102	-	1,129,876
Committed	-	-	-	61,244	260,484	-	-	321,728
Assigned	-	-	-	-	-	-	186,391	186,391
Unassigned	2,149,217	-	-	-	-	-	-	2,149,217
Total fund balances	<u>2,149,217</u>	<u>21,646</u>	<u>106,128</u>	<u>61,244</u>	<u>260,484</u>	<u>1,002,102</u>	<u>186,391</u>	<u>3,787,212</u>
Total liabilities and fund balances	<u>\$ 2,267,845</u>	<u>\$ 21,646</u>	<u>\$ 106,128</u>	<u>\$ 61,244</u>	<u>\$ 289,148</u>	<u>\$ 1,002,102</u>	<u>\$ 186,391</u>	<u>\$ 3,934,504</u>
Total fund balance- total governmental funds								\$ 3,787,212
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	
							25,928,926	
							<u>(17,672,658)</u>	8,906,808
Long-term portion of liabilities are not due and payable in the current period and are not reported								
								(1,448,971)
								(3,321)
Net pension asset								
								-
								446,885
								(1,433,997)
								<u>(399,792)</u>
Net assets of governmental activities								<u>\$ 9,854,824</u>

City of Watonga, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2016

	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	\$ 998,979	\$ -	\$ -	\$ 799,183	\$ 199,796	\$ -	\$ -	\$ 1,997,958
Use tax	123,921	-	-	-	-	-	-	123,921
Franchise tax	24,990	-	-	-	-	-	-	24,990
Other taxes	86,383	29,404	-	-	-	-	-	115,787
Property taxes	-	-	145,896	-	-	-	-	145,896
Licenses and permits	7,257	-	-	-	-	-	-	7,257
Rents & royalties	1,412,354	-	-	-	27,213	-	-	1,439,567
Fines and forfeitures	119,965	-	-	-	-	-	-	119,965
Charges for services	1,003	20,762	-	-	-	-	-	21,765
Intergovernmental revenues	5,789	-	-	-	-	-	13,144	18,933
Donations	79,250	-	-	-	1,470	-	72,845	153,565
Other revenues	41,548	717	-	-	-	-	-	42,265
Interest	9,269	14	65	-	579	1,550	328	11,805
Total revenues	2,910,708	50,897	145,961	799,183	229,058	1,550	86,317	4,223,674
EXPENDITURES								
Current								
General government								
General government	307,285	-	-	-	-	-	19,665	326,950
Managerial	13,522	-	-	-	-	-	-	13,522
City clerk	141,584	-	-	-	-	-	-	141,584
City treasurer	10,278	-	-	-	-	-	-	10,278
City attorney	38,736	-	-	-	-	-	-	38,736
Total general government	511,405	-	-	-	-	-	19,665	531,070
Public safety and judiciary								
Municipal court	14,007	-	-	-	-	-	-	14,007
Police	577,341	-	-	-	-	-	-	577,341
Fire	246,963	-	-	-	1,150	-	-	248,113
EMS	84,230	-	-	-	-	-	-	84,230
Code enforcement	60,003	-	-	-	-	-	-	60,003
Total public safety and judiciary	982,544	-	-	-	1,150	-	-	983,694
Transportation:								
Street	541,134	66,300	-	-	-	-	-	607,434
Total transportation	541,134	66,300	-	-	-	-	-	607,434
Cultural, parks and recreation:								
Library	226,179	-	-	-	3,400	-	22,983	252,562
Park	252,841	-	-	-	6,499	-	-	259,340
Total cultural, parks and recreation	479,020	-	-	-	9,899	-	22,983	511,902
Public service:								
Airport	27,205	-	-	-	-	-	-	27,205
Total public service	27,205	-	-	-	-	-	-	27,205
Capital outlay	139,413	-	-	-	285,036	-	85,327	509,776
Debt service								
Principal	-	-	90,000	-	-	-	-	90,000
Interest	-	-	44,055	-	-	-	-	44,055
Fiscal charges	-	-	-	-	-	-	-	-
Total expenditures	2,680,721	66,300	134,055	-	296,085	-	127,975	3,305,136
Excess (deficiency) of revenues over expenditures	229,987	(15,403)	11,906	799,183	(67,027)	1,550	(41,658)	918,538
OTHER FINANCING SOURCES (USES)								
Transfers in	1,473,427	2,700	1,696	-	175,720	-	210,461	1,864,004
Transfers out	(624,242)	-	-	(37,834)	(68,547)	(75,962)	(25,012)	(831,597)
Transfers out to lessee- healthcare	-	-	-	(812,987)	-	-	-	(812,987)
Premium on bonds	-	-	-	-	-	-	-	-
Long-term debt issued	-	-	-	-	-	-	-	-
Total other financing sources and uses	849,185	2,700	1,696	(850,821)	107,173	(75,962)	185,449	219,420
Net change in fund balances	1,079,172	(12,703)	13,602	(51,638)	40,146	(74,412)	143,791	1,137,958
Fund balances - beginning	1,070,045	34,349	92,526	112,882	220,338	1,076,514	42,600	2,649,254
Fund balances - ending	\$ 2,149,217	\$ 21,646	\$ 106,128	\$ 61,244	\$ 260,484	\$ 1,002,102	\$ 186,391	\$ 3,787,212

