

CITY OF OILTON
Oilton, Oklahoma

BASIC FINANCIAL STATEMENTS
June 30, 2016

CITY OF OILTON
Oilton, Oklahoma

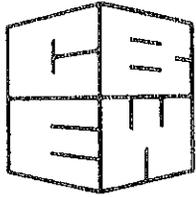
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INDEPENDENT AUDITOR'S REPORT

November 3, 2016

Honorable Board of City Commissioners
City of Oilton
Oilton, 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 Oilton, Oklahoma, (City) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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.

Basis for Qualified Opinions

As discussed in Note 1 to the financial statements, the City has not maintained complete capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. The amount by which this departure affects reported assets and net position of the Governmental and Business-Type Activities and the Major Enterprise Fund is not readily determinable.

Qualified Opinions

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental and business-type activities and the major enterprise fund of the City of Oilton, Oklahoma, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the major governmental fund and the aggregate remaining fund information of the City of Oilton, Oklahoma, as of June 30, 2016, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that pension exhibits and budgetary comparison information on pages 33 through 37 and the notes on page 38 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.

The City has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was 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 schedule of expenditures of federal awards is 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 3, 2016, on our consideration of the City'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 results of that testing, and not to provide an opinion on the 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's internal control over financial reporting and compliance.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

CITY OF OILTON
STATEMENT OF NET POSITION
June 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 191,598	\$ 118,736	\$ 310,334
Investments, at cost	263,465	85,439	348,904
Receivables (net of allowance for uncollectibles):			
Accounts receivable	-	43,350	43,350
Unbilled revenues	-	19,220	19,220
Taxes	75,939	-	75,939
Restricted assets:			
Cash & cash equivalents	161,201	34,634	195,835
Investments, at cost	-	15,255	15,255
Bond fund/cash & investments (Notes 2)	-	202,274	202,274
Net pension asset	5,374	-	5,374
Prepaid costs	7,717	-	7,717
Capital assets:			
Land	36,003	36,998	73,001
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 2)	808,631	3,196,399	4,005,030
Total assets	<u>1,549,928</u>	<u>3,752,305</u>	<u>5,302,233</u>
Deferred outflows of resources:			
Deferred amounts related to pensions	28,355	-	28,355
Total deferred outflows	<u>28,355</u>	<u>-</u>	<u>28,355</u>
Liabilities:			
Current liabilities:			
Accounts payable	6,268	27,043	33,311
Due to Oilton Schools	7,036	-	7,036
Accrued payroll	3,656	4,005	7,661
Accrued payroll	560	615	1,175
Accrued payroll taxes	57	178	235
Accrued compensated absences payable (Note 1)	468	3,648	4,116
Accrued sales tax	-	51	51
Interest payable	-	16,060	16,060
Meter deposits	-	49,889	49,889
Revenue bonds payable (Notes 2 & 3)	-	64,899	64,899
Payable from restricted assets:			
Appearance bonds	-	-	-
Non-current liabilities:			
Net pension liability	26,414	-	26,414
Revenue bonds payable (Notes 2 & 3)	-	2,319,476	2,319,476
Total liabilities	<u>44,459</u>	<u>2,485,864</u>	<u>2,530,323</u>
Deferred inflows of resources:			
Deferred amounts related to pensions	36,671	-	36,671
Total deferred inflows	<u>36,671</u>	<u>-</u>	<u>36,671</u>
Net position:			
Net Investment in capital assets	844,634	849,022	1,693,656
Restricted	161,201	-	161,201
Unrestricted	491,318	417,419	908,737
Total net position	<u>\$ 1,497,153</u>	<u>\$ 1,266,441</u>	<u>\$ 2,763,594</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF OILTON
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government:					
General government	\$ 169,556	\$ 80	\$ -	\$ -	\$ (169,476)
Total general government	<u>169,556</u>	<u>80</u>	<u>-</u>	<u>-</u>	<u>(169,476)</u>
Public safety and judiciary:					
Fire and ambulance	35,534	4,931	4,290	146,942	120,629
Municipal court	9,556	42,000	-	-	32,444
Animal control	6,963	-	-	-	(6,963)
Police	211,606	2,027	-	-	(209,579)
Total public safety and judiciary	<u>263,659</u>	<u>48,958</u>	<u>4,290</u>	<u>146,942</u>	<u>(63,469)</u>
Transportation:					
Streets	36,606	-	-	-	(36,606)
Total transportation	<u>36,606</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(36,606)</u>
Cultural, parks and recreation:					
Library	-	-	-	-	-
Cemetery	7,472	9,079	-	-	1,607
Parks	62	-	-	-	(62)
Total cultural, parks and recreation	<u>7,534</u>	<u>9,079</u>	<u>-</u>	<u>-</u>	<u>1,545</u>
Unallocated depreciation*	64,277	-	-	-	(64,277)
Total governmental activities	<u>541,632</u>	<u>58,117</u>	<u>4,290</u>	<u>146,942</u>	<u>(332,283)</u>
Business-type activities					
Industrial	9,813	6,600	-	-	(3,213)
Administrative	113,150	-	1,250	-	(111,900)
Water	175,879	199,831	-	-	23,952
Sewer	69,799	86,317	-	-	16,518
Sanitation	110,862	108,092	-	-	(2,570)
Gas	124,805	147,558	-	-	22,753
Unallocated depreciation*	116,012	-	-	-	(116,012)
Financing costs	84,086	-	-	-	(84,086)
Total business-type activities	<u>804,206</u>	<u>548,398</u>	<u>1,250</u>	<u>-</u>	<u>(254,558)</u>
Total	<u>\$ 1,345,838</u>	<u>\$ 606,515</u>	<u>\$ 5,540</u>	<u>\$ 146,942</u>	<u>\$ (586,841)</u>

* - This amount does not include the depreciation that is included in the direct expenses of various programs.

