

**CITY OF WATONGA OKLAHOMA
WATONGA, OKLAHOMA**

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

**FOR THE YEAR ENDED
JUNE 30, 2017**

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, 2017, 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, 2017, 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 on the reporting entity of the City of Watonga, Oklahoma, as of June 30, 2017, 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, 2017, and our report thereon, dated November 7, 2017, 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, 37–38, and 39–41 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 November 7, 2017, 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

November 7, 2017

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, 2017. 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, 2017, the assets of the City exceeded its liabilities by \$20,645,916 (net position). Of this amount \$2,657,831 (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 \$20,709,715.
- The City's total net position are comprised of the following:
 - (1) Invested in capital assets, net of related debt of \$17,436,727 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 \$551,358.
 - (3) Unrestricted net position of \$2,657,831 represents the portion available to maintain the City's continuing obligations to citizens and creditors.
- Total liabilities of the City increased by \$787,369 during the fiscal year.
- After transfers of \$346,018 from business-type activities to governmental activities, net position of governmental activities decreased \$652,112 or 6.62%, and net position of business-type activities increased \$588,313 or 5.42%.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$2,262,082 or 72.71% of total General Fund expenditures, excluding transfers.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

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

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

Fund Financial Statements

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

The City has three kinds of funds:

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

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

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

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

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

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

Notes to the financial statements

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

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position at June 30, 2017 is \$20,645,916. This is a \$63,799 decrease (depreciation expense is \$1,600,207- a non-cash expense) over June 30, 2016 net position of \$20,709,715. The City reported positive balances in total net position for both governmental and business-type activities, reporting \$9,202,712 and \$11,443,204, respectively. The City's overall financial position declined during fiscal year 2017.

Summary of Net Position

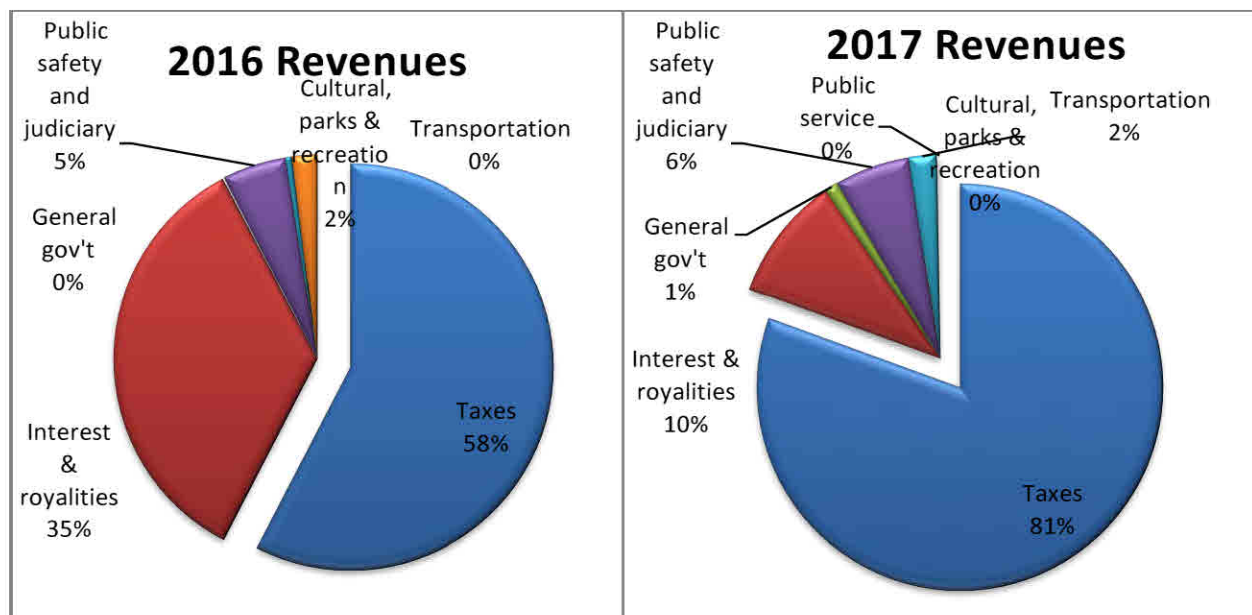
	Governmental Activities		Business-type Activities		Totals		\$ Change	% Change
	2017	2016	2017	2016	2017	2016		
Current and other assets	\$ 4,201,760	\$ 3,932,148	\$ 1,521,713	\$ 1,162,468	\$ 5,723,473	\$ 5,094,616	\$ 628,857	110%
Other noncurrent assets	-	-	-	-	-	-	\$ -	#DIV/0!
Capital assets	8,311,374	8,906,808	10,324,924	9,979,837	18,636,298	18,886,645	\$ (250,347)	-13%
Total assets	12,513,134	12,838,956	11,846,637	11,142,305	24,359,771	23,981,261	\$ 378,510	16%
Deferred outflows of resources	660,967	446,885	-	-	660,967	446,885	214,082	32.4%
Long-term liabilities	3,166,695	2,790,597	76,700	-	3,243,395	2,790,597	\$ 452,798	14.0%
Other liabilities	535,880	238,257	326,733	287,414	862,613	525,671	\$ 336,942	39.1%
Total liabilities	3,702,575	3,028,854	403,433	287,414	4,106,008	3,316,268	\$ 789,740	19.2%
Deferred inflows of resources	268,814	399,792	-	-	268,814	399,792	(130,978)	-48.7%
Net position:								
Invested in capital assets, net of related debt	7,223,903	7,814,706	10,212,824	9,974,043	17,436,727	17,788,749	\$ (352,022)	-2.0%
Restricted	551,358	773,007	-	-	551,358	773,007	\$ (221,649)	-40.2%
Unrestricted	1,427,451	1,267,111	1,230,380	880,848	2,657,831	2,147,959	\$ 509,872	19.2%
Total net position	\$ 9,202,712	\$ 9,854,824	\$ 11,443,204	\$ 10,854,891	\$ 20,645,916	\$ 20,709,715	\$ (63,799)	-0.3%

Summary of Statement of Activities

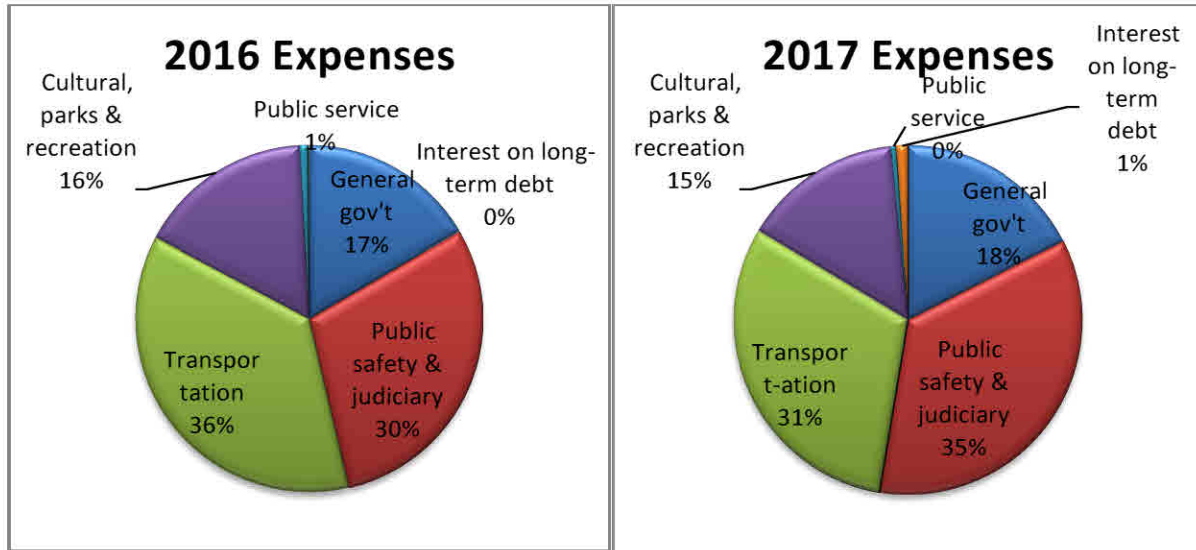
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2017	2016	2017	2016	2017	2016		
Revenues								
Program revenues	\$ 277,862	\$ 322,202	\$ 4,423,525	\$ 4,084,310	\$ 4,701,387	\$ 4,406,512	\$ 294,875	7%
Taxes and other general revenues	3,893,131	4,057,465	22,834	2,553	3,915,965	4,060,018	(144,053)	-4%
Total revenues	4,170,993	4,379,667	4,446,359	4,086,863	8,617,352	8,466,530	150,822	2%
Expenses								
General government	704,597	546,277	-	-	704,597	546,277	158,320	29%
Public safety and judiciary	1,408,673	1,051,943	-	-	1,408,673	1,051,943	356,730	34%
Transportation	1,243,774	1,289,690	-	-	1,243,774	1,289,690	(45,916)	-4%
Cultural, parks, and recreation	595,550	579,604	-	-	595,550	579,604	15,946	3%
Public service	21,778	27,205	-	-	21,778	27,205	(5,427)	100%
Interest on long-term debt	42,105	44,055	-	-	42,105	44,055	(1,950)	100%
Electric	-	-	2,147,279	2,157,087	2,147,279	2,157,087	(9,808)	0%
Water	-	-	322,527	330,190	322,527	330,190	(7,663)	-2%
Sewer	-	-	332,443	316,972	332,443	316,972	15,471	5%
Sanitation	-	-	252,453	230,426	252,453	230,426	22,027	10%
Healthcare	-	-	27,264	27,554	27,264	27,554	(290)	-1%
Airport	-	-	234,586	224,950	234,586	224,950	9,636	4%
Administration	-	-	195,476	221,131	195,476	221,131	(25,655)	-12%
Total expenses	4,016,477	3,538,774	3,512,028	3,508,310	7,528,505	7,047,084	481,421	7%
Excess (deficiency) before transfers	\$ 154,516	\$ 840,893	\$ 934,331	\$ 578,553	\$ 1,088,847	\$ 1,419,446	\$ (330,599)	-23%
Transfers - internal	346,018	1,032,407	(346,018)	(1,032,407)	-	-	-	0%
Transfers to lessee- healthcare	(1,152,646)	(812,987)	-	-	(1,152,646)	(812,987)	(339,659)	0%
Increase (decrease) in net assets	\$ (652,112)	\$ 1,060,313	\$ 588,313	\$ (453,854)	\$ (63,799)	\$ 606,459	\$ (670,258)	-111%