City of Watonga, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2016

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 \$ 1,137,958

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	509,776	
Depreciation expense	<u>(830,656)</u>	(320,880)

Government-Wide Statement of Activities report the cost of pension benefits
earned net of employee contributions is reported as an element of pension. 155,993
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		563
Interest on debt- governmental funds		<u>(3,321)</u>

Change in Net Position of Governmental Activities \$ 1,060,313

City of Watonga, Oklahoma
Statement of Net Position
Proprietary Fund
June 30, 2016

	Light and Water Fund	Hospital Authority Fund	Public Works Authority	Total Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 503,277	\$ -	\$ 13,559	\$ 516,836
Investments	150,000	-	-	150,000
Accounts receivable, net	493,276	-	-	493,276
Due from other funds	2,356	-	-	2,356
Total current assets	<u>1,148,909</u>	<u>-</u>	<u>13,559</u>	<u>1,162,468</u>
Noncurrent assets:				
Capital assets (net)	7,952,272	364,585	1,662,980	9,979,837
Total noncurrent assets	<u>7,952,272</u>	<u>364,585</u>	<u>1,662,980</u>	<u>9,979,837</u>
Total assets	<u>\$ 9,101,181</u>	<u>\$ 364,585</u>	<u>\$ 1,676,539</u>	<u>\$ 11,142,305</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 231,630	\$ -	\$ 9,425	\$ 241,055
Wages and benefits payable	24,174	-	-	24,174
Other liabilities	16,391	-	-	16,391
Notes payable, current	-	-	5,794	5,794
Total current liabilities	<u>272,195</u>	<u>-</u>	<u>15,219</u>	<u>287,414</u>
Noncurrent liabilities:				
Notes payable, non-current	-	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>272,195</u>	<u>-</u>	<u>15,219</u>	<u>287,414</u>
NET POSITION				
Invested in capital assets, net of related debt	7,952,272	364,585	1,657,186	9,974,043
Unrestricted	<u>876,714</u>	<u>-</u>	<u>4,134</u>	<u>880,848</u>
Total net position	<u>\$ 8,828,986</u>	<u>\$ 364,585</u>	<u>\$ 1,661,320</u>	<u>\$ 10,854,891</u>