	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	(332,283)	(254,558)	(586,841)
General revenues:			
Taxes:			
Sales, use and cigarette taxes	447,943	-	447,943
Franchise taxes	25,423	-	25,423
Intergovernmental	14,886	-	14,886
Investment earnings	1,871	1,514	3,385
Miscellaneous	26,610	33,396	60,006
Gain/(loss) on sale of asset	-	-	-
Pension change	3,058	-	3,058
Transfers	-	-	-
Total general revenues and transfers	<u>519,791</u>	<u>34,910</u>	<u>554,701</u>
Change in net position	<u>187,508</u>	<u>(219,648)</u>	<u>(32,140)</u>
Net position - beginning of year	<u>1,309,645</u>	<u>1,486,089</u>	<u>2,795,734</u>
Net position - end of year	<u>\$ 1,497,153</u>	<u>\$ 1,266,441</u>	<u>\$ 2,763,594</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF OILTON
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016**

	General Fund (Major)	Total Governmental Funds
Assets:		
Cash and investments:		
Cash & cash equivalents	\$ 191,598	\$ 191,598
Investments, at cost	263,465	263,465
Receivables (net of allowance for uncollectibles):		
Taxes receivable	75,939	75,939
Restricted assets:		
Cash & cash equivalents	161,201	161,201
Prepaid costs	7,717	7,717
Total assets	\$ 699,920	\$ 699,920
Liabilities:		
Accounts payable	\$ 6,268	\$ 6,268
Due to Oilton Schools	7,036	7,036
Accrued payroll	3,656	3,656
Accrued payroll taxes	560	560
Accrued retirement payable	57	57
Payable from restricted assets:		
Appearance bonds	-	-
Total liabilities	17,577	17,577
Fund balances:		
Restricted for:		
Cemetery	73,846	73,846
Road repair	87,355	87,355
Unassigned	521,142	521,142
Total fund balances	682,343	682,343
Total liabilities and fund balances	\$ 699,920	\$ 699,920

The accompanying notes are an integral part of the basic financial statements.

CITY OF OILTON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE
STATEMENT OF NET POSITION
June 30, 2016

Total Fund Balances - Total Governmental Funds \$ 682,343

Amounts reported for governmental activities in the statement of net position are different because:

Net pension asset	5,374
Pension related deferred outflows	28,355
Net pension liability	(26,414)
Pension related deferred inflows	(36,671)
Accrued compensated absences payable	(468)

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$ 36,003	
CIP	-	
Fire Dept Assets	472,042	
Police Dept Assets	166,092	
Park Dept Assets	129,363	
Street Dept Assets	524,494	
General Assets	239,755	
Accumulated depreciation	<u>(723,115)</u>	
		<u>844,634</u>

Net position of governmental activities \$ 1,497,153

The accompanying notes are an integral part of the basic financial statements.

CITY OF OILTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2016

	General Fund (Major)	Total Governmental Funds
Revenues:		
Charges for services	\$ 6,958	\$ 6,958
Cemetery	9,080	9,080
Cigarette taxes	5,094	5,094
Franchise fees	25,423	25,423
Fines and forfeits	42,000	42,000
Gain on sale of asset	-	-
Grant revenues	151,232	151,232
Interest	1,871	1,871
Intergovernmental programs	14,886	14,886
Licenses and permits	80	80
Miscellaneous revenue	26,611	26,611
Royalties	-	-
Sales and use taxes	442,849	442,849
Total revenues	<u>726,084</u>	<u>726,084</u>
Expenditures:		
Current:		
General government	171,010	171,010
Public safety	263,659	263,659
Highways & roads	36,606	36,606
Cultural and recreational	7,534	7,534
Capital outlay	170,186	170,186
Total expenditures	<u>648,995</u>	<u>648,995</u>
Excess of revenues over (under) expenditures	77,089	77,089
Other financing uses:		
Operating transfers in (out)	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures & transfers	77,089	77,089
Fund balance - beginning of year	<u>605,254</u>	<u>605,254</u>
Fund balance - end of year	<u>\$ 682,343</u>	<u>\$ 682,343</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF OILTON
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

Net Change in Fund Balances - Total Governmental Funds	\$	77,089
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Government-Wide Statement of Activities report the cost of pension benefits earned net of employee contributions is reported as an element of pension expense. The fund financial statements report pension contributions as expenditures.</p>		3,056
<p>Government-Wide Statement of Activities report accrued compensated absences in the period incurred. However, Governmental Funds do not pay on this liability until the employee has left employment. The amount of the change in accrued absences recorded in the current period.</p>		1,454
<p>Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.</p>		(64,277)
<p>Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.</p>		<u>170,186</u>
Change in Net Position of Governmental Activities	\$	<u>187,508</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF OILTON
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
June 30, 2016

Business-type Activities - Enterprise Funds

	Oilton Public Works Authority	Oilton Industrial & Redevelopment Authority	Totals
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 96,601	\$ 22,135	\$ 118,736
Investments, at cost	-	85,439	85,439
Receivables (net of allowance for uncollectibles):			
Accounts receivable	43,350	-	43,350
Unbilled revenues	19,220	-	19,220
Restricted Assets:			
Cash & cash equivalents (Note 1)	34,634	-	34,634
Investments, at cost	15,255	-	15,255
Bond fund/cash & investments (Notes 2)	202,274	-	202,274
Capital assets:			
Land	35,000	1,998	36,998
Depreciable buildings, property, equipment and infrastructure (Notes 1 & 2)	3,177,338	19,061	3,196,399
Total assets	3,623,672	128,633	3,752,305
Liabilities:			
Current liabilities:			
Accounts payable	27,043	-	27,043
Accrued payroll	4,005	-	4,005
Accrued payroll taxes	615	-	615
Accrued retirement payable	178	-	178
Accrued compensated absences payable	3,648	-	3,648
Accrued sales tax	51	-	51
Interest payable	16,060	-	16,060
Meter deposits	49,889	-	49,889
Revenue bonds payable (Notes 2 & 3)	64,899	-	64,899
Non-current liabilities:			
Revenue bonds payable (Notes 2 & 3)	2,319,476	-	2,319,476
Total liabilities	2,485,864	-	2,485,864
Net position:			
Net investment in capital assets	827,963	21,059	849,022
Unrestricted	309,845	107,574	417,419
Total net position	\$ 1,137,808	\$ 128,633	\$ 1,266,441

The accompanying notes are an integral part of the basic financial statements.

