

CITY OF KONAWA

Konawa, Oklahoma

FINANCIAL STATEMENTS

As of June 30, 2016

With Independent Auditors Report Thereon



America Counts on CPAs®

Dwight Bomer

Certified Public Accountant

CITY OF KONAWA
Konawa, Oklahoma

FINANCIAL STATEMENTS
As of June 30, 2016
With Independent Auditor's Report Thereon

Audited By

Dwight Bomer
Certified Public Accountant
McAlester, Oklahoma

**CITY OF KONAWA
KONAWA, OKLAHOMA**

June 30, 2016

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CITY OF KONAWA

Konawa, Oklahoma

Independent Auditor's Report

June 30, 2016



DWIGHT BOMER
Certified Public Accountant

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Independent Auditor's Report

December 27, 2016

Honorable Mayor and City Council
City of Konawa
Konawa, Oklahoma

I 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 Konawa, Oklahoma (the "City") as of and for the fiscal year ended June 30, 2016, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit.

This audit was conducted 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that this audit provides a reasonable basis for my opinion.

In my opinion, based on this audit, and the previous years audit, 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 for the City of Konawa, Oklahoma, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 27, 2016 on my consideration of the City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The

purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the 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* and should be considered in assessing the results of this audit.

Auditing principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, 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 context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of City personnel about the methods of preparing the information and comparing the information for consistency with the personnel of the City's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

This audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Konawa, Oklahoma's financial statements as a whole. The supplementary information as listed in the table of contents is the responsibility of management and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or the financial statements themselves, and other additional procedures in accordance with the auditing standards generally accepted in the United States of America. In my opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.



Dwight Bomer
Certified Public Accountant

December 27, 2016

CITY OF KONAWA

Konawa, Oklahoma

Reports Required By
Government Auditing Standards

June 30, 2016



DWIGHT BOMER

Certified Public Accountant

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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*

December 27, 2016

Honorable Mayor and Trustees

City of Konawa
Konawa, Oklahoma

I have audited the basic financial statements of The City for the fiscal year ended June 30, 2016, and have issued my report thereon dated December 27, 2016. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered The City of Konawa's internal control over financial reporting as a basis for designing my auditing procedures. This was for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing my opinion on the City of Konawa's control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of The City of Konawa's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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. I did not identify any deficiencies in internal control that I consider to be material weaknesses as defined above.

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. I identified no significant deficiencies as a result of my test.

Compliance and Other Matters

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

This report is intended solely for the information of the Trustees, Management, State Auditor and Inspector's office, others within the organization, and federal and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Dwight Bomer
Certified Public Accountant

December 27, 2016

CITY OF KONAWA

Konawa, Oklahoma

Schedule of Findings and Questioned Cost

Current Year

June 30, 2016

CITY OF KONAWA
Schedule of Findings and Questioned Costs- Current Year
For the Year Ending June 30, 2016

NONE

CITY OF KONAWA
Konawa, Oklahoma

Schedule of Findings and Questioned Cost
Prior Year

June 30, 2016

CITY OF KONAWA
Schedule of Findings and Questioned Costs- Prior Year
For the Year Ending June 30, 2016

NONE

CITY OF KONAWA
Statement of Net Assets
June 30, 2016

Schedule A

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and Cash Equivalents	\$ 102,722	\$ 22,465	\$ 125,187
Investments	\$ 23,851	\$ 30,225	\$ 54,076
Restricted Assets:			
Cash and Cash Equivalents	\$ -	\$ 14,618	\$ 14,618
Accounts Receivable, net	\$ -	\$ -	\$ -
Capital Assets:			
Other Capital Assets, Net of Depreciation	\$ 431,957	\$ 6,326,299	\$ 6,758,256
Total Assets	\$ 558,530	\$ 6,393,607	\$ 6,952,137
Liabilities			
Accounts Payable and Accrued Expenses	\$ -	\$ -	\$ -
Deferred Revenues	\$ -	\$ -	\$ -
Customer Deposits	\$ -	\$ 14,618	\$ 14,618
Payroll Taxes Payable	\$ -	\$ -	\$ -
Long-Term liabilities:			
Due within one year	\$ 11,355	\$ 68,500	\$ 79,855
Due within more than one year	\$ 14,394	\$ 1,828,141	\$ 1,842,535
Total Liabilities	\$ 25,749	\$ 1,911,259	\$ 1,937,008
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 406,208	\$ 4,496,966	\$ 4,903,174
Restricted for:			
Debt Service	\$ -	\$ 14,618	\$ 14,618
Other Restricted Funds	\$ 89,364	\$ -	\$ 89,364
Unrestricted	\$ 37,209	\$ 52,690	\$ 89,899
Total Net Assets	\$ 532,781	\$ 4,564,274	\$ 5,097,055