City of Watonga, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2016

	Light and Water Fund	Hospital Authority Fund	Public Works Authority	Total Enterprise Funds
<u>Operating revenues:</u>				
Charges for services:				
Water charges	\$ 390,453	\$ -	\$ -	\$ 390,453
Sewer charges	170,647	-	-	170,647
Electric charges	2,944,335	-	-	2,944,335
Sanitation charges	299,594	-	-	299,594
Sale of fuel	-	-	31,377	31,377
Penalties	47,691	-	-	47,691
Total charges for services	3,852,720	-	31,377	3,884,097
Lease and rental income	-	-	24,650	24,650
Other fees and charges	175,563	-	-	175,563
Total operating revenues	4,028,283	-	56,027	4,084,310
<u>Operating expenses:</u>				
Cost of sales	1,920,209		-	1,920,209
Personal services	511,604		-	511,604
Materials and supplies	222,786	-	9,389	232,175
Other services and charges	72,004	-	52,258	124,262
Depreciation and amortization	529,203	27,554	162,489	719,246
Total operating expenses	3,255,806	27,554	224,136	3,507,496
Net operating income	772,477	(27,554)	(168,109)	576,814
<u>Nonoperating revenue (expense):</u>				
Grants operating	-	-	-	-
Investment income	2,534	-	19	2,553
Interest expense	-	-	(814)	(814)
Total nonoperating revenue/(expense)	2,534	-	(795)	1,739
Net Income before contributions and transfers	775,011	(27,554)	(168,904)	578,553
<u>Contributions and transfers:</u>				
Transfers from other funds	251,667	74,266	58,625	384,558
Transfers to other funds	(1,416,965)	-	-	(1,416,965)
Change in net position	(390,287)	46,712	(110,279)	(453,854)
Net position-beginning of year	9,219,273	317,873	1,771,599	11,308,745
Net position-end of year	\$ 8,828,986	\$ 364,585	\$ 1,661,320	\$ 10,854,891

City of Watonga, Oklahoma
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016

	Light and Water Fund	Hospital Authority Fund	Public Works Authority	Total Enterprise Funds
Cash flows from operating activities:				
Receipts from customers	\$ 3,933,663	\$ -	\$ 56,027	\$ 3,989,690
Payments to suppliers	(2,230,873)	-	(52,222)	(2,283,095)
Payments to employees	(511,775)	-	-	(511,775)
Net cash provided (used) by operating activities	1,191,015	-	3,805	1,194,820
Cash flows from non-capital financing activities:				
Operating grants and contributions	-	-	-	-
Transfers from other funds	251,667	74,266	58,625	384,558
Transfers to other funds	(1,416,965)	-	-	(1,416,965)
Transfers to lessee- healthcare	-	-	-	-
Net cash provided (used) by non-capital financing activities	(1,165,298)	74,266	58,625	(1,032,407)
Cash flows from capital and related financing activities:				
Purchases of capital assets	(191,082)	(74,266)	(37,941)	(303,289)
Principal paid on capital debt	-	-	(27,878)	(27,878)
Interest paid on capital debt	-	-	(814)	(814)
Net cash provided (used) by capital and related financing activities	(191,082)	(74,266)	(66,633)	(331,981)
Cash flows from investing activities:				
Investment income	2,534	-	19	2,553
Net cash provided (used) by investing activities	2,534	-	19	2,553
Net increase (decrease) in cash and cash equivalents	(162,831)	-	(4,184)	(167,015)
Cash & cash equivalents, June 30, 2015	666,108	-	17,743	683,851
Cash & cash equivalents, June 30, 2016	\$ 503,277	\$ -	\$ 13,559	\$ 516,836
Cash, including time deposits	\$ 503,277	\$ -	\$ 13,559	\$ 516,836
Total cash and cash equivalents, end of year	\$ 503,277	\$ -	\$ 13,559	\$ 516,836
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 772,477	\$ (27,554)	\$ (168,109)	\$ 576,814
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	529,203	27,554	162,489	719,246
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(94,620)	-	-	(94,620)
(Increase) decrease in due from other funds	-	-	-	-
Increase (decrease) in accounts payable	(23,389)	-	9,425	(13,964)
Increase (decrease) in wages and benefits payable	(171)	-	-	(171)
Increase (decrease) in other liabilities	7,515	-	-	7,515
Total adjustments	418,538	27,554	171,914	618,006
Net cash provided (used) by operating activities	\$ 1,191,015	\$ -	\$ 3,805	\$ 1,194,820

City of Watonga, Oklahoma
Statement of Fiduciary Net Position
June 30, 2016

	<u>Meter Deposit Fund</u>	<u>Municipal Court Bond Fund</u>	<u>Total Agency Funds</u>
ASSETS			
Cash and cash equivalents	\$ 121,899	\$ 2,342	\$ 124,241
Cash and investments, restricted	127,000	-	127,000
Total assets	<u>\$ 248,899</u>	<u>\$ 2,342</u>	<u>\$ 251,241</u>
LIABILITIES			
Bonds and deposits subject to refund	\$ 248,899	\$ 2,342	\$ 251,241
Total liabilities	<u>\$ 248,899</u>	<u>\$ 2,342</u>	<u>\$ 251,241</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, 2016.