Revenues for the City increased 1.78% 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 2016 with a 6.83% change.

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

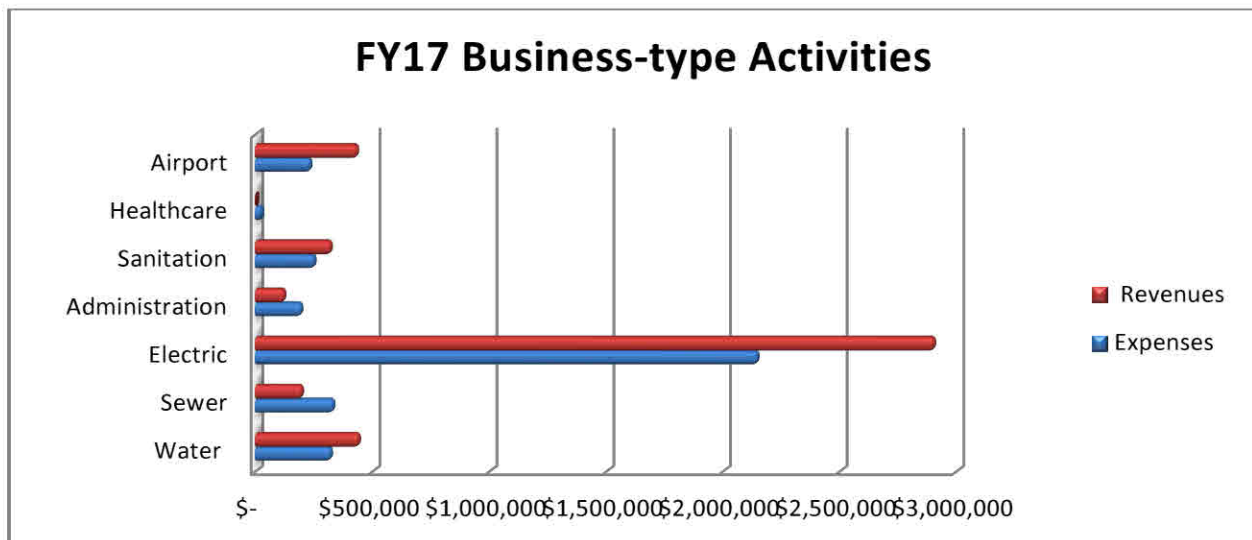


Taxes proved for 81% of the City's governmental revenues in fiscal year 2017. Interest and royalties followed as the second major revenue source accounting for 10% of governmental revenues.



For the year ended June 30, 2017, total expenses for governmental activities were \$4,016,477. Of this amount, public safety and judiciary with \$1,408,673 was the largest operating service department at 35% 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, 2017, revenues from electric, water, sanitation and airport covered the cost of operating their respective departments.

General Fund Budgetary Highlights

The adopted budget for the General Fund for fiscal year 2017 was \$3,125,589. Actual expenses were \$7,101 more than budgeted amounts. The General Fund budget exceeded appropriation levels by 0.23% due to unforeseen fire and EMS expenses but otherwise complied with financial policies approved by the City.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2017, the City had \$18,636,298 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			
	2017	2016	2017	2016	2017	2016
Land	\$ 650,540	\$ 650,540	\$ 73,020	\$ 73,020	\$ 723,560	\$ 723,560
Buildings	723,418	728,113	2,096,615	1,820,262	2,820,033	2,548,375
Machinery & equipment	1,050,675	1,017,694	430,830	329,124	1,481,505	1,346,818
Utility property & improvements	5,878,287	6,510,461	7,228,582	7,658,153	13,106,869	14,168,614
Construction in progress	8,454	-	495,877	99,278	504,331	99,278
Totals	<u>\$ 8,311,374</u>	<u>\$ 8,906,808</u>	<u>\$ 10,324,924</u>	<u>\$ 9,979,837</u>	<u>\$ 18,636,298</u>	<u>\$ 18,886,645</u>

- In Governmental Activities, the most significant additions included a retaining wall at City Hall, website development, security motion sensors, various computers and software, body cameras for police, mobile radios, directional antenna and software, Dodge Ram 1500 crew cab for police, Fire garage steel panels and carport, fire pump brush, EMS lifepac and accessories, tinhorn, library flooring and exterior fencing, early literacy stations, playground surfacing, John Deere utility tractor, flex-wing rotary cutter, and a top dresser .
- In Business-type activities capital additions included sewer system upgrades, various transformers & pumps, sewer line replacement, a Komatsu excavator, airport fuel tanks, airport taxiway improvements, and expenses towards the emergency room remodel for the hospital.

Long-Term Debt

At year-end, the City had \$1,426,700 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	
	2017	2016	2017	2016
Notes payable	-	-	112,100	5,794
Bonds payable	1,350,000	1,440,000	-	-
less current portion	-	-	(35,400)	(5,794)
Totals	<u>\$ 1,350,000</u>	<u>\$ 1,440,000</u>	<u>\$ 76,700</u>	<u>\$ -</u>

ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES

Economic Environment

With the rebound in energy prices, Oklahoma employment has bottomed out and once again has begun to grow. The number of energy drilling rigs in Oklahoma has more than doubled since reaching a low in the summer of 2016, of which Blaine County has been a big part. Although further energy price increases are not forecast, the recovery in the energy sector will propel the Oklahoma economy forward the remainder of 2017.

Fiscal Year 2018

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 however due to the increased sales tax in 2017, sales and use tax were budgeted conservatively at 75%. Utility rates were budgeted to increase by 2.5%. Utility capital improvement fees were also budgeted to assist the City in keeping updated equipment. This approach will ensure that any further decline in the economic can be absorbed by the City.

