

**CITY OF WATONGA OKLAHOMA
WATONGA, OKLAHOMA**

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

**FOR THE YEAR ENDED
JUNE 30, 2013**

CITY OF WATONGA, OKLAHOMA
TABLE OF CONTENTS
For the fiscal year ended JUNE 30, 2013

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
BASIC FINANCIAL STATEMENTS:	
<i>Government-wide Financial Statements:</i>	
Statement of Net Position	11
Statement of Activities	12
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) – General Fund	17
Statement of Net Position – Proprietary Funds	19
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	20
Statement of Cash Flows – Proprietary Funds	21
Statement of Fiduciary Net Position	22
Statement of Changes in Fiduciary Net Position	23
Combining Balance Sheet – Nonmajor Governmental Funds	24
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	25
Notes to Basic Financial Statements	26
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	38

WILLIAM K. GAUER
CERTIFIED PUBLIC ACCOUNTANT

121 SOUTH NOBLE ~ P.O. BOX 181
PHONE 580-623-5071

WATONGA, OKLAHOMA 73772
FAX 580-623-5072

WGAUER@GAUERCPA.MYGBIZ.COM

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Watonga
Watonga, Oklahoma

Board of Trustees
Public Works Authority
Watonga, Oklahoma

Board of Trustees
Watonga Economic Development Authority
City of Watonga
Watonga, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Watonga, State of Oklahoma, as of and for the year ended June 30, 2013, 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Watonga, State of Oklahoma, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-11 and 17-18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Watonga, State of Oklahoma's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional

procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

A handwritten signature in black ink, appearing to read 'W. D. [unclear]', is written over a horizontal dashed line.

Watonga, Oklahoma
April 30, 2014

Within this section, the City of Watonga's ("City") management provides narrative discussion and analysis of the financial performance of the City's for the fiscal year ended June 30, 2013. The City's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. This discussion focuses on the City's primary government, and unless otherwise noted, component units reported separately from the primary government are not included. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL SUMMARY

- At June 30, 2013, the assets of the City exceeded its liabilities by \$23,553,045 (net position). Of this amount \$1,144,695 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors. This compared to the previous year when assets exceeded liabilities by \$24,916,477.
- The City's total net position are comprised of the following:
 - (1) Invested in capital assets, net of related debt of \$20,860,852 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase of construction of capital assets.
 - (2) Restricted net position of \$1,547,498.
 - (3) Unrestricted net position of \$1,144,695 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Total liabilities of the City decreased by \$23,763 during the fiscal year.
- After transfers of \$565,750 from business-type activities to governmental activities, net position of governmental activities decreased \$1,144,500 or 8.63%, and net position of business-type activities decreased \$586,169 or 4.85%. Overall the health of the City declined when compared to prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,371,180 or 59.16% of total General Fund expenditures, excluding transfers.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

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

The City's financial reporting entity includes the funds of the City (primary government) and organization for which the City is accountable (component units). The Watonga Municipal Hospital Authority is a separate legal entity which operates independently and provides services directly to the citizens though the City remains accountable for their actions. As such, the Watonga Municipal Hospital Authority is reported separately from the primary government. More information on the Watonga Municipal Hospital Authority can be found in their audit report obtained directly from the Hospital Authority.

Fund Financial Statements

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

The City has three kinds of funds:

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

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

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

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

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

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

Notes to the financial statements

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

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position at June 30, 2013 are \$23,553,045. This is a \$1,363,432 decrease over June 30, 2012 net position of \$24,916,477. The City reported positive balances in total net position for both governmental and business-type activities, reporting \$12,045,312 and \$11,507,733, respectively. The City's overall financial position declined during fiscal year 2013.

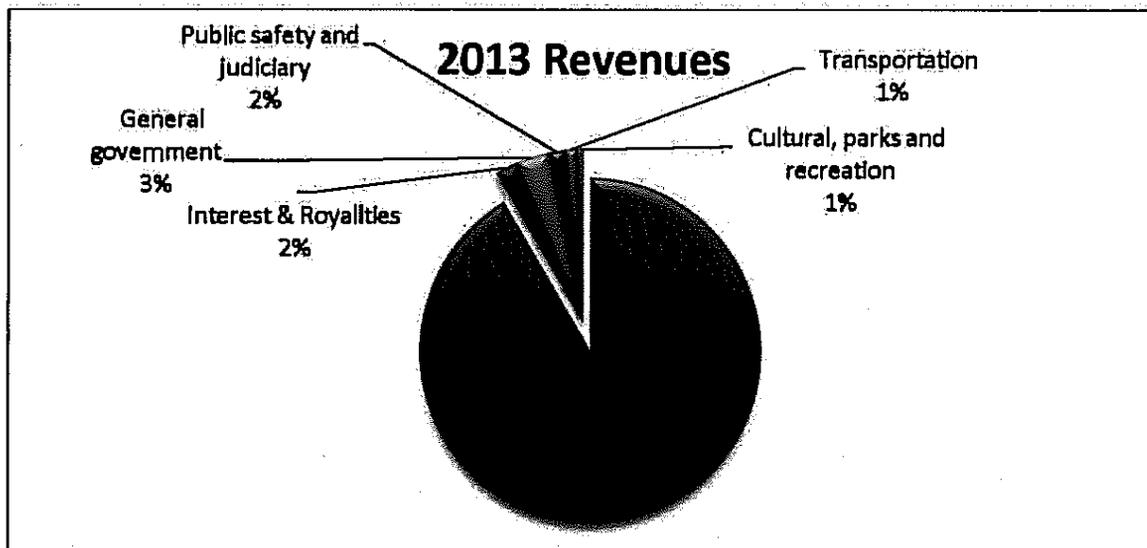
	Governmental Activities		Business-Type Activities		Total		\$ Change	% Change
	2013	2012	2013	2012	2013	2012		
Current assets	\$ 3,467,390	\$ 3,948,000	\$ 1,206,421	\$ 901,888	\$ 4,673,811	\$ 4,849,888	\$ (176,077)	-4%
Non-current assets	-	75,000	-	205,321	-	280,321	(280,321)	-100%
Capital assets, net	10,335,145	11,023,479	10,600,531	10,842,994	20,935,676	21,866,473	(930,797)	-4%
Total assets	13,802,535	15,046,479	11,806,952	11,950,203	25,609,487	26,996,682	(1,387,195)	-5%
Current liabilities	46,561	70,394	244,459	223,713	291,020	294,107	(3,087)	-1%
Non-current liabilities	1,710,662	1,711,273	54,760	74,825	1,765,422	1,786,098	(20,676)	-1%
Total liabilities	1,757,223	1,781,667	299,219	298,538	2,056,442	2,080,205	(23,763)	-1%
Net assets								
Invested in capital assets, net of related debt	10,335,145	9,387,206	10,525,707	10,749,080	20,860,852	20,136,286	724,566	4%
Restricted	1,547,498	1,728,047	-	-	1,547,498	1,728,047	(180,549)	-10%
Unrestricted	162,669	2,149,559	982,026	902,585	1,144,695	3,052,144	(1,907,449)	-62%
Total net position	\$ 12,045,312	\$ 13,264,812	\$ 11,507,733	\$ 11,651,665	\$ 23,553,045	\$ 24,916,477	\$ (1,363,432)	-5%

