



The City of Nowata, Oklahoma

Annual Financial Statements and Independent Auditor's Report

As of and for the year ended June 30, 2015

CITY OF NOWATA, OKLAHOMA
Nowata, Oklahoma

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

**FOR THE YEAR ENDED
JUNE 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

To the City Commission
City of Nowata, Oklahoma

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter

The City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pension* and GASB Statement No. 71, *Pension Contributions Made Subsequent to the Measurement Date*, which restated beginning net position of the governmental activities and business-type activities to record a net pension liability and deferred outflows of resources. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3–9 and 37–39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated April 22, 2016, on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
April 22, 2016

Our discussion and analysis of the City of Nowata's ("City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2015. 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 HIGHLIGHTS

- At June 30, 2015, the liabilities and deferred inflow of resources of the City exceeded its assets and deferred outflows by \$4,154,593 (net position) compared to \$3,608,730, restated in prior year for the implementation of GASB No. 68 Accounting and Financial Reporting for Pensions and the conversion to accrual based reporting.
- The City's total net position is comprised of the following:
 - (1) Net investment in capital assets of \$3,338,171 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase of construction of capital assets.
 - (2) Restricted net position of \$610,372 which consist mainly of restricted investment accounts related to the outstanding debt held by the City.
 - (3) Unrestricted net position of \$206,050 may be used to meet the City's ongoing obligations to citizens and creditors.
- After transfers of \$140,752 from business-type activities to governmental activities, net position of governmental activities increased \$562,961 or 34%, and net position of business-type activities decreased \$17,298 or 1% over prior year as restated. Overall the health of the City improved when compared to prior year by \$545,663 or 15% over prior year as restated.
- The City implemented GASB No. 68 Accounting and Financial Reporting for Pensions which resulted in the recognition of a net pension liability of \$380,998 for police, fire, and municipal employee retirement obligations. The liability is recorded in noncurrent governmental activities on the Statement of Net Position.

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. 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. 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; cultural, parks, and recreation; and cemetery. Business-types activities consist mainly of utility services, including water, sewer, sanitation, and ambulance service provided by the City.

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 two 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.

Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail.

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 noted, this report presents certain *Required Supplementary Information* concerning the City's compliance with the approved and revised budget for major governmental funds.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The following table provides a summary of the City's net position at June 30:

	Governmental Activities	Business-Type Activities	Total
	2015	2015	2015
Current assets	\$ 765,551	\$ 772,661	\$ 1,538,212
Non-current assets	108,592	266,070	374,662
Capital assets, net	2,124,005	4,207,997	6,332,002
Total assets	2,998,148	5,246,728	8,244,876
Deferred outflows	64,672	34,750	99,422
Current liabilities	77,733	256,098	333,831
Non-current liabilities	559,313	3,032,576	3,591,889
Total liabilities	637,046	3,288,674	3,925,720
Deferred inflows	186,277	77,708	263,985
Net assets			
Net investment in capital assets	2,027,492	1,310,679	3,338,171
Restricted	174,784	435,588	610,372
Unrestricted	37,221	168,829	206,050
Total net position	\$ 2,239,497	\$ 1,915,096	\$ 4,154,593

The City's combined net position was \$4,154,593 for the year ended June 30, 2015. For the year ended, the City changed their financial presentation to accrual basis from cash basis reported in fiscal year 2014 audit. Accrual based financials provide the financial statement user greater transparency regarding the operations of the City. This conversion resulted in an increase in the net position of governmental activities and business-type activities of \$1,444,478 and \$1,335,229, respectively. The majority of the increase in net position resulted from the recording of capital assets held by the City, including land, building, utility infrastructure, equipment and vehicles, partially offset by recording of long term liabilities.

Additionally, the City implemented GASB No. 68 Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27. Under this standard, the City is required to recognize the long-term obligation to provide pension benefits for the three plans offered by the City. Net position for the year ending June 30, 2014 was restated to reflect the implementation.

The City reported positive balances in net position for both governmental and business-type activities. Overall, the City's financial position improved 15% year over year as restated.

Changes in Net Position

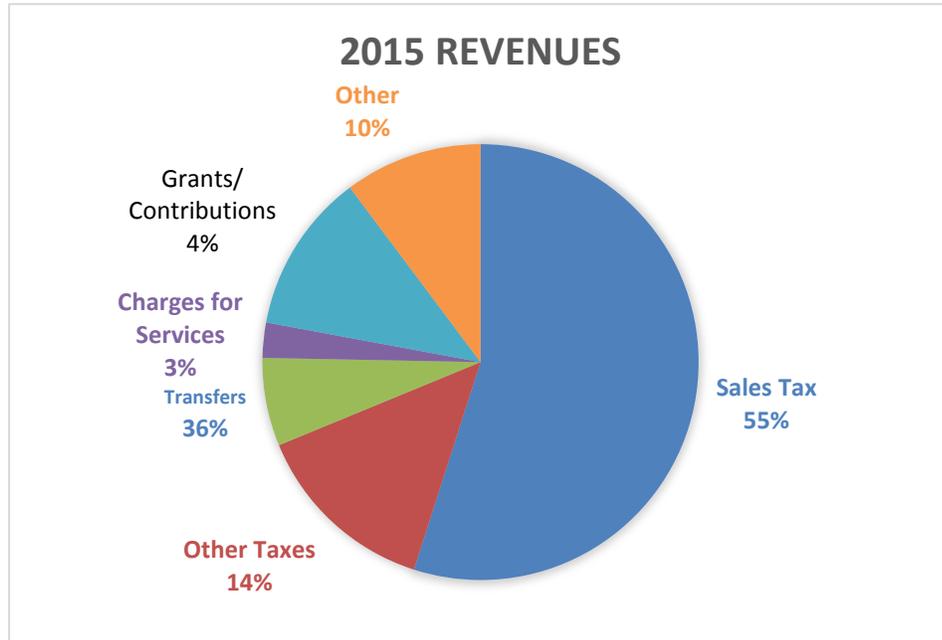
For the year ended June 30, 2015, net position of the primary government changed as follows:

	Governmental Activities	Business-type Activities	Total
	2015	2015	2015
Revenues			
Program revenues	\$ 448,244	\$ 2,098,164	\$ 2,546,408
Taxes and other general revenues	1,436,851	24,533	1,461,384
Total revenues	1,885,095	2,122,697	4,007,792
Expenses			
General government	360,557	-	360,557
Public safety and judiciary	767,085	-	767,085
Transportation	152,564	-	152,564
Cultural, parks, and recreation	77,377	-	77,377
Cemetery	82,132	-	82,132
Economic development	23,171	-	23,171
Water	-	540,722	540,722
Sewer	-	494,210	494,210
Sanitation	-	255,942	255,942
Customer service	-	310,849	310,849
Ambulance	-	397,520	397,520
Total expenses	1,462,886	1,999,243	3,462,129
Excess (deficiency) before transfers	\$ 422,209	\$ 123,454	\$ 545,663
Transfers	140,752	(140,752)	-
Increase (decrease) in net position	\$ 562,961	\$ (17,298)	\$ 545,663

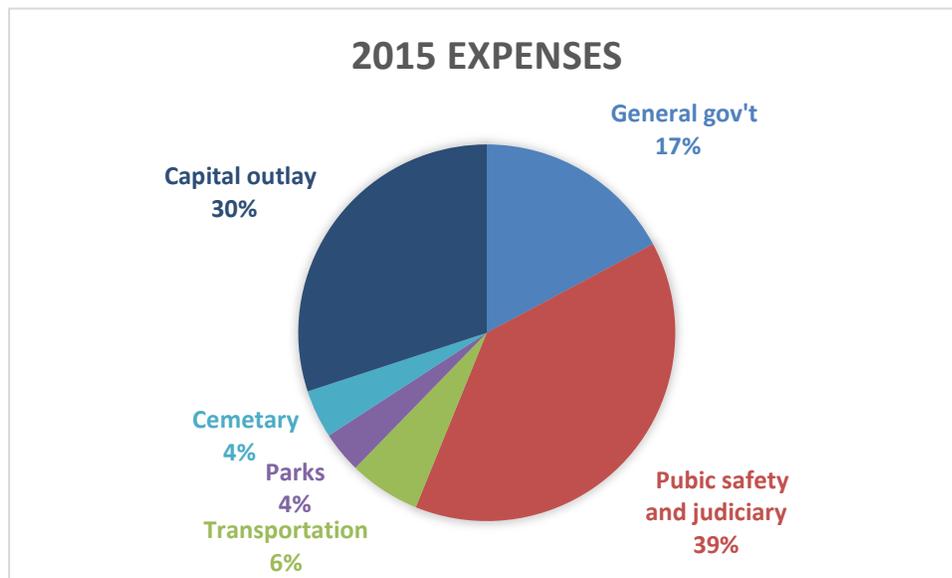
The City reported an increase in net position of \$545,663 for the year ended June 30, 2015. Sales tax and franchise taxes provided the majority of revenues for governmental activities while utility billings on water service provided over 43% of total revenues in the business type activities. During the fiscal year, the City sold property yielding a net profit of \$343,080 which is recorded in "Taxes and other general revenues" for governmental net position.