Operating expenses were 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, 2017

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 1,005,485	\$ 869,952	\$ 1,875,437
Investments	1,799,742	150,000	1,949,742
Sales, use & other taxes receivable	297,043	-	297,043
Accounts receivable (net)	17,469	499,405	516,874
Internal balances	(2,356)	2,356	-
Total current assets	<u>3,117,383</u>	<u>1,521,713</u>	<u>4,639,096</u>
Restricted assets:			
Cash and cash equivalents	1,084,377	-	1,084,377
Total restricted assets	<u>1,084,377</u>	<u>-</u>	<u>1,084,377</u>
Noncurrent Assets:			
Land and construction in progress	650,540	172,298	822,838
Other capital assets (net of accumulated depreciation)	7,660,834	10,152,626	17,813,460
Total noncurrent assets	<u>8,311,374</u>	<u>10,324,924</u>	<u>18,636,298</u>
Total assets	<u><u>12,513,134</u></u>	<u><u>11,846,637</u></u>	<u><u>24,359,771</u></u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on pension obligations	\$ 660,967	\$ -	\$ 660,967
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 373,406	\$ 260,206	\$ 633,612
Wages and benefits payable	29,515	9,089	38,604
Interest payable	3,143	-	3,143
Compensated absences	39,816	9,524	49,340
Other liabilities	-	12,514	12,514
Notes payable, current	-	35,400	35,400
Bonds payable, current	90,000	-	90,000
Total current liabilities	<u>535,880</u>	<u>326,733</u>	<u>862,613</u>
Noncurrent liabilities:			
Pension liability	1,898,287	-	1,898,287
Notes payable	-	76,700	76,700
Bonds payable, net of premium	1,268,408	-	1,268,408
Total noncurrent liabilities	<u>3,166,695</u>	<u>76,700</u>	<u>3,243,395</u>
Total liabilities	<u><u>3,702,575</u></u>	<u><u>403,433</u></u>	<u><u>4,106,008</u></u>
DEFERRED INFLOWS OF RESOURCES			
Deferred charges on pension obligations	268,814	-	268,814
NET POSITION			
Invested in capital assets, net of related debt	7,223,903	10,212,824	17,436,727
Reserved for restricted purposes	551,358	-	551,358
Unrestricted	1,427,451	1,230,380	2,657,831
Total net position	<u><u>\$ 9,202,712</u></u>	<u><u>\$ 11,443,204</u></u>	<u><u>\$ 20,645,916</u></u>

City of Watonga, Oklahoma
Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense)/ Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants & Contributions
Governmental activities:					
General government	\$ 746,702	\$ 6,210	\$ 4,000	\$ 36,364	\$ (700,128)
Public safety and judiciary	1,408,673	106,610	5,774	12,708	(1,283,581)
Transportation	1,243,774	13,829	71,605	8,200	(1,150,140)
Cultural, parks and recreation	595,550	-	7,162	-	(588,388)
Public service	21,778	-	5,400	-	(16,378)
Interest on long-term debt	-	-	-	-	-
Total governmental activities	4,016,477	126,649	93,941	57,272	(3,738,615)
Business-type activities:					
Water	322,527	441,864	-	-	119,337
Sewer	332,443	198,447	-	-	(133,996)
Electric	2,147,279	2,904,425	-	-	757,146
Administration	195,476	123,137	-	-	(72,339)
Sanitation	252,453	321,499	-	-	69,046
Healthcare	27,264	-	-	-	(27,264)
Airport	234,586	34,603	-	399,550	199,567
Economic development	-	-	-	-	-
Total business-type activities	3,512,028	4,023,975	-	399,550	911,497
Total primary government	\$ 7,528,505	\$ 4,150,624	\$ 93,941	\$ 456,822	\$ (2,827,118)

City of Watonga, Oklahoma
Statement of Activities (continued)
Year Ended June 30, 2017

Changes in Net Position:

	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (3,738,615)	\$ 911,497	\$ (2,827,118)
General revenues:			
Taxes:			
Sales tax	3,000,478	-	3,000,478
Use tax	167,629	-	167,629
Franchise tax	22,689	-	22,689
Property tax	111,326	-	111,326
Other taxes	126,423	-	126,423
522 District income	127,288		127,288
Oil and gas royalties	408,494	20,713	429,207
Investment income	14,822	2,121	16,943
Pension change	(119,230)	-	(119,230)
Miscellaneous	33,212	-	33,212
Transfers-Internal activity	346,018	(346,018)	-
Tranfers to lessee- healthcare	(1,152,646)	-	(1,152,646)
Total general revenues and transfers	<u>3,086,503</u>	<u>(323,184)</u>	<u>2,763,319</u>
Change in net position	(652,112)	588,313	(63,799)
Net position-beginning	9,854,824	10,854,891	20,709,715
Net position-ending	<u>\$ 9,202,712</u>	<u>\$ 11,443,204</u>	<u>\$ 20,645,916</u>

City of Watonga, Oklahoma
Balance Sheet
June 30, 2017

	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	\$ 638,654	\$ 61,910	\$ 86,906	\$ -	\$ 221,043	\$ 997,471	\$ 83,878	\$ 2,089,862
Investments	1,564,742	-	-	-	150,000	-	85,000	1,799,742
Sales, use & other taxes receivable	159,775	2,353	-	107,932	26,983	-	-	297,043
Revenue receivable	17,469	-	-	-	-	-	-	17,469
Total assets	<u>\$ 2,380,640</u>	<u>\$ 64,263</u>	<u>\$ 86,906</u>	<u>\$ 107,932</u>	<u>\$ 398,026</u>	<u>\$ 997,471</u>	<u>\$ 168,878</u>	<u>\$ 4,204,116</u>
LIABILITIES								
Accounts payable	\$ 46,871	\$ -	\$ -	\$ -	\$ 190	\$ 326,345	\$ -	\$ 373,406
Wages and benefits payable	29,515	-	-	-	-	-	-	29,515
Compensated absences	39,816	-	-	-	-	-	-	39,816
Due to other funds	2,356	-	-	-	-	-	-	2,356
Total liabilities	<u>118,558</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>190</u>	<u>326,345</u>	<u>-</u>	<u>445,093</u>
FUND BALANCES								
Restricted	-	64,263	86,906	-	-	671,126	-	822,295
Committed	-	-	-	107,932	397,836	-	-	505,768
Assigned	-	-	-	-	-	-	168,878	168,878
Unassigned	2,262,082	-	-	-	-	-	-	2,262,082
Total fund balances	<u>2,262,082</u>	<u>64,263</u>	<u>86,906</u>	<u>107,932</u>	<u>397,836</u>	<u>671,126</u>	<u>168,878</u>	<u>3,759,023</u>
Total liabilities and fund balances	<u>\$ 2,380,640</u>	<u>\$ 64,263</u>	<u>\$ 86,906</u>	<u>\$ 107,932</u>	<u>\$ 398,026</u>	<u>\$ 997,471</u>	<u>\$ 168,878</u>	<u>\$ 4,204,116</u>
Total fund balance- total governmental funds								\$ 3,759,023
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	
							26,170,675	
							<u>(18,509,841)</u>	8,311,374
Long-term portion of liabilities are not due and payable in the current period and are not reported								
								(1,358,408)
								(3,143)
Net pension asset								
								-
								660,967
								(1,898,287)
								<u>(268,814)</u>
Net assets of governmental activities								<u>\$ 9,202,712</u>