Summary of Changes in Net Assets

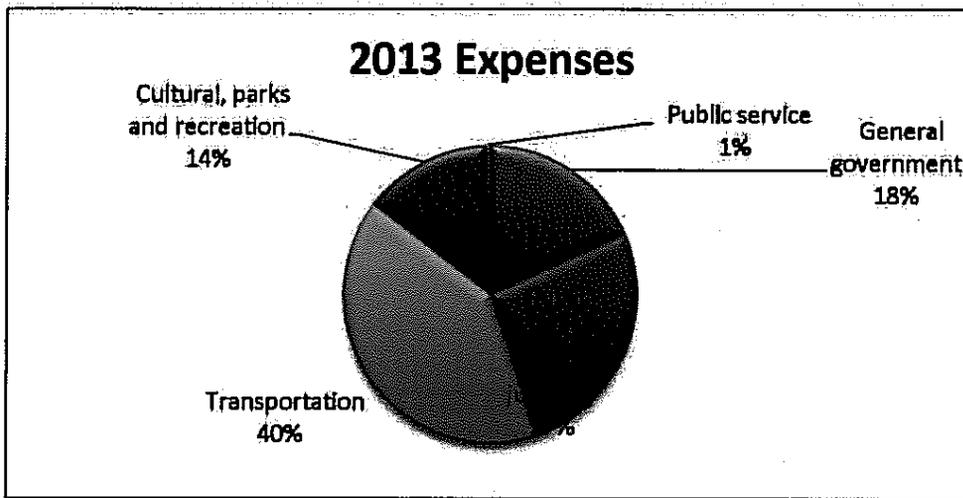
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2013	2012	2013	2012	2013	2012		
Revenues								
Program revenues	\$ 141,080	\$ 142,880	\$ 3,925,747	\$ 3,861,687	\$ 4,086,827	\$ 4,004,567	\$ 82,280	2%
Taxes and other general revenues	2,125,089	2,748,407	1,353	1,387	2,126,442	2,749,794	(623,352)	-23%
Total revenues	2,266,169	2,891,267	3,927,100	3,863,074	6,193,269	6,754,361	(561,092)	-21%
Expenses								
General government	591,202	696,519	-	-	591,202	696,519	(105,317)	-15%
Public safety and judiciary	852,284	738,571	-	-	852,284	738,571	113,693	15%
Transportation	1,301,637	1,146,887	-	-	1,301,637	1,146,887	154,650	14%
Cultural, parks, and recreation	454,022	426,740	-	-	454,022	426,740	27,282	6%
Public service	17,740	1,797	-	-	17,740	1,797	15,943	100%
Economic development	-	-	17,075	5,400	17,075	5,400	11,675	100%
Electric	-	-	2,174,488	1,838,369	2,174,488	1,838,369	336,119	18%
Water	-	-	363,387	312,573	363,387	312,573	50,814	16%
Sewer	-	-	277,672	285,303	277,672	285,303	(7,631)	-3%
Sanitation	-	-	85,892	119,346	85,892	119,346	(33,454)	-28%
Healthcare	-	-	11,578	-	11,578	-	11,578	-
Airport	-	-	167,704	141,769	167,704	141,769	25,935	18%
Administration	-	-	298,864	255,175	298,864	255,175	43,689	17%
Total expenses	3,218,865	3,010,314	3,396,460	2,857,935	6,813,325	5,968,249	845,076	11%
Excess (deficiency) before transfers	\$ (950,696)	\$ (119,027)	\$ 530,640	\$ 905,139	\$ (420,056)	\$ 786,112	\$ (1,206,168)	-153%
Transfers - Internal	565,750	1,027,522	(565,750)	(1,027,522)	-	-	-	0%
Transfers to lessee- healthcare	(758,554)	(1,143,176)	(551,059)	-	(1,310,613)	(1,143,176)	(167,437)	0%
Increase (decrease) in net assets	\$ (1,144,500)	\$ (234,681)	\$ (588,189)	\$ (122,383)	\$ (1,730,669)	\$ (357,064)	\$ (1,373,605)	385%

Revenues for the City decreased 6.22% over the prior year. This decrease in revenues is mainly attributable to a decrease in sales tax. Operating expenses increased over prior fiscal year 2012 with a 10.81% change.

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

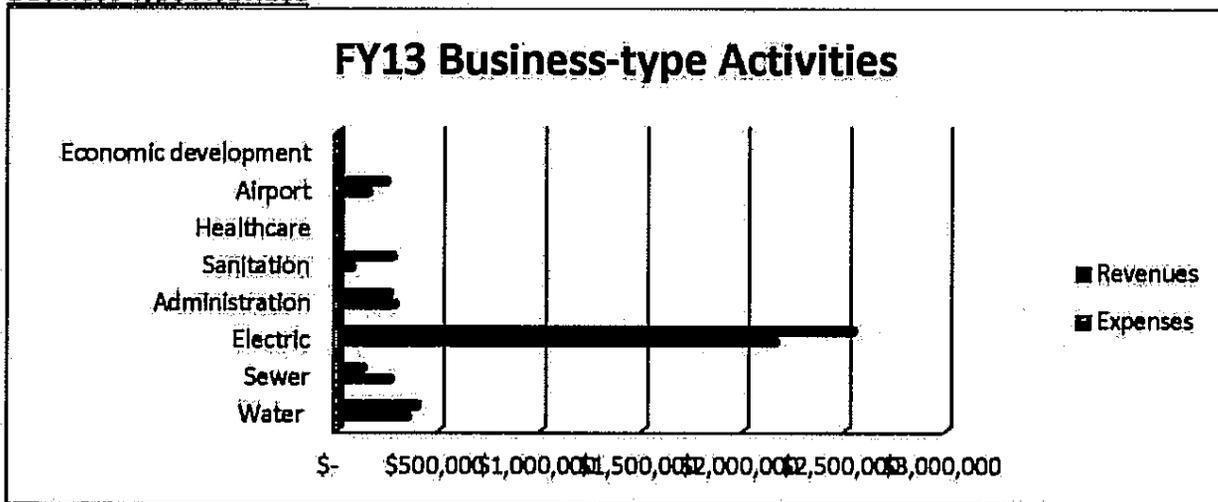


Taxes proved for 91% of the City's governmental revenues in fiscal year 2013. General government followed as the second major revenue source accounting for 3% of governmental revenues.



For the year ended June 30, 2013, total expenses for governmental activities were \$3,216,865. Of this amount, transportation with \$1,301,637 was the largest operating service department at 40% of the total cost of services for governmental activities. These costs, as well as all other governmental activity expenses, were primarily funded by tax revenues and transfers in from the Light and Water fund. It should be noted that governmental expenses are adjusted from the fund statements to the government-wide statements for the purchase and construction of capital assets. Government-wide statement is full accrual; capital outlay expenses are eliminated and capital assets are reported.

Business-type Activities



Business-type activities are shown comparing costs to revenues generated by the related services. Sanitation, Sewer, Water, and Electric activities are intended to be self-supporting with user charges and other revenues designed to recover costs. Other activities provide services with minimal user charges.

For the fiscal year ended June 30, 2013, revenues from electric, water, sanitation and airport services covered the cost of operating their respective departments.

General Fund Budgetary Highlights

The adopted budget for the General Fund for fiscal year 2013 was \$2,390,310. Actual expenses were \$72,412 less than budgeted amounts. The General Fund budget complied with financial policies approved by the City.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2013, the City had \$20,860,852 invested in capital assets, net of related debt, including vehicles and equipment for police and fire operations, street improvements, and park facilities, in governmental activities and electric lines, water lines and sewer lines in business-type activities. Refer to the table below.

Primary Government Capital Assets (net of accumulated depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Land	\$ 650,540	\$ 650,540	\$ 73,020	\$ 69,070	\$ 723,560	\$ 719,610
Buildings	164,405	174,785	1,551,530	1,308,446	1,715,935	1,483,231
Machinery & equipment	752,793	758,644	346,930	404,102	1,099,723	1,162,746
Utility property & improvements	8,767,407	9,439,510	8,629,051	9,061,376	17,396,458	18,500,886
Totals	\$ 10,335,145	\$ 11,023,479	\$ 10,600,531	\$ 10,842,994	\$ 20,935,676	\$ 21,866,473

- In Governmental Activities, the most significant additions included computers and software, a road broom, a vehicle for the street department, and defibrillators for the fire department.
- In Business-type activities capital additions included transformers, traffic signal, a disposal pump, airport taxiway projects and airport perimeter fencing and gates.