CITY OF KONAWA
Statement of Activities
For Fiscal Year Ended June 30, 2016

Exhibit B

	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental Activities:						
Administration	\$ 103,924	\$ 190,128	\$ -	\$ 86,204	\$ -	\$ 86,204
General Government	\$ 104,105	\$ 56,713	\$ -	\$ (47,392)	\$ -	\$ (47,392)
Public Safety	\$ 496,858	\$ 41,133	\$ -	\$ (455,725)	\$ -	\$ (455,725)
Streets	\$ 37,198	\$ -	\$ -	\$ (37,198)	\$ -	\$ (37,198)
Culture and Recreation	\$ 10,433	\$ 31,850	\$ 59,720	\$ 81,137	\$ -	\$ 81,137
Cemetery and Parks	\$ 15,338	\$ -	\$ -	\$ (15,338)	\$ -	\$ (15,338)
Legal and Judicial	\$ 15,928	\$ -	\$ -	\$ (15,928)	\$ -	\$ (15,928)
Capital Outlay	\$ 70,227	\$ -	\$ -	\$ (70,227)	\$ -	\$ (70,227)
Debt Service	\$ 64,412	\$ -	\$ -	\$ (64,412)	\$ -	\$ (64,412)
Total Governmental Activities	\$ 918,423	\$ 319,824	\$ 59,720	\$ (538,879)	\$ -	\$ (368,724)
Business-Type Activities						
Utilities	\$ 766,862	\$ 495,414	\$ 169,579	\$ -	\$ (101,869)	\$ (101,869)
Total Business-Type Activities	\$ 766,862	\$ 495,414	\$ 169,579	\$ -	\$ (101,869)	\$ (101,869)
Total Primary Government	\$ 1,685,285	\$ 815,238	\$ 229,299	\$ (538,879)	\$ (101,869)	\$ (470,593)
General Revenues:						
Taxes			\$ 449,401		\$ -	\$ 449,401

The accompanying notes are an integral part of these financial statements.

CITY OF KONAWA
Statement of Activities
For Fiscal Year Ended June 30, 2016

Exhibit B

Intergovernmental Revenue	\$ 9,367	\$ -	\$ 9,367
Investment Income	\$ 4,856	\$ 298	\$ 5,154
Miscellaneous	\$ 15,452	\$ -	\$ 15,452
Transfers	\$ (132,250)	\$ 174,000	\$ 41,750
Total General Revenues	\$ 346,826	\$ 174,298	\$ 521,124
Change in Net Assets	\$ (192,053)	\$ 72,429	\$ (119,624)
Net Assets-Beginning	\$ 724,834	\$ 4,491,845	\$ 5,216,679
Net Assets Ending	<u>\$ 532,781</u>	<u>\$ 4,564,274</u>	<u>\$ 5,097,055</u>

CITY OF KONAWA
Balance Sheet—Governmental Funds
For Fiscal Year Ended June 30, 2016

Exhibit C

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and Cash Equivalents	\$ 16,841	\$ 85,881	\$ 102,722
Investments	\$ 20,368	\$ 3,483	\$ 23,851
Receivables:			
Accounts Receivable	\$ -	\$ -	\$ -
Total Assets	\$ 37,209	\$ 89,364	\$ 126,573
 Liabilities and Fund Balances			
Liabilities:			
Accounts Payable and Accrued Liabilities	\$ -	\$ -	\$ -
Payroll Taxes Payable	\$ -	\$ -	\$ -
Deferred Revenues	\$ -	\$ -	\$ -
Customers Deposits	\$ -	\$ -	\$ -
Total Liabilities	\$ -	\$ -	\$ -
 Fund Balances			
Restricted	\$ -	\$ 89,364	\$ 89,364
Unrestricted	\$ 37,209	\$ -	\$ 37,209
Total Fund Balances	\$ 37,209	\$ 89,364	\$ 126,573
 Total Liabilities and Fund Balances	\$ 37,209	\$ 89,364	