CITY OF OILTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2016

Business-type Activities - Enterprise Funds

	Oilton Public Works Authority	Oilton Industrial & Redevelopment Authority	Totals
Revenues:			
Water revenue	\$ 182,805	\$ -	\$ 182,805
Sewer revenue	86,317	-	86,317
Garbage revenue	108,092	-	108,092
Gas revenue	147,558	-	147,558
Rental	-	6,600	6,600
Late charges	17,026	-	17,026
Miscellaneous revenue	33,396	-	33,396
Total revenues	<u>575,194</u>	<u>6,600</u>	<u>581,794</u>
Operating expense:			
Depreciation	116,012	5,850	121,862
Administrative	113,150	-	113,150
Water service	175,879	-	175,879
Sewer service	69,799	-	69,799
Garbage service	110,662	-	110,662
Gas service	124,805	-	124,805
Industrial expense	-	3,963	3,963
Total operating expense	<u>710,307</u>	<u>9,813</u>	<u>720,120</u>
Income before non-operating revenues, expenses & transfers	<u>(135,113)</u>	<u>(3,213)</u>	<u>(138,326)</u>
Non-operating revenues (expenses):			
Interest revenue	1,219	295	1,514
Interest expense	(71,579)	-	(71,579)
Grant revenue	1,250	-	1,250
Administrative fees	(12,507)	-	(12,507)
Total	<u>(81,617)</u>	<u>295</u>	<u>(81,322)</u>
Income (loss) before operating transfers	<u>(216,730)</u>	<u>(2,918)</u>	<u>(219,648)</u>
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	<u>(216,730)</u>	<u>(2,918)</u>	<u>(219,648)</u>
Net position - beginning of year	<u>1,354,538</u>	<u>131,551</u>	<u>1,486,089</u>
Net position - end of year	<u>\$ 1,137,808</u>	<u>\$ 128,633</u>	<u>\$ 1,266,441</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF OILTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2016

Business-type Activities - Enterprise Funds

	Oilton Public Works Authority	Oilton Industrial & Redevelopment Authority	Totals
Cash flows from operating activities:			
Cash received from customers & service users	\$ 595,185	\$ 6,600	\$ 601,785
Cash payments for goods & services & employees	(576,890)	(3,963)	(580,853)
Net cash provided by operating activities	<u>18,295</u>	<u>2,637</u>	<u>20,932</u>
Cash flows from noncapital financing activities:			
Change in due to/from accounts	-	-	-
Change in meter deposits	1,436	-	1,436
Operating transfers in (out) to other funds	-	-	-
Net cash provided (used) for noncapital financing activities	<u>1,436</u>	<u>-</u>	<u>1,436</u>
Cash flows from capital and related financing activities:			
Acquisition & construction of capital assets	(23,850)	-	(23,850)
Loan proceeds	-	-	-
Administrative fees	(12,507)	-	(12,507)
Grant revenues	1,250	-	1,250
Principal paid on debt	(130,812)	-	(130,812)
Interest paid on debt	(55,519)	-	(55,519)
Net cash provided (used) for capital and related financing activities	<u>(221,438)</u>	<u>-</u>	<u>(221,438)</u>
Cash flows from investing activities:			
(Purchase) liquidation of investments - unrestricted	(49)	(273)	(322)
Interest on investments	1,219	295	1,514
Net cash provided by investing activities	<u>1,170</u>	<u>22</u>	<u>1,192</u>
Net increase (decrease) in cash & cash equivalents	(200,537)	2,659	(197,878)
Cash and cash equivalents - beginning of year	<u>534,046</u>	<u>19,476</u>	<u>553,522</u>
Cash and cash equivalents - end of year	<u>\$ 333,509</u>	<u>\$ 22,135</u>	<u>\$ 355,644</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ (135,113)	\$ (3,213)	\$ (138,326)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	116,012	5,850	121,862
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	19,991	-	19,991
Increase (decrease) in accounts payable	15,494	-	15,494
Increase (decrease) in accrued expenses	1,911	-	1,911
Total adjustments	<u>153,408</u>	<u>5,850</u>	<u>159,258</u>
Net cash provided by operating activities	<u>\$ 18,295</u>	<u>\$ 2,637</u>	<u>\$ 20,932</u>

The accompanying notes are an integral part of the basic financial statements.

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Oilton, Oklahoma (the City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

The City of Oilton, Oklahoma, was organized under the statutes of the State of Oklahoma. The City provides the following services as authorized by state statutes: general government, public safety (fire and police), streets, public works, judicial, health and social services, culture, parks and recreation, public improvements, and planning and zoning for the geographical area organized as the City of Oilton, Oklahoma.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with the data of the primary government.

In evaluating how to define the City of Oilton, Oklahoma, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service application of this criterion involves considering whether the activity benefits the City and/or its citizens, or whether the activity is conducted within the geographic boundaries of the City and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities.

Component units may be presented as either a blended component unit or a discretely presented component unit. A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. The component unit's funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. A discretely presented component in it is a separate legal entity that meets the component unit criteria but does not meet the criteria for blending.

Blended Component Units/Trusts:

The Oilton Public Works Authority (OPWA) was created pursuant to a Trust Indenture for the benefit of the City of Oilton, Oklahoma. OPWA was established to acquire, construct, develop, equip, operate, maintain, repair, enlarge and remodel water, sewer and electric facilities for the City of Oilton. The water, sanitary sewer, and solid waste disposal systems owned by the City have been leased to OPWA until such date that all indebtedness of the Authority is retired or provided for. OPWA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes 1991, Section 176, et seq., and is governed by a board consisting of five trustees identical with the City Council. OPWA is exempt from State and Federal Income taxes. OPWA is reported as an enterprise fund.