Long-Term Debt

At year-end, the City had \$1,774,825 in long-term debt outstanding. The City's changes in long-term debt by type of debt are as follows:

Primary Government Long-Term Debt

	Governmental		Business-type	
	Activities		Activities	
	2013	2012	2013	2012
Notes payable	-	-	74,825	93,914
Bonds payable	1,700,000	1,700,000	-	-
less current portion	-	-	(20,064)	(19,089)
Totals	\$ 1,700,000	\$ 1,700,000	\$ 54,761	\$ 74,825

ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES

Economic Environment

The national economic recession resulted in economic concerns and issues for the City. Sales tax revenues decreased this fiscal year. Because the City has effective processes in place to deal with the economic declines, the impact of the national recession on the City has not been as detrimental as it has in other cities and other part of the country. Improvement in the economic position continues to be cautiously projected.

Fiscal Year 2013

The City falls under the Estimate of Needs budget basis. Recurring revenues, including sales and use taxes, are budgeted at 90% of prior year collections. Utility revenues were budgeted to increase by 1.7%. This approach will ensure that any further decline in the economic can be absorbed by the City.

Operating expenses are budgeted consistent with prior year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's Office at Watonga City Hall.

City of Watonga, Oklahoma
Statement of Net Position
June 30, 2013

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 910,592	\$ 563,838	\$ 1,474,430
Investments	846,514	150,000	996,514
Due from other governments	168,337	-	168,337
Accounts receivable (net)	-	492,583	492,583
Total current assets	1,925,443	1,206,421	3,131,864
Restricted assets:			
Cash and cash equivalents	1,541,947	-	1,541,947
Total restricted assets	1,541,947	-	1,541,947
Noncurrent Assets:			
Land and construction in progress	650,540	69,070	719,610
Other capital assets (net of accumulated depreciation)	9,684,605	10,531,481	20,216,066
Total noncurrent assets	10,335,145	10,600,531	20,935,676
Total assets	\$ 13,802,535	\$ 11,806,952	\$ 25,609,487
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 3,389	\$ 200,536	\$ 203,925
Wages and benefits payable	24,491	7,919	32,410
Compensated absences	18,681	9,524	28,205
Other liabilities	-	6,416	6,416
Notes payable, current	-	20,064	20,064
Total current liabilities	46,561	244,459	291,020
Noncurrent liabilities:			
Notes payable	-	54,760	54,760
Bonds payable, net of premium	1,710,662	-	1,710,662
Total noncurrent liabilities	1,710,662	54,760	1,765,422
Total liabilities	1,757,223	299,219	2,056,442
NET POSITION			
Invested in capital assets, net of related debt	10,335,145	10,525,707	20,860,852
Reserved for restricted purposes	1,547,498	-	1,547,498
Unrestricted	162,669	982,026	1,144,695
Total net position	\$ 12,045,312	\$ 11,507,733	\$ 23,553,045

City of Watonga, Oklahoma
Statement of Activities
Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense)/ Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants & Contributions
Governmental activities:					
General government	\$ 591,202	\$ 3,844	\$ 13,519	\$ 50,000	\$ (523,839)
Public safety and judiciary	852,264	26,419	9,311	-	(816,534)
Transportation	1,301,637	9,786	15,000	-	(1,276,851)
Cultural, parks and recreation	454,022	4,422	8,779	-	(440,821)
Public service	17,740	-	-	-	(17,740)
Total governmental activities	3,216,865	44,471	46,609	50,000	(3,075,785)
Business-type activities:					
Water	363,387	408,506	-	-	45,119
Sewer	277,672	142,474	-	-	(135,198)
Electric	2,174,488	2,554,546	-	-	380,058
Administration	298,664	272,992	-	-	(25,672)
Sanitation	85,892	290,280	-	-	204,388
Healthcare	11,578	1	-	-	(11,577)
Airport	167,704	36,646	-	220,302	89,244
Economic development	17,075	-	-	-	(17,075)
Total business-type activities	3,396,460	3,705,445	-	220,302	529,287
Total primary government	\$ 6,613,325	\$ 3,749,916	\$ 46,609	\$ 270,302	\$ (2,546,498)

City of Watonga, Oklahoma
Statement of Activities (continued)
Year Ended June 30, 2013

Changes in Net Position:

	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (3,075,785)	\$ 529,287	\$ (2,546,498)
General revenues:			
Taxes:			
Sales tax	1,677,847	-	1,677,847
Use tax	88,210	-	88,210
Franchise tax	29,246	-	29,246
Property tax	121,397	-	121,397
Other taxes	112,680	-	112,680
Oil and gas royalties	31,382	-	31,382
Investment income	16,812	1,353	18,165
Miscellaneous	47,515	-	47,515
Transfers-Internal activity	565,750	(565,750)	-
Transfers to lessee- healthcare	(759,554)	(551,059)	(1,310,613)
Total general revenues and transfers	<u>1,931,285</u>	<u>(1,115,456)</u>	<u>815,829</u>
Change In net position	(1,144,500)	(586,169)	(1,730,669)
Net position-beginning	13,264,812	12,093,902	25,358,714
Early implement GASB 65	(75,000)	-	(75,000)
Net position-ending	<u>\$ 12,045,312</u>	<u>\$ 11,507,733</u>	<u>\$ 23,553,045</u>

City of Watonga, Oklahoma
Balance Sheet
June 30, 2013

	General Fund	Street and Alley Fund	Debt Service	Hospital Special Revenue	Sales Tax (Capital Improvement)	General Obligation Bonds	Non-Major Funds	Total Governmental Funds
ASSETS								
Cash and cash equivalents	\$ 477,609	\$ 71,929	\$ 94,593	\$ 68,639	\$ 175,050	\$ 1,378,715	\$ 186,004	\$ 2,452,539
Investments	846,514	-	-	-	-	-	-	846,514
Due from other governments	93,680	2,261	-	57,917	14,479	-	-	168,337
Total assets	\$ 1,417,803	\$ 74,190	\$ 94,593	\$ 126,556	\$ 189,529	\$ 1,378,715	\$ 186,004	\$ 3,467,390
LIABILITIES								
Accounts payable	\$ 3,389	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,389
Wages and benefits payable	24,491	-	-	-	-	-	-	24,491
Compensated absences	18,681	-	-	-	-	-	-	18,681
Total liabilities	46,561	-	-	-	-	-	-	46,561
FUND BALANCES								
Restricted	-	74,190	94,593	-	-	1,378,715	-	1,547,498
Committed	-	-	-	126,556	189,529	-	-	316,085
Assigned	62	-	-	-	-	-	186,004	186,066
Unassigned	1,371,180	-	-	-	-	-	-	1,371,180
Total fund balances	1,371,242	74,190	94,593	126,556	189,529	1,378,715	186,004	3,420,829
Total liabilities and fund balances	\$ 1,417,803	\$ 74,190	\$ 94,593	\$ 126,556	\$ 189,529	\$ 1,378,715	\$ 186,004	\$ 3,467,390
Total fund balance- total governmental funds								\$ 3,420,829
Amounts reported for governmental activities in the Statement of Net Position are different because:								
Land and capital assets, net of accumulated depreciation, are not financial resources and, in the funds, and therefore, are not reported								
							650,540	
							24,884,500	
							(15,199,895)	
								10,335,145
Long-term portion of liabilities are not due and payable in the current period and are not reported								
								(1,710,662)
Net assets of governmental activities								\$ 12,045,312