Operating expenses consist of salary, benefits, materials, and overhead allocation for each department. Under the accrual based reporting, depreciation on fixed assets is also charged against the department holding the respective assets. As of June 30, 2015, governmental activities recorded \$171,339 in depreciation and business-type activities recorded \$258,241 in depreciation. Interest expense of \$142,802 is also reflected in the business-type activities.

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



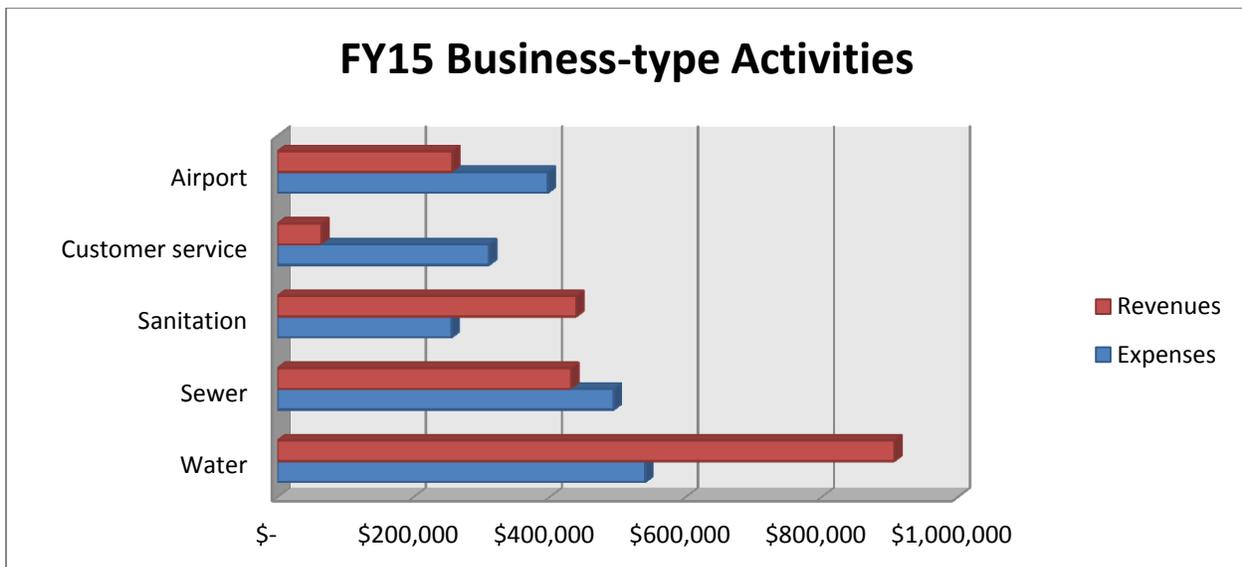
Taxes provided for 55% of the City's governmental revenues in fiscal year 2015. Other taxes, which includes franchise taxes, use tax, alcohol beverage tax, and tobacco tax were the the next largest source of income at 14% of revenues.



For the year ended June 30, 2015, total expenses for governmental activities amounted to \$1,462,886. Of this amount, public safety and judiciary with \$767,085, was the largest operating service department at 39% of the total cost of services for the City government.

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 expenditures are eliminated and capital assets are reported.

Business-type Activities



Business-type activities are shown comparing costs to revenues generated by the related services. Sanitation, Sewer, 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.

For the fiscal year ended June 30, 2015, revenues from water and sanitation services covered the cost of operating their respective departments.

General Fund Budgetary Highlights

The original adopted General Fund budget for fiscal year 2015 was \$1,348,192. Budget amendments were approved during the fiscal year decreasing the budget by \$9,291, for a final amended budget of \$1,338,901 prior to transfers. The General Fund expenditures exceeded budgeted amounts by approximately \$33,348.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2015, the City had a net investment in capital assets of \$3,338,171 including vehicles and equipment for police and fire operations, street improvements, and park facilities, in governmental activities and infrastructure, including water lines and sewer lines in business-type activities. Refer to the table below.

Primary Government Capital Assets (net of accumulated depreciation)

	Governmental		Business-type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Land	\$ 8,448	\$ 8,448	\$ 24,150	\$ 24,150	\$ 32,598	\$ 32,598
Construction in process	18,500	-	9,821	-	28,321	0
Buildings	951,804	952,726	166,651	175,970	1,118,455	1,128,696
Machinery & equipment	825,795	555,866	515,372	497,131	1,341,167	1,052,997
Utility property & improvements	319,458	136,702	3,492,003	3,678,322	3,811,461	3,815,024
Totals	\$ 2,124,005	\$ 1,653,742	\$ 4,207,997	\$ 4,375,573	\$ 6,332,002	\$ 6,029,315

- In Governmental Activities, the most significant additions included a new fire truck, generator, storm sirens, police car video system, bunker gear for the fire department, street improvements, and other infrastructure/equipment.
- In Business-type activities, capital additions included sewer upgrades and sewer equipment.

Long-Term Debt

At year-end, the City had \$3,210,891 in long-term debt outstanding, detailed below. Debt obligations increased \$40,805 when compared to prior year. This increase is attributable to the issuance of the fire truck capital lease offset by regular payments made on existing debt held by the City.

Primary Government Long-Term Debt

	Governmental Activities		Business-type Activities	
	2015	2014	2015	2014
Capital leases payable	205,105	49,013	138,388	182,919
Bonds payable	-	-	3,025,000	3,100,000
less current portion	(26,790)	(15,316)	(130,812)	(119,530)
Totals	\$ 178,315	\$ 33,697	\$ 3,032,576	\$ 3,163,389

ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES

Economic Environment

According to the Oklahoma Economic Report, "revenue growth from the past year has been erased and indications are the situation is going to get worse before it gets better" stated by State Treasurer, Ken Miller in October 2015. The economic environment of the state sheds light on the local economy of the City.

The financial position of the City continues to show a moderate growth pattern. The year-to-year progress of revenue exceeding expenses is leading to financial stability and improvement to the City's cash position.

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 Nowata City Hall, 701 E Modoc Ave, Nowata, Oklahoma, 74048.

City of Nowata, Oklahoma
Statement of Net Position
June 30, 2015

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 427,196	\$ 208,452	\$ 635,648
Accounts receivable (net)	71,703	128,621	200,324
Other receivables	77,495	-	77,495
Total current assets	<u>576,394</u>	<u>337,073</u>	<u>913,467</u>
Restricted assets:			
Cash and cash equivalents	189,157	335,914	525,071
Investments	-	99,674	99,674
Total restricted assets	<u>189,157</u>	<u>435,588</u>	<u>624,745</u>
Noncurrent Assets:			
Pension asset	108,592	266,070	374,662
Land and construction in progress	26,948	33,971	60,919
Other capital assets (net of accumulated depreciation)	2,097,057	4,174,026	6,271,083
Total noncurrent assets	<u>2,232,597</u>	<u>4,474,067</u>	<u>6,706,664</u>
Total assets	<u>\$ 2,998,148</u>	<u>\$ 5,246,728</u>	<u>\$ 8,244,876</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred charges on pension obligations	<u>64,672</u>	<u>34,750</u>	<u>99,422</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 30,085	\$ 19,956	\$ 50,041
Other accrued liabilities	-	16,949	16,949
Accrued salary and vacation payable	20,858	4,808	25,666
Lease payable, current	26,790	50,812	77,602
Total current liabilities	<u>77,733</u>	<u>92,525</u>	<u>170,258</u>
Liabilities payable from restricted assets:			
Customer deposits payable	-	83,573	83,573
Bonds payable, current	-	80,000	80,000
Total liabilities payable from restricted assets	<u>-</u>	<u>163,573</u>	<u>163,573</u>
Noncurrent liabilities:			
Lease payable, non-current	178,315	87,576	265,891
Bonds payable, non-current	-	2,945,000	2,945,000
Pension liability	380,998	-	380,998
Total noncurrent liabilities	<u>559,313</u>	<u>3,032,576</u>	<u>3,591,889</u>
Total liabilities	<u>637,046</u>	<u>3,288,674</u>	<u>3,925,720</u>
DEFERRED INFLOW OF RESOURCES			
Deferred charges on pension obligations	<u>186,277</u>	<u>77,708</u>	<u>263,985</u>
NET POSITION			
Net investment in capital assets	2,027,492	1,310,679	3,338,171
Reserved for restricted purposes	174,784	435,588	610,372
Unrestricted	37,221	168,829	206,050
Total net position	<u>\$ 2,239,497</u>	<u>\$ 1,915,096</u>	<u>\$ 4,154,593</u>