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.

Related Organizations

Related organizations are excluded from the financial reporting entity because the City's accountability does not extend beyond making appointments. Audited financial statements are available from the respective organizations.

Watonga Municipal Library

Established to account for the operations of the Library. It is governed by a Board that is appointed by the City Council of the City of Watonga, OK. The annual audited report may be obtained from the Watonga Municipal Library, 301 North Prouty Avenue, Watonga, OK.

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, 2016, 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

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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.

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.

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
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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.

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, LIABILITIES, AND NET POSITION OR FUND BALANCE

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				
<u>INVESTMENTS:</u>				
Certificates of deposit	\$ 2,074,723	\$ 2,074,723	N/A	134
Total investments	2,074,723	2,074,723		
 Total primary government investments	\$ 2,074,723	\$ 2,074,723		

RECONCILIATION TO STATEMENT OF NET POSITION

	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>
	<u>Activities</u>	<u>Activities</u>	
Investments, unrestricted	\$ 1,924,723	\$ 150,000	\$ 2,074,723
Total investments	\$ 1,924,723	\$ 150,000	\$ 2,074,723

(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
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Restricted Assets

	<u>Cash</u>
<i>Governmental Activities</i>	
Debt service sinking fund	\$ 106,128
GO bonds- hospital	1,002,102
Total Governmental Activities	<u>1,108,230</u>
Total Restricted Assets	<u>\$ 1,108,230</u>

Capital Assets

Changes in Capital Assets

	<u>Primary Government</u>			
	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	
<i>Governmental Activities</i>				
Land	\$ 650,540	\$ -	\$ -	\$ 650,540
Buildings & structures	3,168,522	184,581	-	3,353,103
Machinery, furniture, & equipment	3,089,493	325,195	-	3,414,688
Infrastructure & improvements	19,161,135	-	-	19,161,135
Total	26,069,690	509,776	-	26,579,466
Less accumulated depreciation	16,842,002	830,656	-	17,672,658
Governmental fixed assets, net	<u>\$ 9,227,688</u>	<u>\$ (320,880)</u>	<u>\$ -</u>	<u>\$ 8,906,808</u>
<i>Business-type Activities</i>				
Land	\$ 73,020	\$ -	\$ -	\$ 73,020
Buildings & structures	6,954,833	-	-	6,954,833
Machinery, furniture, & equipment	1,438,531	26,063	-	1,464,594
Infrastructure & improvements	18,237,409	177,948	-	18,415,357
Construction in Progress	-	99,278	-	99,278
Total	26,703,793	303,289	-	27,007,082
Less accumulated depreciation	16,307,999	719,246	-	17,027,245
Business-type fixed assets, net	<u>\$ 10,395,794</u>	<u>\$ (415,957)</u>	<u>\$ -</u>	<u>\$ 9,979,837</u>
Total primary government	<u>\$ 19,623,482</u>	<u>\$ (736,837)</u>	<u>\$ -</u>	<u>\$ 18,886,645</u>

CITY OF WATONGA, OKLAHOMA
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	Light & Water Fund	Watonga Hospital Authority	Public Works Authority	Total Business- Type
<i>Business-type Activities</i>				
Land	\$ 48,070	\$ 3,950	\$ 21,000	\$ 73,020
Buildings & structures	222,856	886,809	5,845,168	6,954,833
Machinery, furniture, & equipment	1,132,311	28,618	303,665	1,464,594
Infrastructure & improvements	18,415,357	-	-	18,415,357
Construction in progress	-	74,266	25,012	99,278
Total	19,818,594	993,643	6,194,845	27,007,082
Less accumulated depreciation	(11,866,322)	(629,058)	(4,531,865)	(17,027,245)
Business-type fixed assets, net	\$ 7,952,272	\$ 364,585	\$ 1,662,980	\$ 9,979,837

Depreciation Expense

Primary Government			
<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General government	\$ 12,449	Water	\$ 202,349
Public safety & judiciary	68,249	Sewer	218,310
Transportation	682,256	Electric	75,500
Cultural, parks & recreation	67,702	Administration	12,442
Total depreciation expense	<u>\$ 830,656</u>	Sanitation	20,602
		Hospital	27,554
		Airport	162,489
		Total depreciation expense	<u>\$ 719,246</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.