City of Watonga, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2013

	General Fund	Street and Alley Fund	Debt Service	Hospital Special Revenue	Sales Tax (Capital Improve)	General Obligation Bonds	Non-Major Funds	Total Governmental Funds
REVENUES								
Sales tax	\$ 839,377	\$ -	\$ -	\$ 670,776	\$ 167,694	\$ -	\$ -	\$ 1,677,847
Use tax	88,210	-	-	-	-	-	-	88,210
Franchise tax	29,246	-	-	-	-	-	-	29,246
Other taxes	81,277	31,403	-	-	-	-	-	112,680
Property taxes	-	-	121,397	-	-	-	-	121,397
Licenses and permits	3,844	-	-	-	-	-	-	3,844
Rents & royalties	31,362	-	-	-	-	-	-	31,362
Fines and forfeitures	26,037	-	-	-	-	-	-	26,037
Charges for services	4,804	8,948	-	-	-	-	-	13,752
Intergovernmental revenues	-	15,000	-	-	-	-	-	33,090
Donations	50,000	-	-	-	-	-	18,090	50,000
Other revenues	61,034	838	-	-	-	-	-	61,872
Interest	10,817	75	2,623	369	138	2,662	128	16,812
Total revenues	1,228,028	58,264	124,020	671,145	167,832	2,662	18,218	2,268,169
EXPENDITURES								
Current								
General government:								
General government	333,262	-	-	-	-	-	-	333,262
Managerial	13,376	-	-	-	-	-	-	13,376
City clerk	137,684	-	-	-	-	-	-	137,684
City treasurer	17,872	-	-	-	-	-	-	17,872
City attorney	39,187	-	-	-	-	-	-	39,187
Total general government	541,381	-	-	-	-	-	-	541,381
Public safety and judiciary:								
Municipal court	10,662	-	-	-	-	-	-	10,662
Police	521,914	-	-	-	-	-	-	521,914
Fire	249,892	-	-	-	7,647	-	12,750	270,489
Total public safety and judiciary	782,468	-	-	-	7,647	-	12,750	803,065
Transportation:								
Street	572,676	48,545	-	-	-	-	-	621,221
Total transportation	572,676	48,545	-	-	-	-	-	621,221
Cultural, parks and recreation:								
Library	200,361	-	-	-	-	-	8,400	206,761
Park	193,277	-	-	-	-	-	-	193,277
Total cultural, parks and recreation	393,638	-	-	-	-	-	8,400	400,038
Public service:								
Airport	17,740	-	-	-	-	-	-	17,740
Total public service	17,740	-	-	-	-	-	-	17,740
Capital outlay	9,995	18,173	-	-	67,695	-	2,379	98,242
Debt service	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-
Interest	-	-	47,455	-	-	-	-	47,455
Fiscal charges	-	-	-	-	-	-	-	-
Total expenditures	2,317,898	68,718	47,455	-	75,542	-	21,529	2,529,142
Excess (deficiency) of revenues over expenditures	(1,091,870)	(10,454)	76,565	671,145	92,290	2,662	(3,311)	(262,973)
OTHER FINANCING SOURCES (USES)								
Transfers in	805,000	-	-	20,090	800	-	100,000	925,890
Transfers out	(143,294)	-	-	-	(21,404)	(195,442)	-	(360,140)
Transfers out to lessee- healthcare	-	-	-	(705,674)	-	(53,880)	-	(759,554)
Premium on bonds	-	-	-	-	-	-	-	-
Long-term debt issued	-	-	-	-	-	-	-	-
Total other financing sources and uses	661,706	-	-	(685,584)	(20,604)	(249,322)	100,000	(193,604)
Net change in fund balances	(430,164)	(10,454)	76,565	(14,439)	71,686	(246,660)	96,689	(456,777)
Fund balances - beginning	1,601,408	84,644	18,028	140,995	117,843	1,625,375	89,315	3,877,606
Fund balances - ending	\$ 1,171,242	\$ 74,190	\$ 94,593	\$ 126,556	\$ 189,529	\$ 1,378,715	\$ 188,004	\$ 3,420,829

City of Watonga, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2013

Reconciliation of the change in fund balances - total governmental funds
to the change in net position of governmental activities:

Net change in fund balances - total governmental funds \$ (456,777)
Amounts reported for governmental activities in the Statement of Activities are
different because:

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

Capital asset purchases capitalized	98,242	
Depreciation expense	(786,576)	(688,334)

The proceeds of debt issuances provide current financial resources to governmental
funds, but issuing debt increases long-term liabilities in the statement of net position.
Repayment of debt principal is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the statement of net position.

Premium on bonds	611
------------------	-----

Change in Net Position of Governmental Activities	\$ (1,144,500)
---	----------------

City of Watonga, Oklahoma
General Fund
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2013

	Original Budget	Revisions	Revised Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES					
Sales tax	\$ 900,000	\$ (55,250)	\$ 844,750	\$ 845,700	\$ 950
Use tax	90,000	(11,500)	78,500	78,664	164
Cigarette tax	31,660	(10,160)	21,500	21,980	480
Franchise Tax	29,331	-	29,331	29,246	(85)
Alcoholic beverage tax	46,455	7,500	53,955	58,513	4,558
Police Fines & Court Fees	18,831	3,000	21,831	26,419	4,588
Insure OK	23,553	(12,000)	11,553	11,793	240
Rentals, sales, miscellaneous	40,002	85,006	125,008	126,543	1,535
Oil & gas income	1,680	650	2,330	2,354	24
Licenses & permits	2,330	1,500	3,830	3,844	14
Interest Income	13,645	(3,000)	10,645	10,817	172
Golf fees	7,585	(3,000)	4,585	4,422	(163)
Watonga Housing Authority	5,607	(4,000)	1,607	1,726	119
Total revenues	1,210,679	(1,254)	1,209,425	1,222,021	12,596
EXPENDITURES					
General government:					
General government:	264,650	88,000	350,650	338,738	11,912
Managerial:	13,870	500	14,370	13,376	994
City Clerk:	135,300	2,500	137,800	137,684	116
City Treasurer:	18,100	-	18,100	17,872	228
City Attorney:	29,455	13,995	43,450	39,187	4,263
Total General government:	461,375	102,995	564,370	546,857	17,513
Public safety and judiciary:					
Municipal Court:	10,490	-	10,490	10,662	(172)
Police Department:	543,800	-	543,800	521,914	21,886
Fire Department:	277,600	-	277,600	251,654	25,946
Total	831,890	-	831,890	784,230	47,660
Transportation:					
Street:	542,350	23,500	565,850	575,433	(9,583)
Total	542,350	23,500	565,850	575,433	(9,583)
Culture and recreation:					
Library:	193,525	8,775	200,300	200,361	(61)
Park:	209,150	-	209,150	193,277	15,873
Total Culture and recreation:	402,675	8,775	409,450	393,638	15,812
Public services					
Airport:	18,250	2,500	18,750	17,740	1,010
Total Public services	18,250	2,500	18,750	17,740	1,010
Total expenditures	2,254,540	195,770	2,390,310	2,317,898	72,412
Revenue over (under) expenditures	(1,043,861)	(137,024)	(1,180,885)	(1,095,877)	85,008

City of Watonga, Oklahoma
 General Fund
 Budget and Actual (Non-GAAP Budgetary Basis)
 Year Ended June 30, 2013

	<u>Original Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	900,000	29,000	929,000	661,707	(267,293)
Net other financing sources (uses)	<u>900,000</u>	<u>29,000</u>	<u>929,000</u>	<u>661,707</u>	<u>(267,293)</u>
Revenues and other financing sources over (under) expenditures and other uses	(143,861)	(108,024)	(251,885)	(434,170)	(182,285)
Fund balance at beginning of year (Non-GAAP budgetary basis)	1,782,126	1,782,126	1,782,126	1,786,799	4,673
Fund balance at end of year (Non-GAAP budgetary basis)	<u>\$ 1,638,265</u>	<u>\$ 1,674,102</u>	<u>\$ 1,530,241</u>	<u>\$ 1,352,629</u>	<u>\$ (177,612)</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				18,613	
Fund balance at end of year (GAAP basis)				<u>\$ 1,371,242</u>	

City of Watonga, Oklahoma
Statement of Net Position
Proprietary Fund
June 30, 2013