City of Watonga, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2017

	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	\$ 1,500,239	\$ -	\$ -	\$ 1,200,191	\$ 300,048	\$ -	\$ -	\$ 3,000,478
Use tax	167,629	-	-	-	-	-	-	167,629
Franchise tax	22,689	-	-	-	-	-	-	22,689
Other taxes	100,450	25,973	-	-	-	-	-	126,423
Property taxes	-	-	111,326	-	-	-	-	111,326
522 District income	127,288	-	-	-	-	-	-	127,288
Licenses and permits	6,210	-	-	-	-	-	-	6,210
Rents & royalties	309,746	-	-	-	49,374	-	49,374	408,494
Fines and forfeitures	94,761	-	-	-	-	-	-	94,761
Charges for services	11,849	12,367	-	-	-	-	-	24,216
Intergovernmental revenues	71,605	-	-	-	-	-	10,979	82,584
Donations	4,000	-	-	-	-	-	5,400	9,400
Other revenues	90,484	1,462	-	-	-	-	1,957	93,903
Interest	11,757	20	61	-	1,037	1,496	451	14,822
Total revenues	<u>2,518,707</u>	<u>39,822</u>	<u>111,387</u>	<u>1,200,191</u>	<u>350,459</u>	<u>1,496</u>	<u>68,161</u>	<u>4,290,223</u>
EXPENDITURES								
Current								
General government:								
General government	406,253	-	-	-	-	4,631	22,894	433,778
Managerial	14,047	-	-	-	-	-	-	14,047
City clerk	158,159	-	-	-	-	-	-	158,159
City treasurer	12,877	-	-	-	-	-	-	12,877
City attorney	71,938	-	-	-	-	-	-	71,938
Total general government	<u>663,274</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,631</u>	<u>22,894</u>	<u>690,799</u>
Public safety and judiciary:								
Municipal court	12,229	-	-	-	-	-	-	12,229
Police	593,731	-	-	-	-	-	-	593,731
Fire	239,378	-	-	-	-	-	-	239,378
EMS	411,341	-	-	-	-	-	-	411,341
Code enforcement	66,548	-	-	-	-	-	-	66,548
Total public safety and judiciary	<u>1,323,227</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,323,227</u>
Transportation:								
Street	561,086	-	-	-	-	-	-	561,086
Total transportation	<u>561,086</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>561,086</u>
Cultural, parks and recreation:								
Library	222,385	-	-	-	-	-	37,061	259,446
Park	251,106	-	-	-	5,489	-	-	256,595
Total cultural, parks and recreation	<u>473,491</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,489</u>	<u>-</u>	<u>37,061</u>	<u>516,041</u>
Public service:								
Airport	21,778	-	-	-	-	-	-	21,778
Total public service	<u>21,778</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,778</u>
Capital outlay	68,361	-	-	-	155,174	-	43,213	266,748
Debt service								
Principal	-	-	90,000	-	-	-	-	90,000
Interest	-	-	42,105	-	-	-	-	42,105
Fiscal charges	-	-	-	-	-	-	-	-
Total expenditures	<u>3,111,217</u>	<u>-</u>	<u>132,105</u>	<u>-</u>	<u>160,663</u>	<u>4,631</u>	<u>103,168</u>	<u>3,511,784</u>
Excess (deficiency) of revenues over expenditures	(592,510)	39,822	(20,718)	1,200,191	189,796	(3,135)	(35,007)	778,439
OTHER FINANCING SOURCES (USES)								
Transfers in	1,039,643	2,795	1,496	-	-	-	62,584	1,106,518
Transfers out	(334,268)	-	-	(857)	(52,444)	(327,841)	(45,090)	(760,500)
Transfers out to lessee- healthcare	-	-	-	(1,152,646)	-	-	-	(1,152,646)
Premium on bonds	-	-	-	-	-	-	-	-
Long-term debt issued	-	-	-	-	-	-	-	-
Total other financing sources and uses	<u>705,375</u>	<u>2,795</u>	<u>1,496</u>	<u>(1,153,503)</u>	<u>(52,444)</u>	<u>(327,841)</u>	<u>17,494</u>	<u>(806,628)</u>
Net change in fund balances	112,865	42,617	(19,222)	46,688	137,352	(330,976)	(17,513)	(28,189)
Fund balances - beginning	2,149,217	21,646	106,128	61,244	260,484	1,002,102	186,391	3,787,212
Fund balances - ending	<u>\$ 2,262,082</u>	<u>\$ 64,263</u>	<u>\$ 86,906</u>	<u>\$ 107,932</u>	<u>\$ 397,836</u>	<u>\$ 671,126</u>	<u>\$ 168,878</u>	<u>\$ 3,759,023</u>

City of Watonga, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2017

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 \$ (28,189)

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	266,748	
Depreciation expense	<u>(862,183)</u>	(595,435)

Government-Wide Statement of Activities report the cost of pension benefits
earned net of employee contributions is reported as an element of pension. (119,230)
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>179</u>	

Change in Net Position of Governmental Activities \$ (652,112)

City of Watonga, Oklahoma
Statement of Net Position
Proprietary Fund
June 30, 2017

	Light and Water Fund	Hospital Authority Fund	Public Works Authority	Total Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 670,232	\$ -	\$ 199,720	\$ 869,952
Investments	150,000	-	-	150,000
Accounts receivable, net	499,405	-	-	499,405
Due from other funds	2,356	-	-	2,356
Total current assets	<u>1,321,993</u>	<u>-</u>	<u>199,720</u>	<u>1,521,713</u>
Noncurrent assets:				
Capital assets (net)	7,537,457	668,297	2,119,170	10,324,924
Total noncurrent assets	<u>7,537,457</u>	<u>668,297</u>	<u>2,119,170</u>	<u>10,324,924</u>
Total assets	<u>\$ 8,859,450</u>	<u>\$ 668,297</u>	<u>\$ 2,318,890</u>	<u>\$ 11,846,637</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 198,249	\$ -	\$ 61,957	\$ 260,206
Wages and benefits payable	18,613	-	-	18,613
Other liabilities	12,514	-	-	12,514
Notes payable, current	-	-	35,400	35,400
Total current liabilities	<u>229,376</u>	<u>-</u>	<u>97,357</u>	<u>326,733</u>
Noncurrent liabilities:				
Notes payable, non-current	-	-	76,700	76,700
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>76,700</u>	<u>76,700</u>
Total liabilities	<u>229,376</u>	<u>-</u>	<u>174,057</u>	<u>403,433</u>
NET POSITION				
Invested in capital assets, net of related debt	7,537,457	668,297	2,007,070	10,212,824
Unrestricted	1,092,617	-	137,763	1,230,380
Total net position	<u>\$ 8,630,074</u>	<u>\$ 668,297</u>	<u>\$ 2,144,833</u>	<u>\$ 11,443,204</u>

City of Watonga, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2017

	<u>Light and Water Fund</u>	<u>Hospital Authority Fund</u>	<u>Public Works Authority</u>	<u>Total Enterprise Funds</u>
<u>Operating revenues:</u>				
Charges for services:				
Water charges	\$ 441,864	\$ -	\$ -	\$ 441,864
Sewer charges	198,447	-	-	198,447
Electric charges	2,904,425	-	-	2,904,425
Sanitation charges	321,499	-	-	321,499
Sale of fuel	-	-	7,363	7,363
Penalties	42,552	-	-	42,552
Total charges for services	<u>3,908,787</u>	<u>-</u>	<u>7,363</u>	<u>3,916,150</u>
Lease and rental income	-	-	27,240	27,240
Other fees and charges	80,585	-	-	80,585
Total operating revenues	<u>3,989,372</u>	<u>-</u>	<u>34,603</u>	<u>4,023,975</u>
<u>Operating expenses:</u>				
Cost of sales	1,921,139		-	1,921,139
Personal services	532,214		-	532,214
Materials and supplies	231,350	-	10,542	241,892
Other services and charges	30,156	-	48,559	78,715
Depreciation and amortization	535,319	27,264	175,441	738,024
Total operating expenses	<u>3,250,178</u>	<u>27,264</u>	<u>234,542</u>	<u>3,511,984</u>
Net operating income	739,194	(27,264)	(199,939)	511,991
<u>Nonoperating revenue (expense):</u>				
Grants operating	-	-	399,550	399,550
Investment income	2,059	-	62	2,121
Oil and gas royalties	-	-	20,713	20,713
Interest expense	-	-	(44)	(44)
Total nonoperating revenue/(expense)	<u>2,059</u>	<u>-</u>	<u>420,281</u>	<u>422,340</u>
Net Income before contributions and transfers	741,253	(27,264)	220,342	934,331
<u>Contributions and transfers:</u>				
Transfers from other funds	92,795	330,976	351,268	775,039
Transfers to other funds	<u>(1,032,960)</u>	<u>-</u>	<u>(88,097)</u>	<u>(1,121,057)</u>
Change in net position	(198,912)	303,712	483,513	588,313
Net position-beginning of year	8,828,986	364,585	1,661,320	10,854,891
Net position-end of year	<u>\$ 8,630,074</u>	<u>\$ 668,297</u>	<u>\$ 2,144,833</u>	<u>\$ 11,443,204</u>

City of Watonga, Oklahoma
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2017

	Light and Water Fund	Hospital Authority Fund	Public Works Authority	Total Enterprise Funds
Cash flows from operating activities:				
Receipts from customers	\$ 3,983,243	\$ -	\$ 34,603	\$ 4,017,846
Payments to suppliers	(2,219,903)	-	(6,570)	(2,226,473)
Payments to employees	(537,775)	-	-	(537,775)
Net cash provided (used) by operating activities	1,225,565	-	28,033	1,253,598
Cash flows from non-capital financing activities:				
Operating grants and contributions	-	-	399,550	399,550
Oil & gas royalties	-	-	20,713	20,713
Transfers from other funds	92,795	330,976	351,268	775,039
Transfers to other funds	(1,032,960)	-	(88,097)	(1,121,057)
Net cash provided (used) by non-capital financing activities	(940,165)	330,976	683,434	74,245
Cash flows from capital and related financing activities:				
Proceeds from issuance of long term debt	-	-	141,600	141,600
Purchases of capital assets	(120,504)	(330,976)	(631,630)	(1,083,110)
Principal paid on capital debt	-	-	(35,294)	(35,294)
Interest paid on capital debt	-	-	(44)	(44)
Net cash provided (used) by capital and related financing activities	(120,504)	(330,976)	(525,368)	(976,848)
Cash flows from investing activities:				
Investment income	2,059	-	62	2,121
Net cash provided (used) by investing activities	2,059	-	62	2,121
Net increase (decrease) in cash and cash equivalents	166,955	-	186,161	353,116
Cash & cash equivalents, June 30, 2016	503,277	-	13,559	516,836
Cash & cash equivalents, June 30, 2017	<u>\$ 670,232</u>	<u>\$ -</u>	<u>\$ 199,720</u>	<u>\$ 869,952</u>
Cash, including time deposits	\$ 670,232	\$ -	\$ 199,720	\$ 869,952
Total cash and cash equivalents, end of year	<u>\$ 670,232</u>	<u>\$ -</u>	<u>\$ 199,720</u>	<u>\$ 869,952</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 739,194	\$ (27,264)	\$ (199,939)	\$ 511,991
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	535,319	27,264	175,441	738,024
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(6,129)	-	-	(6,129)
Increase (decrease) in accounts payable	(33,381)	-	52,531	19,150
Increase (decrease) in wages and benefits payable	(5,561)	-	-	(5,561)
Increase (decrease) in other liabilities	(3,877)	-	-	(3,877)
Total adjustments	486,371	27,264	227,972	741,607
Net cash provided (used) by operating activities	\$ 1,225,565	\$ -	\$ 28,033	\$ 1,253,598