City of Nowata, Oklahoma
Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government:					
General government	\$ 360,557	\$ 23,904	\$ 3,010	\$ 123,989	\$ (209,654)
Total general government	<u>360,557</u>	<u>23,904</u>	<u>3,010</u>	<u>123,989</u>	<u>(209,654)</u>
Public safety and judiciary:					
Police	442,334	104,205	11,218	-	(326,911)
Fire	309,934	63,434	21,040	-	(225,460)
Municipal court	14,817	7,688	-	-	(7,129)
Total public safety and judiciary	<u>767,085</u>	<u>175,327</u>	<u>32,258</u>	<u>-</u>	<u>(559,500)</u>
Transportation:					
Street	152,564	-	35,272	-	(117,292)
Total transportation	<u>152,564</u>	<u>-</u>	<u>35,272</u>	<u>-</u>	<u>(117,292)</u>
Cultural, parks and recreation:					
Park	77,377	-	14,094	-	(63,283)
Total cultural, parks and recreation	<u>77,377</u>	<u>-</u>	<u>14,094</u>	<u>-</u>	<u>(63,283)</u>
Cemetery:					
Cemetery	82,132	40,390	-	-	(41,742)
Total cemetery	<u>82,132</u>	<u>40,390</u>	<u>-</u>	<u>-</u>	<u>(41,742)</u>
Economic development:					
Economic development	23,171	-	-	-	(23,171)
Total economic development	<u>23,171</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(23,171)</u>
Total governmental activities	<u>1,462,886</u>	<u>239,621</u>	<u>84,634</u>	<u>123,989</u>	<u>(1,014,642)</u>
Business-type activities:					
Utility services:					
Water	540,722	906,765	-	-	366,043
Sewer	494,210	431,511	-	-	(62,699)
Sanitation	255,942	438,723	-	-	182,781
Customer service	310,849	64,549	-	-	(246,300)
Ambulance	397,520	248,446	8,170	-	(140,904)
Total business-type activities	<u>1,999,243</u>	<u>2,089,994</u>	<u>8,170</u>	<u>-</u>	<u>98,921</u>
Total	<u>\$ 3,462,129</u>	<u>\$ 2,329,615</u>	<u>\$ 92,804</u>	<u>\$ 123,989</u>	<u>\$ (915,721)</u>

City of Nowata, Oklahoma
Statement of Activities (continued)
Year Ended June 30, 2015

Changes in Net Position:

	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (1,014,642)	\$ 98,921	\$ (915,721)
General revenues:			
Taxes:			
Sales and use tax	899,979	-	899,979
Franchise taxes	111,924	-	111,924
Other taxes	59,481	-	59,481
Investment income	649	1,320	1,969
Proceeds from land sale	343,080	-	343,080
Other income	21,738	23,213	44,951
Transfers-Internal activity	140,752	(140,752)	-
Total general revenues and transfers	<u>1,577,603</u>	<u>(116,219)</u>	<u>1,461,384</u>
Change in net position	562,961	(17,298)	545,663
Net position-beginning, restated	1,676,536	1,932,394	3,608,930
Net position-ending	<u>\$ 2,239,497</u>	<u>\$ 1,915,096</u>	<u>\$ 4,154,593</u>

**City of Nowata, Oklahoma
Balance Sheet
Governmental Funds
June 30, 2015**

	<u>General Fund</u>	<u>Love's Capital Improvement</u>	<u>Non-Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 131,069	\$ 296,127	\$ -	\$ 427,196
Cash and cash equivalents, restricted	-	-	189,157	189,157
Accounts receivable	135,641	-	-	135,641
Allowance for doubtful accounts	(63,938)	-	-	(63,938)
Taxes receivable	77,495	-	-	77,495
Total assets	<u>\$ 280,267</u>	<u>\$ 296,127</u>	<u>\$ 189,157</u>	<u>\$ 765,551</u>
LIABILITIES				
Accounts payable	\$ 30,085	\$ -	\$ -	\$ 30,085
Accrued payroll liabilities	14,794	-	-	14,794
Total liabilities	<u>44,879</u>	<u>-</u>	<u>-</u>	<u>44,879</u>
FUND BALANCES				
Restricted	-	-	54,434	54,434
Committed	120,350	-	-	120,350
Assigned	8,639	-	134,723	143,362
Unassigned	106,399	296,127	-	402,526
Total fund balances	<u>235,388</u>	<u>296,127</u>	<u>189,157</u>	<u>720,672</u>
Total liabilities and fund balances	<u>\$ 280,267</u>	<u>\$ 296,127</u>	<u>\$ 189,157</u>	<u>\$ 765,551</u>

Total fund balance- total governmental funds \$ 720,672

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, therefore, are not reported in the funds.

Land and construction in process	\$ 26,948	
Capital assets	5,956,826	
Less: Accumulated depreciation	<u>(3,859,769)</u>	2,124,005

Long-term liabilities are not due and payable in the current period and are not reported in the funds.

Capital lease payable	(205,105)	
Compensated absences	(6,064)	
Net pension obligation	<u>(272,406)</u>	(483,575)

Deferred outflows/(inflows) are not receivable/(payable) in the current period and, therefore, are not reported in the funds.

	64,672	
	<u>(186,277)</u>	(121,605)

Net position of governmental activities \$ 2,239,497

City of Nowata, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2015

	General Fund	Love's Capital Improvement	Non-Major Funds	Total Governmental Funds
REVENUES				
Sales tax	\$ 855,935	\$ -	\$ -	\$ 855,935
Use tax	44,044	-	-	44,044
Franchise tax	111,924	-	-	111,924
Other taxes	59,481	-	-	59,481
Licenses and permits	35,208	-	-	35,208
Fines and forfeitures	101,873	-	-	101,873
Charges for services	40,594	-	54,257	94,851
Intergovernmental revenues	39,757	-	-	39,757
Donations	145,034	-	-	145,034
Reimbursement	52,343	-	-	52,343
Other revenues	71,400	343,080	-	414,480
Interest	273	107	269	649
Proceeds from debt issuance	175,000	-	-	175,000
Total revenues	<u>1,732,866</u>	<u>343,187</u>	<u>54,526</u>	<u>2,130,579</u>
EXPENDITURES				
General government:				
General government	159,062	-	-	159,062
City Manager	122,132	-	-	122,132
City Clerk	50,381	-	-	50,381
Total general government	<u>331,575</u>	<u>-</u>	<u>-</u>	<u>331,575</u>
Public safety and judiciary:				
Police	470,820	-	-	470,820
Fire	278,728	-	4,303	283,031
Municipal court	14,817	-	-	14,817
Total public safety and judiciary	<u>764,365</u>	<u>-</u>	<u>4,303</u>	<u>768,668</u>
Transportation:				
Street	122,291	-	-	122,291
Total transportation	<u>122,291</u>	<u>-</u>	<u>-</u>	<u>122,291</u>
Cultural, parks and recreation:				
Parks	70,766	-	-	70,766
Total cultural, parks and recreation	<u>70,766</u>	<u>-</u>	<u>-</u>	<u>70,766</u>
Cemetery:				
General cemetery	83,252	-	53	83,305
Total cemetery	<u>83,252</u>	<u>-</u>	<u>53</u>	<u>83,305</u>
Economic development:				
Economic development	-	8,677	11,975	20,652
Total economic development	<u>-</u>	<u>8,677</u>	<u>11,975</u>	<u>20,652</u>
Capital outlay	603,219	38,383	-	641,602
Debt Service				
Principal	18,908	-	-	18,908
Interest	2,980	-	-	2,980
Total expenditures	<u>1,997,356</u>	<u>47,060</u>	<u>16,331</u>	<u>2,060,747</u>
Excess (deficiency) of revenues over expenditures	<u>(264,490)</u>	<u>296,127</u>	<u>38,195</u>	<u>69,832</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	229,892	-	43,260	273,152
Transfers out	(79,508)	-	(52,892)	(132,400)
Total other financing sources and uses	<u>150,384</u>	<u>-</u>	<u>(9,632)</u>	<u>140,752</u>
Net change in fund balances	(114,106)	296,127	28,563	210,584
Fund balances - beginning, restated	349,494	-	160,594	510,088
Fund balances - ending	<u>\$ 235,388</u>	<u>\$ 296,127</u>	<u>\$ 189,157</u>	<u>\$ 720,672</u>

City of Nowata, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
June 30, 2015

Net change in fund balances - total governmental funds \$ 210,584

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	641,602	
Depreciation expense	<u>(171,339)</u>	470,263

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Also, in the prior year, earned, but unavailable, revenue was reported as revenue in the statement of activities and in the current year, it is recognized in the governmental funds and reversed in the statement of activities. (5,597)

Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned is reported as pension expense.

