

**CITY OF TONKAWA, OKLAHOMA  
TONKAWA, OKLAHOMA**

**FINANCIAL STATEMENTS AND  
AUDITOR'S REPORTS**

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

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Tonkawa, Oklahoma

### **Report on the Financial Statements**

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

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

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tonkawa, 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of net pension liability on pages 3–10, 36 and 37–40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2015 , on our consideration of the City of Tonkawa, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Tonkawa, Oklahoma's internal control over financial reporting and compliance.

**FSW&B CPAs-PLLC**

FSW&B CPAs-PLLC  
Stillwater, Oklahoma  
December 29, 2015

Within this section, the City of Tonkawa's ("City") management provides narrative discussion and analysis of the financial performance of the City's 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 SUMMARY

- At June 30, 2015, the assets of the City exceeded its liabilities by \$8,927,843 (net position). Of this amount \$1,032,027 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors. This compares favorably to the previous year when assets exceeded liabilities by \$7,535,567, as restated for the implementation of GASB No. 68 Accounting and Financial Reporting for Pensions.
- The City's total net position are comprised of the following:
  - (1) Invested in capital assets, net of related debt of \$6,931,931 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 \$963,885.
  - (3) Unrestricted net position of \$1,032,027 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Total liabilities of the City increased by \$395,379 during the fiscal year from \$3,754,237 to \$3,358,258. The increase in liabilities is due to the accrual of employee's pension obligation as required under GASB 68, offset by repayments made on outstanding debt. Refer to detail of the pension obligation and long term debt detailed in the footnotes to the financial statements.
- After transfers of \$647,671 from business-type activities to governmental activities, net position of governmental activities increased \$370,180 or 13%, and net position of business-type activities increased \$1,022,096 or 22%. Overall the health of the City improved when compared to prior year.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

### **Government-wide Financial Statements**

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

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

The second government-wide statement is the *Statement of Activities*, which reports how the City's net position changed during the current fiscal year and can be used to assess the City's operating results in

its entirety and analyze how the City's programs are financed. All current year revenues and expenses are included regardless of when cash is received or paid. An important purpose of the design of the statement of activities is to show the financial reliance of the City's distinct activities or functions on revenues provided by the City's taxpayers.

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

The City's financial reporting entity includes the funds of the City (primary government) and organization for which the City is accountable (component units). The Tonkawa Development Authority is a separate legal entity which operates independently and provides services directly to the citizens though the City remains accountable for their actions. As such, the Tonkawa Development Authority is reported as part of the primary government and included in the City's overall reporting entity. More comprehensive information about the City's component units can be found in footnotes.

### ***Fund Financial Statements***

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

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

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

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

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

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

### ***Notes to the financial statements***

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

**Other information**

In addition to the basic financial statements and accompanying notes, this report presents certain *Required Supplementary Information* 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 City's combined net position at June 30, 2015 was \$8,927,843. This is a \$1,392,276 increase over June 30, 2014 net position of \$7,535,567, restated. The City reported positive balances in total net position for both governmental and business-type activities, reporting \$3,276,419 and \$5,651,424, respectively. The City's overall financial position remained consistent between fiscal year 2015 and 2014.

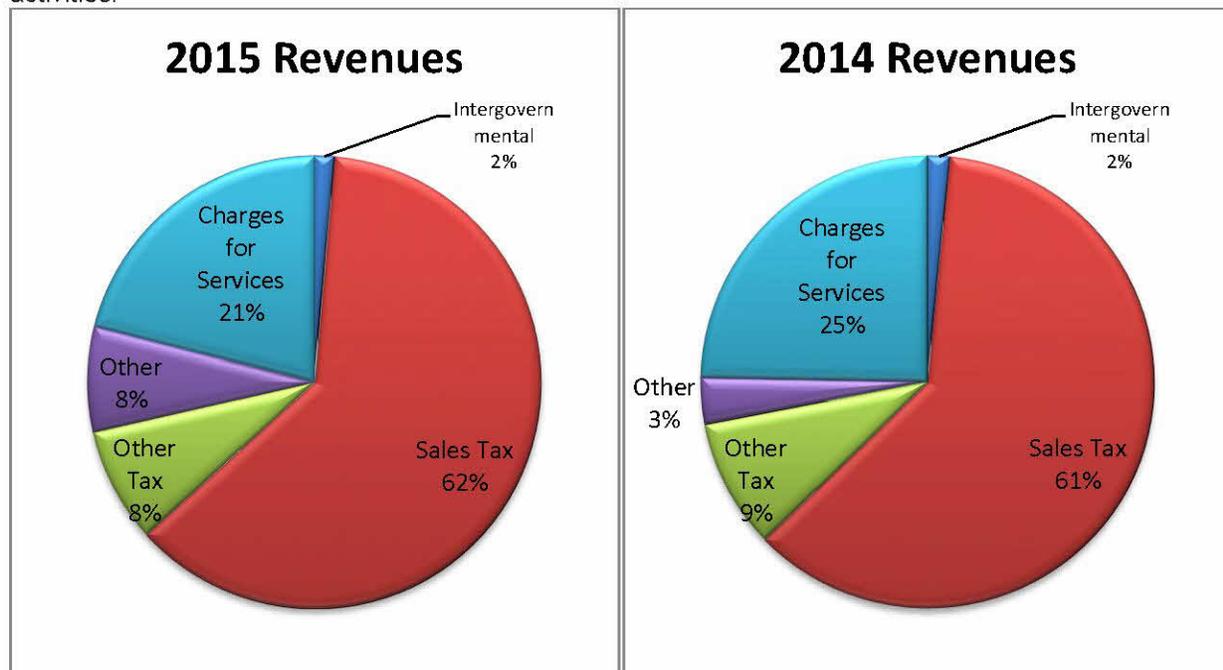
	<b>Summary of Net Position</b>						<b>\$ Change</b>	<b>% Change</b>
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>			
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>		
Current assets	\$ 2,199,699	\$ 1,848,280	\$ 1,784,501	\$ 1,487,340	\$ 3,984,200	\$ 3,335,620	\$ 648,580	19%
Capital assets, net	3,096,774	3,126,185	6,036,470	5,624,607	9,133,244	8,750,792	382,452	4%
<b>Total assets</b>	<b>5,296,473</b>	<b>4,974,465</b>	<b>7,820,971</b>	<b>7,111,947</b>	<b>13,117,444</b>	<b>12,086,412</b>	<b>1,031,032</b>	<b>9%</b>
Deferred outflow	26,780	-	-	-	26,780	-	26,780	100%
Current liabilities	53,856	136,368	319,074	629,871	372,930	766,239	(393,309)	-51%
Non-current liabilities	1,530,834	458,699	1,850,473	1,852,748	3,381,307	2,311,447	1,069,860	46%
<b>Total liabilities</b>	<b>1,584,690</b>	<b>595,067</b>	<b>2,169,547</b>	<b>2,482,619</b>	<b>3,754,237</b>	<b>3,077,686</b>	<b>676,551</b>	<b>22%</b>
Deferred inflow	462,144	-	-	-	462,144	-	462,144	100%
<b>Net position</b>								
Invested in capital assets, net of related debt	3,019,372	3,013,501	3,912,559	3,082,224	6,931,931	6,095,725	836,206	14%
Restricted	292,708	292,708	671,177	414,061	963,885	706,769	257,116	36%
Unrestricted	(35,661)	1,073,189	1,067,688	1,133,043	1,032,027	2,206,232	(1,174,205)	-53%
<b>Total net position</b>	<b>\$ 3,276,419</b>	<b>\$ 4,379,398</b>	<b>\$ 5,651,424</b>	<b>\$ 4,629,328</b>	<b>\$ 8,927,843</b>	<b>\$ 9,008,726</b>	<b>\$ (80,883)</b>	<b>-1%</b>

