

City of Pawnee
Pawnee, Oklahoma

Audit Report
Year ended June 30, 2015

**CITY OF PAWNEE
Pawnee, Oklahoma**

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Independent Auditor's Report

The Honorable City Council
City of Pawnee
Pawnee, Oklahoma

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pawnee, State of Oklahoma, (City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 of the United States. Those standards require that I 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 controls 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Unqualified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Pawnee, State of Oklahoma, as of June 30, 2015, 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.

Emphasis of Matter

As discussed in Note 4 to the financial statements, in the current fiscal year the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions-an amendment of GASB No. 27* and GASB Statement No. 71, *Pension Transition from Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. The implementation of GASB Statements No. 68 and 71 resulted in the restatement of beginning net position. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information (pages fifty-five to fifty-seven), and the related notes (page fifty-eight) 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during our audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 25, 2016, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to

Independent Auditor's Report

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January 25, 2016

describe the scope of my 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.

Linda S. Woodruff, CPA, P.C.

Linda S. Woodruff, CPA, A Professional Corporation

Oklahoma City, Oklahoma 73172

January 25, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2015
Unaudited

As management of the City of Pawnee (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

The total net position of the City increased \$18,305. Net position of governmental activities increased \$31,014 or 1.49% over the fiscal year.

General revenues accounted for \$824,753 or 62.84% of total governmental activities revenue. Program specific revenues accounted for \$487,720 or 37.16% of total governmental activities revenue.

The City had \$1,638,328 in expenses related to governmental activities; \$487,720 of these expenses was offset by program specific charges for services, grants or contributions. The remaining expenses of the governmental activities of \$1,150,608 were offset by general revenues (primarily tax revenues, reimbursements, and investment earnings) of \$824,753. An additional transfer from the other funds (primarily the business-type activities) of \$234,053 was needed to offset any additional expenses.

Net position for the business activities, which are made up of the Water & Electric, Sewage & Solid Waste and the Industrial Authority decreased over the fiscal year by \$12,709 or .023%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplemental information as well as other supplemental information.

Government-wide Financial Statements – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety (fire, ambulance, police and animal control), streets, judicial, culture, parks and recreation, public improvements and planning and zoning. The business-type activities of the City include public works (electric, water, sewer and refuse) and industrial building rentals.

The government-wide financial statements can be found on page 14-16 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2015
Unaudited

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories – governmental funds, proprietary funds and fiduciary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effect of the government's near-term financing decision. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains twelve individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Municipal Hospital Authority and Capital Projects funds, all of which are considered to be major funds. Data from the other nine funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund, Special Revenue and Capital Projects Funds. Budgetary comparison schedules have been provided for the General Fund, each major Special Revenue Fund and Capital Projects Fund that adopts a budget to demonstrate compliance with the budget and are presented as required supplemental information.

The basic governmental fund financial statements can be found on pages 17–19 of this report.

Proprietary Funds – The City maintains four different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer and refuse, industrial building rentals and golf course rental.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water & Electric, Sewage & Solid Waste and the Pawnee Industrial Authority since they are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 20–22 of this report.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 23 of this report.

Component Units – The City includes one separate legal entity in its report – the Pawnee Municipal Authority. Although legally separate, this "component unit" is important because the City is financially accountable for it.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24–49 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2015
Unaudited

Required Supplementary Information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary comparisons, progress in funding its obligation to provide pension benefits to its employees and corresponding notes. Required supplementary information can be found on pages 52-58 of this report.

Other Supplementary Information – The combining statements referred to earlier in connection with non-major governmental funds are presented following the required supplementary information. Combining and individual statements and schedules can be found on pages 60-68 of this report.

Governmental-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Pawnee, assets exceed liabilities by \$7,266,126 as of June 30, 2015.

The largest portion of the City's net position reflects its investments in capital assets (e.g., land, buildings, equipment, improvements and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

City of Pawnee's Net position

	Governmental Activities		Business-Type Activities		Total	
	6/30/15	6/30/14	6/30/15	6/30/14	6/30/15	6/30/14
Current and other assets	\$ 383,658	\$ 402,978	\$ 2,651,532	\$ 2,788,366	\$ 3,035,190	\$ 3,191,344
Capital assets	2,475,110	2,583,641	13,690,415	13,331,737	16,165,525	15,915,378
Total assets	2,858,768	2,986,619	16,341,947	16,120,103	19,200,715	19,106,722
Deferred outflows	96,108	-	-	-	96,108	-
Long-term liabilities	40,559	64,468	10,757,321	10,524,104	10,797,880	10,588,572
Other liabilities	621,332	836,752	333,363	332,450	954,695	1,169,202
Total liabilities	661,891	901,220	11,090,684	10,856,554	11,752,575	11,757,774
Deferred inflows	176,572	-	-	-	176,572	-
Net assets:						
Net investment in capital assets	2,434,551	2,519,173	2,933,094	2,807,633	5,367,645	5,326,806
Restricted	245,115	275,242	1,716,034	1,768,883	1,961,149	2,044,125
Unrestricted	(563,253)	(709,016)	601,712	687,033	38,459	(21,983)
Total net assets	\$ 2,116,413	\$ 2,085,399	\$ 5,250,840	\$ 5,263,549	\$ 7,367,253	\$ 7,348,948

As of June 30, 2015, the City is able to report positive balances in all three categories of net position for the government as a whole and for its separate categories – governmental and business-type activities.

Analysis of the City's Operations – The following table provides a summary of the City's operations for the year ended June 30, 2015. Governmental activities increased the City of Pawnee's net position by \$31,014 and Business-type activities decreased the City's net position by \$12,286, accounting for a decrease in net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2015
Unaudited

City of Pawnee's Changes in Net position

	Governmental Activities		Business-Type Activities		Total	
	6/30/15	6/30/14	6/30/15	6/30/14	6/30/15	6/30/14
Revenues:						
Program revenues						
Charges for services	\$ 481,425	\$ 451,407	\$ 3,363,264	\$ 3,300,433	\$ 3,844,689	\$ 3,751,840
Operating grants and contributions	1,811	29,782			1,811	29,782
Capital grants and contributions	4,484			355,000	4,484	355,000
General revenues:						
Sales, use and cigarette taxes	703,159	683,202			703,159	683,202
Cigarette taxes	8,171	7,254			8,171	
Franchise fees	24,397	20,165			24,397	20,165
Intergovernmental	46,763	47,034			46,763	47,034
Investment earnings	545	606	1,343	2,317	1,888	2,923
Miscellaneous	41,718	15,214	31,754	380,484	73,472	395,698
Property sales						
Net pension change	122,816				122,816	
Late charges			44,764	38,704	44,764	38,704
Total revenues	<u>1,435,289</u>	<u>1,254,664</u>	<u>3,441,125</u>	<u>4,076,938</u>	<u>4,876,414</u>	<u>5,324,348</u>
Expenses:						
General government	256,962	250,102			256,962	250,102
Public safety and judiciary	811,356	748,801			811,356	748,801
Transportation	169,731	155,925			169,731	155,925
Cultural, parks and recreation	263,179	225,424			263,179	225,424
Hospital/economic development	6,785	21,388			6,785	21,388
Unallocated depreciation	130,315	132,598	464,063	451,066	594,378	583,664
Rental activities			28,635	29,299	28,635	29,299
Utilities			2,549,617	2,416,915	2,549,617	2,416,915
Financing			177,466	248,364	177,466	248,364
Total expenses	<u>1,638,328</u>	<u>1,534,238</u>	<u>3,219,781</u>	<u>3,145,644</u>	<u>4,858,109</u>	<u>4,679,882</u>
Increases in net assets before transfers	(203,039)	(279,574)	221,344	931,294	18,305	644,466
Transfers	234,053	153,204	(234,053)	(156,204)		(3,000)
Increase in net assets	31,014	(126,370)	(12,709)	775,090	18,305	641,466
Net assets - beginning of year	2,085,399	2,211,769	5,263,549	4,488,459	7,348,948	6,700,228
Net assets - end of year	<u>\$ 2,116,413</u>	<u>\$ 2,085,399</u>	<u>\$ 5,250,840</u>	<u>\$ 5,263,549</u>	<u>\$ 7,367,253</u>	<u>\$ 7,341,694</u>

Financial Analysis of the Government's Funds

Governmental Funds – The focus of the City of Pawnee's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the City of Pawnee's governmental funds reported combined ending fund balances of \$276,910. Approximately 11.48% of the total amount (\$31,795) constitutes unrestricted fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been restricted 1) for Special Projects (\$233,317) and 2) for Fire & Ambulance (\$11,798).

In the general fund, the City budgeted for a break even in the fund balance. However, without subsidies from the Water & Electric totaling \$450,000, the General fund would have reported a larger decrease in net position.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Fiscal Year Ended June 30, 2015

Unaudited

Proprietary Funds – The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net positions of the respective proprietary funds are Water & Electric – \$478,262 Sewage & Solid Waste – \$34,650 and the Industrial Authority – \$88,800.

Capital Assets

The City of Pawnee's investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$16,064,398 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure and construction in progress. Major capital asset events during the current fiscal year included the following:

Governmental activities include: police car and air conditioner for the library.

Business-type activities include: distribution improvements.