Employer and state on-behalf contributions		113,667
Cost of benefits earned net of employee contributions		<u>(63,800)</u>

Compensated absences are not reported as expenditures in the governmental funds. (6,064)

The proceeds of debt issuance provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Capital lease debt issued		(175,000)
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Repayment of debt principle is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Debt activity reported in the fund statements		
Capital lease principal		<u>18,908</u>

Change in Net Position of Governmental Activities		<u><u>\$ 562,961</u></u>
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City of Nowata, Oklahoma
Statement of Net Position
Proprietary Funds
June 30, 2015

	Nowata Municipal Authority	Nowata Emergency Medical Authority	Total Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 186,361	\$ 22,091	\$ 208,452
Accounts receivable	214,203	177,575	391,778
Allowance for doubtful accounts	(174,369)	(88,788)	(263,157)
Total current assets	<u>226,195</u>	<u>110,878</u>	<u>337,073</u>
Current assets:			
Restricted assets:			
Cash, including time deposits	335,914	-	335,914
Investments	99,674	-	99,674
Total restricted assets	<u>435,588</u>	<u>-</u>	<u>435,588</u>
Noncurrent assets:			
Pension asset	178,155	87,915	266,070
Capital assets (net)	4,140,418	67,579	4,207,997
Total noncurrent assets	<u>4,318,573</u>	<u>155,494</u>	<u>4,474,067</u>
Total assets	<u>\$ 4,980,356</u>	<u>\$ 266,372</u>	<u>\$ 5,246,728</u>
DEFERRED OUTFLOW OF RESOURCES			
Deferred charges on pension obligations	<u>23,268</u>	<u>11,482</u>	<u>34,750</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 16,514	\$ 3,442	\$ 19,956
Accrued salary payable	11,063	5,886	16,949
Compensated absences	3,555	1,253	4,808
Notes payable, current	50,812	-	50,812
Total current liabilities	<u>81,944</u>	<u>10,581</u>	<u>92,525</u>
Liabilities payable from restricted assets:			
Customer deposits payable	83,573	-	83,573
Bonds payable, current	80,000	-	80,000
Total liabilities payable from restricted assets	<u>163,573</u>	<u>-</u>	<u>163,573</u>
Noncurrent liabilities:			
Notes payable, non-current	87,576	-	87,576
Bonds payable, non-current	2,945,000	-	2,945,000
Total noncurrent liabilities	<u>3,032,576</u>	<u>-</u>	<u>3,032,576</u>
Total liabilities	<u>3,278,093</u>	<u>10,581</u>	<u>3,288,674</u>
DEFERRED INFLOW OF RESOURCES			
Deferred charges on pension obligations	<u>52,032</u>	<u>25,676</u>	<u>77,708</u>
NET POSITION			
Net investment in capital assets	977,030	67,579	1,044,609
Restricted	435,588	-	435,588
Unrestricted	260,881	174,018	434,899
Total net position	<u>\$ 1,673,499</u>	<u>\$ 241,597</u>	<u>\$ 1,915,096</u>

City of Nowata, Oklahoma
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2015

	Nowata Municipal Authority	Nowata Emergency Medical Authority	Total Enterprise Funds
<u>Operating revenues:</u>			
Charges for services:			
Water charges	\$ 906,765	\$ -	\$ 906,765
Sewer charges	431,511	-	431,511
Sanitation charges	438,723	-	438,723
Penalties	55,659	-	55,659
Net patient and service charges	-	146,909	146,909
Total charges for services	<u>1,832,658</u>	<u>146,909</u>	<u>1,979,567</u>
Other fees and charges	8,890	101,537	110,427
Total operating revenues	<u>1,841,548</u>	<u>248,446</u>	<u>2,089,994</u>
<u>Operating expenses:</u>			
Personal services	599,508	297,263	896,771
Materials and supplies	270,669	43,271	313,940
Other services and charges	339,702	47,787	387,489
Depreciation	249,042	9,199	258,241
Total operating expenses	<u>1,458,921</u>	<u>397,520</u>	<u>1,856,441</u>
Net operating income	382,627	(149,074)	233,553
<u>Nonoperating revenue (expense):</u>			
Investment income	1,294	26	1,320
Interest expense	(142,802)	-	(142,802)
Other revenue (expenses)	23,213	8,170	31,383
Total nonoperating revenue (expense)	<u>(118,295)</u>	<u>8,196</u>	<u>(110,099)</u>
Net Income before contributions and transfers	264,332	(140,878)	123,454
Transfers from other funds	67,333	118,208	185,541
Transfers to other funds	(326,293)	-	(326,293)
Change in net position	5,372	(22,670)	(17,298)
Net position-beginning of year, restated	1,668,127	264,267	1,932,394
Net position-end of year	<u>\$ 1,673,499</u>	<u>\$ 241,597</u>	<u>\$ 1,915,096</u>

City of Nowata, Oklahoma
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2015

	Nowata Municipal Authority	Nowata Emergency Medical Authority	Total Enterprise Funds
Cash flows from operating activities:			
Receipts from customers/patients	\$ 1,733,877	\$ 273,064	\$ 2,006,941
Payments to suppliers	(754,481)	(87,616)	(842,097)
Payments to employees	(584,890)	(290,124)	(875,014)
Net cash provided (used) by operating activities	394,506	(104,676)	289,830
Cash flows from non-capital financing activities:			
Transfers from other funds	67,333	118,208	185,541
Transfers to other funds	(326,293)	-	(326,293)
Receipts from nonoperating income and contributions	32,103	-	32,103
Net cash provided (used) by non-capital financing activities	(226,857)	118,208	(108,649)
Cash flows from capital and related financing activities:			
Purchases of capital assets	(88,201)	(2,464)	(90,665)
Principal paid on capital debt	(119,531)	-	(119,531)
Interest paid on capital debt	(142,802)	-	(142,802)
Net cash provided (used) by capital and related financing activities	(350,534)	(2,464)	(352,998)
Cash flows from investing activities:			
Investment income	1,294	26	1,320
Net cash provided (used) by investing activities	1,294	26	1,320
Net increase (decrease) in cash and cash equivalents	(181,591)	11,094	(170,497)
Cash & cash equivalents, June 30, 2014	703,866	10,997	714,863
Cash & cash equivalents, June 30, 2015	\$ 522,275	\$ 22,091	\$ 544,366
Cash, including time deposits	\$ 186,361	\$ 22,091	208,452
Restricted cash, including time deposits	335,914	-	335,914
Total cash and cash equivalents, end of year	\$ 522,275	\$ 22,091	\$ 544,366
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 382,627	\$ (149,074)	\$ 233,553
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	249,042	9,199	258,241
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(107,671)	24,618	(83,053)
Increase (decrease) in accounts payable	(144,110)	3,442	(140,668)
Increase (decrease) in compensated absences	14,618	7,139	21,757
Total adjustments	11,879	44,398	56,277
Net cash provided (used) by operating activities	\$ 394,506	\$ (104,676)	\$ 289,830

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

A. Organization

The City of Nowata, Oklahoma (the "City") operates under a Council-Manager form of government with 5 council members elected by ward. The City provides the following services: public safety (police and fire protection), street maintenance, utility (sanitation, water, and sewer), culture and recreation, public improvements, and general administrative services.

The Reporting Entity

The City, for financial purposes, includes all of the funds and account groups relevant to the operation of the City of Nowata. The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City.

Due to restrictions of the state constitution relating to the issuance of municipal debt, public trusts are created pursuant to Title 60 of Oklahoma State law 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 from blending are reported discretely.

Blended Component Units Reported with Primary Government

Nowata Municipal Authority (NMA) – was established April 1, 1975 to finance, develop, and operate the water, sewer, and sanitation activities of the City. The City is the beneficiary of NMA. NMA is governed by a Board of trustees consisting of the members of the City Commission.

Nowata Emergency Medical Authority (NEMA) – was established to operate emergency medical services for the City, including the ambulance service. The City is the beneficiary of NEMA. NEMA is governed by a Board of trustees consisting of the members of the City Commission.

Discretely Presented Component Unit

Nowata Industrial Authority (NIA) – (currently inactive) was established April 19, 1967 to finance, develop, and promote industrial development activities. NIA is governed by a Board of Trustee appointed by the City Commission.

Nowata Economic Development Authority (NEDA) – (currently inactive) was established April 11, 1996 to promote the economic development of the City. NEDA is governed by a Board of Trustee appointed by the City Commission.

B. Basis of Presentation

Government-Wide Financial Statements:

The government-wide financial statements include the statement of net position and statement of activities. These statements report financial information for the City as a whole. The statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. Individual funds are not displayed by the statements.

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

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or utility services.

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. The City has no fiduciary funds.

Measurement Focus and Basis of Accounting

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

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

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

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

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

Restricted Assets

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. Restricted assets and liabilities current in nature are reported with current assets and current liabilities in the financial statements.

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.

Interfund Balances

Generally, outstanding balances between funds reported and 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.

C. Fund Types and Major Funds

Major Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in another fund.