Summary of Changes in Net Position

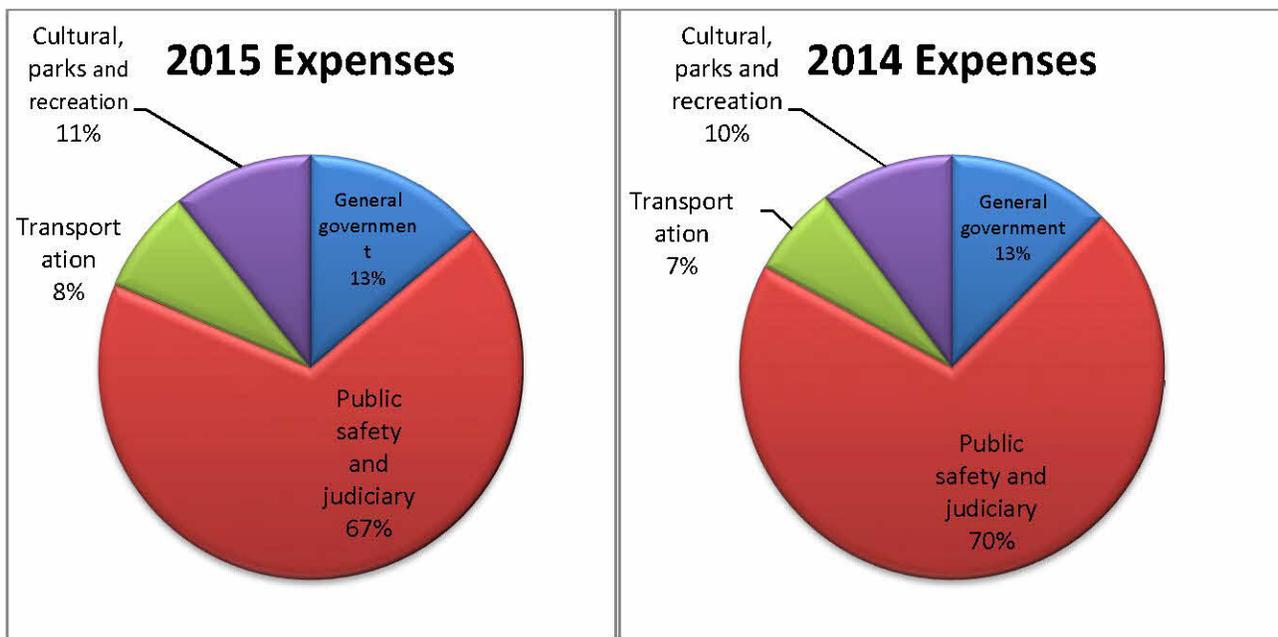
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2015	2014	2015	2014	2015	2014		
<b>Revenues</b>								
Program revenues	\$ 657,157	\$ 656,921	\$ 5,422,074	\$ 4,850,516	\$ 6,079,231	\$ 5,507,437	\$ 571,794	10%
Taxes and other general revenues	1,712,368	1,635,228	27,676	10,815	1,740,044	1,646,043	94,001	6%
<b>Total revenues</b>	<b>2,369,525</b>	<b>2,292,149</b>	<b>5,449,750</b>	<b>4,861,331</b>	<b>7,819,275</b>	<b>7,153,480</b>	<b>665,795</b>	<b>16%</b>
<b>Expenses</b>								
General government	367,576	333,999	-	-	367,576	333,999	33,577	10%
Public safety and judiciary	1,786,441	1,879,099	-	-	1,786,441	1,879,099	(92,658)	-5%
Transportation	210,419	185,440	-	-	210,419	185,440	24,979	13%
Cultural, parks, and recreation	282,580	271,992	-	-	282,580	271,992	10,588	4%
Economic development	-	-	49,389	47,308	49,389	47,308	2,081	4%
Electric	-	-	2,588,110	2,497,483	2,588,110	2,497,483	90,627	4%
Water	-	-	551,463	509,447	551,463	509,447	42,016	8%
Sewer	-	-	197,824	166,097	197,824	166,097	31,727	19%
Sanitation	-	-	190,455	188,720	190,455	188,720	1,735	1%
Customer service	-	-	202,742	391,378	202,742	391,378	(188,636)	-48%
<b>Total expenses</b>	<b>2,647,016</b>	<b>2,670,530</b>	<b>3,779,983</b>	<b>3,800,433</b>	<b>6,426,999</b>	<b>6,470,963</b>	<b>(43,964)</b>	<b>-1%</b>
Excess (deficiency) before transfers	\$ (277,491)	\$ (378,381)	\$ 1,669,767	\$ 1,060,898	\$ 1,392,276	\$ 682,517	\$ 709,759	104%
Transfers	647,671	799,344	(647,671)	(799,344)	-	-	-	0%
<b>Increase (decrease) in net position</b>	<b>\$ 370,180</b>	<b>\$ 420,963</b>	<b>\$ 1,022,096</b>	<b>\$ 261,554</b>	<b>\$ 1,392,276</b>	<b>\$ 682,517</b>	<b>\$ 709,759</b>	<b>104%</b>

Revenues for the City increased 16% when compared to prior year. This increase is due to strong utility billing collections during the fiscal year, which is a function of an increase in rates and demand of the customers. Operating expenses remained consistent year over year, noting a 1% change.