Capital Assets at Year-end Net of Accumulated Depreciation

	Governmental Activities		Business-Type Activities		Total	
	6/30/15	6/30/14	6/30/15	6/30/14	6/30/15	6/30/14
Land	\$ 131,500	\$ 131,500	\$ 82,611	\$ 82,611	\$ 214,111	\$ 214,111
Construction in process						
Buildings & Improvements	1,405,779	1,429,002	466,887	500,891	1,872,666	1,929,893
Sewer Treatment Facility			8,211,808	8,459,284	8,211,808	8,459,284
Water Treatment Plant			2,636,768	2,613,115	2,636,768	2,613,115
Electric System			644,802	674,009	644,802	674,009
Distribution Systems			1,565,111	902,566	1,565,111	902,566
Furniture & Major						
Movable Equipment	426,096	494,714	82,428	99,261	508,524	593,975
Infrastructure	511,735	528,425			511,735	528,425
Total	\$ 2,475,110	\$ 2,583,641	\$ 13,690,415	\$ 13,331,737	\$ 16,165,525	\$ 15,915,378

Additional information on the City of Pawnee's capital assets can be found in note 2 on pages 33-34 of this report.

Debt Administration

At the end of the current fiscal year, the City of Pawnee had total bonded debt, notes payable and leases payable of \$10,797,880. Of this amount, \$2,790,000 comprises the bonded debt backed by the full faith and credit of the government, \$7,967,321 represents notes secured solely by enterprise revenues and \$40,559 leases secured solely by the assets lease purchased.

Outstanding Debt at Year-end Bonds and Notes Payable

	Governmental Activities		Business-Type Activities		Total	
	6/30/15	6/30/14	6/30/15	6/30/14	6/30/15	6/30/14
Revenue bonds payable	\$ -	\$ -	\$ 2,790,000	\$ 3,005,000	\$ 2,790,000	\$ 3,005,000
Notes payable			7,967,321	7,519,104	7,967,321	7,519,104
Leases payable	40,559	64,468			40,559	64,468
Total	\$ 40,559	\$ 64,468	\$ 10,757,321	\$ 10,524,104	\$ 10,797,880	\$ 10,588,572

Additional information on the City of Pawnee's long-term debt can be found in footnote 2 on pages 35-38 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2015
Unaudited

Economic Factors and Next Year's Budgets and Rates

In the 2015-16 Budget, General Fund revenues and transfers in are budgeted to increase from the 2014-15 budget year with sales taxes making up about 50% of general fund budgeted revenues and transfers in. The City's budgets for all funds have not benefited from a slowing economy over the past year, sales tax receipts are expected to even out. This revenue source is the most volatile and subject to decline if an economic slowdown happens, such as the recession.

As a result of the potential impact in revenue, the City has made a concerted effort to limit appropriations to only those items truly necessary. This includes a reduction in the amount spent by the City in all areas.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the City's finances. If you have questions about this report or need any additional information, contact the City Mayor, 510 Illinois Street, Pawnee, OK 74058, or call 918-762-2658.

CITY OF PAWNEE
Pawnee, Oklahoma

BASIC FINANCIAL STATEMENTS
June 30, 2015

CITY OF PAWNEE
STATEMENT OF NET POSITION
June 30, 2015

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets:				
Cash and investments:				
Cash & cash equivalents (Note 3)	\$ 170,010	\$ 152,355	\$ 322,365	\$ 4,661
Investments, at cost	60,812	226,613	287,425	
Receivables (net of allowance for uncollectibles):				
Accounts receivable	26,846	556,030	582,876	
Grants				
Taxes	111,609	77	111,686	
Interest	55		55	
Restricted assets:				
Insurance deposit	14,326		14,326	
Cash & cash equivalents (Note 3)		1,716,034	1,716,034	
Capital assets:				
Land	131,500	82,611	214,111	61,124
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	2,343,610	13,607,804	15,951,414	22,158
Total assets	\$ 2,858,768	\$ 16,341,524	\$ 19,200,292	\$ 87,943
Deferred outflows of resources:				
Deferred amounts related to pensions	96,108		96,108	
Total deferred outflows	96,108		96,108	
Liabilities:				
Current liabilities:				
Accounts payable	\$ 44,490	\$ 220,558	\$ 265,048	
Cash overdraft	62,258		62,258	
Accrued compensation	84,427	9,881	94,308	
Sales tax payable		1,286	1,286	
Interest payable		58,660	58,660	
Payable from restricted assets:				
Interest payable		42,978	42,978	
Capital lease payable	23,943		23,943	
Notes payable (Note 3)		386,596	386,596	
Revenue bonds payable (Notes 3 & 4)		250,000	250,000	
Non-current liabilities:				
Net pension liability	430,157		430,157	
Capital lease payable	16,616		16,616	
Notes payable (Note 3)		7,580,725	7,580,725	
Revenue bonds payable (Notes 3 & 4)		2,540,000	2,540,000	
Total liabilities	661,891	11,090,684	11,752,575	
Deferred inflows of resources:				
Deferred amounts related to pensions	176,572		176,572	
Total deferred inflows	176,572		176,572	
Net position:				
Net investment in capital assets	2,434,551	2,933,094	5,367,645	83,282
Restricted	245,115	1,716,034	1,961,149	
Unrestricted	(563,253)	601,712	38,459	4,661
Total net position	\$ 2,116,413	\$ 5,250,840	\$ 7,367,253	\$ 87,943

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

CITY OF PAWNEE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General government:					
City clerk	\$ 149,847	\$ -	\$ -	\$ -	(149,847)
City mayor	74,147	-	-	-	(74,147)
City treasurer	-	-	-	-	-
General government	32,968	6,472	-	-	(26,496)
Total general government	<u>256,962</u>	<u>6,472</u>	<u>-</u>	<u>-</u>	<u>(250,490)</u>
Public safety and judiciary:					
Animal control	41,364	-	-	-	(41,364)
Code enforcement	5,519	-	-	-	(5,519)
911 fund	38,987	32,408	-	-	(6,579)
City attorney	17,344	-	-	-	(17,344)
Fire and ambulance	411,820	365,015	811	4,484	(41,510)
Municipal court	7,105	28,628	-	-	21,523
Police	289,217	-	-	-	(289,217)
Total public safety and judiciary	<u>811,356</u>	<u>426,051</u>	<u>811</u>	<u>4,484</u>	<u>(380,010)</u>
Transportation:					
Streets	169,731	-	-	-	(169,731)
- Total transportation	<u>169,731</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(169,731)</u>
Cultural, parks and recreation:					
Cemetery	59,365	28,260	1,000	-	(30,105)
Lake	-	17,427	-	-	17,427
Library	92,756	-	-	-	(92,756)
Buffalo Theatre	-	-	-	-	-
Parks & bath house	111,058	2,315	-	-	(108,743)
Total cultural, parks and recreation	<u>263,179</u>	<u>48,002</u>	<u>1,000</u>	<u>-</u>	<u>(214,177)</u>
Hospital/economic development					
Hospital activities	6,785	900	-	-	(5,885)
Economic development	-	-	-	-	-
Total hospital/economic development	<u>6,785</u>	<u>900</u>	<u>-</u>	<u>-</u>	<u>(5,885)</u>
Unallocated depreciation*	130,315	-	-	-	(130,315)
Total governmental activities	<u>1,638,328</u>	<u>481,425</u>	<u>1,811</u>	<u>4,484</u>	<u>(1,150,608)</u>
Business-type activities					
General & administrative	418,624	-	-	-	(418,624)
Personal services	328,958	-	-	-	(328,958)
Electric service	1,460,221	2,261,863	-	-	801,642
Water service	91,210	477,426	-	-	386,216
Sewer & refuse service	250,604	575,364	-	-	324,760
Industrial authority expense	28,635	48,611	-	-	19,976
Financing costs	177,466	-	-	-	(177,466)
Unallocated depreciation*	464,063	-	-	-	(464,063)
Total business-type activities	<u>3,219,781</u>	<u>3,363,264</u>	<u>-</u>	<u>-</u>	<u>143,483</u>
Total primary government	<u>\$ 4,858,109</u>	<u>\$ 3,844,689</u>	<u>\$ 1,811</u>	<u>\$ 4,484</u>	<u>\$ (1,007,125)</u>
Component units:					
Golf course expense	\$ 53,982	\$ 53,761	\$ -	\$ -	(221)
Total component units	<u>\$ 53,982</u>	<u>\$ 53,761</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(221)</u>

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

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

CITY OF PAWNEE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2015

**Net (Expense) Revenue
and Changes in Net Position**

	Governmental Activities	Business-Type Activities	Total	Component Units
Net (expense)/revenue	(1,150,608)	143,483	(1,007,125)	(221)
General revenues:				
Taxes:				
Sales and use taxes	703,159		703,159	
Cigarette taxes	8,171		8,171	
Franchise taxes	24,397		24,397	
Intergovernmental	46,763		46,763	
Investment earnings	545	1,343	1,888	1
Miscellaneous	41,718	31,754	73,472	
Property sales				
Net pension changes	122,816		122,816	
Late charges		44,764	44,764	
Transfers	234,053	(234,053)		
Total general revenues and transfers	<u>1,181,622</u>	<u>(156,192)</u>	<u>1,025,430</u>	<u>1</u>
Change in net position	31,014	(12,709)	18,305	(220)
Net position - beginning of year	2,085,399	5,263,549	7,348,948	88,163
Net position - end of year	<u>\$ 2,116,413</u>	<u>\$ 5,250,840</u>	<u>\$ 7,367,253</u>	<u>\$ 87,943</u>