City of Watonga, Oklahoma
Statement of Fiduciary Net Position
June 30, 2017

	<u>Meter Deposit Fund</u>	<u>Municipal Court Bond Fund</u>	<u>Total Agency Funds</u>
ASSETS			
Cash and cash equivalents	\$ 151,245	\$ 8,052	\$ 159,297
Cash and investments, restricted	127,000	-	127,000
Total assets	<u>\$ 278,245</u>	<u>\$ 8,052</u>	<u>\$ 286,297</u>
LIABILITIES			
Bonds and deposits subject to refund	\$ 278,245	\$ 8,052	\$ 286,297
Total liabilities	<u>\$ 278,245</u>	<u>\$ 8,052</u>	<u>\$ 286,297</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, 2017.

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, 2017, the City was in material compliance with Oklahoma budgeting regulations.

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

Cash and Investments

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

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

Due from other governments

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

Accounts Receivable

Significant receivables include amount due from customers primarily for utility services. These receivables are due within one year. Certain enterprise funds report accounts receivable net of an allowance for uncollectible accounts. The allowance amount is estimated using accounts receivable past due more than 90 days.

Restricted Assets

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

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

Interfund Balances

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

Capital Assets, Depreciation, and Amortization

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

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

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

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

Deferred Outflows/Inflows of Resources

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

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

Compensated Absences

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

Long-Term Debt

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

Fund Equity

Fund Balance

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

Net Position

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

Invested in capital assets, net of related debt

The amount restricted consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position

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

Governmental Fund Balances

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

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

Nonspendable

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

Restricted

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

Committed

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

Assigned

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

Unassigned

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

Use of Estimates

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

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

E. Policies Related to Revenues and Expenses

Program Revenues

Charges for Services

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

Grants and Contributions

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

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

General Revenues

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

Sales Tax

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

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	\$ 1,949,742	\$ 1,949,742	N/A	134
Total investments	<u>1,949,742</u>	<u>1,949,742</u>		
Total primary government investments	<u>\$ 1,949,742</u>	<u>\$ 1,949,742</u>		

RECONCILIATION TO STATEMENT OF NET POSITION

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Investments, unrestricted	\$ 1,799,742	\$ 150,000	\$ 1,949,742
Total investments	<u>\$ 1,799,742</u>	<u>\$ 150,000</u>	<u>\$ 1,949,742</u>

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

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

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Restricted Assets

	Cash
<i>Governmental Activities</i>	
Debt service sinking fund	\$ 86,906
GO bonds- hospital	997,471
Total Governmental Activities	1,084,377
Total Restricted Assets	\$ 1,084,377

Capital Assets

Changes in Capital Assets

	Primary Government			
	Balance at June 30, 2016	Additions	Deletions	
<u><i>Governmental Activities</i></u>				
Land	\$ 650,540	\$ -	\$ -	\$ 650,540
Buildings & structures	3,353,103	59,559	-	3,412,662
Machinery, furniture, & equipment	3,414,688	190,780	25,000	3,580,468
Infrastructure & improvements	19,161,135	7,956	-	19,169,091
Construction in Progress	-	8,454	-	8,454
	26,579,466	266,749	25,000	26,821,215
Less accumulated depreciation	17,672,658	862,183	25,000	18,509,841
Governmental fixed assets, net	\$ 8,906,808	\$ (595,434)	\$ -	\$ 8,311,374
<u><i>Business-type Activities</i></u>				
Land	\$ 73,020	\$ -	\$ -	\$ 73,020
Buildings & structures	6,954,833	450,957	-	7,405,790
Machinery, furniture, & equipment	1,464,594	163,585	-	1,628,179
Infrastructure & improvements	18,415,357	71,970	-	18,487,327
Construction in Progress	99,278	421,610	25,011	495,877
	27,007,082	1,108,122	25,011	28,090,193
Less accumulated depreciation	17,027,245	738,024	-	17,765,269
Business-type fixed assets, net	\$ 9,979,837	\$ 370,098	\$ (25,011)	\$ 10,324,924
Total primary government	\$ 18,886,645	\$ (225,336)	\$ (25,011)	\$ 18,636,298

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

	Light & Water Fund	Watonga Hospital Authority	Public Works Authority	Total Business- Type
<u>Business-type Activities</u>				
Land	\$ 48,070	\$ 3,950	\$ 21,000	\$ 73,020
Buildings & structures	222,856	886,809	6,296,125	7,405,790
Machinery, furniture, & equipment	1,140,845	28,618	458,716	1,628,179
Infrastructure & improvements	18,487,327	-	-	18,487,327
Construction in progress	40,000	405,243	50,634	495,877
Total	19,939,098	1,324,620	6,826,475	28,090,193
Less accumulated depreciation	<u>(12,401,641)</u>	<u>(656,323)</u>	<u>(4,707,305)</u>	<u>(17,765,269)</u>
Business-type fixed assets, net	<u>\$ 7,537,457</u>	<u>\$ 668,297</u>	<u>\$ 2,119,170</u>	<u>\$ 10,324,924</u>

Depreciation Expense

Primary Government			
Governmental Activities		Business-type Activities	
General government	\$ 14,540	Water	\$ 202,350
Public safety & judiciary	85,446	Sewer	222,654
Transportation	682,688	Electric	76,254
Cultural, parks & recreation	79,509	Administration	12,529
Total depreciation expense	<u>\$ 862,183</u>	Sanitation	21,532
		Hospital	27,265
		Airport	175,440
		Total depreciation expense	<u>\$ 738,024</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.

\$ 1,350,000

Business-Type Activities

On August 29, 2016, PWA entered into an agreement with Komatsu Financial for the purchase of a hydraulic excavator in the amount of \$154,200. After a down payment of \$13,000, the loan carries a fixed interest rate of 0.00% for 48 months, maturing August 2020.

\$ 112,100

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Changes in Long-Term Debt

<u>Type of Debt</u>	<u>Balance at July 1, 2016</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2017</u>	<u>Due Within One Year</u>
Governmental activities:					
General Obligation bonds	\$ 1,440,000	\$ -	\$ 90,000	\$ 1,350,000	\$ 90,000
Business-type activities:					
John Deere Credit	5,794	-	5,794	-	-
Komatsu Financial	-	141,600	29,500	112,100	35,400
Total business-type activities	<u>\$ 5,794</u>	<u>\$ 141,600</u>	<u>\$ 35,294</u>	<u>\$ 112,100</u>	<u>\$ 35,400</u>
Total primary government	<u>\$ 1,445,794</u>	<u>\$ 141,600</u>	<u>\$ 125,294</u>	<u>\$ 1,462,100</u>	<u>\$ 125,400</u>

Annual Debt Service Requirements

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 90,000	\$ 39,555	\$ 35,400	\$ -
2019	90,000	37,305	35,400	-
2020	90,000	35,055	35,400	-
2021	90,000	32,805	5,900	-
2022	90,000	30,555	-	-
2023-2027	450,000	117,045	-	-
2028-2032	450,000	47,070	-	-
Totals	<u>\$ 1,350,000</u>	<u>\$ 339,390</u>	<u>\$ 112,100</u>	<u>\$ -</u>