	Light and Water Fund	Hospital Authority Fund	Public Works Authority	Economic Development Authority	Total Enterprise Funds
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 541,379	\$ -	\$ 20,187	\$ 2,272	\$ 563,838
Investments	150,000	-	-	-	150,000
Accounts receivable, net	492,583	-	-	-	492,583
Total current assets	<u>1,183,962</u>	<u>-</u>	<u>20,187</u>	<u>2,272</u>	<u>1,206,421</u>
Noncurrent assets:					
Capital assets (net)	8,942,203	75,043	1,583,285	-	10,600,531
Total noncurrent assets	<u>8,942,203</u>	<u>75,043</u>	<u>1,583,285</u>	<u>-</u>	<u>10,600,531</u>
Total assets	<u>\$ 10,126,165</u>	<u>\$ 75,043</u>	<u>\$ 1,603,472</u>	<u>\$ 2,272</u>	<u>\$ 11,806,952</u>
LIABILITIES					
Current liabilities:					
Accounts payable	\$ 200,536	\$ -	\$ -	\$ -	\$ 200,536
Wages and benefits payable	17,443	-	-	-	17,443
Other liabilities	6,416	-	-	-	6,416
Notes payable, current	-	-	20,064	-	20,064
Total current liabilities	<u>224,395</u>	<u>-</u>	<u>20,064</u>	<u>-</u>	<u>244,459</u>
Noncurrent liabilities:					
Notes payable, non-current	-	-	54,760	-	54,760
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>54,760</u>	<u>-</u>	<u>54,760</u>
Total liabilities	<u>224,395</u>	<u>-</u>	<u>74,824</u>	<u>-</u>	<u>299,219</u>
NET POSITION					
Invested in capital assets, net of related debt	8,942,203	75,043	1,508,461	-	10,525,707
Unrestricted	959,567	-	20,187	2,272	982,026
Total net position	<u>\$ 9,901,770</u>	<u>\$ 75,043</u>	<u>\$ 1,528,648</u>	<u>\$ 2,272</u>	<u>\$ 11,507,733</u>

City of Watonga, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2013

	Light and Water Fund	Hospital Authority Fund	Public Works Authority	Economic Development Authority	Total Enterprise Funds
Operating revenues:					
Charges for services:					
Water charges	\$ 408,506	\$ -	\$ -	\$ -	\$ 408,506
Sewer charges	142,474	-	-	-	142,474
Electric charges	2,554,546	-	-	-	2,554,546
Sanitation charges	290,280	-	-	-	290,280
Sale of fuel	-	-	14,605	-	14,605
Penalties	55,236	-	-	-	55,236
Total charges for services	<u>3,451,042</u>	<u>-</u>	<u>14,605</u>	<u>-</u>	<u>3,465,647</u>
Lease and rental income	-	1	22,041	-	22,042
Other fees and charges	217,756	-	-	-	217,756
Total operating revenues	<u>3,668,798</u>	<u>1</u>	<u>36,646</u>	<u>-</u>	<u>3,705,445</u>
Operating expenses:					
Cost of sales	1,823,456	-	-	-	1,823,456
Personal services	449,447	-	-	-	449,447
Materials and supplies	168,461	-	10,129	-	178,590
Other services and charges	212,699	-	22,572	17,075	252,346
Depreciation and amortization	546,040	11,578	128,796	-	686,414
Total operating expenses	<u>3,200,103</u>	<u>11,578</u>	<u>161,497</u>	<u>17,075</u>	<u>3,390,253</u>
Net operating income	468,695	(11,577)	(124,851)	(17,075)	315,192
Nonoperating revenue (expense):					
Grants operating	-	-	220,302	-	220,302
Investment income	1,304	-	47	2	1,353
Interest expense	-	-	(6,207)	-	(6,207)
Total nonoperating revenue/(expense)	<u>1,304</u>	<u>-</u>	<u>214,142</u>	<u>2</u>	<u>215,448</u>
Net income before contributions and transfers	469,999	(11,577)	89,291	(17,073)	530,640
Contributions and transfers:					
Transfer to lessee- healthcare	-	(551,059)	-	-	(551,059)
Transfers from other funds	87,738	195,442	71,070	-	354,250
Transfers to other funds	(915,000)	-	(5,000)	-	(920,000)
Change in net position	(357,263)	(367,194)	155,361	(17,073)	(586,169)
Net position-beginning of year	10,259,033	442,237	1,373,287	19,345	12,093,902
Net position-end of year	<u>\$ 9,901,770</u>	<u>\$ 75,043</u>	<u>\$ 1,528,648</u>	<u>\$ 2,272</u>	<u>\$ 11,507,733</u>

City of Watonga, Oklahoma
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2013

	Light and Water Fund	Hospital Authority Fund	Public Works Authority	Economic Development Authority	Total Enterprise Funds
Cash flows from operating activities:					
Receipts from customers	\$ 3,529,726	\$ 1	\$ 36,646	\$ -	\$ 3,566,373
Payments to suppliers	(2,182,494)	-	(32,701)	(17,075)	(2,232,270)
Payments to employees	(451,798)	-	-	-	(451,798)
Net cash provided (used) by operating activities	895,434	1	3,945	(17,075)	882,305
Cash flows from non-capital financing activities:					
Operating grants and contributions	-	-	220,302	-	220,302
Transfers from other funds	87,738	195,442	71,070	-	354,250
Transfers to other funds	(915,000)	(3,833)	(5,000)	-	(923,833)
Transfers to lessee- healthcare	-	(551,059)	-	-	(551,059)
Cash received on related party note receivable	205,321	-	-	-	205,321
Net cash provided (used) by non-capital financing activities	(621,941)	(359,450)	286,372	-	(695,019)
Cash flows from capital and related financing activities:					
Purchases of capital assets	(61,074)	-	(296,256)	-	(357,330)
Principal paid on capital debt	-	-	(19,090)	-	(19,090)
Interest paid on capital debt	-	-	(6,207)	-	(6,207)
Net cash provided (used) by capital and related financing activities	(61,074)	-	(321,553)	-	(382,627)
Cash flows from investing activities:					
Investment income	1,304	-	47	2	1,353
Net cash provided (used) by investing activities	1,304	-	47	2	1,353
Net increase (decrease) in cash and cash equivalents	213,723	(359,449)	(31,189)	(17,073)	(193,988)
Cash & cash equivalents, June 30, 2012	327,656	529,733	51,376	19,345	928,110
Cash & cash equivalents, June 30, 2013	<u>\$ 541,379</u>	<u>\$ 170,284</u>	<u>\$ 20,187</u>	<u>\$ 2,272</u>	<u>\$ 734,122</u>
Cash, including time deposits	\$ 541,379	\$ -	\$ 20,187	\$ 2,272	\$ 563,838
Total cash and cash equivalents, end of year	<u>\$ 541,379</u>	<u>\$ -</u>	<u>\$ 20,187</u>	<u>\$ 2,272</u>	<u>\$ 563,838</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities					
Operating income (loss)	\$ 468,695	\$ (11,577)	\$ (124,851)	\$ (17,075)	\$ 315,192
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	546,040	11,578	128,796	-	686,414
Changes in assets and liabilities:					
(Increase) decrease in accounts receivable	(139,072)	-	-	-	(139,072)
Increase (decrease) in accounts payable	23,766	-	-	-	23,766
Increase (decrease) in wages and benefits payable	(2,351)	-	-	-	(2,351)
Increase (decrease) in other liabilities	(1,644)	-	-	-	(1,644)
Total adjustments	426,739	11,578	128,796	-	567,113
Net cash provided (used) by operating activities	<u>\$ 895,434</u>	<u>\$ 1</u>	<u>\$ 3,945</u>	<u>\$ (17,075)</u>	<u>\$ 882,305</u>

City of Watonga, Oklahoma
Statement of Fiduciary Net Position
June 30, 2013

	<u>Agency Funds</u>	<u>Total Fiduciary Funds</u>
ASSETS		
Cash and cash equivalents	\$ 70,156	\$ 70,156
Investments	127,000	127,000
Total assets	<u>\$ 197,156</u>	<u>\$ 197,156</u>
LIABILITIES		
Bonds and deposits subject to refund	\$ 197,156	\$ 197,156
Total liabilities	<u>197,156</u>	<u>197,156</u>

