

**CITY OF ELK CITY, OKLAHOMA
ELK CITY, OKLAHOMA**

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

**FOR THE YEAR ENDED
JUNE 30, 2016**

The City of Elk City, Oklahoma
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Year Ended June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Commissioners
City of Elk City, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elk City, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Elk City, Oklahoma'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 3–10 and 38–42 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 Elk City, Oklahoma's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016, on our consideration of the City of Elk City, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Elk City, Oklahoma's internal control over financial reporting and compliance.

FSW&B CPAs-PLLC

FSW&B CPAs- PLLC

Woodward, Oklahoma

October 17, 2016

Within this section, the City of Elk City's ("City") management provides narrative discussion and analysis of the financial performance of the City's for the fiscal year ended June 30, 2016. 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, 2016, the assets and deferred outflows or resources of the City exceeded its liabilities and deferred inflows of resources by \$116,898,350 (net position). This compared to the previous year when assets exceeded liabilities by \$112,901,401.
- The City's total net position is comprised of the following:
 - (1) Net investment in capital assets of \$61,830,567 includes 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 \$34,915,258 accounts for assets restricted for debt service and capital construction in accordance with debt offerings.
 - (3) Unrestricted net position of \$20,152,525 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- The City's governmental funds on the Statement of Revenues, Expenses and Changes in Fund Balances in Governmental Funds reported total ending fund balance of \$33,608,804. This compared to prior year ending fund balance of \$31,131,303, showing an increase of \$2,477,501 or 8%.

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 includes general government; public safety and judiciary; transportation; and cultural, parks, and recreation. Business-types activities include utility services, including water and sanitation, provided by the City as well as the operation of the rock yard.

The City's financial reporting entity includes the funds of the City (primary government) and organization for which the City is accountable (component units). More comprehensive information about the City's component units can be found in footnotes.

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 and sanitation utilities and sales of rock and airplane fuel.

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 deposits and police bonds 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.

Other information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information detailing the combining statements of non-major governmental funds.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position

The City's combined net position at June 30, 2016 was \$116,898,350. The City reported positive balances in total net position for both governmental and business-type activities, reporting \$68 million and \$48 million, respectively. The City's overall financial position improved during fiscal year 2016.

Summary of Net Position
 (in thousands)

	Governmental Activities		Business-Type Activities		Total		Change	
	2016	2015	2016	2015	2016	2015	\$	%
Current assets	\$ 36,685	\$ 33,600	\$ 26,782	\$ 28,575	\$ 63,467	\$ 62,175	\$ 1,292	2%
Capital assets, net	39,928	41,882	54,834	49,965	94,762	91,847	2,915	3%
Total assets	76,613	75,482	81,616	78,540	158,229	154,022	4,207	3%
Deferred outflow of resources	816	104	-	-	816	104	712	685%
Current liabilities	3,077	2,780	3,136	3,481	6,213	6,261	(48)	-1%
Non-current liabilities	4,817	4,358	30,186	29,867	35,003	34,225	778	2%
Total liabilities	7,894	7,138	33,322	33,348	41,216	40,486	730	2%
Deferred inflow of resources	932	1,133	-	-	932	1,133	(201)	-18%
Net position								
Net investment in capital assets	39,928	42,002	21,902	17,421	61,830	59,423	2,407	4%
Restricted	23,032	20,432	11,883	12,816	34,915	33,248	1,667	5%
Unrestricted	5,643	4,881	14,509	14,955	20,152	19,836	316	2%
Total net position	\$ 68,603	\$ 67,315	\$ 48,294	\$ 45,192	\$ 116,897	\$ 112,507	\$ 4,390	4%

Net position increased over prior year, noting a 4% change. Assets increased over \$4.2 million due to the purchase and construction of capital assets funded through debt. Liabilities increased slightly at 2% due to debt issued to extend utilities to the new elementary school project.

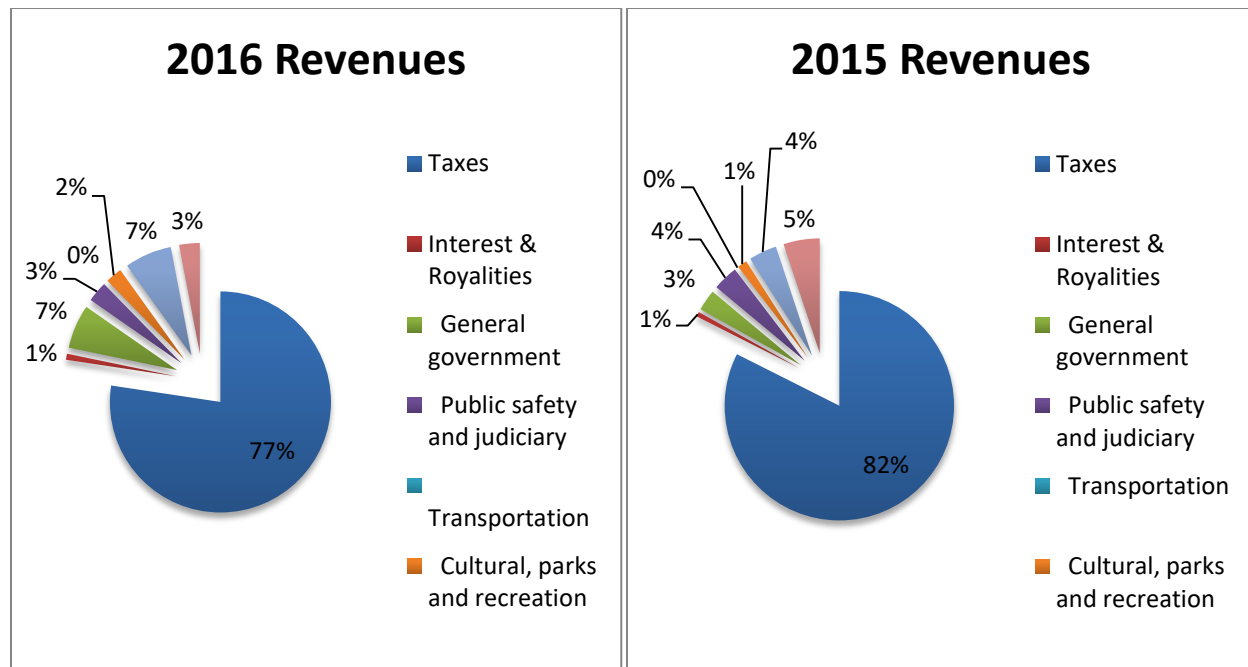
Summary of Changes in Net Position

	Governmental Activities		Business-type Activities		Total		Change	
	2016	2015	2016	2015	2016	2015	\$	%
Revenues								
Program revenues	\$ 3,418,522	\$ 3,142,624	\$ 9,490,441	\$ 9,914,470	\$ 12,908,963	\$ 13,057,094	\$ (148,131)	-1%
Taxes and other general revenues	12,874,453	15,318,895	4,357,897	3,880,857	17,232,350	19,199,752	(1,967,402)	-10%
Total revenues	16,292,975	18,461,519	13,848,338	13,795,327	30,141,313	32,256,846	(2,115,533)	-7%
Expenses								
General government	2,570,025	2,963,557	-	-	2,570,025	2,963,557	(393,532)	-13%
Public safety and judiciary	6,282,452	5,675,710	-	-	6,282,452	5,675,710	606,742	11%
Transportation	414,151	546,009	-	-	414,151	546,009.00	(131,858)	-24%
Cultural, parks, and recreation	1,678,734	1,689,664	-	-	1,678,734	1,689,664	(10,930)	-1%
Public service	1,418,515	1,513,245	-	-	1,418,515	1,513,245	(94,730)	-6%
Economic development	991,567	1,056,759	-	-	991,567	1,056,759	(65,192)	-6%
Utilities	-	-	5,268,889	5,188,462	5,268,889	5,188,462	80,427	2%
Airport	-	-	476,849	490,573	476,849	490,573	(13,724)	-3%
Customer service	-	-	605,512	654,415	605,512	654,415	(48,903)	-7%
Industrial development	-	-	3,882,511	4,497,800	3,882,511	4,497,800	(615,289)	-14%
Total expenses	13,355,444	13,444,944	10,233,761	10,831,250	23,589,205	24,276,194	(686,989)	-3%
Excess (deficiency) before transfers	\$ 2,937,531	\$ 5,016,575	\$ 3,614,577	\$ 2,964,077	\$ 6,552,108	\$ 7,980,652	\$ (1,428,544)	-18%
Transfer to other governments	19,667	-	(2,574,826)	-	(2,555,159)	-	(2,555,159)	100%
Transfers	(2,062,774)	(3,234,384)	2,062,774	3,234,384	-	-	-	0%
Increase (decrease) in net position	\$ 894,424	\$ 1,782,191	\$ 3,102,525	\$ 6,198,461	\$ 3,996,949	\$ 7,980,652	\$ (3,983,703)	-50%

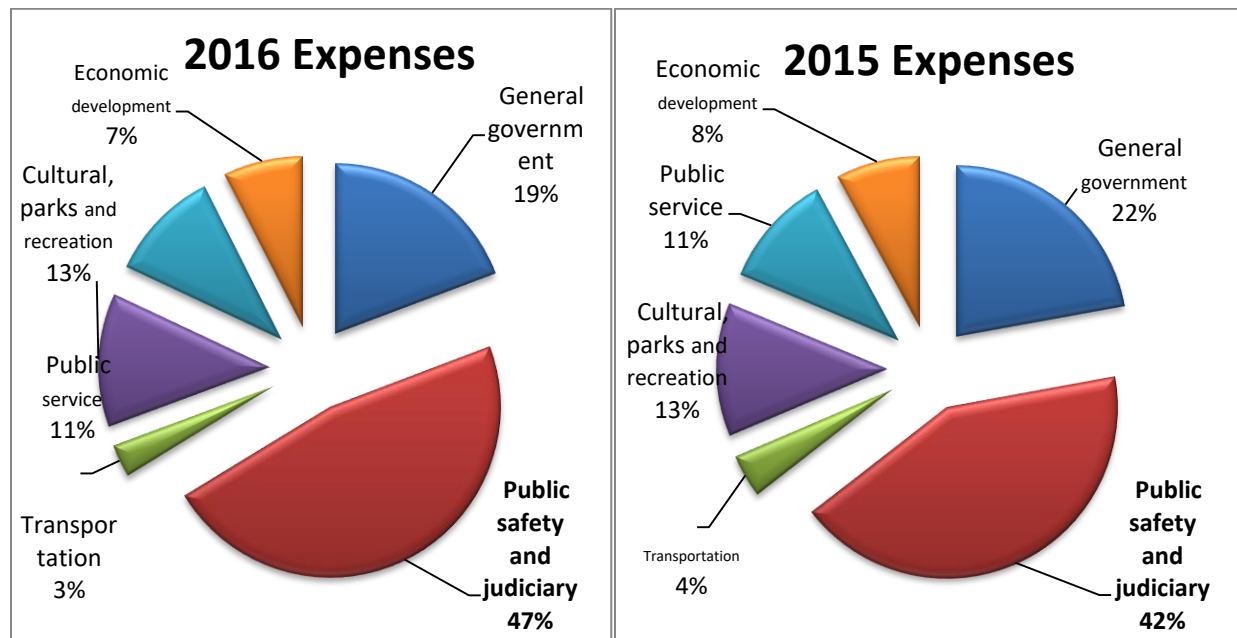
Revenues for the City decreased 7% year over year. The decline is a direct result of sales tax receipts during the fiscal year. The City absorbed a 25% decrease in sales tax between fiscal year 2015 and 2016. Additionally, use tax decreased 27% over the same period.