\$ 1,440,000

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.

5,794

\$ 5,794

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Changes in Long-Term Debt

<u>Type of Debt</u>	<u>Balance at July 1, 2015</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2016</u>	<u>Due Within One Year</u>
Governmental activities:					
General Obligation bonds	\$ 1,530,000	\$ -	\$ 90,000	\$ 1,440,000	\$ 90,000
Business-type activities:					
John Deere Credit	33,672	-	27,878	5,794	5,794
Total business-type activities	<u>\$ 33,672</u>	<u>\$ -</u>	<u>\$ 27,878</u>	<u>\$ 5,794</u>	<u>\$ 5,794</u>
Total primary government	<u>\$ 1,563,672</u>	<u>\$ -</u>	<u>\$ 117,878</u>	<u>\$ 1,445,794</u>	<u>\$ 95,794</u>

Annual Debt Service Requirements

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 90,000	\$ 41,805	\$ 5,794	\$ 168
2018	90,000	39,555	-	-
2019	90,000	37,305	-	-
2020	90,000	35,055	-	-
2021	90,000	32,805	-	-
2022-2026	450,000	129,330	-	-
2027-2031	450,000	62,100	-	-
2032	90,000	3,240	-	-
Totals	<u>\$ 1,440,000</u>	<u>\$ 381,195</u>	<u>\$ 5,794</u>	<u>\$ 168</u>

C. Restatements

Governmental fixed assets were restated by \$104,687 for the Armory that was deeded to the City on March 1, 2009.

(3) REVENUES AND EXPENSES

Interfund Transfers

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C. Interfund Balances

	<u>Transfers In</u>	<u>Transfers Out</u>
GENERAL FUND		
Light and Water Fund	\$ 1,414,265	\$ 251,667
Hospital Special Revenue Fund	37,834	-
Sales Tax (Capital Improvement) Fund	21,328	175,720
Grant Fund	-	19,665
Library Special Revenue	-	177,190
Total General Fund	1,473,427	624,242
STREET & ALLEY FUND		
Light and Water Fund	2,700	-
Total Street & Alley Fund	2,700	-
HOSPITAL SPECIAL REVENUE FUND		
General Fund	-	37,834
Total Hospital Special Revenue Fund	-	37,834
SALES TAX (CAPITAL IMPROVEMENT) FUND		
General Fund	175,720	21,328
Public Works Authority	-	33,613
Library Special Revenue	-	13,606
Total Sales Tax (Cap Improve) Fund	175,720	68,547
GENERAL OBLIGATION BOND FUND		
Hospital Sinking Fund	-	1,696
Hospital Authority	-	74,266
Total General Obligation Bond Fund	-	75,962
GRANT FUND		
General Fund	19,665	-
Public Works	-	25,012
Total Grant Fund	19,665	25,012
LIBRARY SPECIAL REVENUE		
General Fund	177,190	-
Sales Tax (Capital Improvement) Fund	13,606	-
Total Library Special Revenue	190,796	-
HOSPITAL SINKING FUND		
General Obligation Bond Fund	1,696	-
Total Hospital Sinking Fund	1,696	-
LIGHT AND WATER FUND		
General Fund	251,667	1,414,265
Street & Alley Fund	-	2,700
Total Light and Water Fund	251,667	1,416,965
PUBLIC WORKS AUTHORITY		
Sales Tax (Capital Improvement) Fund	33,613	-
Grant Fund	25,012	-
Total Public Works Authority	58,625	-
HOSPITAL AUTHORITY		
General Obligation Bond Fund	74,266	-
Total Hospital Authority	74,266	-
GRAND TOTAL	\$ 2,248,562	\$ 2,248,562

(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

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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, 2016, the City's contribution was 18.97%. Contributions to the pension plan from the City were \$203,450 for the year ended June 30, 2016.