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

Blended Component Units/Trusts (Continued):

The Oilton Industrial and Redevelopment Authority (OIRA) was created for the benefit of the City of Oilton, Oklahoma. OIRA was created to promote the development of industry and to provide additional employment in the Oilton, Oklahoma, area. The Authority is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes 1991, Section 176-180, et seq., and is governed by a board consisting of five trustees appointed by the City Council. OIRA is exempt from State and Federal Income taxes.

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting – The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Governmental Funds – are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales taxes, gasoline excise taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following are the City's major governmental funds:

General Fund – is the main operating fund of the City. It accounts and reports for all financial resources not required to be reported in another fund.

Proprietary Funds – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Proprietary funds are classified as enterprise.

Enterprise Funds – are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The following is the City's major enterprise fund:

Oilton Public Works Authority – accounts for the operations of providing public works to the City.

The other enterprise fund of the City do not meet the percentage criteria for major funds but the City has elected to treat the following the non-major fund as though it was a major fund for purposes of presentation within the proprietary funds of the financial statements rather than aggregating this information separately solely for the benefit of user understandability of the financial statements.

Oilton Industrial and Redevelopment – accounts for the operations of the real estate owned by the authority.

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Fiduciary Funds – account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The City does not have a fiduciary fund.

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with maturity date of three months or less. Debt instruments with a maturity date of more than three months from date of issue are considered to be investments. Investments are stated at cost.

2. Fair Value of Financial Instruments

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

3. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds".

5. Inventories

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

6. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$2,500. The City's infrastructure consists of roads, bridges, culverts, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the City. Such infrastructure assets acquired after July 1, 2003 are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value of the asset or materially extend an asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings & Improvements	40 - 100 years	40 - 100 years
Plants & Facilities	40 - 100 years	40 - 100 years
Furniture & Major Movable Equipment	10 - 40 years	10 - 40 years
Infrastructure	40 - 100 years	40 - 100 years

The City has not maintained complete capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. The amount by which this departure would affect the assets, net position, and expenses of the Governmental and Business-Type Activities is not readily determinable.

7. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation time. Full-time and part time regular employees who have been employed continuously for at least 12 months are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. The expense and related liability for vested vacation benefits and compensatory time is recorded in the respective funds of the City or component unit.

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

8. Long-term Obligations

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

9. Net Position/Fund Balance

In the government-wide financial statement, net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when limitations on its use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

Committed fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

9. Net Position/Fund Balance (Continued)

Assigned fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

10. Resource Use Policy

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

2. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2016, the City held deposits of approximately \$1,072,602 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name.

Investment Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The City has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

A. Deposits and Investments (Continued)

- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The investments held at June 30, 2016 are as follows:

Type	Credit Rating	Market Value	Cost
Investments			
Certificate of deposit	N/A	364,159	364,159
Total investments		<u>\$ 364,159</u>	<u>\$ 364,159</u>

Reconciliation to Statement of Net Position	
Governmental activities	\$ 263,465
Business-type activities	100,694
	<u>\$ 364,159</u>

Concentration of Investment Credit Risk

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 100% in Certificates of deposit (\$364,159).

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

B. Fair Value Measurements

Fair value disclosures are provided as required by GASB 72 *Fair Value Measurements*. This standard established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities

Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly

Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of June 30, 2016:

**Assets at Fair Value
as of June 30, 2016**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
CDs	\$ 364,159	\$ -	\$ -	\$ 364,159
Total assets at fair value	<u>\$ 364,159</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 364,159</u>

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

B. Capital Assets

Primary Government capital asset activity for the year ended is as follows:

	Balance 6/30/2015	Additions	Disposals	Balance 6/30/2016
Governmental Activities				
Non -depreciable Assets				
Land	\$ 36,003	\$ -	\$ -	\$ 36,003
Total Non-depreciable Assets	<u>36,003</u>	<u>-</u>	<u>-</u>	<u>36,003</u>
Depreciable Assets				
Fire Department assets	310,356	161,686	-	472,042
Police Department assets	157,592	8,500	-	166,092
Park Department assets	129,363	-	-	129,363
Street Department assets	524,494	-	-	524,494
General assets	239,755	-	-	239,755
Total Depreciable Assets	<u>1,361,560</u>	<u>170,186</u>	<u>-</u>	<u>1,531,746</u>
Less Accumulated Depreciation				
Fire Department assets	(217,521)	(18,729)	-	(236,250)
Police Department assets	(58,957)	(11,031)	-	(69,988)
Park Department assets	(53,664)	(5,568)	-	(59,232)
Street Department assets	(158,943)	(22,165)	-	(181,108)
General assets	(169,753)	(6,784)	-	(176,537)
Total Accumulated Depreciation	<u>(658,838)</u>	<u>(64,277)</u>	<u>-</u>	<u>(723,115)</u>
Net Governmental Assets	<u>738,725</u>	<u>105,909</u>	<u>-</u>	<u>844,634</u>
Business-Type Activities				
Non -depreciable Assets				
Land	\$ 36,998	\$ -	\$ -	\$ 36,998
Total Non-depreciable Assets	<u>36,998</u>	<u>-</u>	<u>-</u>	<u>36,998</u>
Depreciable Assets				
Buildings	106,727	-	-	106,727
Office Equipment	38,151	-	-	38,151
Vehicles	91,731	-	-	91,731
Gas System	189,872	-	-	189,872
Water System	2,380,383	-	-	2,380,383
Sewer System	1,808,508	23,850	-	1,832,358
Total Depreciable Assets	<u>4,615,372</u>	<u>23,850</u>	<u>-</u>	<u>4,639,222</u>
Less Accumulated Depreciation				
Buildings	(81,816)	(5,850)	-	(87,666)
Office Equipment	(25,718)	(1,481)	-	(27,199)
Vehicles	(91,731)	-	-	(91,731)
Gas System	(169,616)	(5,512)	-	(175,128)
Water System	(606,707)	(63,245)	-	(669,952)
Sewer System	(345,373)	(45,774)	-	(391,147)
Total Accumulated Depreciation	<u>(1,320,961)</u>	<u>(121,862)</u>	<u>-</u>	<u>(1,442,823)</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 3,331,409</u>	<u>\$ (98,012)</u>	<u>\$ -</u>	<u>\$ 3,233,397</u>

Depreciation expense was charged to unallocated depreciation and not charged as a direct expense of the various programs.