Operating expenses remained consistent between years with a 3% decline over fiscal year 2015. As the City noted the steady decline is sale tax, management was aggressive in controlling costs in all departments of the City.

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



Taxes provided 77% of the City's governmental revenues in fiscal year 2016 compared to 82% 2015. Sources of revenues for the governmental funds remained consistent between years.



TOTAL EXPENSES \$13,355,444

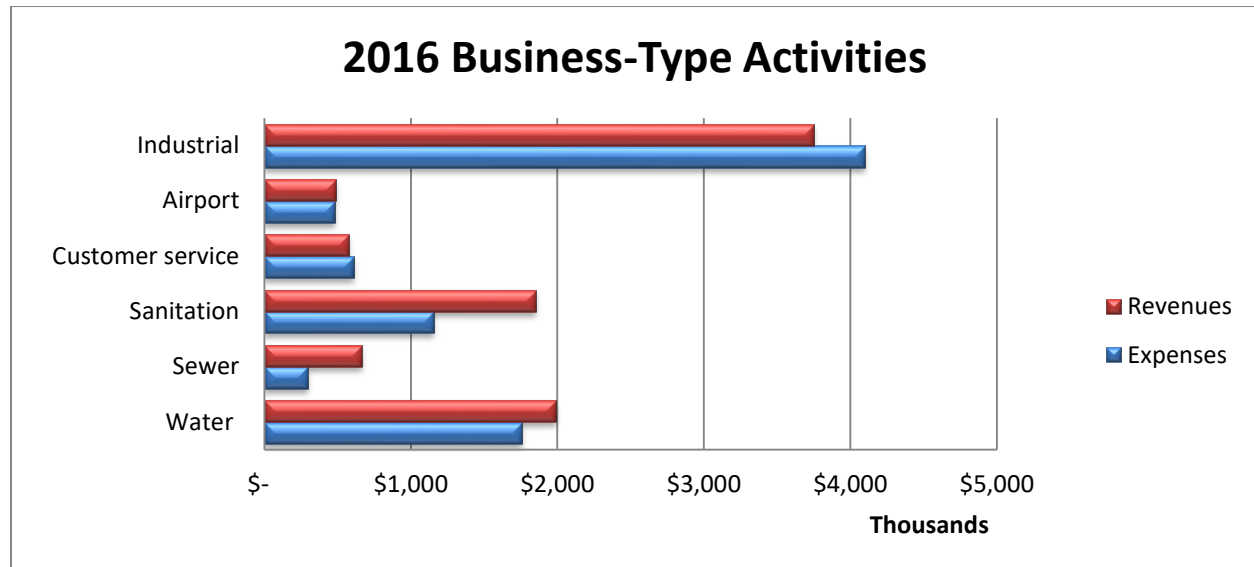
TOTAL EXPENSES \$13,382,727

For the year ended June 30, 2016, total expenses for governmental activities were \$13,355,444. Of this amount, public safety and judiciary with \$6,282,452, was the largest operating service department at 47% of the total cost of services for the City government. This compares to prior year in which public safety accounted for 42% of total expenses. These costs, as well as all other governmental activity expenses, were primarily funded by tax revenues. 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

The following is a graphic representation of business-type expenses as a percentage of revenues for the major departments of the City’s enterprise funds:



Business-type activities are shown comparing operating costs to operating revenues generated by the related services. Sanitation, Sewer, and Water 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. The Industrial Authority is funded with a dedicated sales tax, which is pledged against debt offerings. That sales tax is not considered operating income in the above chart.

General Fund Budgetary Highlights

The original adopted General Fund budget for fiscal year 2016 was \$9,218,735. During the fiscal year, the City approved budget amendments totaling \$255,730 for a total budget of \$ 9,474,465 compared to last fiscal year’s budget of \$9,530,953. Total expenditures for the City were \$9,231,383, which is \$243,082 less than the approved budget. The City was in compliance with all budget laws and regulations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2016, the City had \$61,830,567 net investment in capital assets, including vehicles and equipment for police and fire operations, street improvements, and park facilities, in governmental activities and utility improvements/infrastructure in business-type activities. Refer to the table below.

Primary Government Capital Assets

(in thousands)

	Governmental		Business-type		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Land and CIP	\$ 4,634	\$ 4,677	\$ 10,239	\$ 4,917	\$ 14,873	\$ 9,594
Buildings	16,094	16,095	32,386	32,380	48,480	48,475
Machinery & equipment	21,102	20,937	6,747	6,307	27,849	27,244
Utility property & improvements	41,387	41,085	25,873	25,510	67,260	66,595
Total cost	\$ 83,217	\$ 82,794	\$ 75,245	\$ 69,114	\$ 158,462	\$ 151,908
Accumulated depreciation	43,289	40,911	21,223	19,149	64,512	60,060
Total capital assets, net	\$ 39,928	\$ 41,883	\$ 54,022	\$ 49,965	\$ 93,950	\$ 91,848

The most significant additions to the City's capital assets included:

- Public safety vehicles
- Park and recreation improvements
- Storm sirens
- Development of economic incentive property
- Land and water rights
- Radio-read utility meters
- Landfill equipment

Long-Term Debt

At year-end, the City had \$35,002,970 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		Total	
	Activities		Activities			
	2016	2015	2016	2015	2016	2015
Notes payable	\$ -	\$ -	\$ 32,120,001	\$ 32,544,027	\$ 32,120,001	\$ 32,544,027
Pension obligation	4,816,640	4,358,362	-	-	4,816,640	4,358,362
less current portion	-	-	(1,933,671)	(2,676,696)	(1,933,671)	(2,676,696)
Total long term debt	\$ 4,816,640	\$ 4,358,362	\$ 30,186,330	\$ 29,867,331	\$ 35,002,970	\$ 34,225,693

ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES

According to the Tulsa World newspaper, "gross revenue for the state of Oklahoma continued a downward spiral for the 18th consecutive month in August, as unemployment figures show the state's jobless numbers exceeded the national rate for the first time in almost 26 years." "We keep scouring through the data to find signs of an impending turnaround, but it's just not there," Miller said. "Some aspects of the August report aren't as negative as in prior months. A few revenue streams have ticked back up, but we can't yet point to a positive trend." The economic environment of the state sheds light on the local economy of the City.

Fiscal Year 2017 Planning

The City of Elk City has approved a budget for the municipal entity that encompasses the current market. The following highlights are noted:

General Fund

- Sales tax and other tax revenues – The sales tax split is budgeted at the amended rate of 1.375%, consistent with the FY16 budget. This results in an increase of approximately \$427,000 in revenue for the General Fund. All tax revenues are budgeted at 90% of prior year collections to develop conservative projections in consideration of the geographic declining oil and gas industry. Collection of the 10% incremental difference would increase revenues in the General fund by \$531,000.
- Employee raises – The budget includes a 1.5% raise for all employees of the City. The cost of the increase is approximately \$58,100 for employees in the General Fund, which includes the City's increase cost of FICA and Medicare.
- The fund projects a decrease in reserve of \$917,162 based upon budgeted revenues and expenses for FY17.

Public Works Authority

- Utility revenues – Utility revenues are budgeted with a rate increase equal to the current CPI of 1.2%.
- Employee raises – The budget includes a 1.5% raise for all employees of the City. The cost of the increase is approximately \$32,164 for employees in the Public Works Authority, which includes the increase cost of FICA and Medicare.
- The PWA budget reflects a projected net loss of \$180,892 for the year ended June 30, 2017.

Airport Authority

- The Airport Authority budget reflects the ongoing operations of the municipal airport. Any capital projects undertaken will be proposed to the Commission along with an identified funding source, most likely grant proceeds.

Industrial Authority

- The Industrial Authority – Arena Sales Tax budget includes the collection of sales tax and debt service on the conduit debt.
- The Industrial Authority – Economic Development budget includes \$1,020,000 in capital projects for FY17, as detailed in the budget. Continued operations are budgeted with funding from the Arena Sales Tax fund of \$80,000.
- The Industrial Authority - Rock Yard sales are budgeted with a 30% profit margin, projecting \$233,000 net income.

Capital Construction Fund

- Projects –The budget proposes funding \$5,526,300 in capital projects for fiscal year 2017.

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 Elk City City Hall, 320 West 3rd St, Elk City, Oklahoma.

City of Elk City, Oklahoma
Statement of Net Position
June 30, 2016

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 2,869,031	\$ 2,533,897	\$ 5,402,928
Investments	10,671,000	4,702,000	15,373,000
Due from other governments	776,580	-	776,580
Accounts receivable (net)	155,255	599,205	754,460
Other receivables	-	375,157	375,157
Grant receivable	47,727	-	47,727
Note receivable, current	-	282,831	282,831
Inventory	17,969	1,261,154	1,279,123
Prepaid asset	384,209	102,600	486,809
Due from other funds	(672,523)	742,475	69,952
Total current assets	<u>14,249,248</u>	<u>10,599,319</u>	<u>24,848,567</u>
Restricted assets:			
Cash and cash equivalents	11,421,108	11,882,899	23,304,007
Investments	11,015,000	4,300,000	15,315,000
Total restricted assets	<u>22,436,108</u>	<u>16,182,899</u>	<u>38,619,007</u>
Noncurrent Assets:			
Note receivable	-	812,279	812,279
Land and construction in progress	4,633,714	10,239,216	14,872,930
Other capital assets (net of accumulated depreciation)	35,294,702	43,782,936	79,077,638
Total noncurrent assets	<u>39,928,416</u>	<u>54,834,431</u>	<u>94,762,847</u>
Total assets	<u>\$ 76,613,772</u>	<u>\$ 81,616,649</u>	<u>\$ 158,230,421</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred charges on pension obligations	<u>816,011</u>	<u>-</u>	<u>816,011</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 821,967	\$ 773,407	\$ 1,595,374
Payroll liabilities	265,376	161,727	427,103
Compensated absences	410,047	125,477	535,524
Accrued payables	1,579,162	140,062	1,719,224
Notes payable, current	-	3,012,158	3,012,158
Total current liabilities	<u>3,076,552</u>	<u>4,212,831</u>	<u>7,289,383</u>
Other accrued liabilities	-	-	-
Pension obligation	4,816,640	-	4,816,640
Notes payable, non-current	-	29,109,843	29,109,843
Total noncurrent liabilities	<u>4,816,640</u>	<u>29,109,843</u>	<u>33,926,483</u>
Total liabilities	<u>7,893,192</u>	<u>33,322,674</u>	<u>41,215,866</u>
DEFERRED INFLOW OF RESOURCES			
Deferred charges on pension obligations	<u>932,216</u>	<u>-</u>	<u>932,216</u>
NET POSITION			
Net investment in capital assets	39,928,416	21,900,151	61,828,567
Reserved for restricted purposes	23,032,359	11,882,899	34,915,258
Unrestricted	5,643,600	14,510,925	20,154,525
Total net position	<u>\$ 68,604,375</u>	<u>\$ 48,293,975</u>	<u>\$ 116,898,350</u>