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

CITY OF KONAWA
Balance Sheet—Governmental Funds
For Fiscal Year Ended June 30, 2016

Exhibit C

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation

\$ 406,208

Net Assets of Governmental Activities

\$ 532,781

CITY OF KONAWA

**Statement of Revenues, Expenditures, and Changes in Fund Balance—Governmental Fund
For Fiscal Year Ended June 30, 2016**

Exhibit D

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Sales Tax	\$ 276,730	\$ 92,243	\$ 368,973
Use Tax	\$ 23,004	\$ -	\$ 23,004
Cigar Tax	\$ 12,564	\$ -	\$ 12,564
Alcoholic Beverage	\$ 10,006	\$ -	\$ 10,006
PILOT	\$ 839	\$ -	\$ 839
Franchise Tax	\$ 34,015	\$ -	\$ 34,015
Intergovernmental	\$ 9,367	\$ -	\$ 9,367
Charges for Services	\$ 187,474	\$ 2,654	\$ 190,128
Fines and Court Fees	\$ 756	\$ 40,377	\$ 41,133
Rent	\$ 31,850	\$ -	\$ 31,850
Reimbursement	\$ 127	\$ 15,325	\$ 15,452
Miscellaneous	\$ 56,713	\$ -	\$ 56,713
Interest	\$ 80	\$ 4,776	\$ 4,856
Grants	\$ 4,299	\$ 55,421	\$ 59,720
Total Revenues	\$ 647,824	\$ 210,796	\$ 858,620
Expenditures:			
Administration	\$ 95,034	\$ 8,890	\$ 103,924
General Government	\$ 38,205	\$ -	\$ 38,205
Public Safety	\$ 487,099	\$ 9,759	\$ 496,858
Streets	\$ 37,198	\$ -	\$ 37,198
Culture and Recreation	\$ 4,809	\$ 5,624	\$ 10,433
Cemetery and Parks	\$ 15,338	\$ -	\$ 15,338
Legal and Judicial	\$ 15,928	\$ -	\$ 15,928
Capital Outlay	\$ -	\$ 70,227	\$ 70,227
Debt Service	\$ -	\$ 64,412	\$ 64,412
Interest and Fiscal Charges	\$ -	\$ -	\$ -
Total Expenditures	\$ 693,611	\$ 158,912	\$ 852,523
Excess of Revenues Over (Under)	\$ (45,787)	\$ 51,884	\$ 6,097

CITY OF KONAWA
Statement of Revenues, Expenditures, and Changes in Fund Balance—Governmental Fund
For Fiscal Year Ended June 30, 2016

Exhibit D

Other Financing Sources (Uses)

Transfers In	\$ 55,613	\$ -	\$ 55,613
Transfers Out	\$ -	\$ (187,863)	\$ (187,863)
	\$ 55,613	\$ (187,863)	\$ (132,250)
Total Other Financing Sources (Uses)	\$ 55,613	\$ (187,863)	\$ (132,250)
Net Change in Fund Balance	\$ 9,826	\$ (135,979)	\$ (126,153)
Fund Balances, Beginning	\$ 27,383	\$ 225,343	\$ 252,726
Fund Balances, Ending	\$ 37,209	\$ 89,364	\$ 126,573

CITY OF KONAWA
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
For Fiscal Year Ended June 30, 2016

Exhibit E

Net Change in Fund Balance-Total Governmental Funds \$ (126,153)

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

Governmental funds reported capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.

Depreciation Expense \$ (77,255)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

\$ 11,355

Change in Net Assets of Governmental Activities \$ (192,053)

The accompanying notes are an integral part of these financial statements.