Love's Capital Improvement Fund

The Love's Capital Improvement Fund accounts for sale of property and related improvements as part of the contract with a third party.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specified purposes. The reporting entity includes the following special revenue funds:

FUND	BRIEF DESCRIPTION
<u>Cemetery Care</u>	Accounts for 12 1/2% of cemetery revenue restricted by State law for cemetery capital improvements.
<u>Fire Special Fund</u>	Accounts for the fire subscription fee and related expenses
<u>Airport Economic Development Fund</u>	Accounts for airport improvements and economic development at the direction of Council

The General Fund and the Love's Capital Improvement Fund are considered major funds in accordance with GASB criteria.

PROPRIETARY FUND TYPES

Enterprise Funds

Enterprise Funds are used to account for business-type activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprises funds:

FUND	BRIEF DESCRIPTION
<u>Nowata Municipal Authority Fund</u>	Accounts for the activities of the authority in providing water, sewer, and sanitation services to the public. Nowata Municipal Authority is the governing Trust for the operations accounted for by this fund.
<u>Nowata Emergency Medical Fund</u>	Accounts for operations of the emergency medical services. Nowata Municipal Authority is the governing Trust for the operations accounted for by this fund.

D. Assets, Liabilities and 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.

Allowance for Uncollectible Accounts

Significant receivables include amounts due from customers primarily for utility services and patients of the emergency services. These receivables are due within one year. The City has established an allowance for collectible accounts based on management's prior experience using past due amounts more than 60 to 90 days. Management does not believe there are significant losses in excess of the allowance.

Property, Plant and Equipment

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements:

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost, if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the asset value or materially extend the useful life of the assets are not capitalized.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Proprietary fund and similar component unit fixed assets are recorded in the respective funds or component units and depreciated using the straight-line method. When proprietary fund fixed assets are disposed, the cost and applicable accumulated depreciation is removed from the respective accounts, and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable assets are as follows:

- Buildings 20 - 50 years
- Machinery, furniture & equipment 5 - 20 years
- Infrastructure 20 - 50 years

Fund Financial Statement:

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Long-Term Debt

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

Equity Classifications

Governmental Fund Balances

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

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

Nonspendable

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

Restricted

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

Committed

Fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City Council, 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

Net Position

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

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 meet the criteria of "restricted" or "net investment in capital assets".

Deferred Outflows of Resources and Deferred Inflows of Resources

In addition to assets and liabilities, the statement of financial position and the governmental fund balance sheet may report separate sections of deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition of net position that applies to a future period which will not be recognized as an inflow of resources until that time.

F. Revenues, Expenditures and Expenses

Sales Tax

The City levied a 3% 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. There are no restrictions on sales tax proceeds.

Charges for Services

Program revenues reported with governmental activities include charges for services like permits and fees, burials, 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 donations and 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.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. Recurring transfers for operational purposes are classified as "operating transfers", while non-recurring transfers of equity are reported as "residual equity transfers".

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. Compensated absences are reported as accrued current liabilities in the government-wide and proprietary financial statements. Governmental funds report the current portion of compensated absences payable to employees.

(2) DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

A. Cash 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.

<u>Types of Investments</u>	<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	\$ 99,674	\$ 99,674	N/A	47
Total investments	99,674	99,674		
 Total primary government investments	\$ 99,674	\$ 99,674		

(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.

CITY OF NOWATA, OKLAHOMA
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B. PROPERTY, PLANT AND EQUIPMENT

Governmental Activities:

A summary of the changes in the governmental activities fixed assets at June 30, 2015 follows:

	Balance at July 1, 2014	Additions	Deletions	Balance at June 30, 2015
Land	\$ 8,448	\$ -	\$ -	\$ 8,448
Construction in process	-	18,500	-	18,500
Buildings & structures	1,460,892	16,250	-	1,477,142
Machinery, furniture, & equipment	3,263,834	490,642	-	3,754,476
Infrastructure & improvements	608,998	116,210	-	725,208
Total	5,342,172	641,602	-	5,983,774
Less accumulated depreciation	3,688,430	171,339	-	3,859,769
Fixed assets, net	\$ 1,653,742	\$ 470,263	\$ -	\$ 2,124,005

Business-Type Activities:

A summary of the proprietary fund types fixed assets at June 30, 2015 follows:

	Balance at July 1, 2014	Additions	Deletions	Balance at June 30, 2015
Land	\$ 24,150	\$ -	\$ -	\$ 24,150
Buildings	540,953	-	-	540,953
Machinery, furniture, & equipment	1,339,538	80,844	-	1,420,382
Infrastructure	8,343,393	-	-	8,343,393
Construction in process	-	9,821	-	9,821
Total	10,248,034	90,665	-	10,338,699
Less accumulated depreciation	5,872,461	258,241	-	6,130,702
Fixed assets, net	\$ 4,375,573	\$ (167,576)	\$ -	\$ 4,207,997

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against its operations.

Depreciation expense was charged to functions in the statement of activities as follows:

Governmental Activities		Business-type Activities	
General government	\$ 31,311	Water	\$ 123,410
Public safety & judiciary	98,564	Sewer	42,173
Transportation	30,930	Sanitation	26,154
Cultural, parks & recreation	8,015	Ambulance	9,199
Economic development	2,519	Customer service	57,305
Total depreciation expense	\$ 171,339	Total depreciation expense	\$ 258,241

CITY OF NOWATA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

C. LONG-TERM DEBT

Governmental Activities:

Capital Leases Payable

The City has an outstanding capital lease with Armstrong Bank for the lease/purchase of an excavator. The lease agreement was originated in May 2014 for \$50,000 payable in 48 payments of \$1,099 at an interest rate of 2.59%. The lease obligation is recorded in governmental funds and is paid by the General Fund. At June 30, 2015, the City owed \$33,697 on the lease, of that \$12,446 is a current obligation of the City.

In April 2015 the City entered into a capital lease agreement with Regent Bank for the purchase of a 2014 Freightliner fire truck in the original amount of \$175,000. The lease calls for 120 monthly payments of \$1,815. The lease obligation is recorded in governmental funds and is paid by the General Fund. At June 30, 2015, the City owed \$171,408 on the lease, of that \$14,344 is a current obligation of the City.

The following is a summary of enterprise fund long-term debt for the year ended June 30, 2015:

Business-Type Activities:

On March 1, 2007, NMA issued the Nowata Municipal Authority Utility System Refunding and Capital Improvement Revenue Bonds, Series 2007 in the amount of \$3,555,000. The issue carries interest rates ranging from 4.0% to 4.75% maturing March 2037. Proceeds were used to refund outstanding indebtedness and provide for capital improvements of the City. The bonds are secured by net operating revenues of the utility systems. \$ 3,025,000

NMA entered into a lease purchase agreement June 2012 with Empire Financial for the purchase of a sanitation truck with an original amount of \$126,000 due in 60 monthly installments of \$2,299. 51,874

NMA entered into a lease purchase agreement with Empire Financial in September 2013 for the purchase of a sanitation truck with an original amount of \$126,920 due in 60 monthly installments of \$2,312. 86,514

\$ 3,163,388

Changes in Long-Term Debt:

The following is a summary of changes in long-term debt for the year ended June 30, 2015:

<u>Type of Debt</u>	<u>Balance at July 1, 2014</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2015</u>	<u>Due Within One Year</u>
Governmental activities:					
<i>Capital Lease Obligations</i>					
Armstrong Bank	\$ 49,013	\$ -	\$ 15,316	\$ 33,697	\$ 12,446
Regent Bank	-	175,000	3,592	171,408	14,344
Total governmental activities	<u>\$ 49,013</u>	<u>\$ 175,000</u>	<u>\$ 18,908</u>	<u>\$ 205,105</u>	<u>\$ 26,790</u>
Business-type activities:					
<i>Capital Lease Obligations</i>					
Empire #1	74,720	-	22,846	51,874	25,593
Empire #2	108,199	-	21,685	86,514	25,219
<i>Bonds Payable</i>					
Series 2007	3,100,000	-	75,000	3,025,000	80,000
Total business-type activities	<u>\$ 3,282,919</u>	<u>\$ -</u>	<u>\$ 119,531</u>	<u>\$ 3,163,388</u>	<u>\$ 130,812</u>

CITY OF NOWATA, OKLAHOMA
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Annual Debt Service Requirements:

The annual debt service requirements to maturity, including principal and interest, for long-term debt held by business-type activities as of June 30, 2015 follow:

Year Ending June 30	Governmental Activities		Business-type Activities			
	Capital Leases Payable		Capital Leases Payable		Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 26,970	\$ 7,487	\$ 50,812	\$ 3,718	\$ 80,000	\$ 135,500
2017	27,776	7,160	51,489	2,323	80,000	132,300
2018	24,393	6,153	29,328	889	85,000	129,100
2019	16,413	5,351	6,758	24	90,000	125,616
2020	17,167	4,597	-	-	90,000	123,770
2021-2025	92,386	10,426	-	-	525,000	533,546
2026-2030	-	-	-	-	660,000	395,951
2031-2035	-	-	-	-	820,000	231,589
2036-2037	-	-	-	-	595,000	32,191
Totals	\$ 205,105	\$ 41,174	\$ 138,387	\$ 6,954	\$ 3,025,000	\$ 1,839,563

Debt Service Coverage Ratio Requirements:

NMA's Series 2007 bonds contain a number of covenants which are related to financial matters. The most significant of which is the Debt Service Coverage, whereby, pledged revenues less operating expenses shall provide Net Revenues Available for Debt Service equal to 1.25 times average annual debt service. The following is a calculation of the coverage requirements.