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

C. Long-term Debt

Long-term debt of the City consists of notes payable. Debt service requirements for notes are payable solely from fund balance and future revenues of the Oilton Utility Authority. The following briefly describes these notes payable:

- (1) A note payable to Oklahoma Water Resources Board, secured by utility revenues and accounts, contract rights and other assets owned by the OPWA. The note is payable in semi-annual installments when finalized. Only have borrowed on this loan, no payments are due at this time but construction principal and interest.

	<u>2,384,375</u>
Total Proprietary Fund long-term debt	\$ <u>2,384,375</u>

The following is a summary of long-term debt transactions of the proprietary fund:

	Original Amount	Balance Outstanding 7/1/15	Issued	Retired, or Defeased During Year	Balance Outstanding 6/30/16	Current Portion
OPWA						
OWRB	\$ 2,850,000	\$ 2,515,187	\$ -	\$ (130,812)	\$ 2,384,375	\$ 64,899
Total	\$ <u>2,850,000</u>	\$ <u>2,515,187</u>	\$ <u>-</u>	\$ <u>(130,812)</u>	\$ <u>2,384,375</u>	\$ <u>64,899</u>

3. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The City purchases commercial insurance to cover these and other risks, including general auto liability, property damage, and public officials' liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year.

As a member of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. The City is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. A Loss Fund has been established from the proceeds of fees paid by the City. The City expensed these fees when paid. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's Liability for claim loss is limited to the balance of that fund. However, failure of the State Insurance Fund to honor its obligations could result in losses to the Plan.

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

3. OTHER INFORMATION (Continued)

B. Contingent Liabilities

The City is a defendant in ongoing litigation and various legal actions arising from normal governmental activities. Although most of such actions are covered by insurance, certain actions might have some degree of exposure to the City. The outcome of these lawsuits is not presently determinable, and it is not known if the resolution of these matters will have a material adverse effect on the financial condition of the City.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

C. Employee Retirement System and Other Benefit Plans

The City participates in two employee pension systems as follows:

Oklahoma Firefighters Pension and Retirement Plan--Cost Sharing Multiple Employer - Defined Benefit Plan

Oklahoma Municipal Retirement Fund--(OkMRF) Agent Multiple Employer – Defined Benefit Plan

Oklahoma Firefighters Pension & Retirement Plan

Plan Description – The City of Oilton, as the employer, participates in the Firefighters Pension & Retirement – a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Firefighters Pension & Retirement System (FPRS). Title 11 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the FPRS. FPRS issues a publicly available financial report that can be obtained at www.ok.gov/fprs.

Benefits provided – FPRS provides retirement, disability and death benefits to members of the plan.

Benefits for members hired prior to November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 20 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$150.60 per month. Benefits vest with 10 years or more service.

Benefits for members hired after November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 22 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$165.66 per month. Benefits vest with 11 years or more service.

All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability in-the-line-of-duty benefit for firefighters with less than 20 years of service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in-the-line-of-duty is calculated based on 2.5% of final average monthly compensation, based on the most recent 30 months, per years of service, with a maximum of 30 years of service. For disabilities not-in-the-line-of-duty, the benefit is limited to only those with less than 20 years of service and is 50% of final average monthly compensation, based on the most recent 60-month salary as opposed to 30 months. For volunteer firefighters, the not-in-the-line-of-duty disability is also limited to only those with less than 20 years of service and is \$7.53 per year of service. For volunteer firefighters, the in-the-line-of-duty pension is \$150.60 with less than 20 years of service, or \$7.53 per year of service, with a maximum of 30 years.

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

3. OTHER INFORMATION (Continued)

C. Employee Retirement System and Other Benefit Plans (Continued)

A \$5,000 lump sum death benefit is payable to the qualified spouse or designated recipient upon the participant's death. The \$5,000 death benefit does not apply to members electing the vested benefit.

Contributions – The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 9% of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the City were \$900 (fiscal year contributions). The State of Oklahoma also made on-behalf contributions to FPRS in an amount during the calendar year and this is reported as both a revenue and an expenditure in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$0. These on-behalf payments did not meet the criteria of a special funding situation.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$24,973 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information the City's proportion was 0.002353%.

For the year ended June 30, 2016, the City recognized pension expense of \$1,725. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of resources</u>
Differences between expected and actual experience	\$ 493	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	767	2,381
Changes in proportion and differences between City contributions and proportionate share of contributions	-	6,732
City contributions subsequent to the measurement date	900	-
Total	<u>\$ 2,160</u>	<u>\$ 9,113</u>

\$900 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (3,343)
2017	(3,343)
2018	(3,343)
2019	1,956
2020	147
Thereafter	8
	<u>\$ (7,918)</u>

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

3. OTHER INFORMATION (Continued)

C. Employee Retirement System and Other Benefit Plans (Continued)

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

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

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

The actuarial assumptions used in the July 1, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015, are summarized in the following table:

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

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

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

	1% Decrease <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Employers' net pension liability (asset)	\$32,427	\$24,973	\$18,725

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

3. OTHER INFORMATION (Continued)

C. Employee Retirement System and Other Benefit Plans (Continued)

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

Oklahoma Municipal Retirement Fund – Defined Benefit

Plan Description – The City contributes to the OkMRF for all eligible employees except for those covered by the Police and Firefighter Pension Systems. The plan is an agent multiple employer - defined benefit plan administered by OkMRF. The OkMRF plan issues a separate financial report and can be obtained from OkMRF or from their website: www.okmrf.org/reports.html. Benefits are established or amended by the City Council in accordance with O.S. Title 11, Section 48-101-102.