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

**CITY OF PAWNEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2015**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and investments:			
Cash & cash equivalents	\$	\$ 170,010	\$ 170,010
Investments, at cost		60,812	60,812
Receivables (net):			
Accounts receivable	21,270	5,576	26,846
Grants			
Taxes	111,609		111,609
Interest		55	55
Restricted assets:			
Insurance deposit	14,326		14,326
Total assets	\$ 147,205	\$ 236,453	\$ 383,658
Liabilities:			
Accounts payable	\$ 41,354	\$ 3,136	\$ 44,490
Cash overdraft	62,258		62,258
Total liabilities	103,612	3,136	106,748
Fund balance:			
Restricted for:			
Cemetery		74,604	74,604
Debt service		71,712	71,712
Capital projects			
Other purposes		87,001	87,001
Committed to:			
Fire & ambulance	11,798		11,798
Unassigned	31,795		31,795
Total fund balance	43,593	233,317	276,910
Total liabilities and fund equity	\$ 147,205	\$ 236,453	
Amounts reported for governmental activities in the statement of net position are different because:			
Pension related deferred outflows			96,108
Net pension liability			(430,157)
Pension related deferred inflows			(176,572)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:			
Capital leases payable			(40,559)
Accrued compensated absences payable			(84,427)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:			
Land		131,500	
Buildings & Improvements		2,322,378	
Major movable equipment		1,901,022	
Infrastructure		667,581	
Accumulated Depreciation		(2,547,371)	
Total			2,475,110
Net position of governmental activities			2,116,413

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

CITY OF PAWNEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2015

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Charges for services	\$ 414,146	\$ -	\$ 414,146
Licenses and permits	2,118	-	2,118
Lot sales	3,200	-	3,200
Miscellaneous revenue	41,718	-	41,718
Franchise fees	24,397	-	24,397
Fines and forfeitures	28,628	-	28,628
Sales and use taxes	703,159	-	703,159
Cigarette taxes	8,171	-	8,171
Intergovernmental programs	26,208	20,555	46,763
Donations	811	1,000	1,811
Interest	202	343	545
Rental	-	925	925
Property sales	-	-	-
Special assessments	-	32,408	32,408
Grants	4,484	-	4,484
Total revenues	<u>1,257,242</u>	<u>55,231</u>	<u>1,312,473</u>
Expenditures:			
Current:			
General government	274,845	-	274,845
Public safety	770,675	38,987	809,662
Highways & roads	150,586	19,145	169,731
Cultural, parks & recreation	263,179	-	263,179
Health & welfare	-	6,785	6,785
Economic development	-	-	-
Lease payments	25,603	-	25,603
Capital outlay	21,783	-	21,783
Total expenditures	<u>1,506,671</u>	<u>64,917</u>	<u>1,571,588</u>
Excess of revenues over (under) expenditures	(249,429)	(9,686)	(259,115)
Other financing uses:			
Operating transfers in (out)	237,503	(3,450)	234,053
Loan proceeds	-	-	-
Excess of revenues over (under) expenditures & transfers	(11,926)	(13,136)	(25,062)
Fund balance - beginning of year	<u>55,519</u>	<u>246,453</u>	<u>301,972</u>
Fund balance - end of year	<u>\$ 43,593</u>	<u>\$ 233,317</u>	<u>\$ 276,910</u>

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

CITY OF PAWNEE

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2015**

Net Change in Fund Balances - Total Governmental Funds	\$ (25,062)
Amounts reported for governmental activities in the Statement of Activities are different because:	
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.	122,816
Governmental Funds report lease payments as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the principal paid on that liability is applied against the liability. This is the amount of principal recorded in the current period.	23,908
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.	17,884
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.	21,783
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.	(130,315)
Change in Net Position of Governmental Activities	\$ 31,014

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

CITY OF PAWNEE
STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
June 30, 2015

	Business-type Activities - Enterprise Funds			Totals
	Water & Electric	Sewage & Solid Waste	Pawnee Industrial Authority (Non-major)	
Assets:				
Cash and investments:				
Cash & cash equivalents (Note 3)	\$ 63,555	\$ -	\$ 88,800	\$ 152,355
Investments, at cost	168,037	58,576	-	226,613
Receivables (net of allowance for uncollectibles):				
Accounts receivable	497,443	58,587	-	556,030
Interest	63	14	-	77
Restricted assets:				
Cash & cash equivalents (Note 3)	524,887	1,191,147	-	1,716,034
Capital assets:				
Land	10,000	-	72,611	82,611
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	4,857,277	8,338,669	411,858	13,607,804
Total assets	\$ 6,121,262	\$ 9,646,993	\$ 573,269	\$ 16,341,524
Liabilities:				
Current liabilities:				
Accounts payable	\$ 200,795	\$ 19,763	\$ -	\$ 220,558
Accrued compensation	5,777	4,104	-	9,881
Sales tax payable	1,286	-	-	1,286
Interest payable	-	58,660	-	58,660
Payable from restricted assets:				
Interest payable	42,978	-	-	42,978
Capital lease payable	-	-	-	-
Notes payable (Note 3)	118,430	259,263	8,903	386,596
Revenue bonds payable (Note 3)	250,000	-	-	250,000
Non-current liabilities:				
Notes payable (Note 3)	2,207,116	5,319,309	54,300	7,580,725
Revenue bonds payable (Note 3)	2,540,000	-	-	2,540,000
Total liabilities	5,366,382	5,661,099	63,203	11,090,684
Net position:				
Net investment in capital assets	(248,269)	2,760,097	421,266	2,933,094
Restricted	524,887	1,191,147	-	1,716,034
Unrestricted	478,262	34,650	88,800	601,712
Total net position	\$ 754,880	\$ 3,985,894	\$ 510,066	\$ 5,250,840

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

CITY OF PAWNEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended June 30, 2015

Business-type Activities - Enterprise Funds

	Water & Electric	Sewage & Solid Waste	Pawnee Industrial Authority (Non-major)	Totals
Revenues:				
Electric	\$ 2,261,863	\$ -	\$ -	\$ 2,261,863
Water	477,426	-	-	477,426
Sewer	-	199,576	-	199,576
Refuse	-	216,213	-	216,213
Insect spray	-	-	-	-
Late charges	44,764	-	-	44,764
Rental	-	-	48,611	48,611
Sales and fees	-	3,606	-	3,606
Utility improvement	-	155,969	-	155,969
Miscellaneous	30,739	1,015	-	31,754
Total revenues	2,814,792	576,379	48,611	3,439,782
Operating expenses:				
General & administrative	416,624	-	2,000	418,624
Personal services	237,036	91,922	-	328,958
Electric service	1,460,221	-	-	1,460,221
Water service	91,210	-	-	91,210
Sewer & refuse service	-	250,604	-	250,604
Depreciation	208,340	255,723	22,881	486,944
Total operating expenses	2,413,431	598,249	24,881	3,036,561
Income before non-operating revenues, expenses & transfers	401,361	(21,870)	23,730	403,221
Non-operating revenues (expenses):				
Interest & dividends	791	552	-	1,343
Interest expense	(88,794)	(76,261)	(5,754)	(170,809)
Trustee fees	(1,708)	(10,703)	-	(12,411)
Total non-operating	(89,711)	(86,412)	(5,754)	(181,877)
Income (loss) before operating transfers	311,650	(108,282)	17,976	221,344
Transfers in (out)	(442,950)	298,480	(89,583)	(234,053)
Change in net position	(131,300)	190,198	(71,607)	(12,709)
Net position at beginning of year	886,180	3,795,696	581,673	5,263,549
Net position at end of year	\$ 754,880	\$ 3,985,894	\$ 510,066	\$ 5,250,840

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

CITY OF PAWNEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2015

Business-type Activities - Enterprise Funds

	Water & Electric	Sewage & Solid Waste	Pawnee Industrial Authority (Non-major)	Totals
Cash flows from operating activities:				
Cash received from customers & service users	\$ 2,760,297	\$ 576,625	\$ 48,611	\$ 3,385,533
Cash payments for goods & services & employees	(2,166,140)	(340,907)	(2,000)	(2,509,047)
Other operating revenues	30,739			30,739
Net cash provided by operating activities	<u>624,896</u>	<u>235,718</u>	<u>46,611</u>	<u>907,225</u>
Cash flows from noncapital financing activities:				
Operating transfers in/(out) to other funds	(442,950)	298,480	(89,583)	(234,053)
Net cash provided (used) for noncapital financing activities	<u>(442,950)</u>	<u>298,480</u>	<u>(89,583)</u>	<u>(234,053)</u>
Cash flows from capital and related financing activities:				
Principal paid on debt	(313,276)	(258,281)	(8,180)	(579,737)
Interest paid on debt	(123,484)	(81,228)	(5,754)	(210,466)
Loan proceeds	812,954	-	-	812,954
Acquisition & construction of capital assets	(845,622)	-	-	(845,622)
Trustee fees	(1,708)	(10,703)	-	(12,411)
Net cash provided (used) for capital and related financing activities	<u>(471,136)</u>	<u>(350,212)</u>	<u>(13,934)</u>	<u>(835,282)</u>
Cash flows from investing activities:				
(Purchase) liquidation of investments - unrestricted	(212)	(293)	-	(505)
Interest on investments	832	552	-	1,384
Net cash provided by investing activities	<u>620</u>	<u>259</u>	<u>-</u>	<u>879</u>
Net increase (decrease) in cash & cash equivalents	(288,570)	184,245	(56,906)	(161,231)
Cash and cash equivalents - beginning of year	877,012	1,006,902	145,706	2,029,620
Cash and cash equivalents - end of year	<u>\$ 588,442</u>	<u>\$ 1,191,147</u>	<u>\$ 88,800</u>	<u>\$ 1,868,389</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 401,361	\$ (21,870)	\$ 23,730	\$ 403,221
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	208,340	255,723	22,881	486,944
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	(23,756)	246	-	(23,510)
Increase (decrease) in accounts payable	40,493	880	-	41,373
Increase (decrease) in accrued expenses	1,651	739	-	2,390
Increase (decrease) in sales tax payable	(3,193)	-	-	(3,193)
Total adjustments	<u>223,535</u>	<u>257,588</u>	<u>22,881</u>	<u>504,004</u>
Net cash provided by operating activities	<u>\$ 624,896</u>	<u>\$ 235,718</u>	<u>\$ 46,611</u>	<u>\$ 907,225</u>