City of Elk City, Oklahoma
Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government	\$ 2,570,026	\$ 322,256	\$ 561,175	\$ 96,063	\$ (1,590,532)
Public safety and judiciary	6,282,452	292,694	153,250	31,971	(5,804,537)
Transportation	414,151	-	-	-	(414,151)
Cultural, parks and recreation	1,678,734	339,137	20,857	24,000	(1,294,740)
Public service	1,418,515	1,098,358	-	-	(320,157)
Economic development	991,567	-	478,761	-	(512,806)
Total governmental activities	<u>13,355,444</u>	<u>2,052,445</u>	<u>1,214,043</u>	<u>152,034</u>	<u>(9,936,922)</u>
Business-type activities:					
Water	1,758,899	1,986,890	-	-	227,991
Sewer	293,291	664,890	-	-	371,599
Sanitation	1,156,934	1,849,745	-	-	692,811
Streets	2,059,765	-	181,783	-	(1,877,982)
Customer service	605,512	572,574	-	-	(32,938)
Airport	476,849	300,275	-	184,105	7,531
Industrial	3,882,511	2,861,949	-	888,230	(132,332)
Total business-type activities	<u>10,233,761</u>	<u>8,236,323</u>	<u>181,783</u>	<u>1,072,335</u>	<u>(743,320)</u>
Total primary government	<u>\$ 23,589,205</u>	<u>\$ 10,288,768</u>	<u>\$ 1,395,826</u>	<u>\$ 1,224,369</u>	<u>\$ (10,680,242)</u>

City of Elk City, Oklahoma
Statement of Activities (continued)
Year Ended June 30, 2016

Changes in Net Position:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net (expense)/revenue	\$ (9,936,922)	\$ (743,320)	\$ (10,680,242)
General revenues:			
Taxes:			
Sales tax	8,759,939	4,306,529	13,066,468
Use tax	819,218	-	819,218
Franchise tax	472,229	-	472,229
Other taxes	351,421	-	351,421
Oil and gas royalties	1,922,010	-	1,922,010
Gain on sale of assets	74,021		74,021
Investment income	140,155	51,368	191,523
Change in pension obligations	335,460	-	335,460
Transfers to other governments	19,667	(2,574,826)	(2,555,159)
Transfers internal activity	(2,062,774)	2,062,774	-
Total general revenues and transfers	<u>10,831,346</u>	<u>3,845,845</u>	<u>14,677,191</u>
Change in net assets	894,424	3,102,525	3,996,949
Net position-beginning, restated	67,709,951	45,191,450	112,901,401
Net position-ending	<u>\$ 68,604,375</u>	<u>\$ 48,293,975</u>	<u>\$ 116,898,350</u>

**City of Elk City, Oklahoma
Balance Sheet
Governmental Funds
June 30, 2016**

	<u>General Fund</u>	<u>Capital Projects</u>	<u>Economic Development</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 2,869,031	\$ 9,574,582	\$ 121,166	\$ 1,725,360	\$ 14,290,139
Investments	10,671,000	4,300,000	4,200,000	2,515,000	21,686,000
Due from other governments	408,820	367,760	-	-	776,580
Accounts receivable	155,255	-	-	-	155,255
Grant receivable	44,127	3,600	-	-	47,727
Inventory	17,969	-	-	-	17,969
Prepaid asset	302,111	-	3,656	78,442	384,209
Total assets	<u>\$ 14,468,313</u>	<u>\$ 14,245,942</u>	<u>\$ 4,324,822</u>	<u>\$ 4,318,802</u>	<u>\$ 37,357,879</u>
DEFERRED OUTFLOW OF RESOURCES					
Deferred charges on pension obligations	-	-	-	-	-
LIABILITIES					
Accounts payable	\$ 19,678	\$ 375,680	\$ 10,503	\$ 416,106	\$ 821,967
Due to other funds	670,419	-	2,104	-	672,523
Payroll liabilities	264,632	-	744	-	265,376
Compensated absences	410,047	-	-	-	410,047
Other accrued liabilities	1,579,162	-	-	-	1,579,162
Total liabilities	<u>2,943,938</u>	<u>375,680</u>	<u>13,351</u>	<u>416,106</u>	<u>3,749,075</u>
DEFERRED INFLOW OF RESOURCES					
Deferred charges on pension obligations	-	-	-	-	-
FUND BALANCES					
Nonspendable	17,969	-	-	-	17,969
Restricted	1,657,066	-	3,200,000	1,410,541	6,267,607
Committed	878,283	13,874,582	-	2,011,887	16,764,752
Assigned	44,827	-	1,000,423	420,416	1,465,666
Unassigned	8,926,230	(4,320)	111,048	59,852	9,092,810
Total fund balances	<u>11,524,375</u>	<u>13,870,262</u>	<u>4,311,471</u>	<u>3,902,696</u>	<u>33,608,804</u>
Total liabilities and fund balances	<u>\$ 14,468,313</u>	<u>\$ 14,245,942</u>	<u>\$ 4,324,822</u>	<u>\$ 4,318,802</u>	<u>\$ 37,357,879</u>

Total fund balance- total governmental funds \$ 33,608,804

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

Land and capital assets, net of accumulated depreciation, are not financial resources and, in the funds, and therefore, are not reported		
Land and construction in process	4,633,714	
Capital assets	78,583,663	
Less: Accumulated depreciation	<u>(43,288,961)</u>	39,928,416

Long-term portion of liabilities are not due and payable in the current period and are not reported		
Deferred outflows(inflows) on pension obligation	(116,205)	
Net pension (obligation)/asset	<u>(4,816,640)</u>	(4,932,845)

Net position of governmental activities \$ 68,604,375

City of Elk City, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2016

	General Fund	Capital Projects	Economic Development	Non-Major Funds	Total Governmental Funds
REVENUES					
Sales tax	\$ 3,749,378	\$ 4,665,406	\$ -	\$ 345,155	\$ 8,759,939
Use tax	819,218	-	-	-	819,218
Franchise tax	472,229	-	-	-	472,229
Other taxes	156,894	-	-	-	156,894
Licenses and permits	92,299	-	-	-	92,299
Rents & royalties	1,981,830	-	50,000	-	2,031,830
Fines and forfeitures	277,994	-	-	-	277,994
Charges for services	1,562,934	-	-	9,400	1,572,334
Intergovernmental revenues	701,962	240,358	-	-	942,320
Donations	18,000	-	-	450	18,450
Other revenues	44,639	56,944	5,300	492,949	599,832
Sale of assets	-	30,544	99,300	-	129,844
Interest	95,051	16,058	19,848	9,198	140,155
Total revenues	<u>9,972,428</u>	<u>5,009,310</u>	<u>174,448</u>	<u>857,152</u>	<u>16,013,338</u>
EXPENDITURES					
General government:					
Managerial	393,635	72,611	-	-	466,246
City clerk	792,475	1,628	-	-	794,103
City treasurer	83,915	-	-	-	83,915
City attorney	47,860	-	-	-	47,860
General government	813,749	24,539	-	7,450	845,738
Total general government	<u>2,131,634</u>	<u>98,778</u>	<u>-</u>	<u>7,450</u>	<u>2,237,862</u>
Public safety and judiciary:					
Police	2,567,354	82,111	-	505	2,649,970
Municipal court	79,606	-	-	-	79,606
Animal control	213,892	6,014	-	-	219,906
Fire	2,241,902	76,243	-	10,932	2,329,077
Ambulance	417,177	18,354	-	-	435,531
Total public safety and judiciary	<u>5,519,931</u>	<u>182,722</u>	<u>-</u>	<u>11,437</u>	<u>5,714,090</u>
Transportation:					
Street	-	98,981	-	-	98,981
Airport	-	-	-	-	-
Total transportation	<u>-</u>	<u>98,981</u>	<u>-</u>	<u>-</u>	<u>98,981</u>
Cultural, parks and recreation:					
Museum	384,261	4,096	-	-	388,357
Library	186,030	2,554	-	-	188,584
Civic center	75,239	4,258	-	-	79,497
Park	566,107	54,928	-	-	621,035
Swimming pool	70,795	-	-	-	70,795
Total cultural, parks and recreation	<u>1,282,432</u>	<u>65,836</u>	<u>-</u>	<u>-</u>	<u>1,348,268</u>
Public service:					
Cemetery	153,534	1,959	-	-	155,493
Inspection	143,852	-	-	-	143,852
Landfill	74,851	59,774	-	-	134,625
Total public service	<u>372,237</u>	<u>61,733</u>	<u>-</u>	<u>-</u>	<u>433,970</u>
Economic development:					
Economic development	-	-	254,673	567,839	822,512
Total economic development	<u>-</u>	<u>-</u>	<u>254,673</u>	<u>567,839</u>	<u>822,512</u>
Capital outlay					
Capital outlay	59,891	777,156	-	-	837,047
Total expenditures					
Total expenditures	<u>9,366,125</u>	<u>1,285,206</u>	<u>254,673</u>	<u>586,726</u>	<u>11,492,730</u>
Excess (deficiency) of revenues over expenditures					
Excess (deficiency) of revenues over expenditures	<u>606,303</u>	<u>3,724,104</u>	<u>(80,225)</u>	<u>270,426</u>	<u>4,520,608</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	434,820	364,516	-	-	799,336
Transfers out	(715,266)	(1,950,885)	-	(195,959)	(2,862,110)
Transfer to other governments	19,667	-	-	-	19,667
Total other financing sources and uses	<u>(260,779)</u>	<u>(1,586,369)</u>	<u>-</u>	<u>(195,959)</u>	<u>(2,043,107)</u>
Net change in fund balances					
Net change in fund balances	345,524	2,137,735	(80,225)	74,467	2,477,501
Fund balances - beginning, restated					
Fund balances - beginning, restated	11,178,851	11,732,527	4,391,696	3,828,229	31,131,303
Fund balances - ending					
Fund balances - ending	<u>\$ 11,524,375</u>	<u>\$ 13,870,262</u>	<u>\$ 4,311,471</u>	<u>\$ 3,902,696</u>	<u>\$ 33,608,804</u>

City of Elk City, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2016

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

Net change in fund balances - total governmental funds \$ 2,477,501
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	837,047	
Depreciation expense	<u>(2,699,761)</u>	(1,862,714)

In the statement of activities, the cost of pension benefits earned net of
employee contributions are reported as an component of pension expense.
The fund financial statements report pension contributions as expenditures.

