

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**BASIC FINANCIAL STATEMENTS  
June 30, 2016**

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

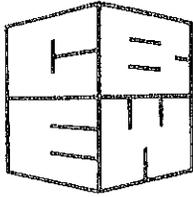
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Drumright, Oklahoma**

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## INDEPENDENT AUDITOR'S REPORT

October 11, 2016

Honorable Board of City Commissioners  
City of Drumright  
Drumright, Oklahoma

### *Report on the Financial Statements*

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

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

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

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that pension exhibits and budgetary comparison information on pages 44 through 44 and the notes on page 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

The City has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

*Other Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements 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 presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining 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*, we have also issued our report dated October 11, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

***CBEW Professional Group, LLP***

CBEW Professional Group, LLP  
Certified Public Accountants

**CITY OF DRUMRIGHT**  
**STATEMENT OF NET POSITION**  
June 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 893,150	\$ 1,184,611	\$ 2,077,761
Investments, at cost	352,806	1,173,568	1,526,374
Receivables (net of allowance for uncollectibles):			
Accounts receivable	44,298	150,866	195,164
Taxes	186,219	-	186,219
Franchise	21,489	-	21,489
Fines	202,428	-	202,428
Interest	-	3,147	3,147
Grant	105,626	-	105,626
Unbilled revenues	-	38,868	38,868
Net pension asset	-	-	-
Prepaid expenses	22,460	12,920	35,380
Due to/from other funds	(47,296)	47,296	-
Restricted assets:			
Cash & cash equivalents (Note 1 & 3)	8,376	286,184	294,560
Insurance deposit	1,698	-	1,698
Investments, at cost	39,540	181,000	220,540
Revenue bond accounts	-	94,053	94,053
<b>Capital assets:</b>			
Land	64,900	40,425	105,325
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	1,110,550	10,957,629	12,068,179
<b>Total assets</b>	<b>3,006,244</b>	<b>14,170,567</b>	<b>17,176,811</b>
<b>Deferred outflows of resources:</b>			
Deferred amounts related to pensions	313,092	-	313,092
<b>Total deferred outflows</b>	<b>313,092</b>	<b>-</b>	<b>313,092</b>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable	-	26,676	26,676
Cash overdraft	-	-	-
Claims pending	105,940	-	105,940
Reserve for court improvements	15,645	-	15,645
Accrued interest	-	22,262	22,262
Deferred compensation	80,908	40,578	121,486
Payable from restricted assets:			
Meter deposits	-	213,518	213,518
Notes payable (Note 3)	-	101,851	101,851
Revenue bonds payable (Notes 3)	-	140,000	140,000
Revenue bonds payable (Notes 3)	-	155,000	155,000
Non-current liabilities:			
Net pension liability	1,154,838	-	1,154,838
Notes payable (Note 3)	-	4,224,909	4,224,909
Revenue bonds payable (Notes 3)	-	2,090,000	2,090,000
Revenue notes payable (Notes 3)	-	1,830,000	1,830,000
<b>Total liabilities</b>	<b>1,357,331</b>	<b>8,844,794</b>	<b>10,202,125</b>
<b>Deferred inflows of resources:</b>			
Deferred amounts related to pensions	354,756	-	354,756
<b>Total deferred inflows</b>	<b>354,756</b>	<b>-</b>	<b>354,756</b>
<b>Net position:</b>			
Net Investment in capital assets	1,175,450	2,751,294	3,926,744
Restricted	592,459	347,719	940,178
Unrestricted	(160,660)	2,226,760	2,066,100
<b>Total net position</b>	<b>\$ 1,607,249</b>	<b>\$ 5,325,773</b>	<b>\$ 6,933,022</b>

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

**CITY OF DRUMRIGHT  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
General government:					
City clerk	\$ 129,368	\$ -	\$ -	\$ -	\$ (129,368)
City manager	87,192	-	-	-	(87,192)
General government	177,804	5,735	-	-	(172,069)
Total general government	<u>394,364</u>	<u>5,735</u>	<u>-</u>	<u>-</u>	<u>(388,629)</u>
Public safety and judiciary:					
City attorney	18,315	-	-	-	(18,315)
Fire	330,323	2,630	134,916	-	(192,777)
Municipal court	15,624	-	-	-	(15,624)
Animal control	22,620	-	-	-	(22,620)
Police	394,166	408,304	25,026	-	39,164
Total public safety and judiciary	<u>781,048</u>	<u>410,934</u>	<u>159,942</u>	<u>-</u>	<u>(210,172)</u>
Transportation:					
Streets	284,965	-	-	2,494	(282,471)
Total transportation	<u>284,965</u>	<u>-</u>	<u>-</u>	<u>2,494</u>	<u>(282,471)</u>
Cultural, parks and recreation:					
Cemetery	-	2,550	-	-	2,550
Library	82,299	1,072	6,029	-	(75,198)
Parks	725	-	-	-	(725)
Total cultural, parks and recreation	<u>83,024</u>	<u>3,622</u>	<u>6,029</u>	<u>-</u>	<u>(73,373)</u>
Public health and welfare					
Sanitation	260,172	366,761	-	-	106,589
Total public health and welfare	<u>260,172</u>	<u>366,761</u>	<u>-</u>	<u>-</u>	<u>106,589</u>
Unallocated depreciation*	85,922	-	-	-	(85,922)
<b>Total governmental activities</b>	<u>1,889,495</u>	<u>787,052</u>	<u>165,971</u>	<u>2,494</u>	<u>(933,978)</u>
<b>Business-type activities</b>					
Water utility	644,246	663,608	-	-	19,362
Sewer utility	320,128	370,678	-	1,033,577	1,084,127
Gas utility	569,587	992,980	-	-	423,393
Industrial authority	62,800	56,700	-	-	(6,100)
Financing costs	270,107	-	-	-	(270,107)
Unallocated depreciation*	-	-	-	-	-
<b>Total business-type activities</b>	<u>1,866,868</u>	<u>2,083,966</u>	<u>-</u>	<u>1,033,577</u>	<u>1,250,675</u>
<b>Total primary government</b>	<u>\$ 3,756,363</u>	<u>\$ 2,871,018</u>	<u>\$ 165,971</u>	<u>\$ 1,036,071</u>	<u>\$ 316,697</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 DRUMRIGHT  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016**

	<b>Net (Expense) Revenue and Changes in Net Position</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Net (expense)/revenue</b>	\$ (933,978)	\$ 1,250,675	\$ 316,697
<b>General revenues:</b>			
Taxes:			
Sales and use taxes	969,698	-	969,698
Franchise taxes	122,569	-	122,569
Intergovernmental	45,132	-	45,132
Investment earnings	4,118	53,616	57,734
Miscellaneous	44,854	16,117	60,971
Grant	-	-	-
Rental	1,200	-	1,200
Pension change	104,013	-	104,013
Sale or disposal of assets	-	-	-
Transfers	66,526	(66,526)	-
<b>Total general revenues and transfers</b>	<u>1,358,110</u>	<u>3,207</u>	<u>1,361,317</u>
<b>Change in net position</b>	424,132	1,253,882	1,678,014
<b>Net position - beginning of year - as restated</b>	<u>1,183,117</u>	<u>4,071,891</u>	<u>5,255,008</u>
<b>Net position - end of year</b>	<u>\$ 1,607,249</u>	<u>\$ 5,325,773</u>	<u>\$ 6,933,022</u>

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

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

	<b>General Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Cash and investments:			
Cash & cash equivalents	\$ 602,382	\$ 290,768	\$ 893,150
Investments, at cost	125,846	226,960	352,806
Receivables (net):			
Accounts receivable	44,298	-	44,298
Taxes	152,412	33,807	186,219
Interest	-	-	-
Franchise	21,489	-	21,489
Fines	58,735	-	58,735
Grant	-	105,626	105,626
Prepaid expenses	22,460	-	22,460
Due from other funds	-	-	-
Restricted assets:			
Cash & cash equivalents	8,376	-	8,376
Insurance deposit	1,698	-	1,698
Investments, at cost	-	39,540	39,540
<b>Total assets</b>	<b>\$ 1,037,696</b>	<b>\$ 696,701</b>	<b>\$ 1,734,397</b>
<b>Liabilities:</b>			
Cash overdraft	\$ -	\$ -	\$ -
Claims pending	-	105,940	105,940
Reserve for court improvements	15,645	-	15,645
Due to other funds	47,296	-	47,296
<b>Total liabilities</b>	<b>62,941</b>	<b>105,940</b>	<b>168,881</b>
<b>Fund balance:</b>			
<b>Restricted for:</b>			
Cemetery	-	39,540	39,540
Capital Projects	-	537,088	537,088
Workers compensation	1,698	-	1,698
Other purposes	-	14,133	14,133
<b>Unassigned</b>	<b>973,057</b>	<b>-</b>	<b>973,057</b>
<b>Total fund balance</b>	<b>974,755</b>	<b>590,761</b>	<b>1,565,516</b>
<b>Total liabilities and fund balance</b>	<b>\$ 1,037,696</b>	<b>\$ 696,701</b>	<b>\$ 1,734,397</b>