Summary of Significant Accounting Policies – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's plan and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by OkMRF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value based on published market prices. Detailed information about the OkMRF plans' fiduciary net position is available in the separately issued OkMRF financial report.

Eligibility Factors and Benefit Provisions

<u>Provision</u>	<u>As of 07/01/15 OkMRF Plan</u>
a. Eligible to participate	Full-time employees except police, firefighters and other employees who are covered under an approved system.
b. Period Required to Vest	7 years of credited service
c. Eligibility for Distribution	-Normal retirement at age 65 with 7 years of service -Early retirement at age 55 with 7 years of service -Disability retirement upon disability with 7 years of service -Death benefit with 7 years of service for married employees
d. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
e. Benefit Determination Methods:	
Normal Retirement	-1.875% of final average salary multiplied by credited years of service
Early Retirement	-Actuarially reduced benefit based upon age, final average salary, and years of service at termination
Disability Retirement	-Same as normal retirement

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

3. OTHER INFORMATION (Continued)

C. Employee Retirement System and Other Benefit Plans (Continued)

Death Benefit	-50% of employees accrued benefit, but terminates upon spouse re-marriage
Prior to 7 Years' Service	-No benefits
f. Benefit Authorization	-Benefits are established and amended by City Council adoption of an ordinance in accordance with O.S. Title, 11, Section 48-101-102
g. Form of Benefit Payments	Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, option form based on actuarial equivalent.

Employees Covered by Benefit Terms

Active Employees	9
Deferred Vested Former Employees	0
Retirees or Retiree Beneficiaries	<u>3</u>
Total	<u>12</u>

Contribution Requirements

The City Council has the authority to set and amend contribution rates by ordinance for the OkMRF defined benefit plan in accordance with O.S. Title 11, Section 48-102. The contribution rates for the current fiscal year have been made in accordance with an actuarially determined rate. The actuarially determined rate is 4.53% of covered payroll. For the year ended June 30, 2016, the City recognized \$11,333 of employer contributions to the plan which equals the actuarially determined amount based on covered payroll of \$250,178. Employees contribute a fixed 6% to the plan in accordance with the plan provisions adopted by the City Council.

Actuarial Assumptions

Date of Last Actuarial Valuation	July 1, 2015
a. Actuarial cost method	Entry age normal
b. Rate of Return on Investments and Discount Rate	7.75%
c. Projected Salary Increase	Rates by age
d. Post Retirement cost-of-Living Increase	None
e. Inflation Rate	3%
f. Mortality Table	UP 1994, with projected mortality improvement
g. Percent of married employees	100%
h. Spouse age difference	3 years (female spouses younger)
i. Turnover	Select and ultimate rates Ultimate rates are age-related as shown

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

3. OTHER INFORMATION (Continued)

C. Employee Retirement System and Other Benefit Plans (Continued)

Additional rates per thousand are added during
the first 5 years:

Year 1: 215
Year 2: 140
Year 3: 95
Year 4: 65
Year 5: 40

j. Date of last experience study

September 2012 for fiscal years 2007 thru 2011

Discount Rate – The discount rate used to value benefits was the long-term expected rate of return on plan investments, 7.75% since 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 their working careers. 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. Thus, the sufficiency of pension plan assets was made without a separate projection of cash flows.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.0%). Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2015 are summarized in the following table:

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

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

3. OTHER INFORMATION (Continued)

C. Employee Retirement System and Other Benefit Plans (Continued)

TOTAL	<u>100%</u>
Average Real Return	4.75%
Inflation	<u>3.00%</u>
Long-term expected return	<u>7.75%</u>

Changes in Net Pension Liability – The total pension liability was determined based on an actuarial valuation performed as of July 1, 2015 which is also the measurement date. There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability. There were also no changes between the measurement date of July 1, 2015 and the City's report ending date of June 30, 2016, that would have had a significant impact on the net pension liability.

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

	1% Decrease <u>(6.75%)</u>	Current Discount <u>Rate (7.75%)</u>	1% Increase <u>(8.75%)</u>
Employers' net pension liability (asset)	\$ 45,055	\$ (5,374)	\$ (46,051)

The City reported \$11,333 pension expense for the year ended June 30, 2016. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows <u>of Resources</u>	Deferred Inflows <u>of resources</u>
Differences between expected and actual experience	\$ -	\$ 5,648
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	14,927	21,910
City contributions subsequent to the measurement date	<u>11,333</u>	<u>-</u>
Total	<u>\$ 26,260</u>	<u>\$ 27,558</u>

\$11,333 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (4,599)
2018	(4,599)
2019	(4,597)
2020	2,704
2021	(1,027)
Thereafter	<u>(513)</u>
	<u>\$ (12,631)</u>

CITY OF OILTON
Oilton, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2016

3. OTHER INFORMATION (Continued)

D. Other Post-Employment Benefits

Plan Description: City provides post-employment benefit options for health care, prescription drug, dental and vision benefits for retired employees and their dependents that elect to make required contributions. The benefits are provided in accordance with State law, police and firefighter's union contracts and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The provisions for these benefits are not formalized in a contract or plan document but are referenced only in a few sentences in the administrative policy manual. These benefits are considered for accounting purposes to be provided in accordance with a single employer substantive plan. A substantive plan is one in which the plan terms are understood by the City and plan members. This understanding is based on communications between the employers and plan member and the historical pattern of practice with regard to the sharing of benefit costs.