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



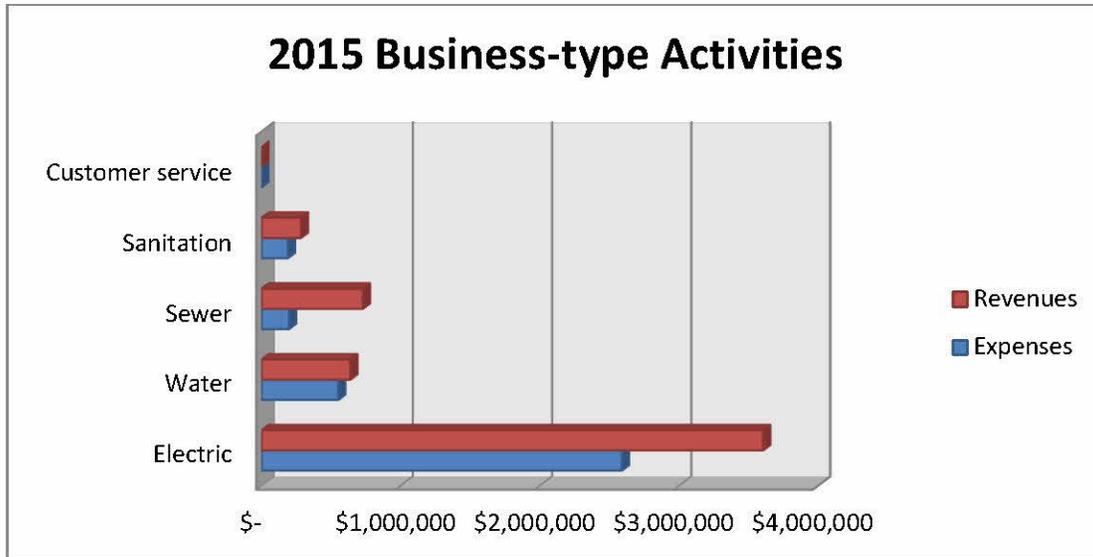
Taxes provided for 62% of the City's governmental revenues in fiscal year 2015 as compared to 61% in 2014. Charges for services provided 21% of revenues for the City, as compared to 25% in prior year. Those expenses were funded through the City's capital project fund, which is a governmental activity.



For the year ended June 30, 2015, total expenses for governmental activities were \$2,647,016 compared to \$2,670,530 in fiscal year 2014. Of this amount, public safety and judiciary with \$1,786,441, was the largest operating service department at 67% of the total cost of services for the City government, which is consistent with prior year. These costs, as well as all other governmental activity expenses, were

primarily funded by tax revenues. It should be noted that governmental expenses are adjusted from the fund statements to the government-wide statements for the purchase and construction of capital assets. Government-wide statement is full accrual; capital outlay expenses are eliminated and capital assets are reported.

**Business-type Activities**



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

For the fiscal year ended June 30, 2015, revenues from electric, water, sewer, 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 \$2,797,031 compared to \$2,795,498 in fiscal year 2014. Budget amendments were approved by Council during the fiscal year which changed the allocation of resources, but did not increase the budget of the City. The General Fund budget complied with financial policies approved by the City and the Oklahoma Municipal Budget Act.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of June 30, 2015, the City had \$6,931,931 invested in capital assets, net of related debt, including vehicles and equipment for police and fire operations, street improvements, and park facilities, in governmental activities and electric lines, water lines and sewer lines in business-type activities. Refer to the table below.

**Primary Government Capital Assets (net of accumulated depreciation)**

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>			
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Land and CIP	\$ -	\$ -	\$ 23,259	\$ 5,000	\$ 23,259	\$ 5,000
Buildings	602,767	620,701	140,421	112,794	743,188	733,495
Machinery & equipment	585,140	530,198	188,567	102,693	773,707	632,891
Utility property & improvements	1,908,867	1,975,286	5,684,223	5,404,120	7,593,090	7,379,406
<b>Totals</b>	<b>\$ 3,096,774</b>	<b>\$ 3,126,185</b>	<b>\$ 6,036,470</b>	<b>\$ 5,624,607</b>	<b>\$ 9,133,244</b>	<b>\$ 8,750,792</b>

The following provides a selection of the most significant additions to the City during the fiscal year:

- 2015 F-450 Ambulance and ambulance equipment
- Resurface the swimming pool
- Wastewater improvements

**Long-Term Debt**

At year-end, the City had \$1,746,443 in long-term debt outstanding. The City's changes in long-term debt by type of debt are as follows:

	<b>Primary Government Long-Term Debt</b>	
	<b>Business-type</b>	
	<b>Activities</b>	
	<b>2015</b>	<b>2014</b>
Notes payable	\$ 1,481,313	\$ 1,705,067
Bonds payable	720,000	950,000
less current portion	(454,870)	(436,000)
<b>Totals</b>	<b>\$ 1,746,443</b>	<b>\$ 2,219,067</b>

**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.

**Fees and Rates**

Sales tax was budgeted at 90% of prior year collections. Utility rate increases were included in the FY16 budget expecting to generate \$48,852. With the increase in rates, the operating departments of the utility system are projected to report a positive profit margin for fiscal year 2016.

**Operating and Capital Expenses**

The City budget included a 3% raise for all full time employees. Fuel expenses noted an increase based upon consumption and increase in price.

Based upon projected revenues, the City has budgeted \$879,830 in capital improvements for the City to be completed during fiscal year 2016. These improvements will be funded with sales tax dollars, grant awards, and the issuance of new debt. The capital improvements will be spread across multiple departments including Electric, Police, Fire, Ambulance, and Library.