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

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

**Total Fund Balances - Total Governmental Funds** \$ 1,565,516

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

Net pension asset		-
Pension related deferred outflows		313,092
Net pension liability		(1,154,838)
Pension related deferred inflows		(354,756)
Some of the City's revenue will be collected after year-end but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in governmental funds: Fines and forfeitures (net of allowance for uncollectibility)		143,693

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Deferred compensation		(80,909)
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$ 64,900		64,900
General Government	\$ 1,059,509		
Sanitation	57,738		
Police	210,085		
Fire	1,045,250		
Water	44,317		
Streets	940,196		
Park	203,807		
Library	15,627		
Accumulated Depreciation	(2,465,979)		
Total			1,110,550

**Net position of governmental activities** **\$ 1,607,249**

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

**CITY OF DRUMRIGHT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Charges for services	\$ 398,799	\$ -	\$ 398,799
Licenses and permits	5,735	-	5,735
Intergovernmental programs	45,132	-	45,132
Sales and use taxes	761,710	207,988	969,698
Loan Proceeds	-	-	-
Franchise fees	122,569	-	122,569
Fines and forfeitures	236,276	-	236,276
Interest	4,118	-	4,118
Rentals	1,200	-	1,200
Lot sales	-	2,550	2,550
Grants and donations	35,319	108,120	143,439
Miscellaneous revenue	42,803	2,051	44,854
<b>Total revenues</b>	<u>1,653,661</u>	<u>320,709</u>	<u>1,974,370</u>
<b>Expenditures:</b>			
Current:			
General government	391,370	-	391,370
Public safety	756,022	-	756,022
Highways & roads	12,409	274,220	286,629
Cultural, parks & recreation	82,299	725	83,024
Health & welfare	260,172	-	260,172
Capital outlay	139,196	105,626	244,822
<b>Total expenditures</b>	<u>1,641,468</u>	<u>380,571</u>	<u>2,022,039</u>
<b>Excess of revenues over (under) expenditures</b>	12,193	(59,862)	(47,669)
<b>Other financing uses:</b>			
Operating transfers in (out)	<u>31,526</u>	<u>35,000</u>	<u>66,526</u>
<b>Excess of revenues over (under) expenditures &amp; transfers</b>	43,719	(24,862)	18,857
<b>Fund balance - beginning of year</b>	<u>931,036</u>	<u>615,623</u>	<u>1,546,659</u>
<b>Fund balance - end of year</b>	<u>\$ 974,755</u>	<u>\$ 590,761</u>	<u>\$ 1,565,516</u>

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

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

**Net Change in Fund Balances - Total Governmental Funds** \$ 18,857

Amounts reported for governmental activities in the Statement of Activities are different because:

Revenues in the statement of activities that do not provide current financial resources (are not collected within 60 days) are deferred in the governmental funds. Therefore, the recognition of revenue differs between the two statements. The following represents the net change in deferred revenue for: Fines and forfeitures (net of allowance for uncollectibility) 143,693

Government-Wide Statement of Activities and Changes in Net Position 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. 104,013

Government-Wide Statement of Activities and Changes in Net Position 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. (1,331)

Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets acquired in the current period. 244,822

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Position, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds. (85,922)

**Change in Net Position of Governmental Activities** **\$ 424,132**

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

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

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Drumright Utility Trust</b>		<b>Drumright Gas Authority</b>	<b>Drumright Industrial Authority</b>	<b>Totals</b>
	<b>Water Utility</b>	<b>Sewer Utility</b>			
<b>Assets:</b>					
Cash and investments:					
Cash & cash equivalents (Note 3)	\$ 134,202	\$ 39,176	\$ 822,649	\$ 188,584	\$ 1,184,611
Investments	431,791	23,000	718,777	-	1,173,568
Receivables (net of allowance for uncollectibles):					
Accounts receivable	61,910	35,075	53,881	-	150,866
Grants	-	-	-	-	-
Interest	2,240	-	907	-	3,147
Unbilled revenues	18,088	11,204	9,576	-	38,868
Due from other funds	47,296	-	-	-	47,296
Prepaid expenses	7,333	2,467	2,510	610	12,920
Restricted assets:					
Cash & cash equivalents (Note 3)	39,000	214,666	32,518	-	286,184
Investments, at cost	-	-	181,000	-	181,000
Revenue bond accounts	94,053	-	-	-	94,053
<b>Capital assets:</b>					
Land & work in progress	-	-	4,300	36,125	40,425
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	1,028,221	6,723,419	1,991,885	1,214,104	10,957,629
<b>Total assets</b>	<b>\$ 1,864,134</b>	<b>\$ 7,049,007</b>	<b>\$ 3,818,003</b>	<b>\$ 1,439,423</b>	<b>\$ 14,170,567</b>
<b>Deferred outflows of resources:</b>					
<b>Total deferred outflows</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Liabilities:</b>					
Current liabilities:					
Accounts payable	\$ 2,170	\$ 5,549	\$ 18,738	\$ 219	\$ 26,676
Accrued interest	17,433	-	4,829	-	22,262
Deferred compensation	16,122	12,436	12,020	-	40,578
Due to other funds	-	-	-	-	-
Payable from restricted assets:					
Meter deposits	-	-	213,518	-	213,518
Notes payable (Note 3)	-	72,531	-	29,320	101,851
Revenue bonds payable (Note 3)	140,000	-	-	-	140,000
Revenue notes payable (Note 3)	-	-	155,000	-	155,000
Non-current liabilities:					
Notes payable (Note 3)	-	4,141,227	-	83,682	4,224,909
Revenue bonds payable (Note 3)	2,090,000	-	-	-	2,090,000
Revenue notes payable (Note 3)	-	-	1,830,000	-	1,830,000
<b>Total liabilities</b>	<b>2,265,725</b>	<b>4,231,743</b>	<b>2,234,105</b>	<b>113,221</b>	<b>8,844,794</b>

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

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

Business-type Activities - Enterprise Funds

	<u>Drumright Utility Trust</u>		<u>Drumright Gas Authority</u>	<u>Drumright Industrial Authority</u>	<u>Totals</u>
	<u>Water Utility</u>	<u>Sewer Utility</u>			
(Continued)					
<b>Deferred inflows of resources:</b>					
<b>Total deferred inflows</b>	-	-	-	-	-
<b>Net position:</b>					
Net investment in capital assets	(1,061,779)	2,582,192	166,185	1,166,547	2,853,145
Restricted	133,053	214,666	-	-	347,719
Unrestricted	527,135	20,406	1,417,713	159,655	2,124,909
<b>Total net position</b>	<u>\$ (401,591)</u>	<u>\$ 2,817,264</u>	<u>\$ 1,583,898</u>	<u>\$ 1,326,202</u>	<u>\$ 5,325,773</u>

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

**CITY OF DRUMRIGHT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2016**

	<b>Business-type Activities - Enterprise Funds</b>				
	<b>Drumright Utility Trust</b>		<b>Drumright Gas Authority</b>	<b>Drumright Industrial Authority</b>	<b>Totals</b>
	<b>Water Utility</b>	<b>Sewer Utility</b>			
<b>Revenues:</b>					
Water	\$ 663,608	\$ -	\$ -	\$ -	\$ 663,608
Sewer	-	370,678	-	-	370,678
Gas	-	-	992,980	-	992,980
Lease income	-	-	-	56,700	56,700
Miscellaneous	8,220	2,087	5,810	-	16,117
<b>Total revenues</b>	<u>671,828</u>	<u>372,765</u>	<u>998,790</u>	<u>56,700</u>	<u>2,100,083</u>
<b>Operating expenses:</b>					
Gas & oil	7,367	5,635	4,128	-	17,130
Health Insurance	19,894	18,179	10,422	-	48,495
Insurance	23,358	8,842	8,600	1,830	42,630
Legal & accounting	4,700	-	5,409	7,700	17,809
Materials & supplies	101,639	29,128	15,229	1,156	147,152
Miscellaneous	62,852	23,305	9,321	-	95,478
Office-credit card fees, postage	5,527	1,128	-	-	6,655
Payroll taxes	15,311	8,306	9,464	-	33,081
Purchase of gas	-	-	257,861	-	257,861
Rent	-	-	-	-	-
Repairs & maintenance	32,130	5,618	-	9,799	47,547
Retirement	23,381	13,704	14,039	-	51,124
Salaries	204,272	111,237	122,676	-	438,185
Taxes	-	-	2,890	-	2,890
Telephone	1,343	4,080	852	-	6,275
Utilities	48,967	31,729	557	804	82,057
Depreciation	93,505	59,237	108,139	41,511	302,392
<b>Total operating expenses</b>	<u>\$ 644,246</u>	<u>\$ 320,128</u>	<u>\$ 569,587</u>	<u>\$ 62,800</u>	<u>\$ 1,596,761</u>
<b>Income before non-operating revenues, expenses &amp; transfers</b>	<u>\$ 27,582</u>	<u>\$ 52,637</u>	<u>\$ 429,203</u>	<u>\$ (6,100)</u>	<u>\$ 503,322</u>
<b>Non-operating revenues (expenses):</b>					
Interest	23,639	942	28,469	566	53,616
Sales and use tax	-	-	-	-	-
Grants and donations	-	1,033,577	-	-	1,033,577
Interest expense	(88,127)	(116,934)	(65,046)	-	(270,107)
Trustee fees	-	-	-	-	-
<b>Total non-operating</b>	<u>(64,488)</u>	<u>917,585</u>	<u>(36,577)</u>	<u>566</u>	<u>817,086</u>
<b>Income (loss) before operating transfers</b>	<u>(36,906)</u>	<u>970,222</u>	<u>392,626</u>	<u>(5,534)</u>	<u>1,320,408</u>
<b>Transfers in (out)</b>	<u>170,974</u>	<u>10,000</u>	<u>(247,500)</u>	<u>-</u>	<u>(66,526)</u>
<b>Change in net position</b>	<u>134,068</u>	<u>980,222</u>	<u>145,126</u>	<u>(5,534)</u>	<u>1,253,882</u>
<b>Net position at beginning of year</b>	<u>(535,659)</u>	<u>1,837,042</u>	<u>1,438,772</u>	<u>1,331,736</u>	<u>4,071,891</u>
<b>Net position at end of year</b>	<u>\$ (401,591)</u>	<u>\$ 2,817,264</u>	<u>\$ 1,583,898</u>	<u>\$ 1,326,202</u>	<u>\$ 5,325,773</u>