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

CITY OF PAWNEE
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2015

		Agency Funds
Assets:		
Cash and equivalents	\$	66,132
Investments at cost		57,301
Total assets	\$	123,433
Liabilities:		
Deposits	\$	123,433
Total liabilities	\$	123,433

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

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Pawnee, 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 Pawnee, Oklahoma was organized under the statutes of the State of Oklahoma. The City operates under a statutory aldermanic form of government in which the citizens elect a mayor at large and eight council members by wards. The City provides the following services as authorized by state statutes: general government, public safety (fire, police and ambulance), streets, public works (electric, water, sewer, and refuse), judicial, health and social services, culture, parks and recreation, public improvements, and planning and zoning for the geographical area organized as the City of Pawnee, 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.

Blended Component Units:

The Pawnee Public Works Authority (PPWA) was created pursuant to a Trust Indenture dated July 2, 1979, to finance, operate, construct and administer any public works, improvements or facilities for the benefit of the City of Pawnee, Oklahoma. The public works systems owned by the City have been leased to the PPWA. The PPWA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees identical with the City Council. The PPWA is exempt from State and Federal Income taxes. The PPWA is reported as an enterprise fund and includes the Water and Electric Fund and the Sewage and Solid Waste Fund.

The Pawnee Industrial Authority (PIA) was created pursuant to a Trust Indenture dated June 22, 1966, to promote the development of industry for the benefit of the City of Pawnee, Oklahoma. The PIA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees identical with the City Council. The PIA is exempt from State and Federal Income taxes. The PIA is reported as an enterprise fund.

The Pawnee Municipal Hospital Authority (PMHA) was created pursuant to a Trust Indenture dated March 3, 1975, to finance, operate, construct, regulate, administer or lease any hospital and related facilities for the benefit of the City of Pawnee, Oklahoma. The hospital facilities owned by the City have been leased to the PMHA, which in turn has sub-leased the facilities to an independent operating company. The PMHA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees identical with the City Council. The PMHA is exempt from State and Federal Income taxes. The PMHA is reported as a debt service fund.

Discretely Presented Component Unit:

The Pawnee Municipal Authority (PMA) was created pursuant to a Trust Indenture dated July 8, 1983, to finance, operate, and administer the Pawnee Municipal Golf Course for the benefit of the City of Pawnee, Oklahoma. The golf course owned by the City has been leased by the PMA to outside interests. The PMA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees appointed by the City Council. The PMA is exempt from State and Federal Income taxes. The PMA is presented as a component unit of the City of Pawnee.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The discretely presented component unit is presented in a single column on the face of the government-wide financial statements.

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.

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 accrual basis of accounting. Under the modified 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.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Expenditures are recorded when the related fund liability is incurred, except for un-matured 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.

Other governmental funds of the City that are considered non-major funds include:

Special Revenue funds - account for specific revenue sources that are legally restricted or committed to expenditures for specific purposes (not including major capital projects). The following are the City's Special Revenue Funds: Cemetery Fund, 911 Fund, American Flag Fund, Bath House Fund and Street & Alley Fund.

Capital Project Funds – accounts for and reports resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of major capital facilities, other than those activities financed by proprietary activities or held in trust for individuals, private organizations or other governments. Capital Project Funds of the City include the Special Capital Improvement Fund.

Debt Service Funds – accounts for and report financial resources that are restricted, committed, or assigned to principal and interest payments. At balance sheet date there is no known bond, coupon, or judgment indebtedness outstanding. The City's Debt Service Funds are the Pawnee Municipal Hospital Authority and the Sinking Fund.

Permanent Funds – account for and report resources that are restricted to the extent that only earnings (not principal) may be used for purposes that support the reporting government's programs, excluding private-purpose trusts. The fund is accounted for using the modified accrual basis of accounting and the measurement focus is essentially the flow of current financial resources. The City's permanent fund is composed of the Cemetery Perpetual Care 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. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the City has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise funds.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 are the City's major enterprise funds:

Water & Electric Fund – accounts for the operations of providing public works (electric & water).

Sewage and Solid Waste Fund – accounts for the operations of providing public works (sewer & refuse).

The other enterprise funds of the City do not meet the percentage criteria for major funds but the City has elected to treat the following two non-major funds as though they were major funds 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.

Pawnee Industrial Authority – accounts for the operations of providing building rentals to industrial businesses. The City has elected this fund to be treated as a major fund.

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's only fiduciary fund is composed of customer deposit funds.

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 a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

2. Restricted Cash and Investments

The restricted cash and investments are the result of financial requirements of Utility System Revenue Bonds issued by the Pawnee Public Works Authority and consist of funds held in a Debt Service Fund and a Bond Reserve Fund. Under the terms and provisions of the promissory note, these special funds are maintained with the Trustee bank for the benefit of the holders of the bonds and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the bonds are outstanding. Monies contained in the funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the bonds.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

3. 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 balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

4. Estimates

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

5. 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".

6. 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.

7. 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 \$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.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following estimated useful lives:

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

7. Capital Assets (Continued)

Description	Governmental	Business-Type
	Activities	Activities
	Estimated Lives	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
Distribution systems	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. Documentation supporting historical cost was not readily available for review. 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.

8. Compensated Absences

City employees are entitled to vacation and sick leave benefits in varying amounts based on their length of employment. It is the City's policy to permit employees to accumulate earned but unused absences to specified maximums. With minor exceptions, compensated absences either vest or accumulate and are accrued when they are earned. Generally employees are entitled to all accrued vacation leave upon termination. Employees are not compensated for unused sick leave upon termination. At the option of the employee, compensatory time off may be taken in lieu of cash payment for overtime worked. The expense and related liability for vested vacation benefits and compensatory time is recorded in the respective funds of the City or component unit.

9. Post-Employment Healthcare Benefits

The City does not provide post-employment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and the City incurs no direct costs.

10. 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.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

11. 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 *non-spendable* (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.

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.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

12. 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, 2015, the City held deposits of approximately \$2,405,986 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.
- 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.).

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

A. Deposits and Investments (Continued)

The investments held at June 30, 2015 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 2,061,260	\$ 2,061,260
Certificate of deposit	4.50	N/A	344,726	344,726
Total investments			<u>\$ 2,405,986</u>	<u>\$ 2,405,986</u>

Reconciliation to Statement of Net Assets	
Governmental activities	\$ 182,890
Business-type activities	2,095,002
Fiduciary funds	123,433
Component units	4,661
	<u>\$ 2,405,986</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: 14% in Certificates of deposit (\$344,726) and 86% in Money Market funds (\$2,061,260).

B. Restricted Cash and Investments

Under terms and provisions of the Bond Indenture, special accounts and reserve funds of the Pawnee Public Works Authority (PPWA) are maintained with the Trustee Bank for the benefit of the holders of the Bonds and are not subject to lien or attachment by any creditors of the PPWA. These accounts and reserve funds are to be maintained so long as any Bonds are outstanding.

Monies contained in the accounts and reserve funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture.

The Pawnee Public Works Authority has acquired 7,500 shares of the capital stock of Techtrol, Inc. at a cost of \$150,000. The investment represents 15% of the outstanding stock of the company. Under the terms of the subscription agreement, Techtrol, Inc. has a right of first refusal in the event Pawnee Public Works Authority proposes to dispose of all or any portion of its shares in the company. In addition, Techtrol, Inc. has been granted a right to redeem shares of stock held by Pawnee Public Works Authority based on levels of employment. The investment in Techtrol, Inc. is unsecured. The investment value has been decreased to -0- to reflect the estimated fair value of the investment as of year-end. The fair value was estimated based upon an evaluation of the company's assets and liabilities.