#### **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 Tonkawa City Hall, 113 South 7th, Tonkawa, Oklahoma, 74653.

**City of Tonkawa, Oklahoma**  
**Statement of Net Position**  
**June 30, 2015**

<b>ASSETS</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Current Assets:			
Cash and cash equivalents	\$ 91,879	\$ 376,040	\$ 467,919
Investments	-	113,189	113,189
Accounts receivable (net)	69,074	103,720	172,794
Receivable from other governments	120,515	49,338	169,853
Total current assets	<u>281,468</u>	<u>642,287</u>	<u>923,755</u>
Restricted assets:			
Cash	1,812,063	1,004,052	2,816,115
Investments	20,000	137,992	157,992
Total restricted assets	<u>1,832,063</u>	<u>1,142,044</u>	<u>2,974,107</u>
Noncurrent Assets:			
Pension asset	86,168	170	86,338
Land and construction in progress	-	23,259	23,259
Other capital assets (net of accumulated depreciation)	3,096,774	6,013,211	9,109,985
Total noncurrent assets	<u>3,182,942</u>	<u>6,036,640</u>	<u>9,219,582</u>
Total assets	<u>\$ 5,296,473</u>	<u>\$ 7,820,971</u>	<u>\$ 13,117,444</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charges on pension obligations	<u>\$ 26,780</u>	<u>\$ -</u>	<u>\$ 26,780</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 12,022	\$ 136,754	\$ 148,776
Notes payable, current	37,550	182,320	219,870
Total current liabilities	<u>49,572</u>	<u>319,074</u>	<u>368,646</u>
Liabilities payable from restricted assets:			
Court bonds payable	4,284	-	4,284
Accrued interest payable	-	4,291	4,291
Customer deposits payable	-	155,849	155,849
Bonds payable, current	-	235,000	235,000
Total liabilities payable from restricted assets	<u>4,284</u>	<u>395,140</u>	<u>399,424</u>
Noncurrent liabilities:			
Due to other funds	287,890	(287,890)	-
Compensated absences	79,129	36,632	115,761
Pension liability	1,123,963	-	1,123,963
Notes payable, non-current	39,852	1,221,591	1,261,443
Bonds payable, non-current	-	485,000	485,000
Total noncurrent liabilities	<u>1,530,834</u>	<u>1,455,333</u>	<u>2,986,167</u>
Total liabilities	<u>1,584,690</u>	<u>2,169,547</u>	<u>3,754,237</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows on pension obligations	<u>462,144</u>	<u>-</u>	<u>462,144</u>
<b>NET POSITION</b>			
Net investment in capital assets	3,019,372	3,912,559	6,931,931
Restricted	292,708	671,177	963,885
Unrestricted	(35,661)	1,067,688	1,032,027
Total net position	<u>\$ 3,276,419</u>	<u>\$ 5,651,424</u>	<u>\$ 8,927,843</u>

**City of Tonkawa, Oklahoma**  
**Statement of Activities**  
**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	\$ 144,940	\$ 45,591	\$ 12,447	\$ -	\$ (86,902)
Administration	222,636	-	-	-	(222,636)
Total general government	<u>367,576</u>	<u>45,591</u>	<u>12,447</u>	<u>-</u>	<u>(309,538)</u>
Public safety and judiciary:					
Legal and courts	46,765	-	-	-	(46,765)
Code enforcement	36,061	-	-	-	(36,061)
Police	1,008,308	93,501	2,799	-	(912,008)
Fire	340,390	-	4,484	-	(335,906)
Ambulance	354,917	335,594	-	-	(19,323)
Total public safety and judiciary	<u>1,786,441</u>	<u>429,095</u>	<u>7,283</u>	<u>-</u>	<u>(1,350,063)</u>
Transportation:					
Streets	202,608	-	29,778	-	(172,830)
Airport	7,811	-	-	-	(7,811)
Total transportation	<u>210,419</u>	<u>-</u>	<u>29,778</u>	<u>-</u>	<u>(180,641)</u>
Cultural, parks and recreation:					
Parks	119,768	6,775	-	118,569	5,576
Library	162,812	-	7,619	-	(155,193)
Total cultural, parks and recreation	<u>282,580</u>	<u>6,775</u>	<u>7,619</u>	<u>118,569</u>	<u>(149,617)</u>
Total governmental activities	<u>2,647,016</u>	<u>481,461</u>	<u>57,127</u>	<u>118,569</u>	<u>(1,989,859)</u>
Business-type activities:					
Electric	2,588,110	3,604,855	-	-	1,016,745
Water	551,463	638,348	-	-	86,885
Sewer	197,824	305,453	-	422,665	530,294
Sanitation	190,455	283,288	-	-	92,833
Customer service	202,742	115,650	20,000	-	(67,092)
Economic development	49,389	7,465	24,350	-	(17,574)
Total business-type activities	<u>3,779,983</u>	<u>4,955,059</u>	<u>44,350</u>	<u>422,665</u>	<u>1,642,091</u>
Total primary government	<u>\$ 6,426,999</u>	<u>\$ 5,436,520</u>	<u>\$ 101,477</u>	<u>\$ 541,234</u>	<u>\$ (347,768)</u>

(Continued)

**City of Tonkawa, Oklahoma**  
**Statement of Activities**  
**June 30, 2015**

Changes in Net Position

(Continued)

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Net (expense)/revenue	\$ (1,989,859)	\$ 1,642,091	\$ (347,768)
General revenues:			
Taxes:			
Sales taxes	1,465,363	-	1,465,363
Use taxes	121,254	-	121,254
Franchise taxes	39,347	-	39,347
Cigarette taxes	17,299	-	17,299
Alcoholic beverage tax	13,692	-	13,692
Investment income	7,358	5,019	12,377
Gain on sale of assets	-	3,445	3,445
Miscellaneous	48,055	19,212	67,267
Transfers-Internal activity	647,671	(647,671)	-
Total general revenues and transfers	<u>2,360,039</u>	<u>(619,995)</u>	<u>1,740,044</u>
Change in net position	370,180	1,022,096	1,392,276
Net position-beginning, restated	2,906,239	4,629,328	7,535,567
Net position-ending	<u>\$ 3,276,419</u>	<u>\$ 5,651,424</u>	<u>\$ 8,927,843</u>

**City of Tonkawa, Oklahoma**  
**Balance Sheet**  
**June 30, 2015**

	<u>General Fund</u>	<u>Capital Projects Improvement Fund</u>	<u>Special Revenue Blinn Park Memorial Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 880,284	\$ 1,020,579	\$ 3,079	\$ 1,903,942
Investments	-	-	20,000	20,000
Accounts receivable	30,187	-	-	30,187
Fines receivable, net of allowance	38,887	-	-	38,887
Receivable from other governments	120,515	-	-	120,515
Total assets	<u>\$ 1,069,873</u>	<u>\$ 1,020,579</u>	<u>\$ 23,079</u>	<u>\$ 2,113,531</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred charges on pension obligations	26,780	-	-	26,780
Total assets and deferred outflows of resources	<u>\$ 1,096,653</u>	<u>\$ 1,020,579</u>	<u>\$ 23,079</u>	<u>\$ 2,140,311</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 12,022	\$ -	\$ -	\$ 12,022
Current portion of capital lease	37,550	-	-	37,550
Due from other funds	287,890	-	-	287,890
Court bonds payable	4,284	-	-	4,284
Total liabilities	<u>341,746</u>	<u>-</u>	<u>-</u>	<u>341,746</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows on pension obligations	462,144	-	-	462,144
<b>FUND BALANCES</b>				
Restricted	8,976	-	20,000	28,976
Committed	576,262	1,020,579	-	1,596,841
Assigned	132,677	-	3,079	135,756
Unassigned	(425,152)	-	-	(425,152)
Total fund balances	<u>292,763</u>	<u>1,020,579</u>	<u>23,079</u>	<u>1,336,421</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 634,509</u>	<u>\$ 1,020,579</u>	<u>\$ 23,079</u>	<u>\$ 1,678,167</u>