City of Watonga, Oklahoma
Statement of Changes in Fiduciary Net Position
June 30, 2013

	<u>Meter Deposit Fund</u>	<u>Municipal Court Bond Fund</u>	<u>Total Agency Funds</u>
ASSETS			
Cash and cash equivalents	\$ 65,900	\$ 4,256	\$ 70,156
Cash and investments, restricted	127,000	-	127,000
Total assets	<u>\$ 192,900</u>	<u>\$ 4,256</u>	<u>\$ 197,156</u>
LIABILITIES			
Bonds and deposits subject to refund	\$ 192,900	\$ 4,256	\$ 197,156
Total liabilities	<u>\$ 192,900</u>	<u>\$ 4,256</u>	<u>\$ 197,156</u>

	<u>Grant Fund</u>	<u>Huff Savings</u>	<u>Library Fund</u>	<u>Total Non-Major Funds</u>
ASSETS				
Cash and cash equivalents	\$ 150,869	\$ 35,135	\$ -	\$ 186,004
Total assets	<u>\$ 150,869</u>	<u>\$ 35,135</u>	<u>\$ -</u>	<u>\$ 186,004</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Assigned	150,869	35,135	-	186,004
Total fund balances	<u>150,869</u>	<u>35,135</u>	<u>-</u>	<u>186,004</u>
Total liabilities and fund balances	<u>\$ 150,869</u>	<u>\$ 35,135</u>	<u>\$ -</u>	<u>\$ 186,004</u>

	Grant Fund	Huff Savings	Library Fund	Total Non-Major Funds
REVENUES				
Intergovernmental revenue	\$ 9,311	\$ -	\$ 8,779	\$ 18,090
Donations	-	-	-	-
Interest income	-	128	-	128
Total revenues	9,311	128	8,779	18,218
EXPENDITURES				
Public safety and judiciary:				
Fire	12,750	-	-	12,750
Total public safety and judiciary	12,750	-	-	12,750
Cultural, parks and recreation:				
Library	-	-	6,400	6,400
Total cultural, parks and recreation	-	-	6,400	6,400
Capital outlay	-	-	2,379	2,379
Total expenditures	12,750	-	8,779	21,529
Excess (deficiency) of revenues over expenditures	(3,439)	128	-	(3,311)
OTHER FINANCING SOURCES (USES)				
Transfers in/(out)	100,000	-	-	100,000
Total other financing sources and uses	100,000	-	-	100,000
Net change in fund balances	96,561	128	-	96,689
Fund balances - beginning	54,308	35,007	-	89,315
Fund balances - ending	\$ 150,869	\$ 35,135	\$ -	\$ 186,004

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the more significant accounting principles and practices of the City of Watonga, Oklahoma ("City") are discussed in subsequent section of this note. The remainder of the notes is organized to provide explanations, including required disclosures of the City's financial activities for the fiscal year ended June 30, 2013.

A. Reporting Entity

Fund Types and Major Funds

Major Governmental Funds

General Fund

Reported as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Street and Alley Fund

Accounts for the legally restricted gasoline and commercial vehicle taxes. Funds are used for maintenance and repair of streets and street equipment.

Debt Service Fund

Accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt.

Hospital Special Revenue Fund

Accounts for the 2% sales tax restricted for the Hospital Authority's capital expenditures and the transfer to the Hospital Authority.

Sales Tax (Capital Improvement) Fund

Accounts for the capital expenditures of the 1% limited purpose sales tax.

General Obligation Bonds

Accounts for the proceeds of the General Obligation Hospital Funding Bonds of 2013 which were issued June 1, 2013 to pay obligations incurred in the operations, equipping and maintenance of the Watonga Municipal Hospital as well as for all legal, financial and other costs relating to the issuance of the bonds.

Non-Major Governmental Funds

Grant Fund

Established as a special revenue fund to account for the City's grant programs

Huff Savings Fund

Established as a special revenue fund to account for assigned donations.

Library Fund

Established as a special revenue fund to account for the operations of the municipal library.

Major Proprietary Funds

Light and Water Fund

Accounts for the operating activities of the electric, water, sewer, and sanitation utilities of the City.

Public Works Authority

Accounts for the operating activities of the municipal airport.

Watonga Hospital Authority

Accounts for the leasing activities of the municipal hospital to Mercy.

Economic Development Authority

Accounts for the operating activities of the economic development of the City.

Fiduciary Component Units (reported in fiduciary financial statements)

Meter Deposit Fund

Accounts for utility deposits received by customers.

Municipal Court Bond Fund

Accounts for bonds held by the City related to the municipal court operations.

B. Basic Financial Statements

Government-wide Financial Statements

The government-wide financial statements include the statement of net position and statement of activities. These statements report financial information for the City as a whole. The statements distinguish governmental activities, generally supported by

taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. Individual funds are not displayed by the statements.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services with usage fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. Taxes and other revenues sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns.

Measurement Focus and Basis of Accounting

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide statements report using the economic resources measurements focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary financial statements and financial statements of the City's component units also report using the same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considered revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenses are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of provided goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

C. Budget Policy and Practice

Budget Approval

The City follows the Estimate of Needs based budgeting. The budget is submitted on the required form no later than August 27. Revenues estimated for the General Fund are limited to 90% of the prior year recurring revenues plus any unreserved fund balance carry-over. The Council approves the budget.

Compliance

At June 30, 2013, the City was in material compliance with Oklahoma budgeting regulations.

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

Cash and Investments

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

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

Due from other governments

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

Accounts Receivable

Significant receivables include amount due from customers primarily for utility services. These receivables are due within one year. Certain enterprise funds report accounts receivable net of an allowance for uncollectible accounts. The allowance

amount is estimated using accounts receivable past due more than 90 days. At June 30, 2013, the City has estimated an allowance of \$150.

Restricted Assets

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

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

Interfund Balances

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

Capital Assets, Depreciation, and Amortization

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

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

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

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

Deferred Outflows/Inflows of Resources

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

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

Compensated Absences

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

Long-Term Debt

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

Fund Equity

Fund Balance

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

Net Position

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

Invested in capital assets, net of related debt

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

Restricted net position

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

Governmental Fund Balances

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

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

Nonspendable

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

Restricted

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

Committed

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

Assigned

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

Unassigned

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

Use of Estimates

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

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

E. Policies Related to Revenues and Expenses

Program Revenues

Charges for Services

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

Grants and Contributions

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

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

General Revenues

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

Sales Tax

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

One percent (1%) is restricted and recorded as sales tax revenue in the Hospital Special Revenue Fund for capital improvements at the Hospital. One half percent (1/2 %) is restricted and recorded in the Sales Tax (Capital Improvement) Fund to development of the Huff-Lorang Park, other park improvements, and police and fire department use. One percent (1%) is restricted and reported as healthcare transfer to Mercy Hospital in accordance with the lease dated June 22, 2012 (See note (5)C. for further information).

The remaining two percent (2 1/2%) is unrestricted and is recorded as sales tax revenue within the General Fund.

F. New Accounting Pronouncements:

The City implemented the following accounting standards during the fiscal year ended June 30, 2013:

Governmental Accounting Standards Board Statement No. 60- Accounting and Financial Reporting for Service Concession Arrangements- This had no impact on the City's financial report.

Governmental Accounting Standards Board Statement No. 61- The Financial Reporting Entity: Omnibus- This had no impact on the City's financial report.

Governmental Accounting Standards Board Statement No. 62- Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements- A few sentences were removed from Note 1(B) note disclosure to eliminate references to FASB pronouncements and APB opinions issued on or before November 30, 1989.

Governmental Accounting Standards Board Statement No. 63- Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position- The only change required from the implementation of this statement was to change the Statement of Net Assets to a Statement of Net Position by creating two new financial statement elements.