Substantially all of the government's employees may become eligible for those post-employment benefits if they reach normal retirement age while working for the City. The plan is only provided for employees between the ages of 62 and 65. As of June 30, 2016, no retired employees are receiving benefits under this plan.

Funding Policy. The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2016, the City contributed 0% to the plan for previously retired employees (0 retirees) and 0% of premiums on newly retired employees (0 retirees).

Annual OPEB Cost and Net OPEB Obligation. The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. GASB 45 requires entities with over 200 employees to have the actuarial valuation performed biennially. The City is not required to perform the actuarial valuation of the OPEB cost and related OPEB obligation for the year ended June 30, 2016 since no one is participating at this time.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**CITY OF OILTON
Oilton, Oklahoma**

**REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2016**

CITY OF OILTON
Oilton, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
Year Ended June 30, 2016

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

Defined Benefit Cost Sharing Plans:

Fire

Schedule of the City's proportionate share of the net pension liability (asset)

Schedule of City contributions

Defined Benefit Agent Multi-Employer Plan

OkMRF

Schedule of change in net pension liability & related ratios

Schedule of employer contributions

Budgetary Comparison Schedule – General Fund

CITY OF OILTON
Oilton, Oklahoma

**REQUIRED SUPPLEMENTAL INFORMATION
ON PENSION PLAN FUNDING PROGRESS
Year Ended June 30, 2016**

**Exhibit 1
Schedule of the City of Oilton's Proportionate Share of the Net Pension Liability (Asset)
Oklahoma Firefighters Pension & Retirement System
Last 10 Fiscal Years***

	<u>2014</u>	<u>2015</u>
City's proportion of the net pension liability	0.0026%	0.002353%
City's proportionate share of the net pension liability	\$26,414	\$24,973
City's covered-employee payroll	\$ -	\$ -
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0%	0%
Plan fiduciary net position as a percentage of the total pension liability	68.12%	68.27%

*The amounts present for each fiscal year were determined as of 6/30

Notes to Schedule:

Only the last 2 current fiscal years are presented because 10-year data is not yet available

**Exhibit 2
Schedule of City Contributions
Oklahoma Firefighters Pension & Retirement System
Last 10 Fiscal Years**

	<u>2014</u>	<u>2015</u>
Statutorily required contribution	\$ 900	\$ 900
Contributions in relation to the statutorily required contribution	<u>900</u>	<u>900</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ -	\$ -
Contributions as a percentage of covered-employee payroll	\$60 per volunteer	\$60 per volunteer

Notes to Schedule:

Only the last 2 current fiscal years are presented because 10-year data is not yet available

CITY OF OILTON
Oilton, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
ON PENSION PLAN FUNDING PROGRESS
Year Ended June 30, 2016

Exhibit 3
Oklahoma Municipal Retirement Fund
Schedule of Changes in Net Pension Liability and Related Ratios Last Fiscal Year

	2014	2015
Total pension liability		
Service cost	\$ 16,602	\$ 22,616
Interest	24,159	22,938
Changes of benefit terms	-	-
Differences between expected and actual experience	-	(6,675)
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(66,417)	(12,403)
Net change in total pension liability	(25,656)	26,476
Total pension liability – beginning	327,718	302,062
Total pension liability - ending (a)	\$ 302,062	\$ 328,538
Plan fiduciary net position		
Contributions - employer	\$ 19,885	\$ 19,876
Contributions - member	9,624	9,489
Net investment income	48,542	8,956
Benefit payments, including refunds of member contributions	(66,417)	(12,403)
Administrative expense	(726)	(655)
Other	-	-
Net change in plan fiduciary net position	10,907	25,263
Plan fiduciary net position – beginning	297,741	308,649
Plan fiduciary net position - ending (b)	\$ 308,649	\$ 333,912
Net pension liability (asset) - ending (a) - (b)	\$ (6,586)	\$ (5,534)
Plan fiduciary net position as a percentage of the total pension liability	102.18%	101.64%
Covered employee payroll	\$ 288,614	\$ 239,472
Net pension liability as a percentage of covered employee payroll	-2.28%	-2.24%

Notes to Schedule:

Only the last 2 current fiscal years are presented because 10-year data is not yet available

CITY OF OILTON
Oilton, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
ON PENSION PLAN FUNDING PROGRESS
Year Ended June 30, 2016

Exhibit 4
Required Supplementary Information
Oklahoma Municipal Retirement Fund
Schedule of Employer Contributions Last Fiscal Year

	2014	2015
Actuarially determined contribution	\$ 19,097	\$ 11,333
Contributions in relation to the actuarially determined contribution	19,097	11,333
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 288,614	\$ 250,178
Contributions as a percentage of covered-employee payroll	6.61%	4.53%

Notes to Schedule:

1. Only the last 2 current fiscal years are presented because 10-year data is not yet available
2. Latest Valuation Date: July 1, 2015
3. Actuarially determined contribution rate is calculated as of July 1, 2014 and July 1, 2015
January 2016 through June 2016 contributions were at a rate of 4.53%.
July 2015 through December 2015 contributions were at a rate of 4.53%
4. Methods and assumptions used to determine contribution rates:
 - Actuarial cost method - Entry age normal
 - Amortization method - Level percent of payroll, closed
 - Remaining amortization period - 29 years
 - Asset valuation method - Actuarial:
 - Smoothing period - 4 years
 - Recognition method - Non-asymptotic
 - Corridor - 70% - 130%
 - Salary increases - 4.00% to 7.42% (varies by attained age)
 - Investment rate of return - 7.75%

CITY OF OILTON
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2016
(Unaudited)