279,637

Change in Net Assets of Governmental Activities \$ 894,424

City of Elk City, Oklahoma
Statement of Net Position
Proprietary Funds
June 30, 2016

	Public Works Authority	Airport Authority	Industrial Authority	Total Enterprise Funds
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 185,657	\$ 51,297	\$ 2,296,943	\$ 2,533,897
Investments	3,452,000	-	1,250,000	4,702,000
Due from other funds	981,256	-	1,127	982,383
Other receivables	9,687	26,000	339,470	375,157
Accounts receivable, net	386,204	-	213,001	599,205
Note receivable, current	-	-	282,831	282,831
Inventory	263,060	34,438	963,656	1,261,154
Prepaid asset	100,282	2,318	-	102,600
Total current assets	<u>5,378,146</u>	<u>114,053</u>	<u>5,347,028</u>	<u>10,839,227</u>
Current assets:				
Restricted assets:				
Cash, including time deposits	533,639	-	11,349,260	11,882,899
Investments	-	-	4,300,000	4,300,000
Total restricted assets	<u>533,639</u>	<u>-</u>	<u>15,649,260</u>	<u>16,182,899</u>
Noncurrent assets:				
Note receivable	-	-	812,279	812,279
Capital assets (net)	23,508,939	2,462,072	28,051,141	54,022,152
Total noncurrent assets	<u>23,508,939</u>	<u>2,462,072</u>	<u>28,863,420</u>	<u>54,834,431</u>
Total assets	<u>\$ 29,420,724</u>	<u>\$ 2,576,125</u>	<u>\$ 49,859,708</u>	<u>\$ 81,856,557</u>
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 203,479	\$ 45,913	\$ 524,015	\$ 773,407
Payroll liabilities	266,627	3,977	16,600	287,204
Due to other funds	25,214	39,166	175,528	239,908
Other liabilities	-	-	-	-
Accrued interest payable	70,785	-	69,277	140,062
Notes payable, current	730,840	-	2,281,318	3,012,158
Total current liabilities	<u>1,296,945</u>	<u>89,056</u>	<u>3,066,738</u>	<u>4,452,739</u>
Noncurrent liabilities:				
Notes payable, non-current	9,907,051	-	19,202,792	29,109,843
Total noncurrent liabilities	<u>9,907,051</u>	<u>-</u>	<u>19,202,792</u>	<u>29,109,843</u>
Total liabilities	<u>11,203,996</u>	<u>89,056</u>	<u>22,269,530</u>	<u>33,562,582</u>
NET POSITION				
Net investment in capital assets	12,871,048	2,462,072	6,567,031	21,900,151
Restricted	533,639	-	11,349,260	11,882,899
Unrestricted	4,812,041	24,997	9,673,887	14,510,925
Total net position	<u>\$ 18,216,728</u>	<u>\$ 2,487,069</u>	<u>\$ 27,590,178</u>	<u>\$ 48,293,975</u>

City of Elk City, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2016

	Public Works Authority	Airport Authority	Industrial Authority	Total Enterprise Funds
<u>Operating revenues:</u>				
Charges for services:				
Water charges	\$ 1,986,890	\$ -	\$ -	\$ 1,986,890
Sewer charges	664,890	-	-	664,890
Sanitation charges	1,849,745	-	-	1,849,745
Sale of fuel and rock	-	245,445	2,845,738	3,091,183
Utility surcharges	444,790	-	-	444,790
Penalties	60,331	-	-	60,331
Total charges for services	<u>5,006,646</u>	<u>245,445</u>	<u>2,845,738</u>	<u>8,097,829</u>
Lease and rental income	-	54,630	-	54,630
Other fees and charges	67,453	200	16,211	83,864
Total operating revenues	<u>5,074,099</u>	<u>300,275</u>	<u>2,861,949</u>	<u>8,236,323</u>
<u>Operating expenses:</u>				
Cost of sales	-	193,543	1,829,162	2,022,705
Personal services	2,488,580	81,062	158,302	2,727,944
Materials and supplies	1,636,360	47,196	67,332	1,750,888
Other services and charges	377,361	23,309	236,813	637,483
Depreciation and amortization	1,063,222	131,739	879,493	2,074,454
Total operating expenses	<u>5,565,523</u>	<u>476,849</u>	<u>3,171,102</u>	<u>9,213,474</u>
Net operating income	(491,424)	(176,574)	(309,153)	(977,151)
<u>Nonoperating revenue (expense):</u>				
Sales tax	-	-	4,306,529	4,306,529
Investment income	21,179	60	30,129	51,368
Intergovernmental revenue	181,783	184,105	888,230	1,254,118
Interest expense	(308,878)	-	(711,409)	(1,020,287)
Total nonoperating revenue (expense)	<u>(105,916)</u>	<u>184,165</u>	<u>4,513,479</u>	<u>4,591,728</u>
Net Income before contributions and transfers	(597,340)	7,591	4,204,326	3,614,577
Transfers from other funds	2,478,551	187,600	-	2,666,151
Transfers to other funds	(588,739)	-	(14,638)	(603,377)
Transfer to other governments	-	-	(2,574,826)	(2,574,826)
Change in net position	1,292,472	195,191	1,614,862	3,102,525
Net position-beginning of year	<u>16,924,256</u>	<u>2,291,878</u>	<u>25,975,316</u>	<u>45,191,450</u>
Net position-end of year	<u>\$ 18,216,728</u>	<u>\$ 2,487,069</u>	<u>\$ 27,590,178</u>	<u>\$ 48,293,975</u>

City of Elk City, Oklahoma
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2016

	Public Works Authority	Airport Authority	Industrial Authority	Total Enterprise Funds
Cash flows from operating activities:				
Receipts from customers	\$ 4,794,884	\$ 341,180	\$ 2,790,672	\$ 7,926,736
Payments to suppliers	(2,091,408)	(227,329)	(2,140,519)	(4,459,256)
Payments to employees	(2,476,957)	(80,488)	(155,503)	(2,712,948)
Net cash provided (used) by operating activities	226,519	33,363	494,650	754,532
Cash flows from non-capital financing activities:				
Transfers from other funds	2,478,551	187,600	-	2,666,151
Transfers to other funds	(588,739)	-	(14,638)	(603,377)
Transfers to other governments	-	-	(2,574,826)	(2,574,826)
Intergovernmental revenues	-	-	4,306,529	4,306,529
Net cash provided (used) by non-capital financing activities	1,889,812	187,600	1,717,065	3,794,477
Cash flows from capital and related financing activities:				
Purchase of capital assets	(3,010,455)	(380,534)	(2,579,960)	(5,970,949)
Capital grants and contributions	181,783	184,105	888,230	1,254,118
Issuance of capital debt	-	-	2,246,000	2,246,000
Principal paid on capital debt	(704,960)	-	(1,965,065)	(2,670,025)
Interest paid on capital debt	(311,464)	-	(682,012)	(993,476)
Net cash provided (used) by capital and related financing activities	(3,845,096)	(196,429)	(2,092,807)	(6,134,332)
Cash flows from investing activities:				
Purchase of investments	-	-	-	-
Investment income	21,179	60	30,129	51,368
Net cash provided (used) by investing activities	21,179	60	30,129	51,368
Net increase (decrease) in cash and cash equivalents	(1,707,586)	24,594	149,037	(1,533,955)
Cash & cash equivalents, June 30, 2015	2,426,882	26,703	13,497,166	15,950,751
Cash & cash equivalents, June 30, 2016	<u>\$ 719,296</u>	<u>\$ 51,297</u>	<u>\$ 13,646,203</u>	<u>\$ 14,416,796</u>
Cash, including time deposits	\$ 185,657	\$ 51,297	\$ 2,296,943	\$ 2,533,897
Restricted cash, including time deposits	533,639	-	11,349,260	11,882,899
Total cash and cash equivalents, end of year	<u>\$ 719,296</u>	<u>\$ 51,297</u>	<u>\$ 13,646,203</u>	<u>\$ 14,416,796</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (491,424)	\$ (176,574)	\$ (309,153)	\$ (977,151)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	1,063,222	131,739	879,493	2,074,454
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(68,289)	29,640	(131,996)	(170,645)
(Increase) decrease in other receivable	(210,926)	-	60,719	(150,207)
(Increase) decrease in prepaid assets	(100,282)	(2,318)	-	(102,600)
(Increase) decrease in inventory	25,188	13,603	(407,171)	(368,380)
Increase (decrease) in accounts payable	(2,593)	25,434	362,949	385,790
Increase (decrease) in payroll liabilities	11,623	574	2,799	14,996
Increase (decrease) in other liabilities	-	11,265	37,010	48,275
Total adjustments	717,943	209,937	803,803	1,731,683
Net cash provided (used) by operating activities	\$ 226,519	\$ 33,363	\$ 494,650	\$ 754,532

City of Elk City, Oklahoma
Statement of Fiduciary Net Position
June 30, 2016

	District 2 Drug Task Force Trust Funds	Agency Funds	Total Fiduciary Funds
ASSETS			
Cash and cash equivalents	\$ 225,583	\$ 47,073	\$ 272,656
Investments	3,025,000	196,000	3,221,000
Due from other governments	25,213	-	25,213
Property, plant and equipment, net	72,598	-	72,598
Total assets	<u>\$ 3,348,394</u>	<u>\$ 243,073</u>	<u>\$ 3,591,467</u>
LIABILITIES			
Accounts payable	\$ 5,120	\$ -	\$ 5,120
Accrued salaries	56,579	-	56,579
Bonds and deposits subject to refund	-	235,640	235,640
Due to other governments	34,182	7,433	41,615
Total liabilities	<u>95,881</u>	<u>243,073</u>	<u>338,954</u>
NET ASSETS HELD IN TRUST			
District 2 drug task force funds	3,252,513	-	3,252,513
Net assets held in trust	<u>\$ 3,252,513</u>	<u>\$ -</u>	<u>\$ 3,252,513</u>

City of Elk City, Oklahoma
Statement of Revenues, Expenses and Changes in Fiduciary Net Position
Trust Fund
Year Ended June 30, 2016

	District 2 Drug Task Force Trust Funds
<u>ADDITIONS</u>	
Forfeitures	\$ 194,474
Other Income	150,748
Interest	15,078
Transfer in	345,471
Total additions	705,771
 <u>DEDUCTIONS</u>	
Personal services	254,823
Supplies and repairs	21,854
Other charges and services	334,974
Depreciation	30,154
Transfer out	325,805
Total deductions	967,610
Change in net assets	(261,839)
 <u>NET ASSETS HELD IN TRUST</u>	
Beginning of year	3,514,352
End of year	\$ 3,252,513

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting framework and the more significant accounting principles and practices of the City of Elk City, 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, 2016. The City operates under a charter with a Council-Manager form of government.

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.

Debt Service Fund

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

Capital Projects Fund

Accounts for the capital expenditures of the 1.625% limited purpose sales tax.

Economic Development Fund

Accounts for operations of the economic development of the City of Elk City.

Major Proprietary Funds

Elk City Public Works Authority

Accounts for the operating activities of the water, sewer, and sanitation utilities of the City. The City Commission serves as the trustees of the Authority. The Elk City Public Works Authority was established in June 1981 and amended in March 1999.

Elk City Airport Authority

Accounts for the operating activities of the Elk City Municipal Airport. The City Commission serves as the trustees of the Airport Authority established in July 1979.

Elk City Industrial Authority

Created in March 1967 to promote the development of industry within the City. The Industrial Authority includes the operations of the rock yard.

Fiduciary Component Units (reported in fiduciary financial statements)

District 2 Drug Task Force Trust

Established to account for the operations of the drug task force of the District

Agency Fund

Accounts for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others. The City's Agency Fund is used to account for various deposits and bail bonds.

Due to restrictions of the state constitution relating to the issuance of municipal debt, public trusts are created to finance City services with revenue bonds or other non-general obligation financing and provide for multi-year contracting. Financing services provided by these public trusts are solely for the benefit of the City. Public trusts created to provide financing services are blended into the City's primary government as an integral part of City operations although retaining separate legal identity. Component units that do not meet the criteria for blending are reported discretely. The City of Elk City blends all component units.

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 excluding fiduciary activities. 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 with composite columns for non-major funds.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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 and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting 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 government-wide statements report using the economic resources measurements focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund 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.

District 2 Drug Task Force funds recognize revenue in the period the assets are seized. The Agency Fund is custodial in nature and does not measure results of operations.