Governmental Accounting Standards Board Statement No. 65- Items Previously Reported as Assets and Liabilities- This was early implemented, and required the reporting of deferred inflows and deferred outflows

(2) ASSETS AND LIABILITIES

A. Assets

Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the City's deposits may not be returned or the City will not be able to recover collateral securities in the possession of an outside party. The City's deposits are secured by collateral values at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC). Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes.

Investments

The City invests primarily in certificates of deposit. Investment securities are exposed to various risks such as interest rate risk and credit risk.

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

<u>Types of Investments</u>	Primary Government			
	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings (1)</u>	<u>weighted Average Days to Maturity (2)</u>
Primary government INVESTMENTS:				
Certificates of deposit	\$ 996,514	\$ 996,514	N/A	134
Total investments	<u>996,514</u>	<u>996,514</u>		
Total primary government investments	<u>\$ 996,514</u>	<u>\$ 996,514</u>		

RECONCILIATION TO STATEMENT OF NET ASSETS

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Investments, unrestricted	\$ 846,514	\$ 150,000	\$ 996,514
Total investments	<u>\$ 846,514</u>	<u>\$ 150,000</u>	<u>\$ 996,514</u>

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

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

Restricted Assets

	<u>Cash</u>
<i>Governmental Activities</i>	
Debt service sinking fund	\$ 94,593
Hospital sales tax	68,639
GO bonds- hospital	1,378,715
Total Governmental Activities	<u>1,541,947</u>
Total Restricted Assets	<u>\$ 1,541,947</u>

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Capital Assets

Changes in Capital Assets

	Primary Government			Balance at June 30, 2013
	Balance at June 30, 2012	Additions	Deletions	
<u>Governmental Activities</u>				
Land	\$ 650,540	\$ -	\$ -	\$ 650,540
Buildings & structures	2,962,122	-	-	2,962,122
Machinery, furniture, & equipment	2,663,001	98,242	-	2,761,243
Infrastructure & improvements	19,161,135	-	-	19,161,135
Total	25,436,798	98,242	-	25,535,040
Less accumulated depreciation	14,413,319	786,576	-	15,199,895
Governmental fixed assets, net	\$ 11,023,479	\$ (688,334)	\$ -	\$ 10,335,145
<u>Business-type Activities</u>				
Land	\$ 69,070	\$ 3,950	\$ -	\$ 73,020
Buildings & structures	5,288,530	916,165	-	6,204,695
Machinery, furniture, & equipment	1,297,245	12,367	-	1,309,612
Infrastructure & improvements	17,847,077	56,964	-	17,904,041
Total	24,501,922	989,446	-	25,491,368
Less accumulated depreciation	13,658,928	686,414	(545,495)	14,890,837
Business-type fixed assets, net	\$ 10,842,994	\$ 303,032	\$ (545,495)	\$ 10,600,531
Total primary government	\$ 21,866,473	\$ (385,302)	\$ (545,495)	\$ 20,935,676
<u>Business-type Activities</u>				
	Light and Water Fund	Watonga Hospital Authority	Public Works Authority	Total Business-Type
Land	\$ 48,070	\$ 3,950	\$ 21,000	\$ 73,020
Buildings & structures	222,856	628,166	5,353,673	6,204,695
Machinery, furniture, & equipment	1,028,680	-	280,932	1,309,612
Infrastructure & improvements	17,904,041	-	-	17,904,041
Total	19,203,647	632,116	5,655,605	25,491,368
Less accumulated depreciation	(10,261,444)	(557,073)	(4,072,320)	(14,890,837)
Business-type fixed assets, net	\$ 8,942,203	\$ 75,043	\$ 1,583,285	\$ 10,600,531

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Depreciation Expense

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General government	\$ 2,977	Water	\$ 219,957
Public safety & judiciary	49,199	Sewer	224,970
Transportation	680,416	Electric	69,785
Cultural, parks & recreation	53,984	Administration	11,647
Total depreciation expense	<u>\$ 786,576</u>	Sanitation	19,681
		Hospital	11,578
		Airport	128,796
		Total depreciation expense	<u>\$ 686,414</u>

B. Liabilities

Notes Payable

Governmental Activities

The City of Watonga issued General Obligation Hospital Funding Bonds of 2013 dated June 1, 2013 in the amount of \$1,700,000 to be used for obligations incurred in the operations, equipping and maintenance of Watonga Municipal Hospital as well as all legal, financial, and other costs relating to the issuance of the bonds. Payments are made semi-annually with a variable interest rate ranging from 2.00% to 3.6%. The bonds mature June 1, 2032.

\$ 1,700,000

\$ 1,700,000

Business-Type Activities

In October 2009, PWA entered into an agreement with John Deere credit for the purchase of a wheel loader in the amount of \$133,783. The loan carries a fixed interest rate of 5.87% for 84 months, maturing September 2016.

74,825

\$ 74,825

Changes In Long-Term Debt

<u>Type of Debt</u>	<u>Balance at July 1, 2012</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2013</u>	<u>Due Within One Year</u>
Governmental activities:					
General Obligation bonds	\$ 1,700,000	\$ -	\$ -	\$ 1,700,000	\$ -
Business-type activities:					
John Deere Credit	93,914	-	19,089	74,825	20,064
Total business-type activities	<u>\$ 93,914</u>	<u>\$ -</u>	<u>\$ 19,089</u>	<u>\$ 74,825</u>	<u>\$ 20,064</u>
Total primary government	<u>\$ 1,793,914</u>	<u>\$ -</u>	<u>\$ 19,089</u>	<u>\$ 1,774,825</u>	<u>\$ 20,064</u>

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Annual Debt Service Requirements

Year Ending June 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2014	\$ 80,000	\$ 47,455	\$ 20,064	\$ 3,281
2015	90,000	45,855	21,089	2,256
2016	90,000	44,055	22,167	1,179
2017	90,000	41,805	11,505	168
2018	90,000	39,555	-	-
2019-2023	450,000	164,025	-	-
2024-2028	450,000	104,175	-	-
2029-2033	360,000	31,635	-	-
Totals	\$ 1,700,000	\$ 518,560	\$ 74,825	\$ 6,884

C. Interfund Balances

	Transfers In	Transfers Out
GENERAL FUND		
Light and Water Fund	\$ 800,000	\$ 87,738
Sales Tax (Capital Improvement) Fund	-	800
Hospital Special Revenue Fund	-	20,090
Public Works Authority	5,000	34,666
Total General Fund	805,000	143,294
HOSPITAL SPECIAL REVENUE FUND		
Light and Water Fund	20,090	-
Total Hospital Special Revenue Fund	20,090	-
SALES TAX (CAPITAL IMPROVEMENT) FUND		
General Fund	800	-
Public Works Authority	-	21,404
Total Sales Tax (Cap Improve) Fund	800	21,404
GENERAL OBLIGATION BOND FUND		
Hospital Authority	-	195,442
Total General Obligation Bond Fund	-	195,442
LIGHT AND WATER FUND		
General Fund	87,738	800,000
Grant Fund	-	100,000
Public Works Authority	-	15,000
Total Light and Water Fund	87,738	915,000
PUBLIC WORKS AUTHORITY		
General Fund	34,666	5,000
Sales Tax (Capital Improvement) Fund	21,404	-
Light and Water Fund	15,000	-
Total Public Works Authority	71,070	5,000
GRANT FUND		
Light & Water Fund	100,000	-
Total Grant Fund	100,000	-
HOSPITAL AUTHORITY		
General Obligation Bond Fund	195,442	-
Total Huff Savings	195,442	-
GRAND TOTAL	\$ 1,280,140	\$ 1,280,140

(3) REVENUES AND EXPENSES

Interfund Transfers

Refer to Note (2)C. Interfund Balances

(4) PENSION AND POST-EMPLOYMENT PLANS

The City participates in three employee pension systems as follows:

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

A. Oklahoma Municipal Retirement Fund

Plan Description

Substantially all of the City's regular, full time employees, with the exception of police officers and firefighters, participate in a defined contribution plan administered by the Oklahoma Municipal Retirement System (OMRF), a statewide fund established to administer pension plans for municipal employees. The defined contribution plan is funded through contributions as elected by each municipality. Participants are required to participate 4% of their covered compensation. The City contributes 20.53% of covered compensation. Participants are permitted to make voluntary deductible contributions to the plan.