Total fund balance - total governmental funds 1,336,421

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

Land and capital assets, net of accumulated depreciation, are not financial resources and, therefore, are not reported in the funds

Capital assets	4,578,628	
Less: Accumulated depreciation	<u>(1,481,854)</u>	3,096,774

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

Capital lease payable	(39,852)	
Compensated absences	(79,129)	
OMRF pension asset	56,933	
OPPRS pension asset	29,235	
OFPRS pension liability	<u>(1,123,963)</u>	(1,156,776)

Net position of governmental activities \$ 3,276,419

**City of Tonkawa, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**June 30, 2015**

	<u>General Fund</u>	<u>Capital Projects Improvement Fund</u>	<u>Special Revenue Blinn Park Memorial Fund</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>				
Sales taxes	\$ 1,465,363	\$ -	\$ -	\$ 1,465,363
Use taxes	121,254	-	-	121,254
Franchise taxes	39,347	-	-	39,347
E911 fees	2,799	-	-	2,799
Cigarette tax	17,299	-	-	17,299
Alcoholic Beverage Tax	13,692	-	-	13,692
Licenses and permits	790	-	-	790
Fines and forfeitures	93,501	-	-	93,501
Investment income	2,941	4,402	15	7,358
Charges for services	362,567	-	-	362,567
Rental income	41,534	-	-	41,534
Intergovernmental	33,163	-	-	33,163
Donations	122,803	-	-	122,803
Proceeds from debt issuance	-	-	-	-
Miscellaneous	48,054	-	-	48,054
Total revenues	<u>2,365,107</u>	<u>4,402</u>	<u>15</u>	<u>2,369,524</u>
<b><u>EXPENDITURES</u></b>				
General government:				
General government	119,565	-	-	119,565
Administration	222,636	-	-	222,636
Total general government	<u>342,201</u>	<u>-</u>	<u>-</u>	<u>342,201</u>
Public safety and judiciary:				
Legal and courts	46,765	-	-	46,765
Code enforcement	36,061	-	-	36,061
Police	913,819	-	-	913,819
Fire	312,485	-	-	312,485
Ambulance	335,904	-	-	335,904
Total public safety and judiciary	<u>1,645,034</u>	<u>-</u>	<u>-</u>	<u>1,645,034</u>
Transportation:				
Street	171,331	-	-	171,331
Airport	7,811	-	-	7,811
Total transportation	<u>179,142</u>	<u>-</u>	<u>-</u>	<u>179,142</u>
Cultural, parks and recreation:				
Parks	119,768	-	-	119,768
Library	161,645	-	-	161,645
Total cultural, parks and recreation	<u>281,413</u>	<u>-</u>	<u>-</u>	<u>281,413</u>
Capital outlay	203,232	-	-	203,232
Total expenditures	<u>2,651,022</u>	<u>-</u>	<u>-</u>	<u>2,651,022</u>
Excess (deficiency) of revenues over expenditures	<u>(285,915)</u>	<u>4,402</u>	<u>15</u>	<u>(281,498)</u>
<b><u>OTHER FINANCING SOURCES (USES)</u></b>				
Transfers in	1,698,380	480,158	-	2,178,538
Transfers out	(1,221,305)	(309,562)	-	(1,530,867)
Total other financing sources and uses	<u>477,075</u>	<u>170,596</u>	<u>-</u>	<u>647,671</u>
Net change in fund balances	191,160	174,998	15	366,173
Fund balances - beginning, restated	101,603	845,581	23,064	970,248
Fund balances - ending	<u>\$ 292,763</u>	<u>\$ 1,020,579</u>	<u>\$ 23,079</u>	<u>\$ 1,336,421</u>

(Continued)

**City of Tonkawa, Oklahoma**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**June 30, 2015**

(Continued)

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

Net change in fund balances - total governmental funds \$ 366,173

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

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

Capital asset purchases capitalized	203,232
Depreciation expense	(232,643)

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

Principle paid on capital lease	36,416	36,416
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Some expenses reported in the statement of activities do not require the use of  
current financial resources and are not reported as expenditures in governmental funds.

	Current Year	Prior Year	
Compensated absences	\$ 79,129	\$ 76,131	(2,998)

Change in Net Position of Governmental Activities	\$ 370,180
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**City of Tonkawa, Oklahoma**  
**Statement of Net Position**  
**June 30, 2015**

	<b>Tonkawa Municipal Authority</b>	<b>Tonkawa Development Authority</b>	<b>Total Enterprise Funds</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 328,126	\$ 47,914	\$ 376,040
Investments	99,008	14,181	113,189
Due from other funds	287,890	-	287,890
Accounts receivable (net)	103,720	-	103,720
Grant receivable	49,338	-	49,338
Total current assets	<u>868,082</u>	<u>62,095</u>	<u>930,177</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	1,004,052	-	1,004,052
Investments	137,992	-	137,992
Total restricted assets	<u>1,142,044</u>	<u>-</u>	<u>1,142,044</u>
Noncurrent assets:			
Other assets	-	170	170
Capital assets (net)	6,013,953	22,517	6,036,470
Total noncurrent assets	<u>6,013,953</u>	<u>22,687</u>	<u>6,036,640</u>
<b>Total assets</b>	<b><u>\$ 8,024,079</u></b>	<b><u>\$ 84,782</u></b>	<b><u>\$ 8,108,861</u></b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 136,754	\$ -	\$ 136,754
Compensated absences, current	-	-	-
Notes payable, current	182,320	-	182,320
Total current liabilities	<u>319,074</u>	<u>-</u>	<u>319,074</u>
Liabilities payable from restricted assets:			
Customer deposits payable	155,849	-	155,849
Accrued interest payable	4,291	-	4,291
Bonds payable, current	235,000	-	235,000
Total liabilities payable from restricted assets	<u>395,140</u>	<u>-</u>	<u>395,140</u>
Noncurrent liabilities:			
Compensated absences, non-current	36,632	-	36,632
Notes payable, non-current	1,221,591	-	1,221,591
Bonds payable, noncurrent	485,000	-	485,000
Total noncurrent liabilities	<u>1,743,223</u>	<u>-</u>	<u>1,743,223</u>
<b>Total liabilities</b>	<b><u>2,457,437</u></b>	<b><u>-</u></b>	<b><u>2,457,437</u></b>
<b>NET POSITION</b>			
Net investment in capital assets	3,890,042	22,517	3,912,559
Restricted	608,912	62,265	671,177
Unrestricted	1,067,688	-	1,067,688
<b>Total net position</b>	<b><u>\$ 5,566,642</u></b>	<b><u>\$ 84,782</u></b>	<b><u>\$ 5,651,424</u></b>