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 Manager submits an annual budget to the City Commission in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Commission for review, and public hearings are held to address priorities and the allocation of resources. In June, the Commission adopts the annual fiscal year budgets for City's operating funds. Budget amendments or supplements may be made during the year when unexpected modifications are required in estimated revenues and appropriations. Budget amendments are recommended by the City Manager and must be approved by the Commission. Public trusts submit budgets and other planning documents to their respective governing bodies. Other funds budgeted on a project-length basis are also subjected to the Commission review and approval process.

Basis of Budgeting

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and object class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without Commission approval. Revisions to the budget were made throughout the year.

The budgets for operating funds and proprietary funds are prepared on the cash basis. Revenues are budgeted in the year they are expected to be received. Expenses are budgeted in the year they are expected to be paid.

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.

Inventories

Inventories are similarly reported in government-wide and fund financial statements.

Inventories consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost and recorded as an expense at the time the item is used. Governmental inventory consists of maintenance supplies for the museum. Business-type inventory includes rock, maintenance parts, and repair supplies.

Accounts Receivable

Significant receivables for governmental activities include sales and use tax receivables and ambulance receivables. Business-type receivables consist mainly of amount due from customers primarily for rock sales and 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 60 to 90 days. At June 30, 2016, the City has estimated an allowance of \$668,833 and \$259,852 for governmental and business-type activities, respectively.

Restricted Assets

Restricted assets include assets legally restricted for capital projects and special revenue funds funded through long-term debt, debt service reserves or grants. Restricted assets and liabilities current in nature are reported with current assets and current liabilities 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 or 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 \$4,000 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 40 years
- Machinery, furniture & equipment 5-10 years
- Infrastructure 40 years

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

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 to specified maximums. Generally, after one year of services, employees are entitled to all accrued vacation leave upon termination. Sick leave earned prior to June 30, 2014 and unused at the time of termination is paid upon termination. Sick leave earned after June 30, 2014 and unused at the time of termination is not payable to the employee. 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 compensated absences payable to current 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. Net investment in capital assets and legally restricted amounts are separated from unrestricted net position.

Net investment in capital assets

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.

Unrestricted net position

This consists of net position that does not meeting the criteria of "restricted" or "net investment in capital assets".

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.

Non-spendable

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

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources

In addition to assets, the statement of net position will sometimes reports a separate section for deferred outflows of resources. This separate financials statement element represents a consumption of net position that applies to a future period(s) therefore will not be recognized as an outflow of resources (expense) until then. The City only has one item that qualifies for reporting in this category. It is the deferred charge on net pension obligations for the retirement plans of the City. A deferred charge on pension obligations results from the net different between projected and actual earnings on pension plan investments.

Deferred inflows of resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s); therefore will not be recognized as an inflow of resources (revenue) until that time. The City reports deferred charge on net pension obligations for the retirement plans of the City. A deferred charge on pension obligations results from the net different between projected and actual earnings on pension plan investments.

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 April 2015, the City levied a 4.5% sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. A portion of the sales tax received is restricted as to use. The unrestricted portion (1.375%) is recorded as sales tax revenue within the General Fund; 1.625% is restricted and recorded as sales tax revenue in the Capital Improvement fund. The remaining 1.5% is restricted for debt payments in the Industrial Authority for the school arena and the elementary school project debt.

(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 ELK CITY, OKLAHOMA
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<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				
<u>INVESTMENTS:</u>				
Certificates of deposit	\$ 33,909,000	\$ 33,909,000	N/A	72
Total investments	<u>33,909,000</u>	<u>33,909,000</u>		
Total primary government investments	<u>\$ 33,909,000</u>	<u>\$ 33,909,000</u>		

RECONCILIATION TO STATEMENT OF NET POSITION

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary</u>	<u>Total</u>
	Investments, unrestricted	\$ 10,671,000	\$ 4,702,000	\$ -
Investments, restricted	11,015,000	4,300,000	3,221,000	18,536,000
Total investments	<u>\$ 21,686,000</u>	<u>\$ 9,002,000</u>	<u>\$ 3,221,000</u>	<u>\$ 33,909,000</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.

Receivables and Uncollectable Amounts

Due from other governments

Governmental activities report sales taxes receivable and grant receivable amounts as due from other governments. Sales tax receivable is comprised of amounts received after year-end for current year taxes on sales. Balances are considered fully collectible.

Accounts Receivable

Governmental activities report ambulance patient receivables totaling \$824,088, net of allowance of \$668,833.

Proprietary activities report accounts receivable of \$709,915 comprised of amounts due from rock yard vendors and citizens for utility services provided. The City has recorded an allowance of \$259,852 based upon historical management knowledge and experience.

Note Receivable

The Elk City Industrial Authority entered into a note receivable with Superior Fabrication, Inc. for the purpose of leasing a building valued at \$3,000,000, of which \$1,095,110 is due to the City as of June 30, 2016. The note has a variable interest rate stated 4.75% at June 30, 2016. The terms of the note call for 180 monthly payments of principal and interest in the amount of \$27,408, and the note matures on August 1, 2022. Superior Fabrication, Inc. has the option to purchase the building at any time by paying the amount owed on the offsetting loan (Note 2(B)) or extending the agreement another 15 years after the agreement matures in 2022.

CITY OF ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Capital Assets

Changes in Capital Assets

	Primary Government			
	Balance at July 1, 2015	Additions	Deletions	
<i><u>Governmental Activities</u></i>				
Land and construction in process	\$ 4,676,744	\$ -	\$ 43,030	\$ 4,633,714
Buildings & structures	16,094,569	-	-	16,094,569
Machinery, furniture, & equipment	20,668,320	535,081	101,495	21,101,906
Infrastructure & improvements	41,085,222	301,966	-	41,387,188
Total	82,524,855	837,047	144,525	83,217,377
Less accumulated depreciation	40,690,695	2,699,761	101,495	43,288,961
Governmental fixed assets, net	\$ 41,834,160	\$ (1,862,714)	\$ (43,030)	\$ 39,928,416
<i><u>Business-type Activities</u></i>				
Land and construction in process	\$ 4,917,348	\$ 5,321,868	\$ -	\$ 10,239,216
Buildings & structures	32,379,968	5,980	-	32,385,948
Machinery, furniture, & equipment	6,307,432	439,213	-	6,746,645
Infrastructure & improvements	25,508,938	364,477	-	25,873,415
Total	69,113,686	6,131,538	-	75,245,224
Less accumulated depreciation	19,148,618	2,074,454	-	21,223,072
Business-type fixed assets, net	\$ 49,965,068	\$ 4,057,084	\$ -	\$ 54,022,152
Total primary government	\$ 91,799,228	\$ 2,194,370	\$ (43,030)	\$ 93,950,568
<i><u>Fiduciary Funds</u></i>				
Machinery, furniture, & equipment	\$ 268,521	\$ 70,762	\$ -	\$ 339,283
Less accumulated depreciation	236,531	30,154	-	266,685
Fiduciary fund fixed assets, net	\$ 31,990	\$ 40,608	\$ -	\$ 72,598

CITY OF ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Capital Assets by Fund

	Public Works Authority	Airport Authority	Industrial Authority	Total Enterprise Capital Assets
Land and CIP	\$ 5,541,863	\$ 298,889	\$ 4,398,464	\$ 10,239,216
Buildings & structures	12,340	140,980	32,232,628	32,385,948
Machinery, furniture, & equipment	3,419,589	987,857	2,339,199	6,746,645
Infrastructure & improvements	23,998,752	1,618,594	256,069	25,873,415
Total	32,972,544	3,046,320	39,226,360	75,245,224
Less accumulated depreciation	(9,463,605)	(584,248)	(11,175,219)	(21,223,072)
Business-type fixed assets, net	\$ 23,508,939	\$ 2,462,072	\$ 28,051,141	\$ 54,022,152

Depreciation Expense

Primary Government			
<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General government	\$ 331,126	Water	\$ 715,563
Public safety & judiciary	598,515	Customer service	17,149
Transportation	315,170	Sewer	46,672
Culture, parks and recreation	330,466	Landfill	34,818
Public service	955,429	Street	182,747
Economic development	169,055	Trash	66,273
		Airport	131,739
		Industrial	879,493
Total depreciation expense	\$ 2,699,761	Total depreciation expense	\$ 2,074,454

B. Liabilities

Notes and Bonds Payable

Business-Type Activities

Notes Payable:

The Elk City Public Works Authority entered into a loan with the City of Sayre for a percentage of Oklahoma Department of Commerce loan funds. The funds were obtained for landfill improvements. The loan is non-interest bearing and has a final maturity date of June 28, 2019. Principal payments of \$521 are due each month. \$ 18,749

In fiscal year 2010, The Elk City Public Works Authority obtained a construction loan not to exceed an original amount \$8,825,000 from the Oklahoma Water Resources Board (OWRB) to finance construction of a waterline. The loan has a fixed interest rate of 3.09% plus an administrative fee of .50% per year and is payable in semi-annual installments of \$117,667 plus interest and administrative fees beginning September 15, 2011. The loan is secured with the Elk City Public Works Authority's assets and future revenues, including water, sewer, and garbage. The loan matures March 15, 2041. The project was completed in January 2012 and the unused funds were de-obligated. The final loan was for \$8,686,856, reduced by \$2,000,000 of principal forgiveness through the American Recovery and Reinvestment Act of 2009. 5,959,142

The Elk City Industrial Authority entered into a loan agreement with First National Bank & Trust for the purpose of constructing a building for Superior Fabrication, Inc. The loan is offset with a note receivable with Superior Fabrication, Inc. (Note 2(A)) which has the same payment terms as this loan. The loan is payable in 180 monthly installments of principal and interest of \$27,408 and matures on August 1, 2022. The loan has a variable interest rate which was 4.75% on June 30, 2016. The loan can be paid off early if Superior Fabrication, Inc. chooses to purchase the building for the remaining cost of the loan. 1,095,110

The Elk City Public Works Authority issued Utility System Revenue Note, Series 2013 on December 30, 2013 in the original amount of \$5,990,000 to construct upgrades and improvements to the water system. The note carries an interest rate of 2.38%, maturing December 1, 2023. Semi-annual payments are 4,660,000

CITY OF ELK CITY, OKLAHOMA
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required ranging from \$230,000 to \$330,000 per period. The note is secured with water, sewer, and garbage system revenues.

The Elk City Industrial Authority established a line of credit with First Nation Bank and Trust in December 2015. For the year ended, the City has drawn funds on that line. The loan carries an interest rate of 2% over the prevailing certificate of deposit rate for the City. The line matures December 2028. Proceeds are used to fund the new school facilities. 2,248,000

The Elk City Industrial Authority issued Sales Tax Revenue Note, Series 2015 in March 2015 in the original amount of \$10,000,000 to construct and equip new elementary school facilities. The note carries an interest rate of 2.49%, maturing June 1, 2025. The note is secured with pledged sales tax of 0.5%. 9,185,000

Conduit Debt Obligations:

The Elk City Industrial Authority entered into two separate loans \$10,000,000 and \$7,000,000 with Bank of America for a total of \$17,000,000 to finance the construction of a school arena complex. Both loans are secured with a 1% sales tax on the gross receipts derived from all sales within the City approved by the citizens of Elk City during fiscal year, 2004. The loans carry a variable interest rate calculated at 65% of 6-month LIBOR plus 150 basis points. The Authority has entered in to an interest rate swap agreement that effectively establishes a fixed rate for each loan 5.43% and 5.4%, respectively. The loans are payable in annual installments ranging from \$709,000-\$1,336,000 plus interest each year until the loans mature in 2023. Refer to conduit debt further described below. 8,956,000

\$ 32,122,001

Conduit Debt

The Elk City Industrial Authority issued three limited obligations to finance the construction of a school arena complex. This facility is owned by the Industrial Authority and leased by Elk City Public Schools and reported as an Industrial Authority asset. The debt is a limited obligation of the Industrial Authority and payable only from the dedicated 1 cent sales tax. This does not constitute a pledge of faith and the Authority has no obligation for the debt beyond the dedicated sales tax. Sales tax proceeds in excess of the required annual debt service are available for use by the City for economic development purposes.