The funds are credited to individual participant accounts and pooled for investment purposes through OMRF. All gains and/or losses are credited directly to each participant. Benefits vest after 10 years of service with normal retirement at age 65 and early retirement at age 55 with 10 years or more of service. Upon retirement, termination of employment, disability, or death, the vested portion of a participant's account is paid to the participant or beneficiary. This amount is based on an accumulation of employee and employer contributions, forfeitures, if applicable, and earnings or losses.

The following is a summary of eligibility, contribution methods and benefits provisions:

Provision	OMRF Plan
a. Eligible to Participate	Full-time, employees of the City or Authority, except police, firefighter, and other employees who are covered under another approved system.
b. Contributions Requirement	Yes
- Actuarially Determined	20.53% of covered payroll
- Employer Rate	4% of covered payroll
- Employee Rate	
c. Period Required to Vest	10 years of credited service
d. Eligibility for Distribution	<ul style="list-style-type: none"> - Normal retirement at age 65 with 10 years of service or age 62 with 30 or more years of service - Early Retirement after age 55 with 10 years or more of service. - Disability retirement upon disability with 10 years of service. - Termination before retirement age return of employee contributions with interest
e. Benefit Determination Base	Final average compensation – the average of the five highest consecutive annual salaries out of the last 10 calendar years of service. Accrued benefit is 3% of final average compensation multiplied by the number of year of credited service
f. Benefit Determination Methods:	
- Normal Retirement	Accrued benefit payable immediately.
- Early Retirement	Accrued benefit payable starting at normal retirement age or accrued benefit reduced 5% per year for commencement prior to normal retirement age
- Disability Retirement	Accrued benefit payable upon disablement without reduction for early payment
- Death Benefit	50% of accrued benefit is payable to spouse until death or remarriage, non-married participants 50% of the accrued benefit is payable for 5 years

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

- Prior to 10 Years Service

Return of employee contributions with accrued interest.

g. Form of Benefit Payments

Normal form of payment of the accrued benefit is a monthly lifetime annuity with 5 years certain. Other retirement benefits are available under actuarially equivalent optional forms

Funding Status and Progress

Actuarial Valuation Date	Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a/c)
01/01/11	3,280,366	4,501,853	1,221,487	72.9%	952,870	128.2%
01/01/12	3,275,114	4,722,972	1,447,858	69.3%	862,199	167.9%
01/01/13	3,334,700	4,647,775	1,313,075	71.7%	848,716	154.7%

a. Date of last Actuarial Valuation	March 2013
b. Significant Actuarial Assumptions Used:	
1. Rate of Return on Investments	7.5%
2. Projected Salary Increase	4.0% - 7.42%
3. Retirement Age	Normal and Early Rates
4. Mortality Table	UP 1994 mortality (projected)
5. Asset Value	Actuarial cost method
c. Actuarial cost method	Entry age normal cost method
d. Amortization method	Level % of payroll
e. Fiscal Year 2013 Contributions Made	
Total Contributions	\$197,858
Employee Contributions	\$34,107
Employer Contributions	\$163,751

A copy of the stand-alone plan financial report can be obtained from Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, OK 73105.

B. Oklahoma Police and Firefighter's Pension and Retirement Systems

Plan Description

The City participates in two statewide, cost-sharing, multiple-employer defined benefit plans on behalf of police officers and firefighters. The table below is a summary of eligibility factors contribution methods, and benefit provisions.

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

	Oklahoma Firefighter's Pension and Retirement System	Oklahoma Police Pension and Retirement System
Eligibility to participate	All full-time or voluntary firefighters of a participating municipality hired before age 45.	All full-time officers employed by a participating municipality; not less than 21 years of age or more than 45 years of age when hired
Authority establishing contribution obligations and benefits	State Statute	State Statute
Plan member's contribution rate	8% of covered payroll	8% of covered payroll
City's contribution rate	13% per year, per firefighter	13% of covered payroll
Period required to vest	10 years	10 years
Benefits and eligibility for	20 years credited service, 2 1/2% of	20 years credited service, 2 1/2% of

CITY OF WATONGA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

distribution (full time)	final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.	final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Benefits and eligibility for distribution (volunteer)	20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered.	NA
Deferred retirement option	Yes, 20 years credited service with continued service for 30 or more years.	Yes, 20 years credited service with option to participate in deferred option plan for a maximum of 5 years
Annual Required Contributions		
Provision for:		
Cost of living adjustment	Yes, if vested by 5/83	Yes
Death (duty, non-duty, post retirement)	Yes	Yes
Disability (duty, non-duty)	Yes	Yes
Cost of living allowances	Yes	Yes

Contributions are required by Oklahoma State Statute. Trend information showing the progress of the systems in accumulating sufficient assets to pay benefits when due is presented in the annual financial reports of the respective plans. Copies of these reports may be obtained from the respective state retirement systems; Oklahoma Firefighter Pension and Retirement System at 4545 N. Lincoln Blvd., Ste. 265, Oklahoma City, OK 73105 and the Oklahoma Police Pension and Retirement System 1001 N.W. 63rd Street, Suite 305, Oklahoma City, OK 7316-7335.

(5) COMMITMENTS AND CONTINGENCIES

A. Litigation

The City is a party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

B. Grant Program Involvement

In the normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement, which may arise as a result of these audits, cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

C. Mercy Hospital Watonga Inc. Lease

On June 22, 2012 the Watonga Municipal Hospital Authority entered into an agreement to sublease the hospital for a seven year period commencing July 1, 2012 (initial term). The lease will be extended for thirteen additional one year terms unless the lessee gives written notice to the Authority at least 180 days prior to the end of the initial term or any renewal term of its desire to terminate the lease. The consideration for the lease is \$1 per year (for leasing the premises).

The Authority transferred cash and equivalents, patient accounts receivable and supplies inventory, all equipment used in the operation of the hospital. No consideration was provided. The lessee (Mercy) also assumed the Authority's accruals for salary expense, accrued employee benefits, and accrued compensated absences. The building and improvements remain property of the Authority and is leased by Mercy Hospital Watonga Inc. as noted above.

The lessee is permitted to terminate the lease, either during the initial term or any renewal term, at any time upon 120 days written notice to the Authority. Upon this sublease being terminated, the Authority will be obligated to purchase all of the lessee's property and equipment, inventory and supplies, and any other leased property on the date of termination.

WILLIAM K. GAUER
CERTIFIED PUBLIC ACCOUNTANT

121 SOUTH NOBLE ~ P.O. BOX 181
PHONE 580-623-5071

WATONGA, OKLAHOMA 73772
FAX 580-623-5072

WGAUER@GAUERCPA.MYGBIZ.COM

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

To the City Council
City of Watonga
Watonga, Oklahoma

Board of Trustees
Public Works Authority
Watonga, Oklahoma

Board of Trustees
Watonga Economic Development Authority
City of Watonga
Watonga, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Watonga, State of Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Watonga, State of Oklahoma's basic financial statements, and have issued our report thereon dated April 30, 2014.

Internal Control Over Financial Reporting

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

internal control.

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

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

Compliance and Other Matters

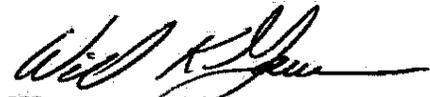
As part of obtaining reasonable assurance about whether City of Watonga, State of Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have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

Purpose of this Report

The purpose of this report is solely to describe the scope of 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

City of Watonga
April 30, 2014
Page 3

Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "W. K. Jones", written over a horizontal line.

Watonga, Oklahoma
April 30, 2014