**City of Tonkawa, Oklahoma**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**June 30, 2015**

	<b>Tonkawa Municipal Authority</b>	<b>Tonkawa Development Authority</b>	<b>Total Enterprise Funds</b>
<b><u>Operating revenues:</u></b>			
Charges for services:			
Electric charges	\$ 3,604,855	\$ -	\$ 3,604,855
Water charges	638,348	-	638,348
Sewer charges	305,453	-	305,453
Sanitation charges	283,288	-	283,288
Penalties	61,918	-	61,918
Total charges for services	<u>4,893,862</u>	<u>-</u>	<u>4,893,862</u>
Lease and rental income	-	7,465	7,465
Donations	-	24,350	24,350
Miscellaneous	92,944	-	92,944
Total operating revenues	<u>4,986,806</u>	<u>31,815</u>	<u>5,018,621</u>
<b><u>Operating expenses:</u></b>			
Cost of goods sold	2,192,185	-	2,192,185
Personal services	607,168	-	607,168
Materials and supplies	262,877	184	263,061
Other services and charges	341,269	40,198	381,467
Depreciation and amortization	239,991	9,007	248,998
Total operating expenses	<u>3,643,490</u>	<u>49,389</u>	<u>3,692,879</u>
Net operating income	1,343,316	(17,574)	1,325,742
<b><u>Nonoperating revenue (expense):</u></b>			
Investment income	4,764	255	5,019
Interest expense	(39,362)	-	(39,362)
Bad debt expense	(47,742)	-	(47,742)
Grant income	422,665	-	422,665
Gain/(loss) on sale of assets	-	3,445	3,445
Total nonoperating revenue (expense)	<u>340,325</u>	<u>3,700</u>	<u>344,025</u>
<b>Net Income before contributions and transfers</b>	1,683,641	(13,874)	1,669,767
Transfers from other funds	1,024,073	-	1,024,073
Transfers to other funds	(1,671,744)	-	(1,671,744)
<b>Change in net position</b>	1,035,970	(13,874)	1,022,096
Net position-beginning of year	4,530,672	98,656	4,629,328
Net position-end of year	<u>\$ 5,566,642</u>	<u>\$ 84,782</u>	<u>\$ 5,651,424</u>

**City of Tonkawa, Oklahoma**  
**Statement of Cash Flows**  
**June 30, 2015**

	<b>Tonkawa Municipal Authority</b>	<b>Tonkawa Development Authority</b>	<b>Total Enterprise Funds</b>
<b><u>Cash flows from operating activities:</u></b>			
Receipts from customers/contracts	\$ 4,954,837	\$ 7,295	\$ 4,962,132
Payments to suppliers	(2,729,724)	(40,382)	(2,770,106)
Payments to employees	(586,785)	-	(586,785)
Other operating revenues	92,944	24,350	117,294
<b>Net cash provided (used) by operating activities</b>	<b>1,731,272</b>	<b>(8,737)</b>	<b>1,722,535</b>
<b><u>Cash flows from non-capital financing activities:</u></b>			
Transfers from other funds	1,024,073	-	1,024,073
Transfers to other funds	(1,671,744)	-	(1,671,744)
<b>Net cash provided (used) by non-capital financing activities</b>	<b>(647,671)</b>	<b>-</b>	<b>(647,671)</b>
<b><u>Cash flows from capital and related financing activities:</u></b>			
Purchase of capital assets	(663,915)	-	(663,915)
Sales of assets	-	6,626	6,626
Principal paid on debt	(418,471)	-	(418,471)
Interest and fiscal charges paid on debt	(39,362)	-	(39,362)
Capital contributions/grants	422,665	-	422,665
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(699,083)</b>	<b>6,626</b>	<b>(692,457)</b>
<b><u>Cash flows from investing activities:</u></b>			
(Purchase)/liquidation of investments, unrestricted	(122,014)	255	(121,759)
<b>Net cash provided (used) by investing activities</b>	<b>(122,014)</b>	<b>255</b>	<b>(121,759)</b>
Net increase (decrease) in cash and cash equivalents	262,504	(1,856)	260,648
Cash and cash equivalents, July 1, 2014	1,069,674	49,770	1,119,444
Cash & cash equivalents, June 30, 2015	<u>\$ 1,332,178</u>	<u>\$ 47,914</u>	<u>\$ 1,380,092</u>
Cash, including time deposits	\$ 328,126	\$ 47,914	\$ 376,040
Restricted cash, including time deposits	1,004,052	-	1,004,052
Total cash and cash equivalents, end of year	<u>\$ 1,332,178</u>	<u>\$ 47,914</u>	<u>\$ 1,380,092</u>
<b><u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</u></b>			
Operating income (loss)	\$ 1,343,316	\$ (17,574)	\$ 1,325,742
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	239,991	9,007	248,998
Bad debt	47,742	-	47,742
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	13,233	-	13,233
(Increase) decrease in other assets	-	(170)	(170)
Increase (decrease) in accounts payable	68,014	-	68,014
Increase (decrease) in other accrued liabilities	(1,407)	-	(1,407)
Increase (decrease) in compensated absences	20,383	-	20,383
Total adjustments	387,956	8,837	396,793
<b>Net cash provided (used) by operating activities</b>	<b>\$ 1,731,272</b>	<b>\$ (8,737)</b>	<b>\$ 1,722,535</b>

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

The accounting and reporting framework and the more significant accounting principles and practices of the City of Tonkawa, Oklahoma ("City") are discussed in subsequent section of this note. The remainder of the notes is organized to provide explanations, including required disclosures of the City's financial activities for the fiscal year ended June 30, 2015.

**A. Reporting Entity**

***Fund Types and Major Funds***

**Major Governmental Funds**

General Fund

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

**Non-Major Governmental Funds**

Capital Improvement Fund

Accounts for the capital expenditures of the 1% limited purpose sales tax. Two-thirds of the tax is restricted for use for water, sewer, sanitation, and drainage. One-third of the tax is restricted for debt payments on the pool bond issue.

Blinn Park Fund

Established as a special revenue fund to account for operations at the City's Blinn Park.