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

**CITY OF DRUMRIGHT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Year Ended June 30, 2016**

<b>Business-type Activities - Enterprise Funds</b>					
<b>Drumright Utility Trust</b>					
	<b>Water Utility</b>	<b>Sewer Utility</b>	<b>Drumright Gas Authority</b>	<b>Drumright Industrial Authority</b>	<b>Totals</b>
<b>Cash flows from operating activities:</b>					
Cash received from customers & service users	\$ 696,465	\$ 359,274	\$ 995,173	\$ 56,700	\$ 2,107,612
Cash payments for goods & services & employees	(556,742)	(281,928)	(464,334)	(21,679)	(1,304,683)
Other operating revenues	8,220	2,087	5,810	-	16,117
<b>Net cash provided by operating activities</b>	<b>147,943</b>	<b>99,433</b>	<b>536,649</b>	<b>35,021</b>	<b>819,046</b>
<b>Cash flows from noncapital financing activities:</b>					
Change in due to/from accounts	(47,296)	-	-	-	(47,296)
Change in customer meter deposits	-	-	1,172	-	1,172
Grant revenue/(expense)	-	1,150,453	-	-	1,150,453
Change in grant receivables	-	-	-	-	-
Operating transfers in/(out) to other funds	170,974	10,000	(247,500)	-	(66,526)
<b>Net cash provided (used) for noncapital financing activities</b>	<b>123,678</b>	<b>1,160,453</b>	<b>(246,328)</b>	<b>-</b>	<b>1,037,803</b>
<b>Cash flows from capital and related financing activities:</b>					
(Acquisition) Sale of capital assets	-	(1,035,509)	(119,885)	-	(1,155,394)
Principal paid on debt	(130,000)	(70,567)	(150,000)	(29,320)	(379,887)
Interest paid on debt	(89,143)	(116,934)	(65,411)	-	(271,488)
Loans to/(from) others	-	-	-	-	-
Trustee fees	-	-	-	-	-
<b>Net cash provided (used) for capital and related financing activities</b>	<b>(219,143)</b>	<b>(1,223,010)</b>	<b>(335,296)</b>	<b>(29,320)</b>	<b>(1,806,769)</b>
<b>Cash flows from investing activities:</b>					
(Purchase) liquidation of investments	(11,300)	-	(11,971)	-	(23,271)
Interest on investments	23,649	942	28,456	566	53,613
<b>Net cash provided by investing activities</b>	<b>12,349</b>	<b>942</b>	<b>16,485</b>	<b>566</b>	<b>30,342</b>
<b>Net increase (decrease) in cash &amp; cash equivalents</b>	<b>64,827</b>	<b>37,818</b>	<b>(28,490)</b>	<b>6,267</b>	<b>80,422</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>202,428</b>	<b>\$ 216,024</b>	<b>\$ 883,657</b>	<b>\$ 182,317</b>	<b>1,484,426</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 267,255</b>	<b>\$ 253,842</b>	<b>\$ 855,167</b>	<b>\$ 188,584</b>	<b>\$ 1,564,848</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>					
Operating income	\$ 27,582	\$ 52,637	\$ 429,203	\$ (6,100)	\$ 503,322
<b>Adjustments to reconcile operating income to net cash provided by operating activities:</b>					
Depreciation	93,505	59,237	108,139	41,511	302,392
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	32,857	(11,404)	2,193	-	23,646
(Increase) decrease in other assets	(7,333)	(2,467)	(2,510)	(609)	(12,919)
Increase (decrease) in accounts payable	(1,349)	1,078	1,213	219	1,161
Increase (decrease) in accrued expenses	2,681	352	(1,589)	-	1,444
<b>Total adjustments</b>	<b>120,361</b>	<b>46,796</b>	<b>107,446</b>	<b>41,121</b>	<b>315,724</b>
<b>Net cash provided by operating activities</b>	<b>\$ 147,943</b>	<b>\$ 99,433</b>	<b>\$ 536,649</b>	<b>\$ 35,021</b>	<b>\$ 819,046</b>

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

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Drumright, 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 Drumright, Oklahoma was organized under the statutes of the State of Oklahoma. The City operates under a council/manager form of government and is governed by a five-member board of commissioners. The commissioners elect the mayor from their own body. The City provides the following services as authorized by its charter: general government, public safety (fire and police), streets, public works (gas, 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 Drumright, 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 and trusts, entities for which the City is considered to be financially accountable. Blended component units and trusts, 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 Drumright Utility Trust (the Trust) was created pursuant to a Trust Indenture dated March 7, 1978, to finance, operate, construct and administer public works, improvements or facilities for the benefit of the City of Drumright, Oklahoma. The public works systems owned by the City have been leased to the Trust and are carried on the books of the Trust. The Trust 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 five trustees identical with the City Council. The Trust is exempt from State and Federal Income taxes. The Trust is reported as an enterprise fund and includes the water distribution system and sewer service for the City of Drumright.

The Drumright Gas Authority (the Authority) was created pursuant to a Trust Indenture dated April 17, 1973 to finance, operate, construct and administer public works, improvements or facilities for the benefit of the City of Drumright, Oklahoma. The public works systems owned by the City have been leased to the Authority and are carried on the books of the Authority. The Authority 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 five trustees identical with the City Council. The Authority is exempt from State and Federal Income taxes. The Authority is reported as an enterprise fund and includes the gas distribution system for the City of Drumright.

The Drumright Industrial Authority (DIA) was created pursuant to a Trust Indenture date May 2, 1967, to promote the development of industry, and provide additional employment for the benefit of the City of Drumright. The DIA 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 five trustees appointed by majority vote of the City Commission of the City of Drumright. The DIA is exempt from State and Federal income taxes. The DIA is reported as an enterprise fund.

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

**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.

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

**Governmental Funds** – are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the 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. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims, and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales taxes, tobacco 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 (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 for all financial resources of the general government, except those required to be accounted for in another fund.

Street Improvement Fund – is a special revenue fund used for the maintenance and improvement of city streets.

**Governmental Funds (Continued)**

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

Special Revenue funds - account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The following are the City's Special Revenue Funds: Cemetery Care Fund, Broadway Sidewalk II, Library Improvement, and CDBG grant fund.

Capital Improvement Fund – is a capital project fund used for capital improvements to city infrastructure.

Permanent funds – account for in the same manner as governmental funds, such as the General Fund. The fund is accounted for using the modified accrual basis of accounting and the measurement focus is essentially the flow of current financial resources. Earnings from investments of the fund are transferred to the City's general fund. The Cemetery Trust Fund is the City's only permanent fund.

**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

**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 adopted only 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.

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 Drumright Utility Trust, Drumright Gas Authority, Drumright Industrial Authority, Drumright Municipal Healthcare Facility and Drumright Municipal Healthcare Authority are accounted for as enterprise funds. The following are the City's major enterprise funds:

Water Utility Fund – accounts for the operations of providing public works (water, sewer) to the City.

Sewer Utility Fund – accounts for the operations of providing public works (sewer) to the City.

Gas Authority – accounts for the operations of providing public works (gas) to the City.

Industrial Authority – accounts for the leases of industrial buildings for the City.

**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**

Certain restricted cash and investments are the result of financial requirements of Rural Economic and Community Development Administration (RECD) notes and Revenue bonds of the Drumright Utility Trust and the Drumright Gas Authority and consist of Bond fund reserve, Bond principal reserve, bond interest reserve and gas loan reserve. Under the terms and provisions of the notes and bonds, these special funds are maintained with the Trustee bank for the benefit of the holders of the note and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the notes and 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 notes and bonds.