C. Uncollectible Accounts

The allowance for uncollectible accounts receivable at year-end is \$434,325. The allowance is management's estimate of accounts not collectible in the normal course of business during a reasonable amount of time. Amounts not collected are netted against revenue.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

D. Capital Assets

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

	Balance 6/30/14	Additions	Disposals	Balance 6/30/15
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 131,500	\$ -	\$ -	\$ 131,500
Total non-depreciable assets	<u>131,500</u>	<u>-</u>	<u>-</u>	<u>131,500</u>
Depreciable assets:				
Buildings & improvements	2,322,378			2,322,378
Furniture & major movable equipment	1,782,420	21,783		1,804,203
Distribution systems	96,819			96,819
Infrastructure	667,581			667,581
Total depreciable assets	<u>4,869,198</u>	<u>21,783</u>	<u>-</u>	<u>4,890,981</u>
Less accumulated depreciation:				
Buildings & improvements	(893,376)	(23,223)		(916,599)
Furniture & major movable equipment	(1,311,908)	(87,981)		(1,399,889)
Distribution systems	(72,617)	(2,420)		(75,037)
Infrastructure	(139,156)	(16,690)		(155,846)
Total accumulated depreciation	<u>(2,417,057)</u>	<u>(130,314)</u>	<u>-</u>	<u>(2,547,371)</u>
Net depreciable assets	<u>2,452,141</u>	<u>(108,531)</u>	<u>-</u>	<u>2,343,610</u>
Net governmental activities capital assets	\$ <u>2,583,641</u>	\$ <u>(108,531)</u>	\$ <u>-</u>	\$ <u>2,475,110</u>

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

D. Capital Assets (Continued)

	Balance 6/30/14	Additions	Disposals	Balance 6/30/15
Business-Type Activities:				
Non-depreciable assets:				
Land	\$ 82,611	\$ -	\$ -	\$ 82,611
Construction in process				
Total non-depreciable assets	<u>82,611</u>	<u>-</u>	<u>-</u>	<u>82,611</u>
Depreciable assets:				
Buildings & improvements	1,134,139			1,134,139
Sewer treatment facility	9,899,060			9,899,060
Water treatment facility	3,098,967	101,550		3,200,517
Electric system improvements	1,168,275			1,168,275
Furniture & major movable equipment	748,301			748,301
Distribution systems	2,210,498	744,072		2,954,570
Total depreciable assets	<u>18,259,240</u>	<u>845,622</u>	<u>-</u>	<u>19,104,862</u>
Less accumulated depreciation:				
Buildings & improvements	(633,248)	(34,004)		(667,252)
Sewer treatment facility	(1,439,776)	(247,476)		(1,687,252)
Water treatment facility	(485,852)	(77,897)		(563,749)
Electric system improvements	(494,266)	(29,207)		(523,473)
Furniture & major movable equipment	(649,040)	(16,833)		(665,873)
Distribution systems	(1,307,932)	(81,527)		(1,389,459)
Total accumulated depreciation	<u>(5,010,114)</u>	<u>(486,944)</u>	<u>-</u>	<u>(5,497,058)</u>
Net depreciable assets	<u>13,249,126</u>	<u>358,678</u>	<u>-</u>	<u>13,607,804</u>
Net business-type activities capital assets	<u>\$ 13,331,737</u>	<u>\$ 358,678</u>	<u>\$ -</u>	<u>\$ 13,690,415</u>

Depreciation expense was charged to unallocated depreciation and not charged as a direct expense of the various programs. Only depreciation on the Industrial Authority was allocated as a direct program expense.

E. Leased Facilities

City of Pawnee

On February 2, 1998, the City agreed to lease certain real property to Techtrol, Inc. Under the terms of the lease, the 9,500 square foot facility located at 1310 Newell Drive in Pawnee, Oklahoma was leased to Techtrol, Inc. for a period of 84 months beginning 10 days after completion of the facility. The terms of the lease agreement call for basic rental payments of \$1,134 per month. The City collected \$22,677 on the lease during the year. The rental revenue was reported in the Pawnee Industrial Authority but transferred to the General fund.

Pawnee Industrial Authority

The Pawnee Industrial Authority has entered into a year-to-year lease with a manufacturing company for the lease of certain land and facilities located in the Pawnee Industrial Park. The terms of the lease agreement call for basic rental payments of \$1,000 per month. The Authority collected \$12,000 on the lease during the year.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

E. Leased Facilities (Continued)

Pawnee Industrial Authority

On August 19, 2002, the Pawnee Industrial Authority has entered into a lease agreement with the Pawnee Development Foundation, Inc. for the lease of certain land and facilities. The lease is for a period of 16 years. The terms of the lease agreement call for basic rental payments of \$1,161 per month. The Authority collected \$13,934 on the lease during the year.

Under the terms of the contract dated June 1, 1967, between the City of Pawnee, Oklahoma, and the Trustees of the Pawnee Industrial Authority, all lease payments were to be made to the City after all secured debt had been retired. During the year ended June 30, 1997, the governing board of the City transferred its rights to the rental income to the Pawnee Industrial Authority.

Pawnee Municipal Authority

The Pawnee Municipal Authority has entered into a lease agreement in which the Pawnee Municipal Golf Course will be operated as a public golf course. Under the current lease, which provides for renewal options, the facility is leased for minimal payments. The Pawnee Municipal Authority is a component unit of the City of Pawnee in accordance with the provisions of *Governmental Accounting Standards Statement No. 14*.

F. Long-term Debt

The Pawnee Public Works Authority issued its \$3,075,000 Utility System Revenue Bonds, Series 1993, dated December 1, 1993. The proceeds of the issue were to be used: (i) to construct improvements to the City's water treatment facility, water distribution system, sanitary sewer collection system, electrical distribution system and closure of its landfill; (ii) to currently refund the Authority's existing indebtedness with the Farmers Home Administration; (iii) to establish a Bond Reserve Account; (iv) to provide capitalized interest; and (v) to pay certain costs of issuance.

On July 19, 1999, the Trustees of the Pawnee Public Works Authority adopted a resolution to issue its \$3,995,000 Utility System Refunding Revenue Bonds. The bonds were used to refund and retire the remaining outstanding bonds referred to in the preceding paragraph. Additionally, proceeds of the new issue were to be used to provide funds for capital improvements.

In July, 2004, the Trustees of the Pawnee Public Works Authority adopted a resolution to issue its \$4,675,000 Utility System Refunding Revenue Bonds, Series 2004, dated August 1, 2004. The bonds will be used to refund and retire the remaining outstanding bonds referred to in the preceding paragraph. Additionally, proceeds of the new issue will be used to provide funds for capital improvements.

In March, 2014, the Trustees of the Pawnee Public Works Authority adopted a resolution to issue its \$3,005,000 Utility System Refunding Revenue Bonds, Series 2014, dated August 1, 2014. The bonds will be used to refund and retire the remaining outstanding bonds referred to in the preceding paragraph. Additionally, proceeds of the new issue will be used to provide funds for capital improvements.

The Bonds are secured pursuant to the terms of the Indenture, which includes a pledge of the gross revenues of the water, sanitary sewer, and electrical systems of the City, which are leased to and operated by the Pawnee Public Works Authority. The Bonds are further secured by all funds and accounts established by the Indenture, except as specifically provided therein.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

F. Long-term Debt (Continued)

The following is a summary of bonds payable transactions of the City for the year:

Revenue Bonds	Date Issued	Date of Last Maturity	Balance Outstanding 6/30/14	Issued During Year	Retired During Year	Balance Outstanding 6/30/15	Current Portion 6/30/15
PPWA	3/1/14	8/1/24	\$ 3,005,000	\$ -	\$ 215,000	\$ 2,790,000	\$ 250,000
Total			<u>3,005,000</u>	<u>-</u>	<u>215,000</u>	<u>2,790,000</u>	<u>250,000</u>

The annual requirements to amortize bonded debt are as follows:

Year Ending June 30,	Principal	Interest	Totals
2016	\$ 250,000	\$ 95,463	\$ 345,463
2017	265,000	86,625	351,625
2018	270,000	77,262	347,262
2019	280,000	67,725	347,725
2020	290,000	57,837	347,837
2021-2025	1,435,000	128,449	1,563,449
Total	<u>\$ 2,790,000</u>	<u>\$ 513,361</u>	<u>\$ 3,303,361</u>

The following is a summary of long-term debt transactions in the Proprietary Funds of the City for the year:

	Balance July 1, 2014	Additions	Payments and Cancellations	Balance June 30, 2015
Notes payable	\$ 7,519,104	\$ 812,954	\$ 364,737	\$ 7,967,321
Total	<u>\$ 7,519,104</u>	<u>\$ 812,954</u>	<u>\$ 364,737</u>	<u>\$ 7,967,321</u>

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

F. Long-term Debt (Continued)

The Proprietary Fund long-term debt is as follows:

(1) Pawnee Public Works Authority: Note payable to Armstrong Bank, Pawnee, Oklahoma, collateralized by the current city hall building. Note is dated January 8, 2001 with monthly payments of \$1,000 through January 2020 with interest at 7.75% until maturity.	\$ 3,459
(2) Note payable to Oklahoma Department of Commerce, collateralized by sewer plant and sewer service revenues. The note is to be paid in 240 monthly installments of \$521 beginning November 1, 1998 with final maturity on October 1, 2018. The note is non-interest bearing.	20,838
(3) A note payable to Oklahoma Water Resources Board, secured by utility revenues and accounts, contract rights and other assets owned by Pawnee Public Works Authority. The note is payable beginning February 1, 2010 in semi-annual installments of \$25,500 including interest at 2.39%.	607,792
(4) A note payable to Oklahoma Water Resources Board, secured by utility revenues and accounts, contract rights and other assets owned by Pawnee Public Works Authority. The note is payable beginning August 15, 2013 in semi-annual installments including interest at 2.74%.	1,591,236
(5) A note payable to Oklahoma Water Resources Board, secured by utility revenues and accounts, contract rights and other assets owned by Pawnee Public Works Authority. The note is payable beginning February 15, 2013 in semi-annual installments including interest at 3.34%.	4,949,942
(6) Note payable to Armstrong Bank, Pawnee, Oklahoma, collateralized by an excavator. Note is dated January 4, 2012 with monthly payments of \$500 with interest at 7% until maturity.	9,851
(7) A note payable to Bancfirst, secured by utility revenues and accounts, contract rights and other assets owned by Pawnee Public Works Authority. The note is payable beginning January 1, 2015 in semi-annual installments including interest at 2.59%.	721,000
(8) Pawnee Industrial Authority: Note payable to Central Oklahoma Economic Development District, Inc., Shawnee, Oklahoma, collateralized by a building. Monthly payments of \$1,161 through September, 2020 with interest at 8.5% are required by the contract.	63,203
Total Proprietary Fund long-term debt	<u>\$ 7,967,321</u>

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2015

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

F. Long-term Debt (Continued)

The annual requirements to retire the Proprietary Funds long-term debt are as follows:

Year Ending June 30,	Proprietary Funds		
	Principal	Interest	Totals
2015	\$ 329,923	\$ 213,797	\$ 543,720
2016	318,020	203,698	521,718
2017	312,518	194,481	506,999
2018	311,023	185,546	496,569
2019	308,864	176,637	485,501
2020-2024	1,516,214	752,157	2,268,371
2025-2029	1,525,533	546,682	2,072,215
2030-2034	1,315,407	350,552	1,665,959
2035-2039	988,318	172,955	1,161,273
2040-2044	195,835	57,478	253,313
2045-2049	195,835	34,645	230,480
2050-2054	195,835	20,712	216,547
2055	5,779	65	5,844
Total	\$ 7,519,104	\$ 2,909,405	\$ 10,428,509

Total interest incurred on long-term debt in the Proprietary Funds was \$170,809, which was charged to expense.

G. Operating Lease

On May 5, 1988, the City of Pawnee entered into an amended 38-year lease of a sanitary landfill with Herbert Berg, which began April 3, 1984. The terms of the lease agreement call for basic rent payments of \$250 per month adjusted annually for any percentage Consumer Price Index increase as determined by the U.S. Department of Labor. During the year ended June 30, 2015, \$6,614 was paid for the lease of the property. The rental expense was reported in the Pawnee Public Works Authority.

H. Capitalized Leases

The City entered into capitalized leases for the acquisition of ambulances. The lease agreements met the criteria of a capital lease as defined by *FASB Accounting Standards Codification (ASC) 840-10, Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as expenditures on the fund financial statements.

The capital lease is described below.

(1) Lease payable to First National Bank for the lease purchase of a fire truck. 60 monthly payments of \$1,000 plus interest.	\$ 9,907
(2) Lease payable to First National Bank for the lease purchase of an ambulance. 45 monthly payments of \$1,000 plus interest. Paid off in current year.	
(3) Lease payable to First National Bank for the lease purchase of an ambulance. 60 monthly payments of \$1,036 plus interest.	30,652
Total	\$ 40,559

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

2. DETAILED NOTES CONCERNING THE FUNDS (Continued)

H. Capitalized Leases (Continued)

The following is a summary of capitalized lease transactions for the year:

	Balance July 1, 2014	Additions	Payments and Cancellations	Balance June 30, 2015
Capital lease obligations	\$ 64,468	\$ -	\$ 23,909	\$ 40,559

The annual debt service requirements to maturity, including principal and interest, for capital leases are as follows:

Year Ending June 30,	Principal	Interest	Totals
2016	\$ 21,593	\$ 909	\$ 22,502
2017	12,038	394	12,432
2018	6,928	63	6,991
Total	\$ 40,559	\$ 1,366	\$ 41,925

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 for protection against loss other than health, life, and workers compensation. Settled claims have not exceeded the commercial coverage during 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 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.

On June 16, 1997, the City participated with other area cities in the creation of The Oklahoma Municipal Employee Benefit Trust (OMEBT) as provided by the Inter-local Cooperation Act of the Oklahoma Statutes (Section 1001 through 1008 of Title 74 of the Oklahoma Statutes). OMEBT is a public entity risk management and insurance program for several member cities.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

3. OTHER INFORMATION (Continued)

A. Risk Management (Continued)

The City withdrew participation in OMEBT effective July 1, 2000. While a member, the City paid monthly premiums to an administrator designated by OMEBT for employee health and life insurance coverage. The agreement establishing the OMEBT provided that each participating agency would pay for all costs, premiums, or other fees attributable to its respective participation in any plan, policy or service established under the agreement. Additionally, each participant was responsible for its obligations under any contract entered into with the group. Reinsurance with commercial companies was provided for life insurance and for individual medical claims in excess of \$50,000 and aggregate monthly claims in excess of \$121,987. As discussed in note 3C, OMEBT officials could not determine the amount of charges, if any, that would be assessed in the future against the City as a result of accumulated losses while a participant in the plan.

B. Commitments

Water Purchase Commitment:

The City of Pawnee, together with seven other cities and rural water districts located in Noble, Pawnee, and Payne Counties, Oklahoma, have jointly formed Lone Chimney Water Association. The purpose of the Association is to provide a water system for the benefit of its members and other users. The association has entered into various loan agreements with the United States of America (USDA Rural Development) and the Oklahoma Water Resources Board to provide financing for the facility. Under the terms of the agreement regarding the Lone Chimney Water Association, each member contracted to purchase a minimum amount of water from the Association during the 40-year term of the notes. In addition, each individual member is proportionately liable for any debts that exceed the assets of the association to the extent of one and one-half times the percentage of ownership interest held by the entity pursuant to the agreement. The City is contingently liable for 12.12% of the obligations of the Association, which total approximately \$4,724,012 to the Oklahoma Water Resources Board at year-end. The City's contingent share of the Association's long-term debt is \$572,943.

The City of Pawnee is obligated to purchase a minimum of 31.2 million gallons of water annually, currently at a cost of \$93,000. Net revenues must equal at least 125% of required debt service, which could affect the future cost of water to each of the participating entities. The rates charged for the water can be adjusted every three years as necessary to provide sufficient revenues for the Association.

Future purchase commitments at current rates are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Totals</u>
2016	\$ 174,375
2017	174,375
2018	174,375
2019	174,375
2020	174,375
2021-2025	871,875
2026-2030	871,875
2031-2032	<u>3,468,750</u>
Total	<u>\$ 6,084,375</u>

Currently, the City of Pawnee is a defendant in a breach of water contract. The outcome of this lawsuit 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. Management believes that the City will be able to defend this action successfully.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

3. OTHER INFORMATION (Continued)

C. Contingent Liabilities

Pending Litigation:

The City is a defendant in 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. The City is the defendant in litigation that as of the audit release date was ongoing. The Governmental Tort Claims Act limits the City's potential liability in the litigation.

Public Entity Risk Pool, Health Insurance:

As further explained in Note 3A, the City was a participant through June 30, 2000 in a Public Entity Risk Pool (PERP) for employee health and life insurance. The Oklahoma Municipal Employee Benefit Trust (OMEBT) had incurred an operating deficit estimated to be \$550,000 at June 30, 1999. Trust management could not provide an estimate of operating deficits, if any, at June 30, 2015. As a previously participating member of the PERP, the City could be assessed its share of accumulated operating losses. OMEBT has not provided operating statements to the City but does continue to operate. During FY 2015, Trust management adjusted the rates charged participating municipal governments in an attempt to recover the estimated deficit. No provision for loss has been reflected in the City's financial statements.

Grant Awards:

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.

Landfill:

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. Closure and post-closure care costs, are not presently determinable, and it is not known if these matters will have a material adverse effect on the financial condition of the City.