**Major Proprietary Funds**

Tonkawa Municipal Authority

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

Tonkawa Development Authority

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

**B. Basic Financial Statements**

***Government-wide Financial Statements***

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

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

***Fund Financial Statements***

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

***Measurement Focus and Basis of Accounting***

The financial statements of the City are prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

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

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

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

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

**C. Budget Policy and Practice**

***Budget Approval***

The City 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 process.

***Basis of Budgeting***

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and object class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. 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.

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

***Cash and Investments***

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

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

***Accounts Receivable***

Significant receivables include sales and use tax receivables and amount due from customers primarily for utility services. These receivables are due within one year. Certain enterprise funds report accounts receivable net of an allowance for uncollectible accounts. The allowance amount is estimated using accounts receivable past due more than 60 to 90 days.

***Restricted Assets***

Restricted assets include assets legally restricted for capital projects funded through long-term debt, debt service revenues, and customer meter deposits. Restricted assets and liabilities current in nature are reported with current assets and current liabilities in the financial statements.

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

***Interfund Balances***

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

***Capital Assets, Depreciation, and Amortization***

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and reported in the government-wide financial statements. Proprietary capital assets are also reported in their respective fund financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalized assets with cost in excess of \$5,000.

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

- |                                    |             |
|------------------------------------|-------------|
| • Buildings                        | 10-25 years |
| • Other improvements               | 10-25 years |
| • Machinery, furniture & equipment | 3-25 years  |
| • Infrastructure                   | 10-20 years |

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

***Compensated Absences***

Full-time employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. Sick leave accrues to full-time employees to specified maximums. Generally, after one year of services, employees are entitled to a percentage of their sick leave balance and all accrued vacation leave upon termination. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued long-term liabilities in the government-wide and proprietary financial statements. Governmental funds report only matured compensated absences payable to currently terminating employees.

***Fund Equity***

**Fund Balance**

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

**Net Position**

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

***Invested in capital assets, net of related debt***

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

***Restricted net position***

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

***Unrestricted net position***

This consists of net position that does not meeting the criteria of "restricted" or "invested in capital assets, net of related debt".

**Governmental Fund Balances**

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

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

***Nonspendable***

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

**Restricted**

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

**Committed**

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

**Assigned**

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

**Unassigned**

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

***Use of Estimates***

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

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

**E. Policies Related to Revenues and Expenses**

***Program Revenues***

**Charges for Services**

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

**Grants and Contributions**

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

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

**General Revenues**

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

**Sales Tax**

The City levied a 4.5% sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. A portion of the sales tax received is restricted as to the use. The unrestricted portion (3%) is recorded as sales tax revenue within the General Fund; the remaining 1.5% is restricted and transferred to the Capital Improvement fund, allocated 1% for water, sewer, sanitation, and drainage improvements and 0.5% for debt service on the 2008 bond issue.

**(2) ASSETS AND LIABILITIES**

**A. Assets**

***Deposits and Investments***

**Deposits**

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

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

**Investments**

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

<u>Types of Investments</u>	<b>Primary Government</b>			
	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings (1)</u>	<u>Weighted Average Days to Maturity (2)</u>
<b>Primary government</b>				
<b><u>INVESTMENTS:</u></b>				
Certificates of deposit	\$ 271,181	\$ 271,181	N/A	103
Total investments	271,181	271,181		
 Total primary government investments	\$ 271,181	\$ 271,181		

**RECONCILIATION TO STATEMENT OF NET ASSETS**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Investments, unrestricted	\$ -	\$ 113,189	\$ 113,189
Investments, restricted	20,000	137,992	157,992
Total investments	\$ 20,000	\$ 251,181	\$ 271,181

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

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

***Receivables and Uncollectable Amounts***

Significant receivables for governmental activities include sales and use tax receivables and ambulance receivables. Based Business-type receivables consist mainly of amount due from customers primarily for utility services. The City reports accounts receivable net of an allowance for uncollectible accounts. The allowance amount is estimated using balances past due greater than 60 days. At June 30, 2015, the City has estimated an allowance of \$70,000 and \$308,502 for governmental and business-type activities, respectively.

**CITY OF TONKAWA, OKLAHOMA  
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JUNE 30, 2015**

*Capital Assets*

Changes in Capital Assets

	<b>Primary Government</b>			
	<b>Balance at July 1, 2014</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2015</b>
<i><u>Governmental Activities</u></i>				
Buildings & structures	\$ 729,245	\$ -	\$ -	\$ 729,245
Machinery, furniture, & equipment	1,247,555	191,532	-	1,439,087
Infrastructure & improvements	2,398,596	11,700	-	2,410,296
<b>Total</b>	<b>4,375,396</b>	<b>203,232</b>	<b>-</b>	<b>4,578,628</b>
Less accumulated depreciation	1,249,211	232,643	-	1,481,854
<b>Governmental fixed assets, net</b>	<b>\$ 3,126,185</b>	<b>\$ (29,411)</b>	<b>\$ -</b>	<b>\$ 3,096,774</b>
<i><u>Business-type Activities</u></i>				
Land	\$ 13,259	\$ -	\$ -	\$ 13,259
Construction in process	10,000	-	-	10,000
Buildings & structures	263,910	-	-	263,910
Machinery, furniture, & equipment	347,874	-	-	347,874
Infrastructure & improvements	7,074,540	663,915	3,054	7,735,401
<b>Total</b>	<b>7,709,583</b>	<b>663,915</b>	<b>3,054</b>	<b>8,370,444</b>
Less accumulated depreciation	2,084,976	248,998	-	2,333,974
<b>Business-type fixed assets, net</b>	<b>\$ 5,624,607</b>	<b>\$ 414,917</b>	<b>\$ (3,054)</b>	<b>\$ 6,036,470</b>
<b>Total primary government</b>	<b>\$ 8,750,792</b>	<b>\$ 385,506</b>	<b>\$ (3,054)</b>	<b>\$ 9,133,244</b>

**Depreciation Expense**

Primary Government			
Governmental Activities		Business-type Activities	
General government	\$ 25,374	Electric	\$ 42,064
Public safety & judiciary	106,595	Water	146,619
Transportation	31,277	Sewer	34,268
Cultural, parks & recreation	69,397	Customer service	17,040
		Economic development	9,007
<b>Total depreciation expense</b>	<b>\$ 232,643</b>	<b>Total depreciation expense</b>	<b>\$ 248,998</b>

**CITY OF TONKAWA, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
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**B. Liabilities**