	<u>Series 2007</u>
Gross revenue available for debt service:	
Operating revenues of pledged utility systems	\$ 1,841,548
Operating expenses of utility system(s)	(1,458,921)
Excluding depreciation	249,042
Net revenues available for debt service	<u>\$ 631,669</u>
Average annual debt service	223,719
Computed coverage	2.82
Coverage requirement	1.25

D. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers for the year ended June 30, 2015 were as follows:

	Transfers In	Transfers Out
GENERAL FUND		
Airport Economic Development	\$ -	\$ 10,467
Fire Special Revenue	52,892	-
Municipal Authority	177,000	67,333
Emergency Medical Authority	-	1,708
Total General Fund	229,892	79,508
FIRE SPECIAL REVENUE FUND		
General Fund	-	52,892
Total Fire Special Revenue Fund	-	52,892
AIRPORT ECONOMIC DEVELOPMENT		
General Fund	10,467	-
Municipal Authority	32,793	-
Total Airport Economic Development	43,260	-
MUNICIPAL AUTHORITY		
General Fund	67,333	177,000
Airport Economic Development	-	32,793
Emergency Medical Authority	-	116,500
Total Utility Authority	67,333	326,293
EMERGENCY MEDICAL AUTHORITY		
General Fund	1,708	-
Municipal Authority	116,500	-
Total Emergency Medical Authority	118,208	-
GRAND TOTAL	\$ 458,693	\$ 458,693

(3) RETIREMENT PLANS

The City participates in three employee pension systems as follows:

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

A. Oklahoma Police Pension and Retirement Systems

Plan description – The City of Nowata, 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.

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

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

Contributions – The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 8% percent of their annual pay. Participating cities are required to contribute 13% of the employees' annual pay. Contributions to the pension plan from the City were \$16,286.

The State of Oklahoma also made on-behalf contributions to OPPRS in the amount of \$15,900. This is reported as both a revenue and expenditure in the General Fund State of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the State's on-behalf contributions on an accrual basis of \$13,715.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City reported an asset of \$15,077 for its proportionate share of the net pension asset. The net pension asset was measured as of July 1, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2014. The City's proportion of the net pension asset was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. Based upon this information, the City's proportion was 0.0448%.

For the year ended June 30, 2015, the City recognized pension expense of \$5,526. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 6,774
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	52,994
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	17,315	-
Total	\$ 17,315	\$ 59,768

The \$17,315 reported as deferred outflow of resources related to pensions resulting from City contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (14,312)
2017	(14,312)
2018	(14,312)
2019	(14,310)
2020	(1,063)
Thereafter	(1,459)

CITY OF NOWATA, OKLAHOMA
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Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	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, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

<u>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:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability/(asset)	89,707	(15,077)	(103,387)

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.

B. Oklahoma Firefighter's Pension and Retirement Systems

Plan Description – The City of Nowata, 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.

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 \$17,261 (fiscal year contributions).

The State of Oklahoma also made on-behalf contributions to FPRS in the amount of \$45,253. This is reported as both a revenue and expenditure in the General Fund State of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the State's on-behalf contributions on an accrual basis of \$41,840.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the City reported a liability of \$510,254 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2014. Based upon this information the City's proportion was 0.0496%.

For the year ended June 30, 2015, the City recognized pension expense of \$45,828. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 12,158	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	77,239
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	13,166	-
Total	\$ 25,324	\$ 77,239

CITY OF NOWATA, OKLAHOMA
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The \$13,166 reported as deferred outflow of resources related to pensions resulting from City contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (17,225)
2017	(17,225)
2018	(17,225)
2019	(17,224)
2020	2,085
Thereafter	1,733

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions, applied to all prior periods included in the measurement:

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

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

The actuarial assumptions used in the July 1, 2014, valuation were based on the results of an actuarial experience study for the period July 1, 2007 to June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014, are summarized in the following table:

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

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

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

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
City's proportionate share of the net pension liability	666,031	510,254	379,296

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.

C. Oklahoma Municipal Retirement Fund

The City contributes to a cost-sharing, multiple-employer defined benefit pension plan adopted by the City and administered by the Oklahoma Municipal Retirement System, which was established to administer pension plans for municipal employees. The plan is administered by JP Morgan Chase Bank of Oklahoma City, Oklahoma. According to state law, the authority for establishing or amending the plan's provisions rests with the city council. The defined contribution plan is available to all full-time employees not already participating in another plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, investment earnings, and forfeitures of other participants' benefits that may be allocated to such participant's account. Benefits vest after 5 years of service.

Plan Description – The City contributes to the OkMRF for all eligible employees except for those covered by the Police and Firefighter Pension Systems. The plan is an agent multiple employer - defined benefit plan administered by OkMRF. The OkMRF plan issues a separate financial report and can be obtained from OkMRF or from their website: www.okmrf.org/reports.html. Benefits are established or amended by the City Council in accordance with O.S. Title 11, Section 48-101-102.

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

Eligibility Factors and Benefit Provisions

<u>Provision</u>	<u>OkMRF Plan</u>
a. Eligible to Participate	Full-time, employees of the City or Authority, except police, firefighters, and other employees who are covered under another approved system. The Plan has a 1 month probationary period.
b. Contributions Requirement	
- Authorization	By City Ordinance
- Actuarially Determined	Yes
- Employer Rate	4.19% of covered payroll
- Employee Rate	5% of covered payroll
c. Period Required to Vest	5 years of vesting service
d. Eligibility for Distribution	<ul style="list-style-type: none"> - Normal retirement at age 65 with 5 years of vesting service. - Early Retirement after age 55 with 5 years or more of vesting. - Disability retirement upon total and permanent disability with 10 years of service. - Death benefits with 5 years of vesting service, if married, 50% of accrued benefit payable to spouse until death or remarriage, if single, 50% of the accrued benefit is payable for 5 years certain.
e. Benefit Determination Base	Final average salary – the average of the five highest consecutive annual salaries out of the last 10 years of service.
f. Benefit Determination Methods:	
- Normal Retirement	3% of final average compensation multiplied by the number of years of credited service.
- Early Retirement	Payable starting at normal retirement or the accrued benefit reduced 5% per year for commencement prior to normal retirement age.
- Disability Retirement	Payable upon disablement without reduction for early payment
- Death Benefit	50% of employee's accrued benefit, see above
- Prior to 5 Years Service	Return of employee contributions with accrued interest.
g. Form of Benefit Payments	Normal form of payment of the accrued benefit is a monthly lifetime annuity with 10 years certain. Other retirement benefits are available under actuarially equivalent optional forms.

Employees Covered by Benefit Terms

Active Employees	26
Deferred Vested Former Employees	13
Retirees or Retiree Beneficiaries	<u>12</u>
Total	<u>51</u>

Contribution Requirements

The City Council has the authority to set and amend contribution rates by ordinance for the OkMRF defined benefit plan in accordance with O.S. Title 11, Section 48-102. The contribution rates for the current fiscal year have been made in accordance with an actuarially determined rate. The actuarially determined rate is 4.19% of covered payroll. Employees contribute a fixed 5% to the plan in accordance with the plan provisions adopted by the City Council.

Actuarial Assumptions

a. Date of last Actuarial Valuation	July 2015
b. Significant Actuarial Assumptions Used:	
1. Rate of Return on Investments	7.5% per annum
2. Pay increases	Rates by age
3. Retirement Age	Rates by age
4. Mortality Table	UP 1994 mortality (projected)
5. Asset Value	Actuarial method
c. Actuarial cost method	Entry age normal
d. Date of last experience study	Sept 2012 for fiscal years 2007 thru 2011

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

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.0%). Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of July 1, 2014 are summarized in the following table:

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

Changes in Net Pension Liability – The total pension liability was determined based on an actuarial valuation performed as of July 1, 2014 which is also the measurement date. There were no changes in assumptions or changes in benefit terms that affected measurement of the total pension liability. There were also no changes between the measurement date of July 1, 2014 and the City's report ending date of June 30, 2015, that would have had a significant impact on the net pension liability. The following table reports the components of changes in net pension liability:

CITY OF NOWATA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability/(asset)	(274,081)	(434,770)	(562,035)

The City reported \$24,344 in pension expense for the year ended June 30, 2015.