(3) REVENUES AND EXPENSES

Interfund Transfers

C. Interfund Balances

	Transfers In	Transfers Out
GENERAL FUND		
Light and Water Fund	\$ 1,030,165	\$ 52,795
Hospital Special Revenue Fund	857	-
Sales Tax (Capital Improvement) Fund	214	-
Grant Fund	-	22,894
Hospital Authority	-	4,631
Public Works Authority	8,407	253,948
Total General Fund	<u>1,039,643</u>	<u>334,268</u>
STREET & ALLEY FUND		
Light and Water Fund	2,795	-
Total Street & Alley Fund	<u>2,795</u>	<u>-</u>
HOSPITAL SPECIAL REVENUE FUND		
General Fund	-	857
Total Hospital Special Revenue Fund	<u>-</u>	<u>857</u>
SALES TAX (CAPITAL IMPROVEMENT) FUND		
General Fund	-	214
Public Works Authority	-	52,230
Total Sales Tax (Cap Improve) Fund	<u>-</u>	<u>52,444</u>
GENERAL OBLIGATION BOND FUND		
Hospital Sinking Fund	-	1,496
Hospital Authority	-	326,345
Total General Obligation Bond Fund	<u>-</u>	<u>327,841</u>
GRANT FUND		
General Fund	22,894	-
Public Works Authority	39,690	45,090
Total Grant Fund	<u>62,584</u>	<u>45,090</u>
HOSPITAL SINKING FUND		
General Obligation Bond Fund	1,496	-
Total Hospital Sinking Fund	<u>1,496</u>	<u>-</u>
LIGHT AND WATER FUND		
General Fund	52,795	1,030,165
Public Works Authority	40,000	-
Street & Alley Fund	-	2,795
Total Light and Water Fund	<u>92,795</u>	<u>1,032,960</u>
PUBLIC WORKS AUTHORITY		
General Fund	253,948	8,407
Sales Tax (Capital Improvement) Fund	52,230	-
Grant Fund	45,090	39,690
Light and Water Fund	-	40,000
Total Public Works Authority	<u>351,268</u>	<u>88,097</u>
HOSPITAL AUTHORITY		
General Fund	4,631	-
General Obligation Bond Fund	326,345	-
Total Hospital Authority	<u>330,976</u>	<u>-</u>
GRAND TOTAL	\$ 1,881,557	\$ 1,881,557

(4) PENSION AND POST-EMPLOYMENT PLANS

The City participates in three employee pension systems as follows:

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

A. Oklahoma Municipal Retirement Fund- Defined Benefit Plan

Plan Description

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

Benefits Provided

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

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

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

Contributions

Required contribution rates are actuarially measured each year and authorized through City Ordinance. Employees are required to contribute 4.0% of paid salary. For the year ended June 30, 2017, the City's contribution was 17.61%. Contributions to the pension plan from the City were \$229,188 for the year ended June 30, 2017.

Membership

Membership in the plan is as follows:

	As of July 1, 2017
Inactive employees & beneficiaries receiving benefits	23
Inactive employees entitled to but not yet receiving benefits	2
Active participants	36
Total	61

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

At June 30, 2017, the City reported a liability of \$1,243,084 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2016, 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, 2017, the City recognized pension expense of \$170,842. At June 30, 2017, 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	\$ 99,175	\$ 53,017
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	288,099	127,793
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	229,188	-
Total	\$ 616,462	\$ 180,810

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

Year ended June 30:	
2018	\$ 21,245
2019	21,245
2020	98,672
2021	65,300
2022	2
Thereafter	-
	<u>\$ 206,464</u>

Actuarial assumptions: The total pension liability in the June 30, 2017 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	7.5 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, 2017 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, 2016 are summarized in the following table:

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

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.

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2015	4,675,233	3,749,453	925,780
Changes for the year:			
Service cost	113,795	-	113,795
Interest cost	349,144	-	349,144
Differences between expected and actual experience	126,877	-	126,877
Contributions - employer	-	205,322	(205,322)
Contributions - employee	-	43,341	(43,341)
Net investment income	-	31,175	(31,175)
Benefit payments, including refunds of employee contributions	(346,760)	(346,760)	-
Administrative expense	-	(7,326)	7,326
Other changes	-	-	-
Net changes	<u>243,056</u>	<u>(74,248)</u>	<u>317,304</u>
Balances at June 30, 2016	<u>\$ 4,918,289</u>	<u>\$ 3,675,205</u>	<u>\$ 1,243,084</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)	1,754,093	1,243,084	805,674

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. Defined Benefit Cost-Sharing, Multiple Employer Pension Plans

Plan Description

The City of Watonga, as the employer, participates in two statewide, cost-sharing, multiple-employer defined benefit plans on behalf of police officers and firefighters.

Under Title 36-312.1 of the State of Oklahoma Statutes, 14% and 34% of taxes collected for insurance premium taxes is allocated and distributed to the Oklahoma Police Pension and Retirement System and the Oklahoma Firefighters Pension Retirement System, respectively. This provides ear-marked state taxes to help with the financing burden for the police and fire plans. The expected employer contributions expected to be funded by the State are not considered in the calculations of the net pension asset/liability and related deferred inflows, deferred outflows and pension expense.

Reporting

The required supplementary information schedules of funding progress immediately following the notes to the financial statements presents certain ten-year trend information for as many years for which information measured in conformity with the requirements of GASB 68 is available. Detailed information about the Oklahoma Police and Firefighter Plans' fiduciary net position is available in the separately issued Oklahoma Police Pension report and the Oklahoma Firefighters Pension report. Copies of these reports may be obtained from the respective state retirement systems: Oklahoma Police Pension and Retirement System, 1001 NW 63rd Street, Suite 305, Oklahoma City OK 73116-7335 (or www.ok.gov/OPPRS), and the Oklahoma Firefighters Pension and Retirement System at 4545 N Lincoln Blvd., Suite 265, Oklahoma City, OK 73105 (or www.ok.gov/fprs).

Funding Policies, Contribution Methods, & Benefit Provisions

	Police Pension	Firefighters Pension
Eligibility to participate	All full-time officers employed by a participating municipality, not less than 21 years of age or more than 45 years of age when hired	All full-time or voluntary firefighters of a participating municipality hired before age 45
Authority establishing contribution obligations & benefit provisions	State Statute	State Statute
Plan members' contribution rate	8% of covered payroll	9% of covered payroll
City's contribution rate	13% of covered payroll	14% of covered payroll
Period required to vest	10 years	10 years
Benefits and eligibility for distribution (full-time)	20 years credited service, 2 ½% of final average salary multiplied by the years of credited service with a maximum of 30 years considered, if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits	20 years credited service, 2 ½% final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits
Benefits and eligibility for distribution (volunteer)	N/A	20 years credited service equal to \$7.53 per month per year of service, with a maximum of 30 years considered
Deferred retirement option	Yes, 20 years credited service with additional option to participate in deferred option plan for a maximum of 5 years	Yes, 20 years credited service with additional option to participate in deferred option plan for a maximum of 5 years

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

Actuarial Assumptions

	Police Pension	Firefighters Pension
Valuation date	7/1/16	7/1/16
Provisions for:		
Disability benefits	Yes	Yes
Death benefits	Yes	Yes
Actuarial cost method	Entry age	Entry age
Amortization method	Level dollar, closed	Level dollar, closed
Amortization period	5 years	30 years
Actuarial asset valuation method	5-year smoothed	An expected actuarial value is determined equal to the prior year's actuarial value of assets plus cash flow (excluding realized and unrealized gains losses) for the year ended on the valuation date and assuming a 7.5% interest return. 20% of any (gain) loss is amortized over 5 years. The result is constrained to a value of 80% to 120% of the fair value at the valuation
Investment rate of return	7.5%	7.5%
Projected salary increases	4.5% to 17% average, including inflation	3.5% to 9.0%
Cost of living increases (maximum)	Up to ½ of the increase of any adjustment to the base salary of a regular police officer, based on an increase in base salary	Half of the dollar amount of a 3% assumed increase in base pay for firefighters with 20 years of service as of May 26, 1983. No COLA is assumed for members not eligible for this increase
Inflation	3%	3%
Source of mortality assumptions	RP-2000 Blue Collar Healthy Combined table with fully generational improvement using scale AA	RP-2000 Blue Collar Healthy Combined table with fully generational improvement using scale AA
Experience study	Actuarial assumptions were based upon results of an experience study covering the period July 1, 2007 through June 30, 2012	Actuarial assumptions were based upon results of an experience study covering the period July 1, 2007 through June 30, 2012

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

Trend Information

	Police Pension					Fire Pension				
	Actuarially Determined Contribution	City Proportionate Share	City Contribution	% Contributed	State Contribution	Actuarially Determined Contribution	City Proportionate Share	City Contribution	% Contributed	State Contribution
2017	\$45,054,000	\$31,267	\$38,533,000	123238.56%	\$35,915,000	\$139,226,000	\$62,547	\$39,174,000	62631.30%	\$92,330,000
2016	\$63,908,000	\$37,131	\$37,261,000	100350.11%	\$35,490,000	\$142,495,000	\$67,910	\$38,876,000	57246.36%	\$91,236,000
2015	\$90,283,000	\$45,503	\$35,547,000	78120.12%	\$31,329,000	\$162,103,000	\$79,268	\$36,104,000	45546.75%	\$79,545,000

Trend information showing the progress of the systems in accumulating sufficient assets to pay benefits when due is presented in the annual financial reports of the respective plans. Copies of these reports may be obtained from the respective state retirement systems: Oklahoma Police Pension and Retirement System, 1001 NW 63rd Street, Suite 305, Oklahoma City OK 73116-7335 (or www.ok.gov/OPPRS), and the Oklahoma Firefighters Pension and Retirement System at 4545 N Lincoln Blvd., Suite 265, Oklahoma City, OK 73105 (or www.ok.gov/fprs).