**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Equity (Continued)**

**2. Restricted Cash and Investments (Continued)**

The revenue bond indenture of the Drumright Utility Trust Authority utility system revenue bonds series 2013 requires that the Authority maintain a Bond Account. This account is held at BancFirst. The Authority is required to make monthly deposits into the Bond Account equal to approximately one-twelfth of the amount necessary to pay the principal and interest on the Bonds as they become due. The Authority has met this requirement.

Other restricted cash includes customer deposits held, other reserves, and Cemetery Trust funds.

Future payment requirements are as follows:

Annual Period Commencing August 1,	Minimum Total Deposit During Annual Period	Approximate Monthly Payment
2017	154,011.42	\$ 12,834.29
2018	159,011.42	\$ 13,250.95
2019	168,117.75	\$ 14,009.81
2020	177,176.21	\$ 14,764.68
2021	176,154.87	\$ 14,679.57
2022	190,117.59	\$ 15,843.13
2023	199,048.37	\$ 16,587.36
2024	202,867.46	\$ 16,905.62
2025	211,654.63	\$ 17,637.89
2026	220,393.92	\$ 18,366.16
2027	239,053.42	\$ 19,921.12
2028	242,649.08	\$ 20,220.76
2029	1,149.00	(1)

(1) Any monies left in the reserve accounts will be applied to the final payment.

**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 statement of net position/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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Equity (Continued)**

**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 \$5,000.

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 on the straight-line method with estimated useful lives as follows:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives	Component Unit Estimated Lives
Buildings & Improvements	40 - 100 years	20 - 40 years	5 - 30 years
Furniture, Fixtures and Equipment	5 - 40 years	10 - 40 years	5 - 15 years
Vehicles	5 - 40 years	5 - 40 years	
Utility systems		40 years	
Transmission and distribution		40 years	

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Equity (Continued)**

**8. Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused Paid Time Off (PTO). Eligible exempt regular full-time and introductory employees are able to earn PTO according to a schedule based on their tenure with the City. In the event that available PTO is not used by the end of the benefit year (the 12-month period that begins when the employee starts to earn PTO), employees may carry unused time forward to the next benefit year. When the total amount of unused PTO reaches 160 hours the bi-weekly accrual will be placed into the "Extended Illness Accrual Bank" (EIAB). The EIAB accrual will be capped at 640 hours. The City places 2 hours each pay period into the EIAB account for each employee. When the PTO and the EIAB accruals have reached the cap limits, the bi-weekly accruals for PTO will be paid to the employee in the last payroll of the month following the month in which it was earned. Upon termination of employment, employees will be paid for unused PTO that has been earned through the last day of work. Any hours remaining in the EIAB accrual account are forfeited to the City. Non-exempt employees are allowed at the option of the employee, compensatory time in lieu of cash payment for overtime worked. Amounts may be accumulated to a maximum of 240 hours and must be taken within 30 days after working the overtime. The expense and related liability for vested PTO benefits and compensatory time is recorded in the respective funds of the City or component unit.

**9. Post-Employment Healthcare Benefits**

The City permits retired employees to remain on its health care insurance coverage as mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA) provisions or, under the provisions of O. S. 11-23-108 which permits employees who retire with more than eight years of service to elect to remain on the City's plan until they reach age 65.

Employees who elect coverage under either of these provisions must pay the premium in full. The City is permitted to charge a 2% administrative fee in addition to the premiums under COBRA coverage or it may charge a surcharge of up to 25% under the provisions of O. S. 11-23-108. The City's exposure is limited to the effects of "experience" in future rate calculations or the "implied subsidy" theory that these former employees may cause the premiums to be higher than they would be if they were not included in the plan.

**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 DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016

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, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when limitations on their 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. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

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

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

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

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

**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.

12. Bad Debt Policy

It is the City's policy to charge bad debts against revenue.

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

13. 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. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Grants and Awards

The City was the recipient of the following operating and capital grants during the year:

Library State Aid	\$3,229
CDBG Grant	105,626
USDA Grant	1,033,577
REAP Grant	2,494
Microsoft Library Grant	2,800
Operational Grant	<u>4,290</u>
Total	<u>\$1,152,016</u>

3. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

*Custodial Credit Risk*

At June 30, 2016, the City held deposits of approximately \$4,213,288 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 has adopted 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 the following policy that limits its investment choices and follows the same limitations set forth by state law:

Section 1.

- 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.

**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

**3. DETAILED NOTES CONCERNING THE FUNDS (Continued)**

**A. Deposits and Investments (Continued)**

- 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.).

Section 2. Trust authority funds may be invested in mutual funds whose portfolio is invested in tax-exempt securities, governmental securities, and high-grade government bonds.

Section 3. Investments shall be made with judgment and care under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the principal as well as the probable income to be derived.

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

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificate of deposit	12.00	N/A	1,031,345	1,031,345
Govt Bond and Mutual Funds	N/A	AAAm	715,568	665,553
Total investments			<u>\$ 1,746,913</u>	<u>\$ 1,696,898</u>

Reconciliation to Statement of Net Position	
Governmental activities	\$ 392,345
Business-type activities	1,354,568
	<u>\$ 1,746,913</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: 59% in Certificates of deposit (\$1,031,345), and 41% in Government bond and mutual funds (\$715,568).

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

**B. Fair Value Measurements**

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

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

---

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

---

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

---

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

---

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

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

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

	Level 1	Level 2	Level 3	Total
CDs	\$ 1,031,345	\$ -	\$ -	\$ 1,031,345
Bonds and mutual funds	715,568	-	-	715,568
<b>Total assets at fair value</b>	<b>\$ 1,746,913</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,746,913</b>

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016**

**3. DETAILED NOTES CONCERNING THE FUNDS (Continued)**

**B. Restricted Cash and Investments**

Cash and investments have been restricted as follows:

City of Drumright:	
Juvenile programs	\$ 8,376
Rate stabilization reserve, State Insurance Fund	1,698
Cemetery trust fund	39,540
Drumright Gas Authority:	
Customer meter deposits	213,518
Drumright Utility Trust:	
Sewer reserve	27,166
Sewer treatment construction reserve	187,500
Water reserve	39,000
Bond fund reserve	94,053
	<hr/>
Total restricted cash and investments	<u>\$ 610,851</u>

**C. Allowance for Uncollectible Accounts**

Accounts receivable are reflected net of allowances for uncollectible accounts in the financial statements. The City's estimate of uncollectible accounts receivable by fund and activity is as follows:

Note: The City wrote off all uncollectible accounts on June 30, 2016.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016**

**3. DETAILED NOTES CONCERNING THE FUNDS (Continued)**

**D. Capital Assets**

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

<b>Governmental Activities:</b>	<u>Balance 6/30/15</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/16</u>
Non-depreciable assets:				
Land	\$ 64,900	\$ -	\$ -	\$ 64,900
Total non-depreciable assets	<u>64,900</u>	<u>-</u>	<u>-</u>	<u>64,900</u>
Depreciable assets:				
General Government	1,062,897	-	(3,388)	1,059,509
Sanitation	57,737	-	-	57,737
Police	210,085	-	-	210,085
Fire	800,428	244,822	-	1,045,250
Water	44,317	-	-	44,317
Streets	940,197	-	-	940,197
Park	203,807	-	-	203,807
Library	15,628	-	-	15,628
Total depreciable assets	<u>3,288,542</u>	<u>244,822</u>	<u>(3,388)</u>	<u>3,576,530</u>
Less accumulated depreciation:				
General Government	(920,120)	(11,660)	3,388	(928,392)
Sanitation	(57,737)	-	-	(57,737)
Police	(201,635)	(6,211)	-	(207,846)
Fire	(587,723)	(18,475)	-	(606,198)
Water	(44,317)	-	-	(44,317)
Streets	(431,616)	(37,430)	-	(469,046)
Park	(129,946)	(11,348)	-	(141,294)
Library	(10,351)	(798)	-	(11,149)
Total Accumulated depreciation	<u>(2,182,046)</u>	<u>(85,922)</u>	<u>3,388</u>	<u>(2,465,979)</u>
Net depreciable assets	<u>\$ 1,106,496</u>	<u>\$ 158,900</u>	<u>\$ -</u>	<u>\$ 1,110,551</u>

**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

**3. DETAILED NOTES CONCERNING THE FUNDS (Continued)**

**D. Capital Assets (Continued)**

<b>Business-Type Activities:</b>	Balance 6/30/15	Additions	Disposals	Balance 6/30/16
<b>Non-depreciable assets:</b>				
Land	\$ 40,425	\$ -	\$ -	\$ 40,425
Construction in process	5,270,758	1,035,600	6,306,358	-
Total non-depreciable assets	<u>394,125</u>	<u>1,035,600</u>	<u>6,306,358</u>	<u>40,425</u>
<b>Depreciable assets:</b>				
Water	3,017,895	-	-	3,017,895
Sewer	1,838,713	6,306,358	-	8,145,071
Gas	4,189,703	119,885	-	4,309,588
Drumright Industrial Authority	1,744,839	-	-	1,744,839
Total depreciable assets	<u>10,536,666</u>	<u>6,426,243</u>	<u>-</u>	<u>17,217,393</u>
<b>Less accumulated depreciation:</b>				
Water	(1,896,169)	(93,505)	-	(1,989,674)
Sewer	(1,362,415)	(59,237)	-	(1,421,652)
Gas	(2,209,564)	(108,139)	-	(2,317,703)
Drumright Industrial Authority	(489,223)	(41,512)	-	(530,735)
Total accumulated depreciation	<u>(5,393,230)</u>	<u>(302,393)</u>	<u>-</u>	<u>(6,259,764)</u>
Net depreciable assets	<u>5,143,436</u>	<u>6,123,850</u>	<u>-</u>	<u>10,957,629</u>
Net business-type activities capital assets	<u>\$ 5,647,589</u>	<u>\$ 7,159,450</u>	<u>\$ 6,306,358</u>	<u>\$ 10,998,054</u>

**E. Payables from Restricted Assets**

Certain assets of the City of Drumright have been restricted for customers' deposits and payment of revenue bonds and notes.