Membership

Membership in the plan is as follows:

	As of July 1, 2015
Inactive employees & beneficiaries receiving benefits	21
Inactive employees entitled to but not yet receiving benefits	3
Active participants	33
Total	57

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

At June 30, 2016, the City reported a liability of \$925,780 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, 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, 2016, the City recognized pension expense of \$108,547. At June 30, 2016, 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	\$ -	\$ 75,200
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	121,569	191,689
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	203,450	-
Total	\$ 325,019	\$ 266,889

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

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Year ended June 30:

2017	\$	(55,688)
2018		(55,688)
2019		(55,686)
2020		21,741
2021		1
Thereafter		-
	\$	<u>(145,320)</u>

Actuarial assumptions: The total pension liability in the June 30, 2016 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, 2015 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, 2015 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%
	<u>100%</u>		
		Average Real Return	4.75%
		Inflation	<u>3.00%</u>
		Long term expected return	<u>7.75%</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 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.

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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, 2014	4,623,990	3,742,556	881,434
Changes for the year:			
Service cost	101,924	-	101,924
Interest cost	346,942	-	346,942
Differences between expected and actual experience	(97,383)	-	(97,383)
Contributions - employer	-	174,467	(174,467)
Contributions - employee	-	37,827	(37,827)
Net investment income	-	102,538	(102,538)
Benefit payments, including refunds of employee contributions	(300,240)	(300,240)	-
Administrative expense	-	(7,695)	7,695
Other changes	-	-	-
Net changes	<u>51,243</u>	<u>6,897</u>	<u>44,346</u>
Balances at June 30, 2015	<u>\$ 4,675,233</u>	<u>\$ 3,749,453</u>	<u>\$ 925,780</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)	1,416,870	925,780	506,178

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 benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated

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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 \$26,624 for the year ended June 30, 2016.

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

At June 30, 2016, the City reported an asset of \$2,371 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2016, the City's proportion was 0.0581 percent.

For the year ended June 30, 2016, the City recognized pension expense of \$10,218. At June 30, 2016, 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	\$ -	\$ 13,110
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	42,484	51,607
Changes in proportion and differences between City contributions and proportionate share of contributions	6,399	-
City contributions subsequent to the measurement date	26,624	-
Total	\$ 75,507	\$ 64,717

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

Year ended June 30:

2018	\$ (7,162)
2018	(7,162)
2019	(7,162)
2020	7,749
2021	(1,017)
After	296
	\$ (14,458)

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of July 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement:

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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:	<p>Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 yrs with full generational improvement using Scale AA.</p> <p>Active employees (post-retirement) and nondisabled pensioners: RP-2000 Blue Collar Healthy Combined table with fully generational improvement using scale AA.</p> <p>Disabled pensioners: RP-2000 Blue Collar Healthy Combined table with age set forward with fully generational improvement using scale AA.</p>

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)	142,456	2,371	(115,730)

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 \$18,433.

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

At June 30, 2016, the City reported a liability of \$505,846 for its proportionate share of the net pension liability. The net pension net pension liability was measured as of June 30, 2015, 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, 2015. The City's proportion was 0.047658%.

For the year ended June 30, 2016, the City recognized pension expense of \$40,606. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 9,994	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	17,932	55,640
Changes in proportion and differences between City contributions and proportionate share of contributions	-	12,546
City contributions subsequent to the measurement date	18,433	-
Total	\$ 46,359	\$ 68,186

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:

2017	\$	(12,238)
2018		(12,238)
2019		(12,238)
2020		6,809
2021		919
Thereafter		29
		\$ (28,957)

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of July 1, 2015 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, 2015, 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.

The actuarial assumptions used in the July 1, 2015, 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, 2015, are summarized in the following table:

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

<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:

	<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	656,794	505,846	379,253

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, 2016, 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.

City of Watonga, Oklahoma
General Fund
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2016