Changes in Long-Term Debt

<u>Type of Debt</u>	<u>Balance at July 1, 2015</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2016</u>	<u>Due Within One Year</u>
Business-type activities:					
Public Works Authority					
City of Sayre	\$ 24,999	\$ -	\$ 6,250	\$ 18,749	\$ 6,250
OWRB	6,102,852	-	143,710	5,959,142	149,590
Series 2013 Note	5,215,000	-	555,000	4,660,000	575,000
Total Public Works Authority	<u>11,342,851</u>	<u>-</u>	<u>704,960</u>	<u>10,637,891</u>	<u>730,840</u>
Industrial Authority					
First National Bank (SFI)	1,368,175	-	273,065	1,095,110	278,831
Elementary School	10,000,000	2,248,000	815,000	11,433,000	1,078,487
Bank of America (Arena)	9,833,000	-	877,000	8,956,000	924,000
Total Industrial Authority	<u>21,201,175</u>	<u>2,248,000</u>	<u>1,965,065</u>	<u>21,484,110</u>	<u>2,281,318</u>
Total business-type debt	<u>\$ 32,544,026</u>	<u>\$ 2,248,000</u>	<u>\$ 2,670,025</u>	<u>\$ 32,122,001</u>	<u>\$ 3,012,158</u>

Annual Debt Service Requirements

Year Ending June 30	Public Works Authority		Industrial Authority	
	Principal	Interest	Principal	Interest
2017	\$ 730,840	\$ 279,330	\$ 2,285,318	\$ 383,040
2018	746,335	260,558	2,378,787	344,245
2019	772,031	255,655	2,476,093	302,136
2020	771,147	107,450	2,470,070	249,089
2021	787,789	230,861	2,345,642	231,016
2022-2026	2,638,433	852,036	9,140,940	496,685
2027-2031	1,153,923	578,356	387,260	3,518
2032-2036	1,381,903	382,128	-	-
2037-2041	1,655,490	146,645	-	-
Totals	<u>\$ 10,637,891</u>	<u>\$ 3,093,019</u>	<u>\$ 21,484,110</u>	<u>\$ 2,009,729</u>

(3) REVENUES AND EXPENSES

A. Interfund Balances

	<u>Due From</u>	<u>Due To</u>
GOVERNMENTAL ACTIVITIES		
<i>GENERAL FUND</i>		
PUBLIC WORKS AUTHORITY	\$ -	\$ 670,419
<i>ECONOMIC DEVELOPMENT</i>		
INDUSTRIAL AUTHORITY	-	2,104
BUSINESS-TYPE ACTIVITIES		
<i>PUBLIC WORKS AUTHORITY</i>		
GENERAL FUND	670,419	-
ECONOMIC DEVELOPMENT	2,104	-
AIRPORT AUTHORITY	39,166	-
INDUSTRIAL AUTHORITY	175,528	-
FIDUCIARY ACTIVITIES	94,039	25,214
<i>AIRPORT AUTHORITY</i>		
CAPITAL PROJECTS	-	39,166
<i>INDUSTRIAL AUTHORITY</i>		
PUBLIC WORKS AUTHORITY	1,127	175,528
FIDUCIARY ACTIVITIES		
<i>METER FUND</i>		
PUBLIC WORKS AUTHORITY	-	60,984
<i>DRUG TASK FORCE</i>		
PUBLIC WORKS AUTHORITY	25,215	34,183
	<u>\$ 1,007,598</u>	<u>\$ 1,007,598</u>

	<u>Transfer In</u>	<u>Transfer Out</u>
GOVERNMENTAL ACTIVITIES		
<i>GENERAL FUND</i>		
PUBLIC WORKS AUTHORITY	\$ 224,223	\$ 715,266
NON-MAJOR FUNDS	195,959	-
INDUSTRIAL AUTHORITY	14,638	-
<i>CAPITAL PROJECTS</i>		
PUBLIC WORKS AUTHORITY	364,516	1,763,285
AIRPORT AUTHORITY	-	187,600
<i>NON-MAJOR FUNDS</i>		
GENERAL FUND	-	195,959
BUSINESS-TYPE ACTIVITIES		
<i>PUBLIC WORKS AUTHORITY</i>		
GENERAL FUND	715,266	224,223
CAPITAL PROJECTS	1,763,285	364,516
ECONOMIC DEVELOPMENT	-	-
<i>AIRPORT AUTHORITY</i>		
GENERAL FUND	187,600	-
<i>INDUSTRIAL AUTHORITY</i>		
GENERAL FUND	-	14,638
	<u>\$ 3,465,487</u>	<u>\$ 3,465,487</u>

(4) PENSION AND POST-EMPLOYMENT PLANS

The City participates in three employee pension systems as follows:

<u>Name of Plan</u>	<u>Type of Plan</u>
The Hartford Deferred Compensation Plan	401a Deferred Compensation Plan – 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. Hartford Deferred Compensation Plan

Plan Description

Substantially all of the City's full time employees, with the exception of police officers and firefighters, participate in a deferred compensation plan administered by The Hartford. The plan is funded through contributions as elected by the City Commission. Participants may contribute a portion of their salary to the plan under Internal Revenue Code section 401a. The City contributes to the plan using a sliding scale dependent upon longevity. As of June 30, 2016, the Plan covered 94 employees with a total payroll of \$3,749,620.

The City contributes \$212.50 per month for each covered employee. Employees are not required to contribute a minimum amount. The funds are credited to individual participant accounts and pooled for investment purposes through Hartford Deferred Compensation Plan. All gains and/or losses are credited directly to each participant. Upon retirement, termination of employment, disability, or death, the vest 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.

Total employer contribution expense was \$266,819 for fiscal year 2016, while the employees contributed \$83,079. The Plan reported \$15,891 in forfeitures for the fiscal year. The Plan has been established and can be amended by City Commission's approval of an ordinance and Joinder agreement.

B. Oklahoma Police Pension and Retirement Systems

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

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

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

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

Contributions – The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 8% percent of their annual pay. Participating

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cities are required to contribute 13% of the employees' annual pay. Contributions to the pension plan from the City were \$133,394.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$14,802 for its proportionate share of the net pension liability. The net pension asset was measured as of July 1, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information, the City's proportion was 0.00363%.

For the year ended June 30, 2016, the City recognized pension expense of \$56,847. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 81,848
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	265,241	322,198
Changes in proportion and differences between City contributions and proportionate share of contributions	6,809	-
City contributions subsequent to the measurement date	-	-
Total	\$ 272,050	\$ 404,046

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (57,803)
2018	(57,803)
2019	(57,803)
2020	47,166
2021	(6,141)

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

Inflation:	3%
Salary increases:	4.5% to 17.0% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense

Mortality rates:	Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA.
	Active employees (post-retirement) and nondisabled pensioners: RP-2000 Blue Collar Healthy Combined table with fully generational Improvement using scale AA.
	Disabled pensioners: RP-2000 Blue Collar Healthy Combined table with age set forward 4 years with fully generational improvement using Scale AA.

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

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

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

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

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

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

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City's proportionate share of the net pension liability/(asset)	889,354	14,802	(722,508)

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

C. Oklahoma Firefighter's Pension and Retirement Systems

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

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

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

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

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

CITY OF ELK CITY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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

Contributions – The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 9% of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the City were \$173,050 (fiscal year contributions).

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$4,801,838 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information the City's proportion was 0.452403%.

For the year ended June 30, 2016, the City recognized pension expense of \$460,406. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 94,869	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	170,227	528,170
Changes in proportion and differences between City contributions and proportionate share of contributions	278,865	-
City contributions subsequent to the measurement date	-	-
Total	\$ 543,961	\$ 528,170

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ (102,154)
2018	(102,154)
2019	(102,154)
2020	62,772
2021	8,033

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

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

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20%	5.48%
Domestic equity	37%	9.61%

International equity	20%	9.24%
Real Estate	10%	7.76%
Other assets	13%	6.88%

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability/(asset)	6,234,690	4,801,838	3,600,108

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

(5) COMMITMENTS AND CONTINGENCIES

A. Landfill Closure and Post-Closure Care

State and federal laws and regulations require the City of Elk City to place a final cover on landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure on the current landfill. Although closure and post-closure care costs will be paid only near or after the date the landfill stops accepting waste, closure costs represent a liability based on landfill capacity used as of February 3, 2016. The landfill is currently in use under permit number 3505009 with an estimated useful life of 1.07 years remaining. The financial statements reflect an accrual of \$1,527,763 as a liability in current debt to cover the estimated costs. This is consistent with estimated cost in fiscal year 2015. The liability is shown as a long-term obligation based upon the estimated life of the landfill. This amount is only an estimate based on current circumstances and may change due to inflation, changes in technology, or changes in regulations.

During the fiscal year 2015, the City began operating a second cell of the landfill under permit number 3505012. This cell is currently being used by the City for sanitation disposal. The estimated life of the landfill is 20.57 years with an associated closing cost of \$1,057,272. The financial statements reflect an accrual of \$51,399 as a current liability which is one year of the estimated cost of closure over the estimated life of the cell.