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

F. Long-term Debt

The City is not obligated in any manner for the debt of its component units. The following is a summary of long-term debt of the City's Business-Type activities.

Drumright Utility Trust:

- |   |           |
|---|-----------|
| 1) Utility system revenue bonds issued in the original amount of \$2,600,000 to retire existing debt of the Drumright hospital. The bonds carry interest rates of 3.83%. The water fund remits varying quarterly payments as required by the provisions of the bond indenture for debt service. The bonds are scheduled to be paid over a period of 15 years.   | 2,230,000 |
| 2) Revenue note issued May 23, 2013, in the original amount of \$4,542,000 to the Rural Economic and Community Development Administration to build a new sewer treatment facility. The note carries an interest rate of 2.75% and is secured by a first real estate mortgage and first lien pledge of revenues and receipts of the Water fund. The note is to be repaid over a period of 40 years with montly payments of \$15,625. | 4,213,759 |
| 3) Revenue note issued June 1, 2014, in the original amount of \$2,285,000 to retire existing debt of an existing Rural Development loan. This note carries an Interest rate of 2.96% to be repaid over a period of 13 years.   | 1,985,000 |

Drumright Gas Authority:

- |  |        |
|--|--------|
| 4) CDBG loan from the U.S. Department of Housing and Urban Development in the amount of \$262,680 for construction of a building in the industrial park. The loan is backed by the utility revenue of the Drumright Utility Trust, however, the intent is for the Industrial Authority to collect rent on the building to make the loan payments. The loan has a 0% interest rate and is to be repaid in approximately 180 payments of \$1,459 a month commencing when the building is leased. | 46,698 |
|--|--------|

Drumright Industrial Authority:

- |   |        |
|---|--------|
| 5) Note payable to Creek County Industrial Authority in the original amount of \$177,000. The note is a fifteen year zero interest loan with payments of \$984 a month beginning when tennants occupy the Industrial Park Building. | 66,304 |
|---|--------|

Total Proprietary Fund long-term debt	\$ <u>8,541,761</u>
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**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

**3. DETAILED NOTES CONCERNING THE FUNDS (Continued)**

**F. Long-term Debt (Continued)**

The annual debt service requirements to maturity, including principal and interest, for long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	396,851	256,683	653,534
2018	408,871	244,639	653,510
2019	420,110	232,178	652,288
2020	425,569	218,958	644,527
2021	432,763	205,509	638,272
2022-2026	2,382,139	805,696	3,187,835
2027-2031	1,189,634	460,317	1,649,951
2032-2036	578,926	358,574	937,500
2037-2041	664,157	273,343	937,500
2042-2046	761,934	175,566	937,500
2047-2051	874,109	63,391	937,500
2052	6,698	15	6,713
<b>Totals</b>	<b>\$ 8,541,761</b>	<b>\$ 3,294,869</b>	<b>\$ 11,836,630</b>

The changes in Business-Type activities long-term debt are as follows:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
<b>Drumright Utility Trust:</b>					
Revenue Bonds	\$ 2,360,000	\$ -	\$ 130,000	\$ 2,230,000	\$ 140,000
Notes Payable	4,284,325	-	70,566	4,213,759	72,531
<b>Drumright Gas Authority:</b>					
Revenue Bonds	2,135,000	-	150,000	1,985,000	155,000
<b>Drumright Industrial Authority:</b>					
CDBG Loan	64,210	-	17,512	46,698	17,512
Creek County Industrial Authority	78,112	-	11,808	66,304	11,808
<b>Total</b>	<b>\$ 8,921,647</b>	<b>\$ -</b>	<b>\$ 379,886</b>	<b>\$ 8,541,761</b>	<b>\$ 396,851</b>

**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

**3. DETAILED NOTES CONCERNING THE FUNDS (Continued)**

**G. Inter-fund Transfers**

During the year, transactions between funds create temporary inter-fund receivables and payables. The following schedule reflects the City's transfers from and to other funds:

	Transfer In	Transfer Out
General fund:		
Drumright Utility Trust, Water Fund	75,000	290,974
Drumright Gas Authority	247,500	-
Street Improvement Fund:		
Drumright Utility Trust, Water Fund	35,000	-
Drumright Utility Trust, Water Fund:		
General Fund	290,974	75,000
Street Improvement Fund	-	35,000
Drumright Gas Authority:		
General Fund	-	247,500
	\$ 648,474	\$ 648,474

**4. OTHER INFORMATION**

**A. Risk Management**

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

The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for 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. A Loss Fund has been established from the proceeds of these fees for each participant in the Plan. 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.

In addition to the Loss Fund, the City maintains two additional funds with the Plan. The Rate Stabilization Reserve (RSR), which can be applied against future premium increases and an Escrow Fund made up of past refunds left on deposit with the Plan. Escrow funds earn interest and are readily available for use by the governing board. In accordance with GASB No. 10, the City reports the required contribution to the pool, net of refunds, as insurance expense. The balances in the RSR Fund and the Escrow Fund were \$1,698 and \$0, respectively.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016**

**4. OTHER INFORMATION (Continued)**

**B. Contingent Liabilities**

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

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

**C. North and South Cemetery's**

On November 3, 1987, the Drumright Cemetery Association conveyed five acres of land known as the North Cemetery together with a certificate of Deposit in the amount of \$33,500 to the City. According to the agreement, the corpus of the certificate of deposit is to remain intact and the interest earned is to be used for maintenance of the North Cemetery. An additional donation in the amount of \$6,040 was also received which included a similar restriction. During 1996, the South Cemetery Association disbanded and donated the land known as the South Cemetery together with cash in the amount of \$3,699. There were no restrictions placed on the use of the funds. However, it is the City's intention to use only the interest earnings for maintenance and operations of the Cemetery and retain the principal of the contribution intact.

**D. Related Organizations**

City officials are responsible for appointing members of the Drumright Housing Authority and certain other organizations. These organizations are not accountable to the City nor does the City's responsibility extend beyond the appointments. The City has a beneficial interest in the residue of the Trusts' if terminated. The City incurs no other financial benefit or burden in relation to these Authorities.

**E. Employee Retirement System and Other Benefit Plans**

The City participates in three employee pension systems as follows:

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

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

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

**Oklahoma Police Pension and Retirement Plan**

**Plan description** – The City of Drumright, as the employer, participates in the Oklahoma Police Pension and Retirement Plan – a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Police Pension and Retirement System (OPPRS). Title 11 of the Oklahoma State Statutes, through the Oklahoma Legislature, grants the authority to establish and amend the benefit terms to the OPPRS. OPPRS issues a publicly available financial report that can be obtained at [www.ok.gov/OPPRS](http://www.ok.gov/OPPRS).

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016

4. OTHER INFORMATION (Continued)

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

**Benefits provided** – OPPRS provides retirement, disability, and death benefits to members of the plan. The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later.

Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered. Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participants' final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.

Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit.

**Contributions** – The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 8% percent of their annual pay. Participating cities are required to contribute 13% of the employees' annual pay. Contributions to the pension plan from the City were \$27,385. The State of Oklahoma also made on behalf contributions to OPPRS 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 \$25,026. These on-behalf payments did not meet the criteria of a special funding situation.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** – At June 30, 2016, the City reported a liability of \$3,061 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension asset was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information, the City's proportion was 0.0751%.

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016

4. OTHER INFORMATION (Continued)

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

For the year ended June 30, 2016, the City recognized pension expense of \$11,460. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of resources</u>
Differences between expected and actual experience	\$ -	\$ 16,924
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	54,846	66,623
Changes in proportion and differences between City contributions and proportionate share of contributions	-	2,989
City contributions subsequent to the measurement date	<u>27,385</u>	<u>-</u>
Total	<u>\$ 82,231</u>	<u>\$ 86,537</u>

\$27,385 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2017. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (13,810)
2018	(13,810)
2019	(13,810)
2020	11,152
2021	<u>(1,412)</u>
	<u>\$ (31,691)</u>

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

Inflation:	3%
Salary increases:	4.5% to 17.0% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense
Mortality rates:	Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA.