	Original Budget	Revisions	Revised Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES					
Sales tax	\$ 782,679	\$ 217,500	\$ 1,000,179	\$ 1,016,996	\$ 16,817
Use tax	100,000	20,000	120,000	125,549	5,549
Cigarette tax	18,015	4,500	22,515	24,088	1,573
Franchise Tax	31,654	(6,000)	25,654	24,990	(664)
Alcoholic beverage tax	55,342	4,500	59,842	61,887	2,045
Police Fines & Court Fees	54,864	40,000	94,864	111,834	16,970
Insure OK	1,530	(1,530)	-	-	-
Rentals, sales, miscellaneous	40,188	(3,000)	37,188	44,448	7,260
Oil & gas income	1,292	1,260,000	1,261,292	1,412,354	151,062
Licenses & permits	4,034	1,500	5,534	7,257	1,723
Interest Income	7,063	500	7,563	9,269	1,706
Watonga Housing Authority	8,096	(8,096)	-	4,039	4,039
Total revenues	1,104,757	1,529,874	2,634,631	2,842,711	208,080
EXPENDITURES					
<u>General government:</u>					
General government:	384,840	(40,000)	344,840	307,467	37,373
Managerial:	14,450	(1,000)	13,450	13,522	(72)
City Clerk:	111,275	30,000	141,275	140,308	967
City Treasurer:	10,330	-	10,330	10,228	102
City Attorney:	39,600	-	39,600	38,714	886
Total General government:	560,495	(11,000)	549,495	510,239	39,256
<u>Public safety and judiciary:</u>					
Municipal Court:	10,350	2,250	12,600	13,348	(748)
Police Department:	536,300	65,000	601,300	592,591	8,709
Fire Department:	247,700	-	247,700	247,398	302
EMS:	-	50,000	50,000	70,577	(20,577)
Code Enforcement:	-	60,000	60,000	58,672	1,328
Total	794,350	177,250	971,600	982,586	(10,986)
<u>Transportation:</u>					
Street:	548,000	1,000	549,000	540,512	8,488
Total	548,000	1,000	549,000	540,512	8,488
<u>Culture and recreation:</u>					
Library:	225,733	3,000	228,733	226,726	2,007
Park:	233,050	13,000	246,050	248,288	(2,238)
Total Culture and recreation:	458,783	16,000	474,783	475,014	(231)
<u>Public services</u>					
Airport:	25,760	2,500	28,260	27,205	1,055
Total Public services	25,760	2,500	28,260	27,205	1,055
Total expenditures	2,387,388	185,750	2,573,138	2,535,556	37,582
Revenue over (under) expenditures	(1,282,631)	1,344,124	61,493	307,155	245,662

City of Watonga, Oklahoma
 General Fund
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2016

	Original Budget	Revisions	Revised Budget	Actual	Variance - Favorable (Unfavorable)
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	1,020,000	(450,000)	570,000	849,185	279,185
Net other financing sources (uses)	<u>1,020,000</u>	<u>(450,000)</u>	<u>570,000</u>	<u>849,185</u>	<u>279,185</u>
Revenues and other financing sources over (under) expenditures and other uses	(262,631)	894,124	631,493	1,156,340	524,847
Fund balance at beginning of year (Non-GAAP budgetary basis)	1,070,045	1,070,045	1,070,045	1,029,606	(40,439)
Fund balance at end of year (Non-GAAP budgetary basis)	<u>\$ 807,414</u>	<u>\$ 1,964,169</u>	<u>\$ 1,701,538</u>	<u>\$ 2,185,946</u>	<u>\$ 484,408</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				(36,729)	
Fund balance at end of year (GAAP basis)				<u>\$ 2,149,217</u>	

City of Watonga, Oklahoma
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>	<u>2016*</u>
City's portion of the net pension liability (asset)	0.0504%	0.0581%
City's proportionate share of the net pension liability (asset)	\$ (16,966)	\$ 2,371
City's covered-employee payroll	\$ 140,969	\$ 158,000
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-12.04%	1.50%
Plan fiduciary net position as a percentage of the total pension liability	101.53%	99.82%

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

SCHEDULE OF CITY CONTRIBUTIONS

Oklahoma Police Pension Retirement Plan

	<u>2015*</u>	<u>2016*</u>
Contractually required contribution	\$ 18,326	\$ 20,540
Contributions in relation to the contractually required contribution	<u>(18,326)</u>	<u>(20,540)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 140,969	\$ 158,000
Contributions as a percentage of covered-employee payroll	13.00%	13.00%

City of Watonga, Oklahoma
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>	<u>2016*</u>
City's portion of the net pension liability (asset)	0.0489%	0.047658%
City's proportionate share of the net pension liability (asset)	\$ 503,321	\$ 505,846
City's covered-employee payroll	\$ 130,664	\$ 122,121
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	385%	414%
Plan fiduciary net position as a percentage of the total pension liability	68.12%	68.27%