At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	126,979
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	56,783	-
Total	\$ 56,783	\$ 126,979

The \$56,783 reported as deferred outflow of resources related to pensions resulting from City contributions subsequent to measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (31,745)
2017	(31,745)
2018	(31,745)
2019	(31,744)

(6) COMMITMENTS AND CONTINGENCIES

A. Litigation

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

B. Grant Program Involvement

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

(7) RESTATEMENT OF BEGINNING NET POSITION

Effective July 1, 2014, the City implemented GASB No. 68, Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27. GASB No. 68 established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. The Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plans and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost sharing plans, and recognition and disclosure requirements are addressed for each classification.

Implementation of GASB No. 68 resulted in the restatement of beginning year net position to recognize the net pension obligation of the City. The changes were as follows:

	Governmental Activities	Business-type Activities
Beginning Net Position	\$ 232,059	\$ 597,165
Change in basis of reporting (cash to accrual)	1,882,758	1,131,969
Net pension obligations	(272,406)	266,070
Net deferred outflows/(inflows) on pension charges	(165,875)	(62,810)
Restated Beginning Net Position	\$ 1,676,536	\$ 1,932,394

(8) SUBSEQUENT EVENTS

In November 2015, the City entered into a lease purchase agreement with CAT Financial for a new hydraulic excavator with a value of \$121,699. Lease payments are \$1,604 per month over 84 months.

City of Nowata, Oklahoma
General Fund
Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2015 Unaudited

	Original Budget	Revisions	Revised Budget	Actual	Variance - Favorable (Unfavorable)
REVENUES					
Taxes	\$ 792,000	\$ -	\$ 792,000	\$ 1,071,384	\$ 279,384
Licenses & permits	31,100	-	31,100	35,208	4,108
Fines and forfeitures	89,000	-	89,000	101,873	12,873
Charges for services	27,650	-	27,650	40,594	12,944
Intergovernmental	32,000	-	32,000	39,757	7,757
Donations	2,175	-	2,175	145,034	142,859
Interest	100	-	100	273	173
Other revenues	-	-	-	123,743	123,743
Total revenues	<u>974,025</u>	<u>-</u>	<u>974,025</u>	<u>1,557,866</u>	<u>583,841</u>
EXPENDITURES					
General government:					
General government	328,287	17,089	345,376	331,575	13,801
Total general government	<u>328,287</u>	<u>17,089</u>	<u>345,376</u>	<u>331,575</u>	<u>13,801</u>
Public safety and judiciary:					
Police	453,297	-	453,297	470,820	(17,523)
Fire	247,128	-	247,128	278,728	(31,600)
Municipal court	-	-	-	14,817	(14,817)
Total public safety and judiciary	<u>700,425</u>	<u>-</u>	<u>700,425</u>	<u>764,365</u>	<u>(63,940)</u>
Transportation:					
Street	160,300	-	160,300	122,291	38,009
Total transportation	<u>160,300</u>	<u>-</u>	<u>160,300</u>	<u>122,291</u>	<u>38,009</u>
Cultural, parks and recreation:					
Park	80,133	(31,933)	48,200	70,766	(22,566)
Total cultural, parks and recreation	<u>80,133</u>	<u>(31,933)</u>	<u>48,200</u>	<u>70,766</u>	<u>(22,566)</u>
Cemetery:					
Cemetery	79,047	5,553	84,600	83,252	1,348
Total cemetery	<u>79,047</u>	<u>5,553</u>	<u>84,600</u>	<u>83,252</u>	<u>1,348</u>
Total expenditures	<u>1,348,192</u>	<u>(9,291)</u>	<u>1,338,901</u>	<u>1,372,249</u>	<u>(33,348)</u>
Revenue over (under) expenditures	(374,167)	9,291	(364,876)	185,617	550,493
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	50,000	-	50,000	150,384	100,384
Net other financing sources (uses)	<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>150,384</u>	<u>100,384</u>
Revenues and other financing sources over (under) expenditures and other uses	(324,167)	9,291	(314,876)	336,001	650,877
Fund balance at beginning of year (Non-GAAP budgetary basis), restated				<u>392,234</u>	<u>392,234</u>
Fund balance at end of year (Non-GAAP budgetary basis)				\$ 728,235	<u>\$ 1,043,111</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and transfer accruals				(492,847)	
Fund balance at end of year (GAAP basis)				<u>\$ 235,388</u>	

City of Nowata, Oklahoma
Love's Capital Improvement
Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2015 Unaudited

	Original Budget	Actual	Variance - Favorable (Unfavorable)
<u>REVENUES</u>			
Sale of property	\$ -	\$ 343,080	\$ 343,080
Interest income	-	107	107
Total revenues	-	343,187	343,187
<u>EXPENDITURES</u>			
Economic development	-	47,060	47,060
Total revenues	-	47,060	47,060
Revenue over (under) expenditures	-	296,127	296,127
Fund balance at beginning of year (Non-GAAP budgetary basis)		-	-
Fund balance at end of year (Non-GAAP budgetary basis)		\$ 296,127	\$ 296,127
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES			
Accrual adjustment		-	
Fund balance at end of year (GAAP basis)		\$ 296,127	

City of Nowata, Oklahoma
General Fund
Statement of Revenues, Expenditures, Encumbrances, and Changes in Fund Balance
Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2015 Unaudited

Budget Policy and Practice

The City Clerk submits an annual budget to the City Council in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Council for review, and public hearings are held to address priorities and the allocation of resources. In June, the Council adopts the annual fiscal year budgets for City 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 Clerk and must be approved by the Council. 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 Council review and approval

Budgetary Control

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. This legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the City Council. Within these control levels, management may transfer appropriations without Council approval. Revisions to the budget were made throughout the year.

Budget Basis of Accounting

The combined statement of revenues, expenditures and changes in fund balances (budget and actual) present comparisons of legally adopted budgets with actual data on a budgetary basis. The budgetary basis of accounting differs from GAAP in that the cash basis of accounting is used. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be issued. All appropriations (including encumbered) lapse at year-end; any open encumbrances to be honored in the subsequent budget year are reappropriated in the next fiscal year's budget. As a result, no reserve for encumbrances is reported at year-end.

The budget amounts shown in the financial statements are the final authorized amounts as amended during the year.

City of Nowata, Oklahoma

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Oklahoma Police Pension Retirement Plan
Year Ended June 30, 2015**

	<u>2015*</u>
City's portion of the net pension liability (asset)	0.0448%
City's proportionate share of the net pension liability (asset)	\$ (15,077)
City's covered-employee payroll	\$ 254,478
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-6%
Plan fiduciary net position as a percentage of the total pension liability	106.27%

* 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>
Contractually required contribution	\$ 16,286
Contributions in relation to the contractually required contribution	<u>(16,286)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 254,478
Contributions as a percentage of covered-employee payroll	6.40%

City of Nowata, Oklahoma

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Oklahoma Fire Pension Retirement Plan
Year Ended June 30, 2015**

	<u>2015*</u>
City's portion of the net pension liability (asset)	0.0496%
City's proportionate share of the net pension liability (asset)	\$ 586,892
City's covered-employee payroll	\$ 145,944
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	402%
Plan fiduciary net position as a percentage of the total pension liability	-354.88%

* 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>
Contractually required contribution	\$ 18,545
Contributions in relation to the contractually required contribution	<u>(18,545)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 145,944
Contributions as a percentage of covered-employee payroll	12.71%

City of Nowata, Oklahoma

**SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS
Oklahoma Municipal Retirement Plan
SINCE INITIAL APPLICATION**

	<u>2015*</u>
Total pension liability	
Service cost	\$ 84,910
Interest	100,795
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	<u>(171,067)</u>
Net change in total pension liability	\$ 14,638
Total pension liability - beginning	<u>1,299,611</u>
Total pension liability - ending (a)	<u><u>\$ 1,314,249</u></u>
 Plan fiduciary net position	
Contributions - employer	52,274
Contributions - employee	38,045
Net investment income	254,044
Benefit payments, including refunds of employee contributions	(171,067)
Administrative expense	(3,749)
Other	-
Net change in plan fiduciary net position	<u>169,547</u>
 Plan fiduciary net position - beginning	<u>1,579,472</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 1,749,019</u></u>
 City's net pension liability - ending (a) - (b)	<u><u>\$ (434,770)</u></u>
 Plan fiduciary net position as a percentage of the total pension liability	133.08%
Covered-employee payroll	\$ 748,304
City's net pension liability as a percentage of covered-employee payroll	-58.10%

City of Nowata, Oklahoma

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Oklahoma Municipal Retirement Plan
Year Ended June 30, 2015**