Active employees (post-retirement) and nondisabled pensioners:  
RP-2000 Blue Collar Healthy Combined table with fully generational Improvement using scale AA.

Disabled pensioners: RP-2000 Blue Collar Healthy Combined table with age set forward 4 years with fully generational improvement using Scale AA.

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

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016

4. OTHER INFORMATION (Continued)

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

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

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	2.83%
Domestic equity	6.47%
International equity	6.98%
Real Estate	5.50%
Private Equity	5.96%
Other assets	3.08%

The current allocation policy is that approximately 60% of assets in equity instruments, including public equity, long-short hedge, venture capital, and private equity strategies; approximately 25% of assets in fixed income to include investment grade bonds, high yield and non-dollar denominated bonds, convertible bonds, and low volatility hedge fund strategies; and 15% of assets in real assets to include real estate, commodities, and other strategies.

**Discount Rate** – The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 14% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability

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

	1% Decrease <u>(6.5%)</u>	Current Discount Rate <u>(7.5%)</u>	1% Increase <u>(8.5%)</u>
Employers' net pension liability	\$183,907	\$3,061	(\$149,406)

**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 OPPRS; which can be located at [www.ok.gov/OPPRS](http://www.ok.gov/OPPRS).

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016

4. OTHER INFORMATION (Continued)

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

**Oklahoma Firefighters Pension & Retirement Plan**

**Plan Description** – The City of Drumright, 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](http://www.ok.gov/fprs).

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

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

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

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

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

**Contributions** – The 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 \$21,518 (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.

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016

4. OTHER INFORMATION (Continued)

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

**Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** – At June 30, 2016, the City reported a liability of \$734,412 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information the City's proportion was 0.069192%.

For the year ended June 30, 2016, the City recognized pension expense of \$65,288. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of resources</u>
Differences between expected and actual experience	\$14,510	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	26,035	80,780
Changes in proportion and differences between City contributions and proportionate share of contributions	15,418	-
City contributions subsequent to the measurement date	<u>21,518</u>	<u>-</u>
Total	<u>\$ 77,481</u>	<u>\$ 80,780</u>

\$21,518 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (10,478)
2018	(10,478)
2019	(10,478)
2020	6,130
2021	462
Thereafter	<u>26</u>
	<u>\$ (24,817)</u>

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

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

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

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016**

**4. OTHER INFORMATION (Continued)**

**E. Employee Retirement System and Other Benefit Plans (Continued)**

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

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

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

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net pension liability	\$953,554	\$734,412	\$550,612

**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](http://www.ok.gov/fprs).

**Oklahoma Municipal Retirement Fund—Defined Benefit**

**Plan Description** – The City contributes to the OkMRF for all eligible employees except for those covered by the Police and Firefighter Pension Systems. The plan is an agent multiple employer - defined benefit plan administered by OkMRF. The OkMRF plan issues a separate financial report and can be obtained from OkMRF or from their website: [www.okmrf.org/reports.html](http://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.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016**

**4. OTHER INFORMATION (Continued)**

**E. Employee Retirement System and Other Benefit Plans (Continued)**

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

**Eligibility Factors and Benefit Provisions**

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

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016**

**4. OTHER INFORMATION (Continued)**

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

**Employees Covered by Benefit Terms**

Active Employees	18
Deferred Vested Former Employees	7
Retirees or Retiree Beneficiaries	<u>14</u>
Total	<u>39</u>

**Contribution Requirements**

The City Council has the authority to set and amend contribution rates by ordinance for the OkMRF defined benefit plan in accordance with O.S. Title 11, Section 48-102. The contribution rates for the current fiscal year have been made in accordance with an actuarially determined rate. The actuarially determined rate is 12.36% of covered payroll. For the year ended June 30, 2016, the City recognized \$84,998 of employer contributions to the plan which equals the actuarially determined amount based on covered payroll of \$687,689. Employees contribute a fixed 6% to the plan in accordance with the plan provisions adopted by the City Council.

**Actuarial Assumptions**

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

**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

**4. OTHER INFORMATION (Continued)**

**E. Employee Retirement System and Other Benefit Plans (Continued)**

**Discount Rate** – The discount rate used to value benefits was the long-term expected rate of return on plan investments, 7.75% since the plan's net fiduciary position is projected to be sufficient to make projected benefit payments.

The City has adopted a funding method that is designed to fund all benefits payable to participants over the course of their working careers. Any differences between actual and expected experience are funded over a fixed period to ensure all funds necessary to pay benefits have been contributed to the trust before those benefits are payable. Thus, the sufficiency of pension plan assets was made without a separate projection of cash flows.

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

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

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016

4. OTHER INFORMATION (Continued)

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

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

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Employers' net pension liability (asset)	\$711,322	\$417,365	\$170,603

The City reported \$39,552 in pension expense for the year ended June 30, 2016. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of resources</u>
Differences between expected and actual experience	\$ -	\$ 59,730
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	68,382	127,709
City contributions subsequent to the measurement date	<u>84,998</u>	<u>-</u>
Total	<u>\$ 153,380</u>	<u>\$ 187,439</u>

\$84,998 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (51,220)
2018	(51,220)
2019	(33,712)
2020	17,093
2020	<u>2</u>
	<u>\$ (119,057)</u>

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016**

**4. OTHER INFORMATION (Continued)**

**F. Other Post-Employment Benefits**

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

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

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

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

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

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

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**REQUIRED SUPPLEMENTAL INFORMATION  
June 30, 2016**

CITY OF DRUMRIGHT  
Drumright, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION  
Year Ended June 30, 2016

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

**Defined Benefit Cost Sharing Plans:**

***Police***

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

Schedule of City contributions

***Fire***

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

Schedule of City contributions

**Defined Benefit Agent Multi-Employer Plan**

***OkMRF***

Schedule of change in net pension liability & related ratios

Schedule of employer contributions

**Budgetary Comparison Schedule – General, Street Improvement & Capital Improvement Funds**

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

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

**Exhibit 1  
Schedule of the City of Drumright Proportionate Share of the Net Pension Liability (Asset)  
Oklahoma Police Pension & Retirement System  
Last 10 Fiscal Years\***

	<u>2014</u>	<u>2015</u>
City's proportion of the net pension liability(asset)	0.0787%	0.0751%
City's proportionate share of the net pension liability (asset)	(\$26,493)	\$3,061
City's covered-employee payroll	\$211,423	\$210,651
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(12.53%)	1.453%
Plan fiduciary net position as a percentage of the total pension liability (asset)	101.53%	99.82%

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

**Notes to Schedule:**

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

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

	<u>2014</u>	<u>2015</u>
Statutorily required contribution	\$27,485	\$27,385
Contributions in relation to the statutorily required contribution	<u>27,485</u>	<u>27,385</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$211,423	\$210,651
Contributions as a percentage of covered-employee payroll	13.0%	13.0%

**Notes to Schedule:**

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

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

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

**Exhibit 3  
Schedule of the City of Drumright's Proportionate Share of the Net Pension Liability (Asset)  
Oklahoma Firefighters Pension & Retirement System  
Last 10 Fiscal Years\***

	<u>2014</u>	<u>2015</u>
City's proportion of the net pension liability	0.0676%	0.0676%
City's proportionate share of the net pension liability	\$695,289	\$734,412
City's covered-employee payroll	\$183,679	\$153,700
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	378.53%	477.82%
Plan fiduciary net position as a percentage of the total pension liability	68.12%	68.27%

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

**Notes to Schedule:**

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

**Exhibit 4  
Schedule of City Contributions  
Oklahoma Firefighters Pension & Retirement System  
Last 10 Fiscal Years**

	<u>2014</u>	<u>2015</u>
Statutorily required contribution	\$ 25,715	\$ 21,518
Contributions in relation to the statutorily required contribution	<u>25,715</u>	<u>21,518</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 183,679	\$ 153,700
Contributions as a percentage of covered-employee payroll	14.0%	14.0%

**Notes to Schedule:**

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

CITY OF DRUMRIGHT  
Drumright, Oklahoma

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

**Exhibit 5**  
**Oklahoma Municipal Retirement Fund**  
**Schedule of Changes in Net Pension Liability and Related Ratios Last Fiscal Year**