CITY OF KONAWA
Statement of Net Assets- Proprietary Funds
For Fiscal Year Ended June 30, 2016

Exhibit F

ASSETS

	Konawa Public Works Authority
Current Assets:	
Cash and Cash Equivalents	\$ 22,465
Accounts Receivable, Net	\$ -
Total Current Assets	\$ 22,465
Non-Current Assets:	
Restricted Cash and Cash Equivalents	\$ 14,618
Investments	\$ 30,225
Capital Assets, Net of Depreciation	\$ 6,326,299
Total Non-Current Assets	\$ 6,371,142
Total Assets	\$ 6,393,607
LIABILITIES:	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	\$ -
Deferred Revenues	\$ -
Customer Deposits	\$ 14,618
Notes Payable	\$ 68,500
Total Current Liabilities	\$ 83,118
Noncurrent Liabilities	
Notes Payable	\$ 1,828,141
Total Noncurrent Liabilities	\$ 1,828,141
Total Liabilities	\$ 1,911,259
Investment in Capital Assets, Net of Related Debt Restricted for Debt Service	\$ 4,496,966
Unrestricted	\$ 14,618
	\$ 52,690
Total Net Assets	\$ 4,564,274

CITY OF KONA
Statement of Revenues, Expenses and Changes in Fund Net Assets
For Fiscal Year Ended June 30, 2016

Exhibit G

Operating Revenues:

Water	\$	168,175
Sewer	\$	188,443
Sanitation	\$	106,004
Miscellaneous	\$	32,792
Total Operating Revenues	\$	495,414

Operating Expenses:

Water	\$	233,247
Sewer	\$	177,219
Garbage	\$	114,403
Administrative	\$	162,219
Depreciation	\$	40,590
Total Operating Expenses	\$	727,678

Net Operating Income (Loss)	\$	(232,264)
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Non-Operating Revenues (Expenses)

Investment Income	\$	298
Grant Revenues	\$	169,579
Interest Expense	\$	(39,184)
Total Non-Operating Revenue (Expense)	\$	130,693

Income (Loss) Before Transfers	\$	(101,571)
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Transfers In (Out)	\$	174,000
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Change in Net Assets	\$	72,429
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Total Net Assets- Beginning	\$	4,491,845
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Total Net Assets- Ending	\$	4,564,274
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CITY OF KONAWA
Statement of Cash Flows—Proprietary Fund
For Fiscal Year Ended June 30, 2016

Exhibit H

	Konawa Public Works Authority
Cash Flows from Operating Activities	
Receipts From Customers	\$ 495,414
Payments to Suppliers	\$ (467,310)
Payments to Employees	\$ (291,929)
Net Cash Provided (Used) by Operating Activities	\$ (263,825)
Cash Flows From Noncapital Financing Activities	
Transfers, Net	\$ 174,000
Net Cash Provided by noncapital Financing Activities	\$ 174,000
Cash Flows from Capital and Related Financing Activities	
Purchase of Capital Assets	\$ -
Principal Paid on Capital Debt	\$ (68,500)
Interest Paid on Capital Debt	\$ (39,184)
Grant Revenue	\$ 169,579
Net Cash Used by Capital and Related Financing Activities	\$ 61,895
Cash Flows from Investing Activities	
Interest Income	\$ 298
Net Cash Provided by Investing Activities	\$ 298
Net Increase in Cash and Cash Equivalents	\$ (27,632)
Cash and Cash Equivalents, Beginning of Year	\$ 50,097
Cash and Cash Equivalents, End of Year	\$ 22,465
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (232,264)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	

CITY OF KONAWA
Statement of Cash Flows—Proprietary Fund
For Fiscal Year Ended June 30, 2016

Exhibit H

Adjustments to Reconcile Operating Income to Net Cash Provided By Operating activities		
Depreciation and Amortization	\$	40,590
Receivables, Net	\$	(18,269)
Accrued Liabilities and Accounts Payable	\$	(53,882)
Total Adjustments	\$	(31,561)
Net Cash Provided (used) by Operating Activities	\$	(263,825)

CITY OF KONAWA

Konawa, Oklahoma

Governmental Fund Financial Statements

June 30, 2016

CITY OF KONAWA

Konawa, Oklahoma

Notes to Financial Statements

June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City of Konawa is a charter city created under Title 11 of the Oklahoma Statutes. The governing body of the City is the City Council comprised of five elected members. The City Clerk/Treasurer is also elected. The appointed City Manager is the executive officer of the City.