Net Pension Asset (Liability)

Proportionate Share

Police Pension

The Police Pension's net pension liability was allocated proportionately to the City of Watonga based on the ratio of the City's actual contributions to the Police pension, relative to the total contributions of the Police pension for the fiscal year ended June 30, 2016. The City's portion for 2016 was 0.0694% compared to .0581% for 2015.

Firefighters Pension

The Firefighters Pension's net pension liability was allocated proportionately to the City of Watonga based on the ratio of the City's actual contributions, relative to the total contributions for the fiscal year ended June 30, 2016. The City's portion for 2016 was 0.044925% compared to 0.047658% for 2015.

Net Pension Asset (Liability)

	Police Pension		Firefighters Pension	
	Total	Proportionate Share	Total	Proportionate Share
Total pension liability	(2,354,815,000)	(1,634,242)	(3,477,473,104)	(1,562,255)
Fiduciary net position	2,201,671,000	1,527,890	2,255,758,597	1,013,404
Net pension asset (liability)	<u>(153,144,000)</u>	<u>(106,352)</u>	<u>(1,221,714,507)</u>	<u>(548,851)</u>

Plan fiduciary net position as a percentage of the total pension liability	93.5%	93.5%	64.87%	64.87%
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	Total Pension Liability (a)		Plan Fiduciary Net Position (b)		Net Pension Liability (a) - (b)	
	POLICE	FIRE	POLICE	FIRE	POLICE	FIRE
Beginning balance *	1,574,737	1,502,730	1,571,907	1,025,892	2,830	476,838
Service cost	40,734	27,325	-	-	40,734	27,325
Interest cost	114,563	111,451	-	-	114,563	111,451
and actual experience	414	8,842	-	-	414	8,842
Contributions - employer	-	-	26,624	17,599	(26,624)	(17,599)
Contributions - employee	-	-	16,508	11,021	(16,508)	(11,021)
Contributions - State of OK	-	-	24,925	41,479	(24,925)	(41,479)
Net investment income	-	-	(14,646)	6,397	14,646	(6,397)
refunds of employee	(96,206)	(88,093)	(96,206)	(88,093)	-	-
Administrative expense	-	-	(1,222)	(891)	1,222	891
Other changes	-	-	-	-	-	-
Ending balance	\$ 1,634,242	\$ 1,562,255	\$ 1,527,890	\$ 1,013,404	\$ 106,352	\$ 548,851

* Represents the beginning balance based on current year proportionate shares therefore, amounts will not equal amount reported in required supplementary information for the prior year

Rate of Return and Discount Rate

Rate of Return

Police Pension

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 3.36%. The money-weighted rate of return expresses the investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Firefighters Pension

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 5.78%. The money-weighted rate of return expresses the investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Long-term Expected Rate of Return and Target Allocations

Police Pension

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.

Firefighters Pension

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.

	<u>Police Pension</u>		<u>Firefighters Pension</u>
	<u>Long-term Expected</u>		<u>Long-term Expected</u>
	<u>Rate of Return</u>		<u>Rate of Return</u>
Fixed income	2.24%	Fixed income	5.13%
Domestic equity	4.87%	Domestic equity	8.02%
International equity	7.68%	International equity	9.94%
Real estate	5.47%	Real estate	7.47%
Private equity	5.80%	Other assets	6.25%
Commodities	2.96%		
	<u>Target Allocation</u>		<u>Target Allocation</u>
US Large Cap Equity	15.00%	Equity	62.00%
Long/Short Equity	15.00%	Fixed Income	20.00%
Private Equity	10.00%	Real Estate	18.00%
US Small/Mid Cap Equity	5.00%		
Emerging Markets Equity	5.00%		
Int'l Developed Mkts Equity	10.00%		
Absolute Return	10.00%		
Global Fixed Income	15.00%		
Commodities	5.00%		
Core Real Estate	5.00%		
Opportunistic Real Estate	5.00%		

Discount Rate

Police Pension

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.

Firefighters Pension

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 the Fund's contributions will continue to follow the current funding policy. Total covered employee payroll is assumed to grow at 4% per year. The total statewide insurance premium tax is assumed to grow at 3% per year. In addition, the allocation of the tax to the System is assumed to be 36% for the entire projection period.

The Normal Cost Rate for future members is assumed to be 21.52% for all years. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for all future years and hence, the blended GASB discount rate is equal to the long-term rate of return. Therefore, the long-term expected rate of return on pension plan investments of 7.5% was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return remained at 7.5% to reflect the expected asset allocation.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

The following table presents the City's proportionate allocation of the total pension liability of the Police Pension and Firefighters Pension would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate and the resulting net pension asset (liability):

	<u>Rate</u>	Police Pension Net Pension <u>Asset(Liability)</u>	<u>Rate</u>	Firefighters Pension Net Pension <u>Asset(Liability)</u>
1% decrease	6.5%	(278,849)	6.5%	(694,805)
Current single discount rate	7.5%	(106,352)	7.5%	(548,851)
1% increase	8.5%	39,425	8.5%	(426,489)

Other Post-Employment Benefits

For the year ended June 30, 2017, 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, 2017

	Original Budget	Revisions	Revised Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES					
Sales tax	\$ 911,838	\$ 500,000	\$ 1,411,838	\$ 1,441,879	\$ 30,041
Use tax	100,000	60,000	160,000	160,483	483
Cigarette tax	21,487	10,000	31,487	33,444	1,957
Franchise Tax	24,375	(1,000)	23,375	22,689	(686)
Alcoholic beverage tax	55,896	8,000	63,896	65,680	1,784
Police fines & court fees	86,100	(2,000)	84,100	86,966	2,866
Intergovernmental revenues	-	71,605	71,605	71,605	-
522 District income	110,000	20,000	130,000	127,288	(2,712)
Ambulance receipts	70,000	(61,000)	9,000	9,515	515
Rentals, sales, miscellaneous	35,528	49,000	84,528	90,639	6,111
Oil & gas income	21,500	274,000	295,500	309,746	14,246
Licenses & permits	5,657	-	5,657	6,210	553
Interest Income	6,902	4,500	11,402	11,757	355
Total revenues	1,449,283	933,105	2,382,388	2,437,901	55,513
EXPENDITURES					
<u>General government:</u>					
General government:	345,446	97,000	442,446	432,669	9,777
Managerial:	14,369	-	14,369	14,102	267
City Clerk:	154,733	5,000	159,733	160,497	(764)
City Treasurer:	10,642	2,500	13,142	12,872	270
City Attorney:	39,546	27,000	66,546	63,724	2,822
Total General government:	564,736	131,500	696,236	683,864	12,372
<u>Public safety and judiciary:</u>					
Municipal Court:	12,254	-	12,254	12,307	(53)
Police Department:	633,716	-	633,716	625,200	8,516
Fire Department:	236,299	-	236,299	252,316	(16,017)
EMS:	308,041	105,000	413,041	423,066	(10,025)
Code Enforcement:	70,282	-	70,282	67,647	2,635
Total	1,260,592	105,000	1,365,592	1,380,536	(14,944)
<u>Transportation:</u>					
Street:	553,835	7,000	560,835	568,244	(7,409)
Total	553,835	7,000	560,835	568,244	(7,409)
<u>Culture and recreation:</u>					
Library:	228,773	-	228,773	224,171	4,602
Park:	234,090	15,000	249,090	254,097	(5,007)
Total Culture and recreation:	462,863	15,000	477,863	478,268	(405)
<u>Public services</u>					
Airport:	25,063	-	25,063	21,778	3,285
Total Public services	25,063	-	25,063	21,778	3,285
Total expenditures	2,867,089	258,500	3,125,589	3,132,690	(7,101)
Revenue over (under) expenditures	(1,417,806)	674,605	(743,201)	(694,789)	48,412