	<b>2014</b>	<b>2015</b>
<b>Total pension liability</b>		
Service cost	\$ 60,511	\$ 65,361
Interest	212,614	212,075
Changes of benefit terms	-	-
Differences between expected and actual experience	-	(85,476)
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	<u>(206,639)</u>	<u>(233,001)</u>
<b>Net change in total pension liability</b>	<b>66,486</b>	<b>(41,041)</b>
<b>Total pension liability – beginning</b>	<u>2,784,291</u>	<u>2,850,777</u>
<b>Total pension liability - ending (a)</b>	<u><b>\$ 2,850,777</b></u>	<u><b>\$ 2,809,736</b></u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 84,831	\$ 82,598
Contributions - member	41,180	40,096
Net investment income	352,464	66,070
Benefit payments, including refunds of member contributions	(206,639)	(233,001)
Administrative expense	(5,199)	(4,979)
Other	-	-
<b>Net change in plan fiduciary net position</b>	<u>266,637</u>	<u>(49,216)</u>
<b>Plan fiduciary net position – beginning</b>	<u>2,174,950</u>	<u>2,441,587</u>
<b>Plan fiduciary net position - ending (b)</b>	<u><b>\$ 2,441,587</b></u>	<u><b>\$ 2,392,371</b></u>
<b>Net pension liability - ending (a) - (b)</b>	<u><b>\$ 409,191</b></u>	<u><b>\$ 417,365</b></u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	69.54%	85.15%
<b>Covered employee payroll</b>	\$ 678,588	\$ 614,313
<b>Net pension liability as a percentage of covered-employee payroll</b>	60.30%	67.94%

**Notes to Schedule:**

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

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

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

**Exhibit 6  
Required Supplementary Information  
Oklahoma Municipal Retirement Fund  
Schedule of Employer Contributions Last Fiscal Year**

	<b>2014</b>	<b>2015</b>
Actuarially determined contribution	\$ 88,253	\$ 84,998
Contributions in relation to the actuarially determined contribution	88,253	84,998
Contribution deficiency (excess)	\$ -	\$ -
Covered employee payroll	\$ 714,021	\$ 687,689
Contributions as a percentage of covered-employee payroll	12.36%	12.36%

**Notes to Schedule:**

1. Only the last 2 current fiscal years are presented because 10-year data is not yet available.
2. Latest Valuation Date: July 1, 2015
3. Actuarially determined contribution rate is calculated as of July 1, 2014 and July 1, 2015  
 January 2015 through June 2015 contributions were at a rate of 12.36%.  
 July 2015 through December 2015 contributions were at a rate of 12.36%
4. Methods and assumptions used to determine contribution rates:
  - Actuarial cost method - Entry age normal
  - Amortization method - Level percent of payroll, closed
  - Remaining amortization period - 29 years
  - Asset valuation method - Actuarial:
    - Smoothing period - 4 years
    - Recognition method - Non-asymptotic
    - Corridor - 70% - 130%
  - Salary increases - 4.00% to 7.42% (varies by attained age)
  - Investment rate of return - 7.50%

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

**GENERAL FUND**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues:</b>				
Charges for services	\$ 359,100	\$ 359,100	\$ 398,799	\$ (39,699)
Licenses and permits	5,375	5,375	5,735	(360)
Intergovernmental programs	13,800	13,800	45,132	(31,332)
Taxes & fees	644,000	644,000	884,279	(240,279)
Fines and forfeitures	171,000	171,000	236,276	(65,276)
Interest	2,500	2,500	4,118	(1,618)
Grants	-	-	35,319	(35,319)
Miscellaneous	29,500	29,500	44,003	(14,503)
<b>Total revenues</b>	<u>1,225,275</u>	<u>1,225,275</u>	<u>1,653,661</u>	<u>(428,386)</u>
<b>Expenditures:</b>				
Current:				
General government	490,794	490,794	391,370	99,424
Public safety	656,288	656,288	756,022	(99,734)
Highways, roads	16,765	16,765	12,409	4,356
Cultural & recreational	86,007	86,007	82,299	3,708
Health & welfare	277,000	277,000	260,172	16,828
Capital outlay	-	-	139,196	139,196
<b>Total expenditures</b>	<u>1,526,854</u>	<u>1,526,854</u>	<u>1,641,468</u>	<u>163,778</u>
<b>Excess of revenue over (under) expenditures</b>	(301,579)	(301,579)	12,193	313,772
<b>Other financing sources (uses):</b>				
Operating transfers in (out)	290,000	290,000	31,526	(258,474)
<b>Net changes in fund balance</b>	(11,579)	(11,579)	43,719	55,298
<b>Fund balance at beginning of year</b>	<u>931,036</u>	<u>931,036</u>	<u>931,036</u>	<u>-</u>
<b>Fund balance at end of year</b>	<u>\$ 919,457</u>	<u>\$ 919,457</u>	<u>\$ 974,755</u>	<u>\$ 55,298</u>

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

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

**STREET IMPROVEMENT FUND**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues:</b>				
Sales and use taxes	\$ 120,000	\$ 120,000	\$ 124,828	\$ 4,828
Intergovernmental programs	-	-	-	-
Misc	-	-	2,051	2,051
Grants	-	-	-	-
<b>Total revenues</b>	<u>120,000</u>	<u>120,000</u>	<u>126,879</u>	<u>6,879</u>
<b>Expenditures:</b>				
Current:				
Public safety	-	-	-	-
Highways & roads	138,699	138,699	153,791	(15,092)
Cultural, parks & recreation	-	-	-	-
Capital outlay	-	-	-	-
Lease payments	-	-	-	-
<b>Total expenditures</b>	<u>138,699</u>	<u>138,699</u>	<u>153,791</u>	<u>(15,092)</u>
<b>Excess of revenue over (under) expenditures</b>	(18,699)	(18,699)	(26,912)	(8,213)
<b>Other financing sources (uses):</b>				
Operating transfers in (out)	<u>20,000</u>	<u>20,000</u>	<u>35,000</u>	<u>15,000</u>
<b>Net changes in fund balance</b>	1,301	1,301	8,088	6,787
<b>Fund balance at beginning of year</b>	<u>187,801</u>	<u>187,801</u>	<u>187,801</u>	<u>-</u>
<b>Fund balance at end of year</b>	<u>\$ 189,102</u>	<u>\$ 189,102</u>	<u>\$ 195,889</u>	<u>\$ 6,787</u>

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

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

**CAPITAL IMPROVEMENT FUND**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues:</b>				
Sales and use taxes	\$ 87,390	\$ 87,390	\$ 83,160	\$ (4,230)
Intergovernmental programs	-	-	-	-
Cemetery Lot sales	-	-	-	-
Misc	1,500	1,500	-	(1,500)
Grants	35,500	35,500	-	(35,500)
<b>Total revenues</b>	<u>124,390</u>	<u>124,390</u>	<u>83,160</u>	<u>(41,230)</u>
<b>Expenditures:</b>				
Current:				
Public safety	-	-	-	-
Highways & roads	161,890	161,890	117,935	43,955
Cultural, parks & recreation	1,000	1,000	725	275
Capital outlay	-	-	-	-
Lease payments	-	-	-	-
<b>Total expenditures</b>	<u>162,890</u>	<u>162,890</u>	<u>118,660</u>	<u>44,230</u>
<b>Excess of revenue over (under) expenditures</b>	(38,500)	(38,500)	(35,500)	3,000
<b>Other financing sources (uses):</b>				
Operating transfers in (out)	40,000	40,000	-	(40,000)
<b>Net changes in fund balance</b>	1,500	1,500	(35,500)	(37,000)
<b>Fund balance at beginning of year</b>	<u>373,633</u>	<u>373,633</u>	<u>373,633</u>	<u>-</u>
<b>Fund balance at end of year</b>	<u>\$ 375,133</u>	<u>\$ 375,133</u>	<u>\$ 338,133</u>	<u>\$ (37,000)</u>

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

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

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

**BUDGETARY INFORMATION**

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

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

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**OTHER SUPPLEMENTARY INFORMATION  
June 30, 2016**

CITY OF DRUMRIGHT  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 June 30, 2016

	Special Revenue							Total
	Street Improvement Fund	Capital Improvement Fund	Cemetery Care Fund	Library Improvement Fund	REAP Street Grant Fund	CDBG Grant Fund	Cemetery Trust Fund	
<b>Assets:</b>								
Cash and equivalents	\$ 35,913	\$ 244,616	\$ 7,173	\$ 3,066	-	-	\$ -	\$ 290,768
Investments at cost	140,000	80,000	6,960	-	-	-	-	226,960
Grants receivable	-	-	-	-	-	105,626	-	105,626
Taxes receivable	20,290	13,517	-	-	-	-	-	33,807
Due from others	-	-	-	-	-	-	-	-
Restricted assets:								
Investments at cost	-	-	-	-	-	-	39,540	39,540
<b>Total assets</b>	<b>\$ 196,203</b>	<b>\$ 338,133</b>	<b>\$ 14,133</b>	<b>\$ 3,066</b>	<b>\$ -</b>	<b>\$ 105,626</b>	<b>\$ 39,540</b>	<b>\$ 696,701</b>
<b>Liabilities:</b>								
Cash overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Claims pending	314	-	-	-	-	105,626	-	105,940
<b>Total liabilities</b>	<b>314</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>105,626</b>	<b>-</b>	<b>105,940</b>
<b>Fund balances:</b>								
Restricted	195,889	338,133	14,133	3,066	-	-	39,540	590,761
Unrestricted	-	-	-	-	-	-	-	-
<b>Total fund balances</b>	<b>195,889</b>	<b>338,133</b>	<b>14,133</b>	<b>3,066</b>	<b>-</b>	<b>-</b>	<b>39,540</b>	<b>590,761</b>
<b>Total liabilities and fund balances</b>	<b>\$ 196,203</b>	<b>\$ 338,133</b>	<b>\$ 14,133</b>	<b>\$ 3,066</b>	<b>\$ -</b>	<b>\$ 105,626</b>	<b>\$ 39,540</b>	<b>\$ 696,701</b>