For financial reporting purposes the financial statements included all funds and account groups over which the City Council exercises oversight responsibility. The criteria used to determine whether or not to include other entities in the financial statements were (1) the selection of governing authority, (2) designation of management, (3) ability to significantly influence operations, and (4) accountability for fiscal matters. Based on these criteria, the Konawa Public Works Authority is included.

The Konawa Public Works Authority is a Title 60.O.S. public trust. The current City Council serves as the governing body. The Konawa Public Works Authority is a blended component unit.

B. Government-wide and Fund Financial Statements

Government-Wide Financial Statements – Modified Cash Basis

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Board (FASB) pronouncements and Accounting

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level. The proprietary fund also uses the economic resources measurement focus.

The statement of net position and activities and the fund financial statements are reported on a modified basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves modifications to the cash basis of accounting to report in the statement of net position or balance sheet cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, inventories, receivables, capital assets, deferred outflows, short-term liabilities, long-term liabilities, and deferred inflows arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid, and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event (such as donated assets and postemployment benefit obligations) are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

The government reports the following major government funds:

General Fund - is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

One Cent Sales Tax Fund - accounts revenues collected from voter designated sales tax and expenditures of those revenues in accordance with the voter approved purpose.

OWRB Grant Fund - accounts for revenues and expenses associated with Oklahoma Water Resources Board grant funds for wastewater treatment plant improvements.

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

The government reports the Konawa Public Works Authority as a major proprietary fund. It accounts for activities related to operating the water, wastewater and sanitation systems.

The government reports the following non-major governmental funds:

Special Revenue Funds
Grant Fund
Capital Project Funds
Cemetery Care Cemetery Perpetual

As a general rule the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Net Position or Equity

Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City does not have a written investment policy that limits its investment choices other than the limitations stated in the *Oklahoma Statutes*. *Oklahoma Statutes* allow the City to invest in bonds of cities, school districts, or counties within the State of Oklahoma; public trust bonds whose beneficiary is a county, municipality or school district, except industrial development bonds; direct obligations of the United States; and certificates of deposit. Public trusts created under O.S. Title 60, are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Investments for the government, as well as for its component units, are reported at cost.

D. Assets, Liabilities and Net Position or Equity – continued

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

General infrastructure assets acquired prior to October 1, 2003, are not reported in the basic financial statements. General infrastructure assets include all roads, bridges, and other infrastructure assets acquired subsequent to October 1, 2003.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<i>Assets</i>	<i>Years</i>
Buildings	50
Infrastructure	30
Vehicles	5
Computer Equipment	5
Machinery and Equipment	10

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Fund Equity

Government-wide Statements

Equity is classified as net position and displayed in three components:

1. *Invested in capital assets* – consists of capital assets net of accumulated depreciation.

2. *Restricted net position* – consists of net position with constraints on the use either by (1) external groups or (2) law through constitutional provisions or enabling legislation.

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

3. *Unrestricted net position* – All other net position that do not meet the definition of “restricted” or “invested in capital position”.

Fund Statements

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- ***Non-spendable:*** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- ***Restricted:*** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- ***Committed:*** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- ***Assigned:*** This classification includes amounts that are constrained by the City’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Council or through the Council delegating this responsibility to the City Manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned interest earnings to the funds where earned for the purposes defined by the fund.
- ***Unassigned:*** This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgments and may vary from actual results.

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2016

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund balance sheet includes a reconciliation of the \$472,108 difference between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position.

One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.”

Capital Leases	\$ 37,104
Net adjustment to reduce fund balance-total governmental funds to arrive at net position governmental activities	\$ (37,104)

Another element of that reconciliation is capital assets used in governmental activities that are not financial resources.