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

SCHEDULE OF CITY CONTRIBUTIONS

Oklahoma Fire Pension Retirement Plan

	<u>2015*</u>	<u>2016*</u>
Contractually required contribution	\$ 18,293	\$ 17,097
Contributions in relation to the contractually required contribution	<u>(18,293)</u>	<u>(17,097)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 130,664	\$ 122,121
Contributions as a percentage of covered-employee payroll	14.00%	14.00%

City of Watonga, Oklahoma
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>	<u>2016*</u>
Total pension liability		
Service cost	\$ 94,016	\$ 101,924
Interest	344,182	346,942
Changes in benefit terms	-	-
Differences between expected and actual experience	-	(97,383)
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	<u>(316,592)</u>	<u>(300,240)</u>
Net change in total pension liability	<u>\$ 121,606</u>	<u>\$ 51,243</u>
Total pension liability - beginning	<u>4,502,384</u>	<u>4,623,990</u>
Total pension liability - ending (a)	<u><u>\$ 4,623,990</u></u>	<u><u>\$ 4,675,233</u></u>
Plan fiduciary net position		
Contributions - employer	174,211	174,467
Contributions - employee	37,065	37,827
Net investment income	537,354	102,538
Benefit payments, including refunds of employee contributions	(316,592)	(300,240)
Administrative expense	(7,923)	(7,695)
Other	-	-
Net change in plan fiduciary net position	<u>424,115</u>	<u>6,897</u>
Plan fiduciary net position - beginning	<u>3,318,441</u>	<u>3,742,556</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 3,742,556</u></u>	<u><u>\$ 3,749,453</u></u>
City's net pension liability - ending (a) - (b)	<u><u>\$ 881,434</u></u>	<u><u>\$ 925,780</u></u>
Plan fiduciary net position as a percentage of the total pension liability	80.94%	80.20%
Covered-employee payroll	\$ 876,408	\$ 938,273
City's net pension liability as a percentage of covered-employee payroll	100.57%	98.67%

City of Watonga, Oklahoma
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2016

	Grant Fund	Library Fund	Total Non-Major Funds
ASSETS			
Cash and cash equivalents	\$ 15,924	\$ 110,467	\$ 126,391
Investments	-	60,000	60,000
Total assets	<u>\$ 15,924</u>	<u>\$ 170,467</u>	<u>\$ 186,391</u>
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Assigned	15,924	170,467	186,391
Total fund balances	<u>15,924</u>	<u>170,467</u>	<u>186,391</u>
Total liabilities and fund balances	<u>\$ 15,924</u>	<u>\$ 170,467</u>	<u>\$ 186,391</u>

City of Watonga, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2016

	Grant Fund	Library Fund	Total Non-Major Funds
REVENUES			
Intergovernmental revenue	\$ 5,791	\$ 7,353	\$ 13,144
Donations	-	72,845	72,845
Interest income	-	328	328
Total revenues	<u>5,791</u>	<u>80,526</u>	<u>86,317</u>
EXPENDITURES			
General government:			
General government	19,665	-	19,665
Total general government	<u>19,665</u>	<u>-</u>	<u>19,665</u>
Cultural, parks and recreation:			
Library	-	22,983	22,983
Total cultural, parks and recreation	<u>-</u>	<u>22,983</u>	<u>22,983</u>
Capital outlay	-	85,327	85,327
Total expenditures	<u>19,665</u>	<u>108,310</u>	<u>127,975</u>
Excess (deficiency) of revenues over expenditures	<u>(13,874)</u>	<u>(27,784)</u>	<u>(41,658)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	19,665	190,796	210,461
Transfers out	(25,012)	-	(25,012)
Total other financing sources and uses	<u>(5,347)</u>	<u>190,796</u>	<u>185,449</u>
Net change in fund balances	(19,221)	163,012	143,791
Fund balances - beginning	35,145	7,455	42,600
Fund balances - ending	<u>\$ 15,924</u>	<u>\$ 170,467</u>	<u>\$ 186,391</u>

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

To the City Council
City of 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, each major fund, and the aggregate remaining fund information of the City of Watonga, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Watonga, Oklahoma's basic financial statements, and have issued our report thereon dated December 19, 2016.

Internal Control over Financial Reporting

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

FSW&B CPAs-PLLC

FSW&B CPAs-PLLC
Woodward, Oklahoma
December 19, 2016