B. 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.

C. 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.

**City of Elk City Oklahoma
General Fund
Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2016**

	<u>Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES					
Sales tax	\$ 4,699,023	\$ (627,598)	\$ 4,071,425	\$ 3,749,378	\$ (322,047)
Use tax	1,482,950	(377,915)	1,105,035	819,218	(285,817)
Franchise tax	505,000	(35,000)	470,000	472,229	2,229
Other taxes	63,500	(5,000)	58,500	156,894	98,394
Licenses and permits	100,000	(35,000)	65,000	92,299	27,299
Rents & royalties	132,717	1,500,000	1,632,717	1,981,830	349,113
Fines and forfeitures	315,000	(25,000)	290,000	277,994	(12,006)
Charges for services	952,000	25,000	977,000	1,562,934	585,934
Intergovernmental revenues	273,165	175,000	448,165	701,962	253,797
Donations	10,000	-	10,000	18,000	8,000
Other revenues	135,000	180,000	315,000	44,639	(270,361)
Interest	100,000	-	100,000	95,051	(4,949)
Total revenues	<u>8,768,355</u>	<u>774,487</u>	<u>9,542,842</u>	<u>9,972,428</u>	<u>429,586</u>
EXPENDITURES					
<u>General government:</u>					
Managerial	495,000	(80,000)	415,000	393,635	21,365
Clerk	1,104,750	(130,000)	974,750	971,915	2,835
Treasurer	79,500	12,500	92,000	83,915	8,085
City Attorney	48,000	-	48,000	47,860	140
Information Technology	165,000	10,000	175,000	161,306	13,694
<u>Public safety and judiciary:</u>					
Police & DOC	2,498,500	490,000	2,988,500	2,984,531	3,969
Municipal Court	76,985	4,396	81,381	79,606	1,775
Animal Control	218,500	-	218,500	213,892	4,608
Fire/ambulance	2,300,000	(55,000)	2,245,000	2,241,902	3,098
<u>Culture and recreation:</u>					
Museum	457,500	(50,000)	407,500	384,261	23,239
Library	185,000	20,000	205,000	186,030	18,970
Civic Center	80,000	2,500	82,500	75,239	7,261
Park	575,000	80,505	655,505	566,107	89,398
Swimming Pool	79,000	-	79,000	70,795	8,205
<u>Public services</u>					
Cemetery	149,500	7,500	157,000	153,534	3,466
Inspection	296,000	(125,000)	171,000	143,852	27,148
Youth & Family	410,500	68,329	478,829	473,003	5,826
Total expenditures	<u>9,218,735</u>	<u>255,730</u>	<u>9,474,465</u>	<u>9,231,383</u>	<u>243,082</u>
Revenue over (under) expenditures	(450,380)	518,757	68,377	741,045	186,504
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	-	-	-	(260,779)	(260,779)
Net other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(260,779)</u>	<u>(260,779)</u>
Revenues and other financing sources over (under) expenditures and other uses	(450,380)	518,757	68,377	480,266	(74,275)
Fund balance at beginning of year (Non-GAAP budgetary basis)				<u>10,433,311</u>	
Fund balance at end of year (Non-GAAP budgetary basis)				<u>\$ 10,913,577</u>	
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				610,798	
Fund balance at end of year (GAAP basis)				<u>\$ 11,524,375</u>	

City of Elk City Oklahoma
Capital Projects
Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2016

	<u>Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES					
Sales tax	\$ 5,553,391	\$ (741,707)	\$ 4,811,684	\$ 4,665,406	\$ (146,278)
Grant income	-	570,000	570,000	240,358	(329,642)
Other income	35,000	67,000	102,000	103,546	1,546
Total revenues	<u>5,588,391</u>	<u>(104,707)</u>	<u>5,483,684</u>	<u>5,009,310</u>	<u>(474,374)</u>
EXPENDITURES					
Capital Projects					
Airport	110,000	270,294	380,294	357,659	22,635
Animal Control	35,000	-	35,000	-	35,000
Cemetery	132,400	-	132,400	1,959	130,441
City Hall	22,000	-	22,000	15,613	6,387
Civic Center	25,000	2,780	27,780	4,258	23,522
Fire	896,731	89,088	985,819	339,443	646,376
Fleet	159,500	-	159,500	-	159,500
Information Technology	103,000	23,980	126,980	52,885	74,095
Landfill	500,000	13,953	513,953	148,074	365,879
Library	13,500	-	13,500	2,554	10,946
Maintenance	53,000	-	53,000	-	53,000
Managerial	185,000	31,399	216,399	142,693	73,706
Museum	58,500	325,410	383,910	22,193	361,717
Park	615,000	24,971	639,971	304,542	335,429
Police	265,000	-	265,000	192,840	72,160
Right of way	60,000	-	60,000	-	60,000
Sanitation	154,000	-	154,000	6,011	147,989
Street	1,938,000	1,346,610	3,284,610	1,025,016	2,259,594
Wastewater	144,000	-	144,000	17,500	126,500
Water	162,000	393,000	555,000	238,337	316,663
Water Distribution	252,500	-	252,500	-	252,500
Youth & Family	1,700	-	1,700	-	1,700
Total expenditures	<u>5,885,831</u>	<u>2,521,485</u>	<u>8,407,316</u>	<u>2,871,577</u>	<u>5,535,739</u>
Revenue over (under) expenditures	(297,440)	(2,626,192)	(2,923,632)	2,137,733	(6,010,113)
Fund balance at beginning of year (Non-GAAP budgetary basis)				<u>11,257,056</u>	
Fund balance at end of year (Non-GAAP budgetary basis)				<u>\$ 13,394,789</u>	
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				<u>475,473</u>	
Fund balance at end of year (GAAP basis)				<u>\$ 13,870,262</u>	

**City of Elk City Oklahoma
Economic Development
Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2016**

	<u>Budget</u>	<u>Revisions</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
REVENUES					
Rental Income	\$ 80,000	\$ 75,000	\$ 155,000	\$ 55,300	\$ (99,700)
Other revenue	-	-	-	99,300	99,300
Interest	7,500	11,500	19,000	19,848	848
Total revenues	<u>87,500</u>	<u>86,500</u>	<u>174,000</u>	<u>174,448</u>	<u>448</u>
EXPENDITURES					
<u>Economic Development</u>					
Personal Services	100,000	-	100,000	93,500	6,500
Materials & Supplies	50,000	(25,000)	25,000	26,078	(1,078)
Other Charges & Services	15,000	25,000	40,000	35,959	4,041
Capital Outlay	70,000	134,653	204,653	104,569	100,084
Total expenditures	<u>235,000</u>	<u>134,653</u>	<u>369,653</u>	<u>260,106</u>	<u>109,547</u>
Revenue over (under) expenditures	(147,500)	(48,153)	(195,653)	(85,658)	(109,099)
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	80,000	-	80,000	-	(80,000)
Net other financing sources (uses)	<u>80,000</u>	<u>-</u>	<u>80,000</u>	<u>-</u>	<u>(80,000)</u>
Revenues and other financing sources over (under) expenditures and other uses	(67,500)	(48,153)	(115,653)	(85,658)	
Fund balance at beginning of year (Non-GAAP budgetary basis)				<u>3,586,738</u>	
Fund balance at end of year (Non-GAAP budgetary basis)				\$ 3,501,080	
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				<u>810,391</u>	
Fund balance at end of year (GAAP basis)				<u>\$ 4,311,471</u>	

Schedules of Required Supplementary Information

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Oklahoma Police Pension Retirement Plan
Year Ended June 30, 2016**

	<u>2015*</u>	<u>2016*</u>
City's portion of the net pension liability (asset)	0.3548%	0.3630%
City's proportionate share of the net pension liability (asset)	\$ (119,445)	\$ 14,802
City's covered-employee payroll	\$ 1,527,970	\$ 1,626,148
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-8%	1%
Plan fiduciary net position as a percentage of the total pension liability	149.70%	99.99%

* The amount presented for each fiscal year were determined as of the fiscal year-end that occurred previous

**SCHEDULE OF CITY CONTRIBUTIONS
Oklahoma Police Pension Retirement Plan**

	<u>2015*</u>	<u>2016*</u>
Contractually required contribution	\$ 129,023	\$ 133,394
Contributions in relation to the contractually required contribution	<u>(129,023)</u>	<u>(133,394)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,527,970	\$ 1,626,148
Contributions as a percentage of covered-employee payroll	8.44%	8.20%

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

Schedules of Required Supplementary Information

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Oklahoma Fire Pension Retirement Plan
Year Ended June 30, 2016**

	<u>2015*</u>	<u>2016*</u>
City's portion of the net pension liability (asset)	0.4238%	0.4524%
City's proportionate share of the net pension liability (asset)	\$ 5,013,129	\$ 4,801,838
City's covered-employee payroll	\$ 1,489,118	\$ 1,574,246
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	337%	305%
Plan fiduciary net position as a percentage of the total pension liability	96.11%	100.00%

* The amount presented for each fiscal year were determined as of the fiscal year-end that occurred previous

**SCHEDULE OF CITY CONTRIBUTIONS
Oklahoma Fire Pension Retirement Plan**

	<u>2015*</u>	<u>2016*</u>
Contractually required contribution	\$ 158,403	\$ 173,050
Contributions in relation to the contractually required contribution	<u>(158,403)</u>	<u>(173,050)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 1,489,118	\$ 1,574,246
Contributions as a percentage of covered-employee payroll	10.64%	10.99%

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

City of Elk City, Oklahoma
 Combining Balance Sheet
 Non-Major Governmental Funds (continued)
 June 30, 2016

	Street & Alley Fund	Improvement Fund	Civil Defense	Police Special Revenue	Fire Special Revenue	Cemetery Corpus Fund	Municipal Court Fund	Animal Control Fund	Special Library Fund
ASSETS									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 71,821	\$ 85,031	\$ -	\$ 3,040	\$ 10,082	\$ -
Investments	100,000	15,000	2,000	-	57,000	60,000	-	-	60,000
Due from other governments	-	-	-	-	-	-	-	-	-
Prepaid asset	-	-	-	-	-	-	-	-	-
Total assets	<u>\$ 100,000</u>	<u>\$ 15,000</u>	<u>\$ 2,000</u>	<u>\$ 71,821</u>	<u>\$ 142,031</u>	<u>\$ 60,000</u>	<u>\$ 3,040</u>	<u>\$ 10,082</u>	<u>\$ 60,000</u>
LIABILITIES									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 436	\$ -	\$ 3,040	\$ 700	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>436</u>	<u>-</u>	<u>3,040</u>	<u>700</u>	<u>-</u>
FUND BALANCES									
Restricted	100,000	-	-	-	-	60,000	-	-	-
Committed	-	-	-	-	-	-	-	9,382	-
Assigned	-	15,000	2,000	71,821	141,595	-	-	-	60,000
Unassigned	-	-	-	-	-	-	-	-	-
Total fund balances	<u>100,000</u>	<u>15,000</u>	<u>2,000</u>	<u>71,821</u>	<u>141,595</u>	<u>60,000</u>	<u>-</u>	<u>9,382</u>	<u>60,000</u>
Total liabilities and fund balances	<u>\$ 100,000</u>	<u>\$ 15,000</u>	<u>\$ 2,000</u>	<u>\$ 71,821</u>	<u>\$ 142,031</u>	<u>\$ 60,000</u>	<u>\$ 3,040</u>	<u>\$ 10,082</u>	<u>\$ 60,000</u>

City of Elk City, Oklahoma
Combining Balance Sheet
Non-Major Governmental Funds (continued)
June 30, 2016

	Revolving Loan Fund	Carousel Maintenance	Museum Exhibit Fund	Landfill	Clearing	Public Facilities	Hotel Tax Fund	Tax Incentive Fund	Total Non-Major Funds
ASSETS									
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 13,190	\$ 393,340	\$ -	\$ 398,315	\$ 750,541	\$ 1,725,360
Investments	5,000	100,000	25,000	450,000	-	41,000	1,100,000	500,000	2,515,000
Due from other governments	-	-	-	-	-	-	-	-	-
Prepaid asset	-	-	-	-	78,442	-	-	-	78,442
Total assets	<u>\$ 5,000</u>	<u>\$ 100,000</u>	<u>\$ 25,000</u>	<u>\$ 463,190</u>	<u>\$ 471,782</u>	<u>\$ 41,000</u>	<u>\$ 1,498,315</u>	<u>\$ 1,250,541</u>	<u>\$ 4,318,802</u>
LIABILITIES									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 411,930	\$ -	\$ -	\$ -	\$ 416,106
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>411,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>416,106</u>
FUND BALANCES									
Restricted	-	-	-	-	-	-	-	1,250,541	1,410,541
Committed	-	-	-	463,190	-	41,000	1,498,315	-	2,011,887
Assigned	5,000	100,000	25,000	-	-	-	-	-	420,416
Unassigned	-	-	-	-	59,852	-	-	-	59,852
Total fund balances	<u>5,000</u>	<u>100,000</u>	<u>25,000</u>	<u>463,190</u>	<u>59,852</u>	<u>41,000</u>	<u>1,498,315</u>	<u>1,250,541</u>	<u>3,902,696</u>
Total liabilities and fund balances	<u>\$ 5,000</u>	<u>\$ 100,000</u>	<u>\$ 25,000</u>	<u>\$ 463,190</u>	<u>\$ 471,782</u>	<u>\$ 41,000</u>	<u>\$ 1,498,315</u>	<u>\$ 1,250,541</u>	<u>\$ 4,318,802</u>