Land	\$ -
Land Improvements	\$ 76,401
Buildings	\$ 782,867
Machinery & Equipment	\$ 216,182
Infrastructure	\$ 148,284
Vehicles	\$ 452,175
	\$ 1,675,909
Accumulated Depreciation	\$ (1,243,952)
Capital Assets Net	\$ 431,957

B. Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the \$116,534 difference between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities.

One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures”. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2016

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS-continued

Capital Outlay	\$	-
Capital Assets Transferred to Enterprise Fund	\$	-
Depreciation Expense	\$	(77,255)
		(77,255)
Net adjustment to increase net change in fund balance-total governmental funds to arrive at changes in net position-governmental activities	\$	(77,255)

Another element of that reconciliation explains that “repayment of principal of long term debt consumes the current financial resources of governmental funds.”

Capital Lease Principal Payments	\$	11,355
		11,355
Net adjustment to increase net change in fund balance-total governmental funds to arrive at changes in net position-governmental activities	\$	11,355

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* required collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2016, the City’s bank balances of \$193,881 were not exposed to custodial credit risk.

Investment Interest Rate Risk

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

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U.S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates

CITY OF KONA
Notes to the Financial Statements
June 30, 2016

of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) 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; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trust.

Concentration of Credit Risk

The City places no limit on the amount it may invest in any one issuer.

Restricted Cash

Restricted cash in the Konawa Public Works Authority at June 30, 2016 consists of refundable meter deposits of \$14,618.

B. Capital Assets

	Beginning Balance	Additions	Disposals	Ending Balance
Governmental Activities				
Capital Assets, not being depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Total Capital Assets, not being depreciated	\$ -	\$ -	\$ -	\$ -
Capital Assets, being depreciated				
Land Improvements	\$ 76,401	\$ -	\$ -	\$ 76,401
Buildings	\$ 782,867	\$ -	\$ -	\$ 782,867
Machinery & Equipment	\$ 216,182	\$ -	\$ -	\$ 216,182
Infrastructure	\$ 148,284	\$ -	\$ -	\$ 148,284
Vehicles	\$ 452,175	\$ -	\$ -	\$ 452,175
Total Capital Assets, being depreciated	\$ 1,675,909	\$ -	\$ -	\$ 1,675,909
Less Accumulated Depreciation	\$ (1,166,697)	\$ (77,255)	\$ -	\$ (1,243,952)
Total Capital Assets, being depreciated, net	\$ 509,212	\$ (77,255)	\$ -	\$ 431,957
Governmental Activities Capital Assets, net	\$ 509,212	\$ (77,255)	\$ -	\$ 431,957
Business Type Activities				
Capital Assets, not being depreciated				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Construction In Progress	\$ 6,131,503	\$ -	\$ -	\$ 6,131,503
Total Capital Assets, not being depreciated	\$ 6,136,503	\$ -	\$ -	\$ 6,136,503
Capital Assets, being depreciated				
Land Improvements	\$ 18,202	\$ -	\$ -	\$ 18,202
Buildings	\$ 23,584	\$ -	\$ -	\$ 23,584
Machinery & Equipment	\$ 187,019	\$ -	\$ -	\$ 187,019

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2016

Utility System	\$ 365,969	\$ -	\$ -	\$ 365,969
Vehicles	\$ 28,698	\$ -	\$ -	\$ 28,698
Total Capital Assets, being depreciated	<u>\$ 623,472</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 623,472</u>
Less Accumulated Depreciation	\$ (311,160)	\$ (40,590)	\$ -	\$ (351,750)
Total Capital Assets, being depreciated, net	<u>\$ 312,312</u>	<u>\$ (40,590)</u>	<u>\$ -</u>	<u>\$ 271,722</u>
Business Type Activities Capital Assets, net	<u>\$ 6,448,815</u>	<u>\$ (40,590)</u>	<u>\$ -</u>	<u>\$ 6,408,225</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities

General Government	\$ 10,479
Public Safety	\$ 58,190
Streets	\$ 6,522
Cemetery & Parks	\$ 2,064
Total Depreciation Expense	
<i>Governmental Activities</i>	<u>\$ 77,255</u>