	<u>2015*</u>
City's portion of the net pension liability (asset)	-9.1592%
City's proportionate share of the net pension liability (asset)	\$ (434,770)
City's covered-employee payroll	\$ 748,304
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-58.10%
Plan fiduciary net position as a percentage of the total pension liability	151.11%

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

**SCHEDULE OF CITY CONTRIBUTIONS
Oklahoma Municipal Retirement Plan**

	<u>2015*</u>
Actuarially determined contribution	\$ 52,274
Contributions in relation to the actuarially determined contribution	<u>(52,274)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 748,304
Contributions as a percentage of covered-employee payroll	6.99%

**City of Nowata, Oklahoma
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2015**

	<u>Cemetery Care Fund</u>	<u>Fire Special Revenue</u>	<u>Airport Economic Development</u>	<u>Total Non-Major Funds</u>
ASSETS				
Cash and cash equivalents	\$ 54,434	\$ 43,077	\$ 91,646	\$ 189,157
Investments	-	-	-	-
Total assets	<u>\$ 54,434</u>	<u>\$ 43,077</u>	<u>\$ 91,646</u>	<u>\$ 189,157</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted	54,434	-	-	54,434
Assigned	-	43,077	91,646	134,723
Total fund balances	<u>54,434</u>	<u>43,077</u>	<u>91,646</u>	<u>189,157</u>
Total liabilities and fund balances	<u>\$ 54,434</u>	<u>\$ 43,077</u>	<u>\$ 91,646</u>	<u>\$ 189,157</u>

City of Nowata, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
June 30, 2015

	Cemetery Care Fund	Fire Special Revenue	Airport Economic Development	Total Non-Major Funds
REVENUES				
Charges for services	\$ 4,274	\$ 49,983	\$ -	\$ 54,257
Interest income	89	100	80	269
Total revenues	<u>4,363</u>	<u>50,083</u>	<u>80</u>	<u>54,526</u>
EXPENDITURES				
Public safety and judiciary:				
Fire	-	4,303	-	4,303
Total public safety and judiciary	-	4,303	-	4,303
Cultural, parks and recreation:				
General cemetery	53	-	-	53
Total cultural, parks and recreation	53	-	-	53
Economic Development:				
Economic development	-	-	11,975	11,975
Total economic development	-	-	11,975	11,975
Total expenditures	53	4,303	11,975	16,331
Excess (deficiency) of revenues over expenditures	4,310	45,780	(11,895)	38,195
OTHER FINANCING SOURCES (USES)				
Transfers in/(out)	-	(52,892)	43,260	(9,632)
Total other financing sources and uses	-	(52,892)	43,260	(9,632)
Net change in fund balances	4,310	(7,112)	31,365	28,563
Fund balances - beginning, restated	50,124	50,189	60,281	160,594
Fund balances - ending	<u>\$ 54,434</u>	<u>\$ 43,077</u>	<u>\$ 91,646</u>	<u>\$ 189,157</u>

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

To the City Commission
City of Nowata, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Nowata, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of Nowata, Oklahoma's basic financial statements and have issued my report thereon dated April 22, 2016.

Internal Control over Financial Reporting

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

My consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. [2015-01, 2015-03].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Nowata, Oklahoma's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as items [2015-02].

City of Nowata, Oklahoma's Responses to Findings

The City of Nowata, Oklahoma's responses to the findings identified in my audit are described in the accompanying schedule of findings and responses. The City of Nowata, Oklahoma's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

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

A handwritten signature in black ink that reads "Anne Marie Elfrink, MS, CPA". The signature is written in a cursive style.

Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
April 22, 2016

SCHEDULE OF FINDINGS AND RESPONSES

City of Nowata, Oklahoma

Fiscal Year Ended June 30, 2015

This schedule is presented as an addendum to accompany the *“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”*. Consideration of items listed should be made in conjunction with that report.

2015-01 – Meter Deposit Liability

CONDITION: The City’s listing of outstanding utility deposits as of 6/30/2015 included 556 inactive accounts with total deposits of \$29,130, which is included in the outstanding meter deposit liability. A review of several of the outstanding inactive deposits indicates that some customers, but not all, also had outstanding arrearages in accounts receivable which could be partially offset by the outstanding deposit balances.

CRITERIA: Title 11 Section 35 – of the Oklahoma Statutes requires that deposits for utility service shall be refunded or credited to the customer upon termination of service or at an earlier date as allowed by the municipality. The City should be able to produce a valid, reconciled listing of deposits payable.

CAUSE OF CONDITION: Prior to the current year, the City did not maintain a listing of outstanding utility deposits. During the past year, the list was created from records in the customer’s files; however, the list has not been updated for the disposition of inactive accounts.

POTENTIAL EFFECT OF CONDITION: The City could be in violation of the above referenced statute by not refunding or crediting the customer upon termination and/or the meter deposit liability or net accounts receivable could be overstated. In addition, the lack of a reconciled reliable meter deposit listing weakens internal controls over these funds and could conceal the misappropriation of funds.

RECOMMENDATION: The City should research and resolve the status of the inactive deposits, and maintain the list in a current fashion.

RESPONSE: The City recognizes the importance of utility service deposits. We use a municipal accounting software system where deposits are tracked by customer name. Outstanding deposit balances are monitored each billing cycle; however, they are not formally reconciled. In September 2015, the City engaged a public accounting firm that has experience in consulting municipal governments to assist in the monthly and year end processes, ensuring all balance sheet accounts are reconciled on a timely basis. We will review the outstanding meter deposit listing against inactive accounts and research any discrepancies

2015-02 – Budgeted Fund Balance Deficit and Negative Budget Variances

CONDITION: The City’s 2015 fiscal year general fund budget showed appropriations in excess of estimated available funds of \$324,167, which would have created a fund deficit. However, no fund deficit was created.

The City had charges to appropriations during the year ended June 30, 2015 in excess of appropriations in the departments and/or purposes of police (\$17,523), fire (\$31,600), municipal court (\$14,817), and park (\$22,566).

CRITERIA: Oklahoma Title 11 section 17-211 states that “It shall be unlawful for any officer or employee of the municipality in any budget year to create or authorize creation of a deficit in any fund”. Oklahoma Title 11 section 17-101 requires that a municipal governing body may not draw any order on the treasurer for monies unless the same has been appropriated in the manner provided by law.

CAUSE OF CONDITION: Budgeted available funds did not include a fund balance carryover and the budget was not reviewed to assure that appropriations did not exceed available funds. The City Commission did not approve supplemental appropriations and/or transfers prior to expenditure.

POTENTIAL EFFECT OF CONDITION: The City could be in violation of Oklahoma Title 11 section 17-101 and 17-211 which are important controls to prevent overspending of funds as well as assure that there is opportunity for public input for planned expenditures prior to occurrence.

RECOMMENDATION: The City should prepare a budget that is in balance by fund. The City Commission should confirm available appropriations prior to approving expenditures. When appropriations are insufficient for an identified need, a budget revision should be approved by the Commission prior to approving additional encumbrances or expenditures.

RESPONSE: The City has engaged a public accounting firm effective September 2015 that has experience in consulting municipal governments to assist in the budget process. In addition to assisting the City establish the budget, the Firm will be responsible for preparing monthly budget to actual financial statements for presentation to the Council at regular intervals. This timely monitoring of the budget will ensure that department heads, management, and Council are aware of their adherence to the budget, as well as provide an opportunity for communication of any upcoming unplanned/unbudgeted projects. Budget amendments will be made in accordance with the state law. The City is aware of the importance of compliance with the Oklahoma Municipal Budget Act and believes this new process will allow for better communication with decision makers and adherence to financial goals and objectives.

2015-03 – Fixed Asset Physical Inventory

CONDITION: The City has not performed a physical inventory of capital assets.

CRITERIA: A City ordinance passed in December 2011 requires a periodic inventory of governmental assets by December 31 of each odd numbered year and of utility assets by December 31 of each even numbered year.

CAUSE OF CONDITION: There was a turnover in key City management positions and the listing of fixed assets had not been retained.

POTENTIAL EFFECT OF CONDITION: The reported fixed asset values on the financial statements could be misreported. The City could incur a cost to insure assets it no longer owns or incur a loss on an asset that is not insured. Assets could be misappropriated or stolen without being detected.

RECOMMENDATION: The City should perform a physical inventory of all fixed assets, compare the inventory to its insurance records and make any necessary corrections, review its procedures for assuring the asset is being used for an authorized purpose, and implement procedures to maintain the asset inventory records in good condition.

RESPONSE: The City does not formally document a physical inventory; however, a listing of all vehicles with respective titles and pictures are maintained by the City Clerk. AS part of the budget process, capital expenditures are discussed and approved. Expenses related to those projects are tracked in the general ledger and capitalized as part of the year end process. As such, the City feels like all new assets are properly recognized but understand that assets purchased or constructed in prior year may not have followed a consistent process. A process for physical inventory will be implemented by the City Manager to be performed on an annual basis, at a minimum.