City of Watonga, Oklahoma
 General Fund
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Operating transfers in/(out)	1,015,000	(231,948)	783,052	705,375	(77,677)
Net other financing sources (uses)	<u>1,015,000</u>	<u>(231,948)</u>	<u>783,052</u>	<u>705,375</u>	<u>(77,677)</u>
Revenues and other financing sources over (under) expenditures and other uses	(402,806)	442,657	39,851	10,586	(29,265)
Fund balance at beginning of year (Non-GAAP budgetary basis)	2,149,217	2,149,217	2,149,217	2,185,946	36,729
Fund balance at end of year (Non-GAAP budgetary basis)	<u>\$ 1,746,411</u>	<u>\$ 2,591,874</u>	<u>\$ 2,189,068</u>	<u>\$ 2,196,532</u>	<u>\$ 7,464</u>
<u>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES</u>					
Revenue and transfer accruals				65,550	
Fund balance at end of year (GAAP basis)				<u>\$ 2,262,082</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>2016*</u>	<u>2017*</u>
City's portion of the net pension liability (asset)	0.0581%	0.0694%
City's proportionate share of the net pension liability (asset)	\$ 2,371	\$ 106,352
City's covered-employee payroll	\$ 158,000	\$ 204,800
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	1.50%	51.93%
Plan fiduciary net position as a percentage of the total pension liability	99.82%	93.50%

* 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>2016*</u>	<u>2017*</u>
Contractually required contribution	\$ 20,540	\$ 26,624
Contributions in relation to the contractually required contribution	<u>(20,540)</u>	<u>(26,624)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 158,000	\$ 204,800
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>2016*</u>	<u>2017*</u>
City's portion of the net pension liability (asset)	0.047658%	0.044925%
City's proportionate share of the net pension liability (asset)	\$ 505,846	\$ 548,851
City's covered-employee payroll	\$ 122,121	\$ 125,664
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	414%	437%
Plan fiduciary net position as a percentage of the total pension liability	68.27%	64.87%

* 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>2016*</u>	<u>2017*</u>
Contractually required contribution	\$ 17,097	\$ 17,593
Contributions in relation to the contractually required contribution	<u>(17,097)</u>	<u>(17,593)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 122,121	\$ 125,664
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>2016*</u>	<u>2017*</u>
Total pension liability		
Service cost	\$ 101,924	\$ 113,795
Interest	346,942	349,144
Changes in benefit terms	-	-
Differences between expected and actual experience	(97,383)	126,877
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(300,240)	(346,760)
Net change in total pension liability	<u>\$ 51,243</u>	<u>\$ 243,056</u>
Total pension liability - beginning	<u>4,623,990</u>	<u>4,675,233</u>
Total pension liability - ending (a)	<u><u>\$ 4,675,233</u></u>	<u><u>\$ 4,918,289</u></u>
 Plan fiduciary net position		
Contributions - employer	174,467	205,322
Contributions - employee	37,827	43,341
Net investment income	102,538	31,175
Benefit payments, including refunds of employee contributions	(300,240)	(346,760)
Administrative expense	(7,695)	(7,326)
Other	-	-
Net change in plan fiduciary net position	<u>6,897</u>	<u>(74,248)</u>
 Plan fiduciary net position - beginning	<u>3,742,556</u>	<u>3,749,453</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 3,749,453</u></u>	<u><u>\$ 3,675,205</u></u>
 City's net pension liability - ending (a) - (b)	<u><u>\$ 925,780</u></u>	<u><u>\$ 1,243,084</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	80.20%	74.73%
Covered-employee payroll	\$ 938,273	\$ 1,125,894
City's net pension liability as a percentage of covered-employee payroll	98.67%	110.41%

City of Watonga, Oklahoma
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2017

	Grant Fund	Library Fund	Total Non-Major Funds
ASSETS			
Cash and cash equivalents	\$ 16,046	\$ 67,832	\$ 83,878
Investments	-	85,000	85,000
Total assets	<u>\$ 16,046</u>	<u>\$ 152,832</u>	<u>\$ 168,878</u>
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Assigned	16,046	152,832	168,878
Total fund balances	<u>16,046</u>	<u>152,832</u>	<u>168,878</u>
Total liabilities and fund balances	<u>\$ 16,046</u>	<u>\$ 152,832</u>	<u>\$ 168,878</u>

City of Watonga, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
Year Ended June 30, 2017

	Grant Fund	Library Fund	Total Non-Major Funds
REVENUES			
Rents & royalties	\$ -	\$ 49,374	\$ 49,374
Intergovernmental revenue	3,817	7,162	10,979
Donations	5,400	-	5,400
Other revenues	1,957	-	1,957
Interest income	-	451	451
Total revenues	<u>11,174</u>	<u>56,987</u>	<u>68,161</u>
EXPENDITURES			
General government:			
General government	22,894	-	22,894
Total general government	<u>22,894</u>	<u>-</u>	<u>22,894</u>
Cultural, parks and recreation:			
Library	-	37,061	37,061
Total cultural, parks and recreation	<u>-</u>	<u>37,061</u>	<u>37,061</u>
Capital outlay	5,652	37,561	43,213
Total expenditures	<u>28,546</u>	<u>74,622</u>	<u>103,168</u>
Excess (deficiency) of revenues over expenditures	<u>(17,372)</u>	<u>(17,635)</u>	<u>(35,007)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	62,584	-	62,584
Transfers out	(45,090)	-	(45,090)
Total other financing sources and uses	<u>17,494</u>	<u>-</u>	<u>17,494</u>
Net change in fund balances	122	(17,635)	(17,513)
Fund balances - beginning	15,924	170,467	186,391
Fund balances - ending	<u>\$ 16,046</u>	<u>\$ 152,832</u>	<u>\$ 168,878</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, 2017, 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 November 7, 2017.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: Findings 2017-1 and 2017-2. 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. During the course of our audit, we discovered the following compliance finding which is required to be reported under *Government Auditing Standards*: Finding 2017-3.

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

November 7, 2017

City of Watonga, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2017

Finding 2017-1 Custody of Signature Stamps

Condition: Custody of signature stamps does not always lie with the individual whose signature is on the stamp.

Criteria: Authorization of expenditures can occur by individuals who are not authorized signers on the bank accounts.

Cause: Lack of formal policies and procedures being performed and/or followed, which is a result of management override of controls.

Effect or Potential Effect: Improper authorization and use of City funds.

Recommendation: Implement and enforce control procedures that require custody of signature stamps to remain only with the individual whom the signature belongs to.

Management Response: We will evaluate our current procedures and make changes to those procedures that we deem appropriate to ensure compliance with internal controls.

Finding 2017-2 Segregation of Duties

Condition: In certain instances, individuals within the City have duties that overlap which results in an override of segregation of duties.

Criteria: Duties should be separated so that an individual cannot perform any more than one of the following: custody of assets, record keeping, and authorization.

Cause: Lack of formal policies and procedures being performed and/or followed, which is a result of management override of controls.

Effect or Potential Effect: Could potentially lead to misuse of City funds and/or assets.

Recommendation: Implement and enforce control procedures for segregation of duties.

Management Response: We will evaluate our current procedures and make changes to those procedures that we deem appropriate to ensure compliance with internal controls.

Finding 2017-3 Budgetary Compliance

Condition: Several departments within the City were out of compliance with final approved budget at year-end with expenditures exceeding legally appropriated funds.

Criteria: O.S. Statute Title 11 § 17-217 requires municipalities to timely adopt a budget for each fund and appropriate expenditures at a department level prior to encumbering funds. The City adopted a budget in a timely manner and in certain instances, properly adopted supplemental budget appropriations prior to individual departments encumbering funds in excess of the adopted budget. However, in other instances, the City failed to timely adopt supplemental budget appropriations and consequently expended funds in excess of the expenditures authorized by the budget, including supplemental appropriations.

City of Watonga, Oklahoma
Schedule of Findings and Responses, continued
For the Year Ended June 30, 2017

Cause: Ineffective budgetary monitoring in certain departments and authorization for expenditures being made prior to a supplemental appropriation being approved by the governing body.

Effect or Potential Effect: Adopting a budget and/or budgetary appropriations with proper notice and by the governing body allows sufficient input from citizens and stakeholders of the municipality. Failure to timely adopt a supplemental appropriation results in a department manager exceeding his/her legal authority to bind the City to expenditures.

Recommendation: Review budgetary monitoring procedures for each department and make changes or improvements to ensure that prior to budgetary authority being exceeded, the supplemental appropriations are considered and approved by the governing body.

Management Response: We will evaluate our current procedures and make changes to those procedures that we deem appropriate to ensure compliance with the statutes.