**CITY OF DRUMRIGHT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
 June 30, 2016

	Special Revenue							Permanent Funds		Total Non-Major Governmental Funds
	Street Improvement Fund	Capital Improvement Fund	Cemetery Care Fund	Library Improvement Fund	REAP Street Grant Fund	CDBG Grant Fund	Cemetery Trust Fund			
<b>Revenues:</b>										
Sales and use taxes	\$ 124,828	\$ 83,160	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 207,988
Intergovernmental	-	-	-	-	-	-	-	-	-	-
Lot sales	-	-	2,550	-	-	-	-	-	-	2,550
Loan proceeds	-	-	-	-	-	-	-	-	-	-
Miscellaneous	2,051	-	-	-	-	-	-	-	-	2,051
Grants	-	-	-	-	2,494	105,626	-	-	-	108,120
<b>Total revenues</b>	<b>\$ 126,879</b>	<b>\$ 83,160</b>	<b>2,550</b>	<b>\$ -</b>	<b>2,494</b>	<b>105,626</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>320,708</b>
<b>Expenditures:</b>										
Public safety	\$ -	\$ -	-	-	-	-	-	-	-	-
Highways & roads	153,791	117,935	-	-	2,494	-	-	-	-	274,220
Cultural, parks & recreation	-	725	-	-	-	-	-	-	-	725
General government	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	105,626	-	-	-	105,626
Lease payments	-	-	-	-	-	-	-	-	-	-
<b>Total expenditures</b>	<b>153,791</b>	<b>118,660</b>	<b>-</b>	<b>-</b>	<b>2,494</b>	<b>105,626</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>380,571</b>
<b>Excess of revenues over (under) expenditures</b>	<b>(26,912)</b>	<b>(35,500)</b>	<b>2,550</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(59,863)</b>
<b>Other financing uses:</b>										
Operating transfers in (out)	35,000	-	-	-	-	-	-	-	-	35,000
<b>Excess of revenues over (under) expenditures &amp; transfers</b>	<b>8,088</b>	<b>(35,500)</b>	<b>2,550</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(24,863)</b>
<b>Fund balance - beginning of year</b>	<b>187,801</b>	<b>373,633</b>	<b>11,583</b>	<b>3,066</b>	<b>-</b>	<b>-</b>	<b>39,540</b>	<b>-</b>	<b>-</b>	<b>615,623</b>
<b>Fund balance - end of year</b>	<b>\$ 195,889</b>	<b>\$ 338,133</b>	<b>\$ 14,133</b>	<b>\$ 3,066</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 39,540</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 590,760</b>

CITY OF DRUMRIGHT  
Drumright, Oklahoma

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

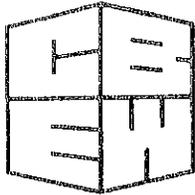
<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Federal Expend- itures</u>
<b><u>U.S. Department of Agriculture:</u></b>				
Waste & Water Disposal System Loans for Rural Communities - Grant	10.760	1,946,000	1,033,577	1,033,577
<b>Sub-Total</b>		1,946,000	1,033,577	1,033,577
<b><u>Department of Housing and Urban Development</u></b>				
<b><u>Passed through the Oklahoma Department of Commerce:</u></b>				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	235,000	105,626	105,626
<b><u>Office of Library Services, Institute of Museum and Library Services, National Foundation on the Arts and the Humanities:</u></b>				
<b><u>Passed through the Oklahoma Department of Libraries:</u></b>				
State Library Program	45.310	3,229	3,229	3,229
<b>Total of Expenditures of Federal Awards</b>		\$ 2,184,229	\$ 1,142,432	\$ 1,142,432

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

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

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

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



**CBEW**  
**Professional**  
**Group, LLP**  
Certified Public Accountants

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

October 11, 2016

Honorable Board of City Commissioners  
City of Drumright  
Drumright, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Drumright, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Drumright, Oklahoma's basic financial statements, and have issued our report thereon dated October 11, 2016. The City did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

***Internal Control Over Financial Reporting***

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

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

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

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***City's Response to Findings***

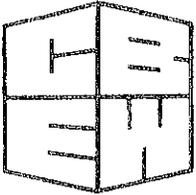
The City's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***Purpose of this Report***

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

***CBEW Professional Group, LLP***

CBEW Professional Group, LLP  
Certified Public Accountants



**CBEW**  
**Professional**  
**Group, LLP**  
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE**

October 11, 2016

Honorable Board of City Commissioners  
City of Drumright  
Drumright, Oklahoma

***Report on Compliance for Each Major Federal Program***

We have audited the City of Drumright, Oklahoma (City)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and OMB Circular 2015 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance

***Opinion on Each Major Federal Program***

In our opinion, City of Drumright, Oklahoma, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

***Report on Internal Control Over Compliance***

Management of City of Drumright, Oklahoma (the City), is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

***CBEW Professional Group, LLP***

CBEW Professional Group, LLP  
Certified Public Accountants

CITY OF DRUMRIGHT  
Drumright, Oklahoma

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

**SUMMARY OF AUDITOR'S RESULTS**

*Financial Statements:*

Type of Auditor's Report Issued: An unmodified opinion on the basic financial statements.

Internal Control Over Financial Reporting:

Material Weakness(es) identified?  Yes \_\_\_ No

Significant Deficiencies identified not considered to be material weaknesses? No

Noncompliance material to financial statements noted? \_\_\_ Yes  No

*Federal Awards:*

Type of auditors report issued on compliance for major programs: Unmodified

Internal Control Over Major Programs:

Material Weakness(es) identified? \_\_\_ Yes  No

Significant Deficiencies identified not considered to be material weaknesses? None reported

Audit findings disclosed that are required to be reported in accordance with Uniform Guidance? No

Dollar threshold used to distinguish Type A and Type B programs \$750,000

Auditee Qualified as low-risk auditee? \_\_\_ Yes  No

*Identification of Major Programs:*

CFDA#

10.760 Water and Waste Disposal Systems for Rural Communities

**FINDINGS - FINANCIAL STATEMENT AUDIT**

2016-001. Internal Control – Material Adjusting Journal Entries

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

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2016**

Condition: The City's trial balances for the year ended June 30, 2016, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: depreciation expense, balancing and recording note payables, interest expenses, purchased assets, and accrued revenue and expense transactions. This finding was also noted in 2015.

Cause: Although the City's accounting and financial reporting staff possess the necessary skills and experience to review and understand the financial statement presentation they don't spend sufficient time in balancing and/or reconciling specific accounts at year end to provide assurance that the trial balances used for preparing GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances. However, management was able to review, understand and accept the adjusting entries proposed by the auditor in order to take responsibility for them and the financial statements.

Effect or Potential Effect: As a result of this condition, the City has not adhered to its internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP and instead place reliance on its external auditors. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as required by the GAO "Yellow Book."

Recommendation: The City should reevaluate its internal controls over the completeness and accuracy of trial balances and adhere to its policies of regularly reviewing, balancing, and reconciling interim financial statements (particularly at year end) in sufficient depth to ensure that material adjusting journal entries are made timely. This process could be assigned to a specific staff person, through employment of additional qualified accounting staff, or outsourced to a qualified external account firm. Additionally, accounting staff should strive to obtain and/or maintain their proficiency through continuing education courses relative to governmental accounting.

Responsible Official's Response: The City concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements prior to the audit. We have seen significant progress in the City's effort to reduce the number of material adjusting entries needed by the auditor.

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

1. None

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2016**

**FINANCIAL STATEMENT AUDIT**

2015-001. Internal Control – Segregation of Duties

Condition: The same individual is responsible for issuing purchase orders, writing checks, making deposits, posting transactions and reconciles the monthly bank statements.

Current status: The City hired another employee to improve the overall segregation of duties and this finding has been removed.

2015-002. Internal Control – Material Adjusting Entries

Condition: The City's trial balances required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP.

Current status: Although City staff has made progress reducing the number of material adjusting journal entries we still had proposed journal entries that were material to the financial statements and is reported as finding 2016-001 in the current audit.

**MAJOR FEDERAL AWARD PROGRAMS**

There were no prior year audit findings regarding major federal award programs.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**CORRECTIVE ACTION PLAN  
2 CFR § 200.511(c)  
June 30, 2016**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2016-001	The City will evaluate its internal controls over the completeness and accuracy of trial balances and adhere to its policies of regularly reviewing, balancing, and reconciling interim financial statements to insure that material adjusting journal entries are made timely. This process will be assigned to chief financial officer, and through employment of additional qualified accounting staff which will need to be hired. Additionally, all accounting staff will strive to obtain and/or maintain their proficiency through continuing education courses relative to governmental accounting.	12/31/2016	Mark Whinnery, City Manager