D. 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 (OMRF) Agent Multiple Employer - Defined Benefit Plan

Oklahoma Firefighters Pension & Retirement Plan

Plan Description - The City of Pawnee, 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.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

3. OTHER INFORMATION (Continued)

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

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

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

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

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

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

Contributions – The 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 \$10,880 (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, 2015, the City reported a liability of \$290,469 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. Based upon this information the City's proportion was 0.0282%.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

3. OTHER INFORMATION (Continued)

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

For the year ended June 30, 2015, the City recognized pension expense of \$26,088. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of resources
Differences between expected and actual experience	\$ 6,921	\$
Changes of assumptions		
Net difference between projected and actual earnings on pension plan investments		43,969
Changes in proportion and differences between City contributions and proportionate share of contributions		
City contributions subsequent to the measurement date	10,880	
Total	<u>\$ 17,801</u>	<u>\$ 43,969</u>

\$10,880 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	\$ 9,677
2017	9,677
2018	9,677
2019	9,677
2020	(1,315)
Thereafter	(345)
	<u>\$ 37,048</u>

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all 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, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

3. OTHER INFORMATION (Continued)

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

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

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

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

Sensitivity of the 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-percentage-point higher (8.5%) than the current rate:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Employers' net pension liability (asset)	\$378,671	\$290,469	\$215,648

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

Plan Description – The City contributes to the OMRF 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 OMRF. The OMRF plan issues a separate financial report and can be obtained from OMRF 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 OMRF. 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 OMRF plans' fiduciary net position is available in the separately issued OMRF financial report.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2015

3. OTHER INFORMATION (Continued)

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

Eligibility Factors and Benefit Provisions

Provision	As of 07/01/14 OMRF Plan
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
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	11
Deferred Vested Former Employees	4
Retirees or Retiree Beneficiaries	10
Total	<u>25</u>

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

3. OTHER INFORMATION (Continued)

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

Contribution Requirements

The City Council has the authority to set and amend contribution rates by ordinance for the OMRF 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 13.02% of covered payroll. For the year ended June 30, 2015, the City recognized \$78,307 of employer contributions to the plan which equals the actuarially determined amount based on covered payroll of \$566,621. 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, 2014
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 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.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2015

3. OTHER INFORMATION (Continued)

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

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, 2014 are summarized in the following table:

	<u>Target Allocation</u>	<u>Real Return</u>	<u>Weighted Return</u>
Large cap stocks S&P 500	25%	5.40%	1.35%
Small/mid cap stocks Russell 2500	10%	7.50%	0.75%
Long/short equity MSCI ACWI	10%	6.10%	0.61%
International stocks MSCI EAFE	20%	5.10%	1.02%
Fixed income bonds Barclay's Capital Aggregate	30%	2.60%	0.78%
Real estate NCREIF	5%	4.80%	0.24%
Cash equivalents 3 month Treasury	0%	0.00%	0.00%
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, 2014 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, 2014 and the City's report ending date of June 30, 2015, that would have had a significant impact on the net pension liability. The following table reports the components of changes in net pension liability:

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

3. OTHER INFORMATION (Continued)

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

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 percent, 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 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employers' net pension liability (asset)	\$438,018	\$139,688	(\$108,156)

The City reported \$43,130 in pension expense for the year ended June 30, 2015. At June 30, 2015, 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	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	132,603
City contributions subsequent to the measurement date	78,307	-
Total	<u>\$ 78,307</u>	<u>\$ 132,603</u>

\$78,307 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. 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:	
2016	\$ (33,151)
2017	(33,151)
2018	(33,151)
2019	(33,150)
	<u>\$ (132,603)</u>

E. 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 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.

- CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2015

3. OTHER INFORMATION (Continued)

E. Other Post-Employment Benefits (Continued)

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, 2015, approximately 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 2015, 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, 2015 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.

4. RESTATEMENT OF BEGINNING NET POSITION

Net position of the Government-Wide Governmental Activities financial statements has been restated to include the pension liability at the beginning of the period in accordance with GASB 68. As a result of the restatement, total beginning net position has decreased by \$633,437. The prior period financial statements were not reissued or restated as a result of this change in accounting principle.

CITY OF PAWNEE
Pawnee, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2015.

**CITY OF PAWNEE
Pawnee, Oklahoma**

**REQUIRED SUPPLEMENTAL INFORMATION
Year Ended June 30, 2015**

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

OMRF

Schedule of change in net pension liability & related ratios

Schedule of employer contributions

Budgetary Comparison Schedule – General, Special Revenue & Capital Projects Funds

**CITY OF PAWNEE
Pawnee, Oklahoma**

**REQUIRED SUPPLEMENTAL INFORMATION
ON PENSION PLAN FUNDING PROGRESS
Year Ended June 30, 2015**

Exhibit 1

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

	2014
City's proportion of the net pension liability	0.0282%
City's proportionate share of the net pension liability	\$290,469
City's covered-employee payroll	\$69,571
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	417.51%
Plan fiduciary net position as a percentage of the total pension liability	68.12%

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

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

Exhibit 2

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

	2014
Statutorily required contribution	\$10,880
Contributions in relation to the statutorily required contribution	10,880
Contribution deficiency (excess)	\$ -
City's covered-employee payroll	\$ 69,571
Contributions as a percentage of covered-employee payroll	14.0%
Contributions as a percentage of covered-employee payroll	\$60 per volunteer

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

CITY OF PAWNEE
Pawnee, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
ON PENSION PLAN FUNDING PROGRESS
Year Ended June 30, 2015

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

	<u>2014</u>
Total pension liability	
Service cost	\$ 89,251
Interest	172,090
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments, including refunds of member contributions	<u>(110,756)</u>
Net change in total pension liability	150,586
Total pension liability - beginning	<u>2,185,614</u>
Total pension liability - ending (a)	<u>\$ 2,336,200</u>
Plan fiduciary net position	
Contributions - employer	\$ 70,179
Contributions - member	47,498
Net investment income	307,873
Benefit payments, including refunds of member contributions	(110,756)
Administrative expense	(4,556)
Other	-
Net change in plan fiduciary net position	<u>310,238</u>
Plan fiduciary net position - beginning	<u>1,886,273</u>
Plan fiduciary net position - ending (b)	<u>\$ 2,196,512</u>
Net pension liability - ending (a) - (b)	<u>\$ 139,688</u>
Plan fiduciary net position as a percentage of the total pension liability	94.02%
Covered employee payroll	\$ 834,357
Net pension liability as a percentage of covered-employee payroll	16.74%

Notes to Schedule:

Only the current fiscal year is presented because 10-year data is not yet available.

CITY OF PAWNEE
Pawnee, Oklahoma

**REQUIRED SUPPLEMENTAL INFORMATION
ON PENSION PLAN FUNDING PROGRESS
Year Ended June 30, 2015**

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

	2014
Actuarially determined contribution	\$ 78,307
Contributions in relation to the actuarially determined contribution	<u>78,307</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 566,621
Contributions as a percentage of covered-employee payroll	13.82%

Notes to Schedule:

- Only the current fiscal year is presented because 10-year data is not yet available.
- Latest Valuation Date: July 1, 2014
- Actuarially determined contribution rate is calculated as of July 1, 2013 and July 1, 2014
January 2014 through June 2014 contributions were at a rate of 9.28%.
July 2014 through December 2014 contributions were at a rate of 9.26%
- 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 - 7.50%

CITY OF PAWNEE
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2015
(Unaudited)

GENERAL FUND

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
	Budget	Budget		Over (Under)
Revenues:				
Charges for services	\$ 377,000	\$ 410,000	\$ 414,146	\$ 4,146
Licenses & permits	32,100	32,500	5,318	(27,182)
Interest	1,000	1,000	202	(798)
Franchise fees	31,000	34,000	24,397	(9,603)
Fines & forfeitures	30,000	30,000	28,628	(1,372)
Taxes	756,500	781,000	737,538	(43,462)
Intergovernment programs	280,200	255,000	4,484	(250,516)
Donations	15,000	15,000	811	(14,189)
Sales of property	-	-	-	-
Miscellaneous	16,000	30,500	41,718	11,218
Total revenues	1,538,800	1,589,000	1,257,242	(331,758)
Expenditures:				
Current:				
General government	328,100	332,100	274,845	57,255
Public safety	771,950	826,800	770,675	56,125
Highways, roads, & airport	141,575	151,000	150,586	414
Cultural & recreational	248,563	267,200	263,179	4,021
Leases payable	42,000	26,000	25,603	397
Capital outlay	142,000	128,483	21,783	106,700
Total expenditures	1,674,188	1,731,583	1,506,671	224,912
Excess of revenue over				
(under) expenditures	(135,388)	(142,583)	(249,429)	(106,846)
Other financing sources (uses):				
Operating transfers in (out)	150,400	150,400	237,503	87,103
Loan proceeds	-	-	-	-
Net changes in fund balance	15,012	7,817	(11,926)	(19,743)
Fund balance at beginning of year	55,519	55,519	55,519	-
Fund balance at end of year	\$ 70,531	\$ 63,336	\$ 43,593	\$ (19,743)

The Notes to Required Supplemental Information are an integral part of this statement.

CITY OF PAWNEE
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2015
(Unaudited)

SPECIAL REVENUE FUNDS

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
	Budget	Budget		Over (Under)
Revenues:				
Intergovernmental programs	\$ 35,000	\$ 35,000	\$ 20,555	\$ (14,445)
Donations				-
Interest	200	200	313	113
Rental	300	300	25	(275)
Miscellaneous				-
Special assessments	35,000	35,000	32,408	(2,592)
Total revenues	70,500	70,500	53,301	(17,199)
Expenditures:				
Current:				
General government				-
Public safety	35,000	39,000	38,987	13
Highways, roads & airport	46,993	42,993	19,145	23,848
Cultural, parks & recreation	30,671	30,671	-	30,671
Capital outlay				-
Total expenditures	112,664	112,664	58,132	54,532
Excess of revenue over				
(under) expenditures	(42,164)	(42,164)	(4,831)	37,333
Other financing sources (uses):				
Operating transfers in (out)				-
Net changes in fund balance	(42,164)	(42,164)	(4,831)	37,333
Fund balance at beginning of year	91,832	91,832	91,832	-
Fund balance at end of year	\$ 49,668	\$ 49,668	\$ 87,001	\$ 37,333

The Notes to Required Supplemental Information are an integral part of this statement.