GENERAL FUND

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original Budget	Final Budget		
Revenues:				
Charges for services	\$ 4,000	\$ 4,000	\$ 6,958	\$ 2,958
Cemetery	7,300	7,300	9,080	1,780
Cigarette taxes	6,500	6,500	5,094	(1,406)
Franchise fees	25,000	25,000	25,423	423
Fines and forfeits	38,000	38,000	42,000	4,000
Gain on sale of asset	-	-	-	-
Grant revenues	4,500	4,500	151,232	146,732
Interest	1,000	1,000	1,871	871
Intergovernmental programs	15,000	15,000	14,886	(114)
Licenses and permits	300	300	80	(220)
Miscellaneous revenue	7,250	7,250	26,611	19,361
Sales and use taxes	509,500	509,500	442,849	(66,651)
Total revenues	<u>618,350</u>	<u>618,350</u>	<u>726,084</u>	<u>107,734</u>
Expenditures:				
Current:				
General government	186,550	186,550	171,010	15,540
Public safety	263,896	263,896	263,659	237
Highways & roads	44,250	44,250	36,606	7,644
Cultural & recreational	8,550	8,550	7,534	1,016
Capital outlay	199,400	199,400	170,186	29,214
Total expenditures	<u>702,646</u>	<u>702,646</u>	<u>648,995</u>	<u>53,651</u>
Excess of revenue over (under) expenditures	(84,296)	(84,296)	77,089	161,385
Other financing sources (uses):				
Operating transfers in (out)	-	-	-	-
Net changes in fund balance	(84,296)	(84,296)	77,089	161,385
Fund balance - beginning of year	<u>605,254</u>	<u>605,254</u>	<u>605,254</u>	<u>-</u>
Fund balance at end of year	<u>\$ 520,958</u>	<u>\$ 520,958</u>	<u>\$ 682,343</u>	<u>\$ 161,385</u>

CITY OF OILTON
Oilton, Oklahoma

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
Year Ended June 30, 2016
(Unaudited)

BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise funds and internal service fund adopt budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

Prior to July 1, the City Administrator (not an elected official) submits a proposed operating budget for the fiscal year commencing July 1, to the Commissioners (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlay, transfers, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the City Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

The City uses encumbrance accounting. Encumbrances are recorded when purchase orders are issued but generally are not considered expenditures until liabilities for payments are incurred. At year-end, open purchase orders are reviewed and payments are made on those where the receipt of goods and services is eminent. The remaining purchase orders (and encumbrances) are cancelled and reissued during the following year. There are no outstanding encumbrances at year-end.

**CITY OF OILTON
Oilton, Oklahoma**

**OTHER SUPPLEMENTARY INFORMATION
June 30, 2016**

CITY OF OILTON
Oilton, Oklahoma

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

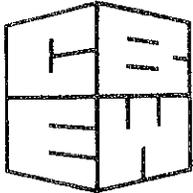
<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Federal Expenditures</u>
<u>Department of Housing and Urban Development:</u>				
<u>Passed through the Oklahoma Department of Commerce:</u>				
16571 CDBGDR 13	14.228	241,092	1,250	1,250
16284 CDBGDR 13	14.228	151,350	146,942	146,942
Total of Expenditures of Federal Awards		\$ 392,442	\$ 148,192	\$ 148,192

Note A - Basis of Presentation - The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the City under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only selected portion of the operations of the City, it is not intended and does not present the financial position, changes in net assets, or cash flows of the City.

Note B - Summary of Significant Accounting Policies - Expenditures reported on the Schedule are reported using the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF OILTON
Oilton, Oklahoma**

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2016**



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**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**

November 3, 2016

Honorable Board of City Commissioners
City of Oilton
Oilton, 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 Oilton, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Oilton, Oklahoma's basic financial statements, and have issued our report thereon dated November 3, 2016. Our opinions on the governmental and business-type activities and major enterprise fund were qualified because of the lack of fixed asset records. Additionally, the City did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses as finding 2016-001 & 2016-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2016-003.

City's Response to Findings

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

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 report is not suitable for any other purpose.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

CITY OF OILTON
Oilton, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016

2016-001. Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the City's assets and ensure accurate financial reporting.

Condition: Presently there are several individuals that perform many of the same functions which include taking payments, recording payments, making deposits, writing checks, signing checks and posting transactions. Only one person is responsible for reconciling monthly bank statements. This finding was also noted in 2015.

Cause: The City's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: While there are some checks and balances in place, without sufficient segregation of duties, the risk significantly increases that errors and fraud related to purchasing and depositing activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management should consider a formal evaluation of their risks associated with these procedures. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including performing compensating procedures where applicable.

Responsible Official's Response: The City concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the City will strive to make changes in procedures that will improve the overall lack of segregation of duties.

2016-002. Internal Control – Material Adjusting Journal Entries

Criteria: The City's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition: The City manager and accounting staff individually and collectively possess the necessary skills and experience to prepare accrual financial statements; however, management has chosen to present cash basis statements on an interim basis and request that the auditor prepare cash to accrual journal entries which they review and approve for the year-end audited financial statements. However, the government's trial balances for the year ended June 30, 2016, required a number of material adjusting journal entries (other than cash to accrual entries) in order for the financial statements to be prepared in accordance with GAAP. This finding was also noted in 2015.

CITY OF OILTON
Oilton, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2016

These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: depreciation expense, accrued taxes receivable, accounts payable, balancing note payables, interest expenses and purchased assets.

Cause: The accounting staff doesn't spend sufficient time in balancing and or reconciling specific accounts on a regular basis throughout the year to provide assurance that the trial balances used for preparing GAAP financial statements that are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances. However, management was able to review, understand and accept the adjusting entries proposed by the auditor in order to take responsibility for them and the financial statements.

Effect or Potential Effect: As a result of this condition, without reliance on its external auditors, the City lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as required by the GAO "Yellow Book."

Recommendation: The City should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by regularly reviewing, balancing, and reconciling interim financial statements to insure that material adjusting journal entries are made timely. This process could be assigning to a specific staff person, through employment of additional qualified accounting staff, or outsourced to a qualified external accounting firm. Additionally, all accounting staff should strive to obtain and/or maintain their proficiency through continuing education courses relative to governmental accounting.

Responsible Official's Response: The City concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements on a timely basis.