Business Type Activities

Water	\$ 26,065
Sewer	\$ 14,525
Total Depreciation Expense	
<i>Business Type Activities</i>	<u>\$ 40,590</u>

C. Inter-fund Receivables, Payables and Transfers

The composition of inter-fund balances as of June 30, 2016 is as follows:

Inter-fund Transfers

	<i>Transfers Out:</i>				
	<i>General</i>	<i>Enterprise</i>	<i>One Cent Sales Tax</i>	<i>Other Governmental</i>	<i>Total</i>
Transfers In:					
General Fund	\$ -	\$ -	\$ 138,755	\$ -	\$ 138,755
One Cent Sales Tax	\$ -	\$ -	\$ -	\$ -	\$ -
Other Governmental	\$ -	\$ -	\$ -	\$ -	\$ -
Enterprise	\$ -	\$ -	\$ -	\$ 49,108	\$ 49,108
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,755</u>	<u>\$ 49,108</u>	<u>\$ 187,863</u>

Reason / Purpose – budgeted operating transfers

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2016

D. Long Term Debt

Changes in Long-Term Liabilities

Long term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Capital Leases	\$ 37,104	\$ -	\$ 11,355	\$ 25,749	\$ 11,355
Total Long Term Liabilities	<u>\$ 37,104</u>	<u>\$ -</u>	<u>\$ 11,355</u>	<u>\$ 25,749</u>	<u>\$ 11,355</u>
Business Type Activities					
Notes Payable/ Capital Leases	\$ 1,965,141	\$ -	\$ 68,500	\$ 1,896,641	\$ 68,500
Total Long Term Liabilities	<u>\$ 1,965,141</u>	<u>\$ -</u>	<u>\$ 68,500</u>	<u>\$ 1,896,641</u>	<u>\$ 68,500</u>

Notes Payable – Business-type Activities

The Enterprise Fund incurs bank, association, and individual debt to purchase equipment and improve the water and sewer utility system. The notes have various maturities with rates of 4.70% to 6.50% percent annum.

BancFirst (refinanced June 2012) - 4.50% interest, monthly payments of \$3,013. Matures May 2017. Proceeds used for the upgrade of the utility system. Secured by assigned sales tax revenues.

\$ 33,143

USDA Rural Development- Note Payable

\$ 1,896,641

Total Other Notes Payable

\$ 1,929,784

Principal maturities are as follows:

Year Ending June 30,	Principal	Interest
2017	\$ 67,768	\$ 36,888
2018	\$ 36,079	\$ 35,414
2019	\$ 36,806	\$ 34,670
2020	\$ 37,549	\$ 34,282
2021-2025	\$ 199,412	\$ 162,388
2026-2030	\$ 220,353	\$ 141,447

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2016

2031-2035	\$ 243,504	\$ 118,296
2036-2040	\$ 269,097	\$ 92,703
2041-2045	\$ 297,392	\$ 64,408
2046-2050	\$ 328,674	\$ 33,126
2051-2052	\$ 160,007	\$ 3,870
Total	\$ 1,896,641	\$ 757,492

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum payments as of the inception date.

The assets acquired through capital leases are as follows:

Assets:	Governmental Activities
Vehicles	\$ 37,369
	\$ 37,369
Less Accumulated Depreciation	\$ (23,573)
	\$ 13,796

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016 were as follows:

Year Ending June 30,	Governmental Activities
2017	\$ 10,704
2018	\$ 10,704
2019	\$ 6,085
	\$ 27,493
Total minimum lease payments	\$ 27,493
Less amount representing interest	\$ (3,317)
Present value of minimum lease payments	\$ 24,176

Interest expense was charged to the functions/programs of the primary government as follows:

	Business Type Activities
Water	\$ 39,184
	\$ 39,184

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2016

III.DETAILED NOTES ON ALL FUNDS – continued

E. Fund Equity

Net Position - Restricted

The government-wide statement of net position reports \$91,052 of restricted net position. Details of restricted net position are as follows:

Restricted Net Assets	
Cemetery Care Fund	\$ 18,779
Cemetery Perpetual Fund	\$ 35,666
Grant Fund	\$ 5,590
One Cent Sales Tax Fund	\$ 77,931
	\$ 137,966