CITY OF PAWNEE
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL
GOVERNMENTAL FUNDS
Year Ended June 30, 2015
(Unaudited)

CAPITAL PROJECTS FUND

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
	Budget	Budget		Over (Under)
Revenues:				
Intergovernment programs	\$ 329,000	\$ 329,000	\$	(329,000)
Miscellaneous				
Total revenues	<u>329,000</u>	<u>329,000</u>		<u>(329,000)</u>
Expenditures:				
Economic development	29,000	29,000		29,000
Capital outlay	<u>300,000</u>	<u>300,000</u>		<u>300,000</u>
Total expenditures	<u>329,000</u>	<u>329,000</u>		<u>329,000</u>
Excess of revenue over				
(under) expenditures				
Other financing sources (uses):				
Operating transfers in (out)				
Net changes in fund balance				
Fund balance at beginning of year	<u>3,450</u>	<u>3,450</u>	<u>3,450</u>	
Fund balance at end of year	<u>\$ 3,450</u>	<u>\$ 3,450</u>	<u>\$ 3,450</u>	

The Notes to Required Supplemental Information are an integral part of this statement.

CITY OF PAWNEE
Pawnee, Oklahoma

NOTES TO REQUIRED SUPPLEMENTAL INFORMATION
For the Fiscal Year Ended June 30, 2015
(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 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, depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the fiduciary funds. Budgetary data for enterprise funds are not presented in these financial statements.

Prior to July 1, the City Mayor (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 does not utilize encumbrance accounting. Encumbrances (accounts payable) are shown as expenditures and liabilities in the current year and are paid in the subsequent year.

CITY OF PAWNEE
Pawnee, Oklahoma

OTHER SUPPLEMENTARY INFORMATION
June 30, 2015

**CITY OF PAWNEE
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2015**

		Special Revenue				
		911 Fund	Cemetery Fund	Skate Park Fund	Street & Alley Fund	Buffalo Theatre Fund
Assets:						
Cash and equivalents	\$	51,754	\$ 32,537	\$ -	\$ 70	\$ 200
Investments at cost		-	-	-	-	-
Accounts receivable, net		2,121	-	-	3,455	-
Interest receivable		-	-	-	-	-
Total assets	\$	53,875	\$ 32,537	\$ -	\$ 3,525	\$ 200
Liabilities:						
Accounts payable	\$	3,136	\$ -	\$ -	\$ -	\$ -
Total liabilities		3,136	-	-	-	-
Fund balances:						
Restricted		50,739	32,537	-	3,525	200
Total fund balances		50,739	32,537	-	3,525	200
Total liabilities and fund balances	\$	53,875	\$ 32,537	\$ -	\$ 3,525	\$ 200

CITY OF PAWNEE
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2015

	Capital Projects	Debt Service		Permanent Funds	Total Non-Major Governmental Funds
(Continued)	Capital Projects	Sinking Fund	Municipal Hospital Authority	Cemetery Perpetual Care	
Assets:					
Cash and equivalents	\$ -	\$ -	\$ 66,114	\$ 19,335	\$ 170,010
Investments at cost	-	5,597	-	55,215	60,812
Accounts receivable, net	-	-	-	-	5,576
Interest receivable	-	1	-	54	55
Total assets	\$ -	\$ 5,598	\$ 66,114	\$ 74,604	\$ 236,453
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 3,136
Total liabilities	-	-	-	-	3,136
Fund balances:					
Unreserved	-	5,598	66,114	74,604	233,317
Total fund balances	-	5,598	66,114	74,604	233,317
Total liabilities and fund balances	\$ -	\$ 5,598	\$ 66,114	\$ 74,604	\$ 236,453

CITY OF PAWNEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	Special Revenue				
	911 Fund	Cemetery Fund	Skate Park Fund	Street & Alley Fund	Buffalo Theatre Fund
Revenues:					
Intergovernmental programs	\$ -	\$ -	\$ -	\$ 20,555	\$ -
Donations	-	-	-	-	-
Interest	-	313	-	-	-
Miscellaneous revenues	-	-	-	-	-
Rental	-	25	-	-	-
Special assessments	32,408	-	-	-	-
Grants	-	-	-	-	-
Total revenues	\$ 32,408	\$ 338	\$ -	\$ 20,555	\$ -
Expenditures:					
Public safety	\$ 38,987	\$ -	\$ -	\$ -	\$ -
Highways & roads	-	-	-	19,145	-
Cultural, parks & recreation	-	-	-	-	-
Economic development	-	-	-	-	-
Health & welfare	-	-	-	-	-
Capital outlay	-	-	-	-	-
Total expenditures	38,987	-	-	19,145	-
Excess of revenues over (under) expenditures	(6,579)	338	-	1,410	-
Transfers in (out)	-	-	-	-	-
Fund balance - beginning of year	57,318	32,199	-	2,115	200
Fund balance - end of year	\$ 50,739	\$ 32,537	\$ -	\$ 3,525	\$ 200

CITY OF PAWNEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	Capital Projects	Debt Service		Permanent Funds	Total Non-Major Governmental Funds
(Continued)	Capital Projects	Sinking Fund	Municipal Hospital Authority	Cemetery Perpetual Care	
Revenues:					
Intergovernmental programs	\$	\$	\$	\$	20,555
Donations				1,000	1,000
Interest		2	27	1	343
Miscellaneous revenues					-
Rental			900		925
Special assessments					32,408
Grants					-
Total revenues	\$	\$ 2	\$ 927	\$ 1,001	\$ 55,231
Expenditures:					
Public safety	\$	\$	\$	\$	38,987
Highways & roads					19,145
Cultural, parks & recreation					-
Economic development					-
Health & welfare			6,785		6,785
Capital outlay					-
Total expenditures			6,785		64,917
Excess of revenues over (under) expenditures		2	(5,858)	1,001	(9,686)
Transfers in (out)	(3,450)				(3,450)
Fund balance - beginning of year	3,450	5,596	71,972	73,603	246,453
Fund balance - end of year	\$	\$ 5,598	\$ 66,114	\$ 74,604	\$ 233,317

CITY OF PAWNEE
Pawnee, Oklahoma

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

<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>Total Expend- itures</u>
<u>Environmental Protection Agency:</u>				
<u>Passed through the Indian Health Science C:</u>				
IHSC Grant	66.458	937,400		305,178
<u>U.S. Department of Agriculture:</u>				
Fire Department Grant		4,484	4,484	4,484
<u>U.S. Department of Education:</u>				
<u>Passed through the Oklahoma Department of Libraries:</u>				
Library State Aid Grant	84.034			
Total Expenditures of Federal Awards		\$ 941,884	\$ 4,484	\$ 309,662

Note A - This schedule was prepared on an accrual (GAAP) basis of accounting consistent with the preparation of the basic financial statements.

CITY OF PAWNEE
Pawnee, Oklahoma

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2015

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Prepared in accordance with *Government Auditing Standards***

The Honorable City Council
City of Pawnee
Pawnee, Oklahoma

I 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 City of Pawnee, State of Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Pawnee, State of Oklahoma's, basic financial statements and have issued my report thereon dated January 25, 2016. My report includes a paragraph disclaiming an opinion on required supplementary information. In addition, my report includes a paragraph noting the adoption and implementation of GASB 68 and 71 during the current fiscal year. The adoption and implementation resulted in a restatement of beginning net position of the City.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Pawnee, State of Oklahoma's, internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Pawnee, State of Oklahoma's, internal control. Accordingly, I do not express an opinion on the effectiveness of City of Pawnee, State of Oklahoma's, internal control.

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

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

City of Pawnee, State of Oklahoma

Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements

Prepared in accordance with Government Auditing Standards

January 25, 2016

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Pawnee, State of Oklahoma's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Linda S. Woodruff, CPA, P.C.

Linda S. Woodruff, CPA, A Professional Corporation

Oklahoma City, Oklahoma 73172

January 25, 2016

City of Pawnee
Pawnee, Oklahoma

Schedule of Findings and Responses
for the year ended June 30, 2015

2015-01. Internal Control—Segregation of Duties

Condition: An adequate internal control structure does not exist because of the small size of the entity nor is there adequate segregation of duties. This finding was also noted in the prior year.

Criteria: Internal controls should be in place that provide reasonable assurance that any one individual does not have control over several of the financial functions of the District

Effect: Because of the inadequate segregation of duties, an opportunity exists for an employee to alter record keeping.

Recommendation: I recommend that the City strive to implement more segregation of duties where possible and utilize compensating procedures where applicable.

Response: City Council concurs with the recommendation, although the cost to correct this might exceed the benefit.

2015-02 Internal Control—Compensated Absences

Condition: Sick and vacation leave for four employees have exceeded that amount allowed in the policy adopted by the city.

Criteria: No employees should be allowed to accrue more sick or vacation time than stated in the city's employee policy manual

Effect: Compensated absence payable on the financial statements is overstated by the overage from these employees and will continue to increase unless the accrual is discontinued.

Recommendation: City Officials should meet with the affected employees and notify them of the loss of the excess sick leave and vacation. When sick leave reaches the maximum, no further accrual should be recorded unless some time is used. Employees should be required to take annual vacation in order to maintain their health and no hold over to the next year should be allowed.

Response: City Clerk and the Mayor will discuss this situation with the employees and closely monitor future accruals.