City of Elk City, Oklahoma
Combining Balance Sheet
Non-Major Governmental Funds (continued)
June 30, 2016

	Street & Alley Fund	Improvement Fund	Civil Defense	Police Special Revenue	Fire Special Revenue	Cemetery Corpus Fund	Municipal Court Fund	Animal Control Fund	Special Library Fund
REVENUES									
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	-	-	-	9,400	-
Fines & forfeitures	-	-	-	-	-	-	-	-	-
Rental income	-	-	-	-	-	-	-	-	-
Other income	-	-	-	11,250	8,238	-	-	-	-
Donations	-	-	-	450	-	-	-	-	-
Interest income	-	-	-	101	128	-	-	5	-
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,801</u>	<u>8,366</u>	<u>-</u>	<u>-</u>	<u>9,405</u>	<u>-</u>
EXPENDITURES									
General government:									
General government	-	-	-	-	-	-	-	7,450	-
Total general government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,450</u>	<u>-</u>
Public safety and judiciary:									
Police	-	-	-	505	-	-	-	-	-
Fire	-	-	-	-	10,932	-	-	-	-
Ambulance	-	-	-	-	-	-	-	-	-
Total public safety and judiciary	<u>-</u>	<u>-</u>	<u>-</u>	<u>505</u>	<u>10,932</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Transportation:									
Street	-	-	-	-	-	-	-	-	-
Total transportation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cultural, parks and recreation:									
Musuem	-	-	-	-	-	-	-	-	-
Library	-	-	-	-	-	-	-	-	-
Total cultural, parks and recreation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Public Service:									
Landfill	-	-	-	-	-	-	-	-	-
Total public services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Economic Development:									
Economic development	-	-	-	-	-	-	-	-	-
Total economic development	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital outlay									
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>505</u>	<u>10,932</u>	<u>-</u>	<u>-</u>	<u>7,450</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,296</u>	<u>(2,566)</u>	<u>-</u>	<u>-</u>	<u>1,955</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)									
Transfers in/(out)	-	-	-	-	-	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-	11,296	(2,566)	-	-	1,955	-
Fund balances - beginning, restated	100,000	15,000	2,000	60,525	144,161	60,000	-	7,427	60,000
Fund balances - ending	<u>\$ 100,000</u>	<u>\$ 15,000</u>	<u>\$ 2,000</u>	<u>\$ 71,821</u>	<u>\$ 141,595</u>	<u>\$ 60,000</u>	<u>\$ -</u>	<u>\$ 9,382</u>	<u>\$ 60,000</u>

City of Elk City, Oklahoma
Combining Balance Sheet
Non-Major Governmental Funds (continued)
June 30, 2016

	Revolving Loan Fund	Carousel Maintenance	Museum Exhibit Fund	Landfill	Clearing	Public Facilities	Hotel Tax Fund	Tax Incentive Fund	Total Non-Major Funds
REVENUES									
Intergovernmental revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 345,155	\$ 345,155
Charges for services	-	-	-	-	-	-	-	-	9,400
Fines & forfeitures	-	-	-	-	-	-	-	-	-
Rental income	-	-	-	-	-	-	-	-	-
Other income	-	-	-	-	-	-	473,461	-	492,949
Donations	-	-	-	-	-	-	-	-	450
Interest income	-	-	-	1,315	367	-	6,081	1,201	9,198
Total revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,315</u>	<u>367</u>	<u>-</u>	<u>479,542</u>	<u>346,356</u>	<u>857,152</u>
EXPENDITURES									
General government:									
General government	-	-	-	-	-	-	-	-	7,450
Total general government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,450</u>
Public safety and judiciary:									
Police	-	-	-	-	-	-	-	-	505
Fire	-	-	-	-	-	-	-	-	10,932
Ambulance	-	-	-	-	-	-	-	-	-
Total public safety and judiciary	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,437</u>
Transportation:									
Street	-	-	-	-	-	-	-	-	-
Total transportation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cultural, parks and recreation:									
Musuem	-	-	-	-	-	-	-	-	-
Library	-	-	-	-	-	-	-	-	-
Total cultural, parks and recreation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Public Service:									
Landfill	-	-	-	-	-	-	-	-	-
Total public services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Economic Development:									
Economic development	-	-	-	-	-	-	467,839	100,000	567,839
Total economic development	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>467,839</u>	<u>100,000</u>	<u>567,839</u>
Capital outlay	-	-	-	-	-	-	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>467,839</u>	<u>100,000</u>	<u>586,726</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,315</u>	<u>367</u>	<u>-</u>	<u>11,703</u>	<u>246,356</u>	<u>270,426</u>
OTHER FINANCING SOURCES (USES)									
Transfers in/(out)	-	-	-	-	2,314	-	-	(198,273)	(195,959)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,314</u>	<u>-</u>	<u>-</u>	<u>(198,273)</u>	<u>(195,959)</u>
Net change in fund balances	-	-	-	1,315	2,681	-	11,703	48,083	74,467
Fund balances - beginning, restated	5,000	100,000	25,000	461,875	57,171	41,000	1,486,612	1,202,458	3,828,229
Fund balances - ending	<u>\$ 5,000</u>	<u>\$ 100,000</u>	<u>\$ 25,000</u>	<u>\$ 463,190</u>	<u>\$ 59,852</u>	<u>\$ 41,000</u>	<u>\$ 1,498,315</u>	<u>\$ 1,250,541</u>	<u>\$ 3,902,696</u>

City of Elk City, Oklahoma
Combining Statement of Fiduciary Net Position
Agency Funds
June 30, 2016

	Water Meter Deposit Fund	Municipal Court Bond Fund	Total Agency Funds
ASSETS			
Cash and cash equivalents	\$ 33,352	\$ 13,721	\$ 47,073
Investments	196,000	-	196,000
Total assets	<u>\$ 229,352</u>	<u>\$ 13,721</u>	<u>\$ 243,073</u>
LIABILITIES			
Due to other funds	\$ 7,433	-	\$ 7,433
Bonds and deposits subject to refund	221,919	13,721	235,640
Total liabilities	<u>\$ 229,352</u>	<u>\$ 13,721</u>	<u>\$ 243,073</u>



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*

To the Honorable Mayor and City Commissioners
City of Elk City, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Elk City, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Elk City, Oklahoma's basic financial statements, and have issued our report thereon dated October 17, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Elk City, 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 the City of Elk City, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Elk City, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses. Finding 2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elk City, 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*.

City of Elk City, Oklahoma's Response to Findings

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

Purpose of this Report

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

FSW&B CPAs-PLLC

FSW&B CPAs- PLLC

Woodward, Oklahoma

October 17, 2016

CITY OF ELK CITY, OK
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Commerce:</u>				
EDA Award No. 08-01-04953	11.300	1,000,000	888,967	888,967
<u>U.S. Department of Transportation:</u>				
Federal Aviation Administration - Airport Improvement Program 3-40-0027-016-2015	20.106	69,255	26,000	26,000
<u>U.S. Federal Emergency Management Agency</u>				
<u>Passed through the Oklahoma Department of Emergency Management:</u>				
Warning Siren Project FEMA-DR4117 #32	97.036	31,971	31,971	31,971
Severe Winter Storms & Flooding DR4247 PW36	97.036	44,039	44,039	44,039
Severe Winter Storms & Flooding DR4247 PW37	97.036	21,003	21,003	21,003
Severe Winter Storms & Flooding DR4247 PW41	97.036	15,446	15,446	15,446
Tornados Sever Storms Straight Line Winds - DR4222 PW1095	97.036	3,416	3,416	3,416
Tornados Sever Storms Straight Line Winds - DR4222 PW1096	97.036	19,500	19,500	19,500
Tornados Sever Storms Straight Line Winds - DR4222 PW1097	97.036	57,700	57,700	57,700
Sub-total U.S. Federal Emergency Management Agency		<u>193,075</u>	<u>193,075</u>	<u>193,075</u>
<u>U.S. Department of Justice:</u>				
Community Oriented Policing Services	16.710	125,000	46,427	46,427
<u>Passed through the District Attorneys Council:</u>				
JAG-LLE-2015-ELK CITY CI-00084	16.738	8,378	8,378	8,378
Sub-total U.S. Department of Justice		<u>133,378</u>	<u>54,805</u>	<u>54,805</u>
<u>U.S. Department of Health & Human Services:</u>				
<u>Passed through the Oklahoma Department of Health:</u>				
Hospital Preparedness Program BP4 2015-2016		4,600	4,600	4,600
Sub-total U.S. Health & Human Services		<u>4,600</u>	<u>4,600</u>	<u>4,600</u>
Total of Expenditures of Federal Awards		<u>\$ 1,400,308</u>	<u>\$ 1,167,447</u>	<u>\$ 1,167,447</u>
Note A - This schedule was prepared on an accrual (GAAP) basis of accounting consistent with the preparation of the basic financial statements.				
<u>Oklahoma Tobacco Settlement Endowment Trust:</u>				
TSET Healthy Living Program 092-016-0026		436,000	376,570	376,570
TSET Healthy Community Incentive		45,000	45,000	45,000
Total of Expenditures Oklahoma Tobacco Settlement Endowment Trust		<u>\$ 481,000</u>	<u>\$ 421,570</u>	<u>\$ 421,570</u>



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor and City Commissioners
City of Elk City, Oklahoma

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of the City of Elk City, Oklahoma, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Elk City, Oklahoma's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine

the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Elk City, Oklahoma's internal control over compliance.

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

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

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

FSW&B CPAs-PLLC

FSW&B CPAs- PLLC

Woodward, Oklahoma
October 17, 2016

**CITY OF ELK CITY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

SECTION I --- SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued	Unmodified
<u>Internal control over financial reporting:</u>	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

<u>Internal control over major programs:</u>	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	No
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
11.300	Investments for Public Works and Economic Development Facilities

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as a low-risk auditee?	No

CITY OF ELK CITY, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

SECTION II --- FINANCIAL STATEMENT FINDINGS

Finding 2016-001:

Criteria: Checks should be recorded in the general ledger in the period they are disbursed.

Condition: Several checks that cleared the bank during the year ending June 30, 2016, were not recorded as disbursements until the next fiscal year.

Effect: Cash balances were overstated.

Cause: The controls in place are not effective at making sure transactions are recorded in the correct period.

Recommendation: Checks should be recorded when they are disbursed. When performing bank reconciliations, the only reconciling items should be those that are outstanding. Any other reconciling items should be investigated to ensure sure they are reported in the correct period.

Management's Response: We agree corrective action needs to be taken. Going forward checks will be recorded when they are disbursed and the other recommendations provided will be followed. We disagree that this is a finding, but think it is more of a corrective action that should be taken especially since only a couple of checks were noted.

SECTION III --- FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

CITY OF ELK CITY, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2016

There were no prior year findings.