Governmental Fund Balance Classifications

As of June 30, 2016, fund balances of the Governmental Funds were classified as follows:

Restricted	General	Sales Tax	Grant	Governmental	Total
Cemetery Capital Purchases	\$ -	\$ -	\$ -	\$ 29,169	\$ 29,169
Grant Fund Expenditures	\$ -	\$ -	\$ 9,875	\$ 5,590	\$ 15,465
Dedicated Sales Tax Capital Improvement	\$ -	\$ 54,556	\$ -	\$ -	\$ 54,556
Unassigned	\$ 10,619	\$ -	\$ -	\$ -	\$ 10,619
	\$ 27,383	\$ 54,556	\$ 9,875	\$ 34,759	\$ 126,573

F. Risk Management

The City is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

General Liability, Physical Property and Automobile Liability/ Physical Damage - general liability, physical property and automobile liability/physical damage are insured through the Oklahoma Municipal Assurance Group risk entity pool. Deductibles range from \$0 to \$5,000. Risk of loss retained is limited to the excess of insurance liability coverage limits set by OMAG.

Worker's Compensation - Workers' compensation is insured through CompSource Oklahoma. Risk of loss retained is limited to the excess of insurance liability coverage limits set by CompSource Oklahoma.

CITY OF KONAWA
Notes to the Financial Statements
June 30, 2016

G. Commitments and Contingencies

Grant Programs

In the normal course of operations; the City participates in various federal and state grant programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Note 8 Subsequent Events

The Board of Trustees has evaluated all events subsequent to the balance sheet date of June 30, 2016, through the financial statement issuance date of December 27, 2016 and determined that there are no subsequent events requiring additional disclosure.

CITY OF KONAWA

Konawa, Oklahoma

Required Supplementary Financial Information

June 30, 2016

CITY OF KONAWA

Konawa, Oklahoma

Budgetary Comparison Schedule—General Fund
June 30, 2016

City of Konawa
Budgetary Information
June 30, 2016

The city manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. In June the City Council adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personnel services, materials and supplies, other services and charges, capital outlay, debt services and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements. For budgetary comparison purposes, the City considers all encumbrances to lapse at year end; therefore, encumbrances are not considered expenditures for budgetary comparison purposes. However, the City will re-appropriate these lapsed encumbrances in the subsequent year budget.

CITY OF KONAWA
Budgetary Comparison Schedule
General Fund
June 30, 2016

Exhibit I

	Budgeted Amounts		Actual Amount	Variance With Final Budget Positive (Negative)
	Original	Final		
Resources(Inflows)				
Taxes	\$ 416,600	\$ 416,600	\$ 458,768	\$ 42,168
Charges for Services	\$ 135,550	\$ 135,550	\$ 190,128	\$ 54,578
Fine Revenues	\$ 26,560	\$ 26,560	\$ 41,133	\$ 14,573
Rent	\$ 4,250	\$ 4,250	\$ 31,850	\$ 27,600
Reimbursement	\$ 12,050	\$ 12,050	\$ 15,452	\$ 3,402
Miscellaneous	\$ 22,240	\$ 22,240	\$ 56,713	\$ 34,473
Interest	\$ 330	\$ 330	\$ 4,856	\$ 4,526
Grant Revenues	\$ -	\$ -	\$ 59,720	\$ 59,720
Amounts Available for Appropriation	\$ 617,580	\$ 617,580	\$ 858,620	\$ 241,040
Charges to Appropriation (Outflows)				
General Government	\$ 180,385	\$ 180,385	\$ 142,129	\$ 38,256
Public Safety	\$ 400,380	\$ 400,380	\$ 496,858	\$ (96,478)

The accompanying notes are an integral part of these financial statements.

Other Funds

\$ 59,910

\$ 59,910

\$ 59,910

Exhibit J

Total Charges to Appropriations

\$ 640,675

\$ 640,675

\$ 638,987

\$ 1,688

Budgetary Fund Balance, June 30, 2016

\$ 23,095

\$ 23,095

\$ 219,633

\$ 242,728

The accompanying notes are an integral part of these financial statements.