**Notes and Bonds Payable**

**Governmental Activities**

**Capital Lease Payable:**

The City entered into a capital lease agreement with First Capital Equipment Leasing Corp for four Police vehicles. The lease carried an original balance of \$148,000 payable in quarterly installments of \$9,866.57, maturing April 2017. \$ 76,268

\$ 76,268

**Business-Type Activities**

**Notes Payable:**

\$530,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 2002 Small Community Clear Water SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-02-0008, dated June 7, 2002, due in semi-annual installments over 20 years plus interest of 2.5% and an administrative fee of 0.5%, on March 15 and September 15. Note was used to fund sewer system improvements and secured by pledged sales tax and utility system revenues. 232,273

\$350,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 1995 Small Community SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-94-007, dated September 1, 1995, due in semi-annual installments over 20 years plus interest of 3%, plus and administrative fee of 0.5%, on March 15 and September 15. Note was used to fund expansion and improvement of the sanitary sewer system. Loan is secured by pledged sales tax and utility system revenues and an additional \$1.70 sewage fee. 33,514

\$1,070,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 2002A Small Community Clear Water SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-97-007CW, dated November 14, 2002, due in semi-annual installments over 20 years plus interest of 2.2% plus 0.5% admin fee, on March 15 and September 15. Note was used to fund expansion and improvement of the sanitary sewer system. Loan is secured by pledged sales tax and utility system revenues. 497,350

\$1,440,000 Tonkawa Municipal Authority, Kay County, Oklahoma, Series 2002B Small Community Clear Water SRF promissory note to the Oklahoma Water Resources Board, loan number ORF-97-003DW, dated November 14, 2002, due in semi-annual installments over 20 years plus interest of 2.2% plus 0.5% admin fee, on March 15 and September 15. Note was used to fund expansion and improvement of the clean water system. Loan is secured by pledged sales tax and utility system revenues. 640,774

\$ 1,403,911

**Bonds Payable:**

On April 12, 2006, TMA issued \$1,205,000 in refunding bonds, Tonkawa Municipal Authority Sales Tax Revenue Note, Series 2006 for the purpose of water system improvements. The notes mature April 1, 2019 and carry an interest rates of 4.425% per annum. The notes require monthly payments into a debt service account from which annual debt service payments are made. \$ 450,000

On October 7, 2008, TMA issued \$1,075,000 in revenue bonds, series 2008 for the purpose of improving the City swimming facilities. The notes mature June 1, 2017 and carry an interest rates of 4.95% per annum. The notes require monthly payments into a debt service account from which semi-annual debt service payments are made. The Note is secured by electric, water, sewer, and sanitation system ("system") revenues and 1% restricted sales tax revenues. 270,000

\$ 720,000

**CITY OF TONKAWA, OKLAHOMA**  
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Changes in Long-Term Debt

<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>
<b>Governmental activities:</b>					
<i>Capital lease payable</i>					
First Capital Equipment Leasing Corp	\$ 112,684	\$ -	\$ 36,416	\$ 76,268	\$ 37,550
<b>Business-type activities:</b>					
<i>Notes Payable</i>					
OWRB - 2002	\$ 261,071	\$ -	\$ 28,798	\$ 232,273	\$ 28,204
OWRB - 1995	57,235	-	23,721	33,514	22,525
OWRB - 2002A	548,666	-	51,316	497,350	56,043
OWRB - 2002B	725,410	-	84,636	640,774	75,548
Total notes payable	<u>\$ 1,592,382</u>	<u>\$ -</u>	<u>\$ 188,471</u>	<u>\$ 1,403,911</u>	<u>\$ 182,320</u>
<i>Bonds Payable</i>					
Series 2006	550,000	-	100,000	450,000	105,000
Series 2008	400,000	-	130,000	270,000	130,000
Total business-type activities	<u>\$ 950,000</u>	<u>\$ -</u>	<u>\$ 230,000</u>	<u>\$ 720,000</u>	<u>\$ 235,000</u>
<b>Total primary government</b>	<u>\$ 2,655,066</u>	<u>\$ -</u>	<u>\$ 454,887</u>	<u>\$ 2,200,179</u>	<u>\$ 454,870</u>

**Annual Debt Service Requirements**

<u>Year Ending June 30</u>	<u>Capital Lease Payable</u>		<u>Notes Payable</u>		<u>Bonds Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 37,550	\$ 1,917	\$ 182,320	\$ 29,917	\$ 235,000	\$ 24,849
2017	38,719	748	176,887	25,644	250,000	18,191
2018	-	-	167,153	21,791	115,000	11,756
2019	-	-	170,958	17,985	120,000	5,198
2020	-	-	174,850	14,093	-	-
2021-2024	-	-	531,743	18,077	-	-
Totals	<u>\$ 76,268</u>	<u>\$ 2,664</u>	<u>\$ 1,403,911</u>	<u>\$ 127,507</u>	<u>\$ 720,000</u>	<u>\$ 59,994</u>

(3) REVENUES AND EXPENSES

*Interfund Transfers*

	<u>Due From</u>	<u>Due To</u>
<b>GENERAL FUND</b>		
Tonkawa Municipal Authority	\$ 340,584	\$ -
Total General Fund	<u>340,584</u>	<u>-</u>
<b>TONKAWA MUNICIPAL AUTHORITY</b>		
General Fund	-	340,584
Total Tonkawa Municipal Authority	<u>-</u>	<u>340,584</u>
<b>GRAND TOTAL</b>	<b>\$ 340,584</b>	<b>\$ 340,584</b>

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>GENERAL FUND</b>		
Capital Improvement Fund	\$ 174,877	\$ 480,157
Tonkawa Municipal Authority	1,523,503	741,148
Total General Fund	<u>1,698,380</u>	<u>1,221,305</u>
<b>CAPITAL IMPROVEMENT FUND</b>		
General Fund	480,157	174,877
Tonkawa Municipal Authority	-	134,685
Total Capital Improvement Fund	<u>480,157</u>	<u>309,562</u>
<b>TONKAWA MUNICIPAL AUTHORITY</b>		
General Fund	889,388	1,671,744
Capital Improvement Fund	134,685	-
Total Tonkawa Municipal Authority	<u>1,024,073</u>	<u>1,671,744</u>
<b>GRAND TOTAL</b>	<b>\$ 3,202,610</b>	<b>\$ 3,202,611</b>

(4) PENSION AND POST-EMPLOYMENT PLANS

The City participates in three employee pension systems as follows:

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

**A. Oklahoma Municipal Retirement Fund**

**Plan Description**

Substantially all of the City's regular, full time employees, with the exception of police officers and firefighters, participate in a defined contribution plan administered by the Oklahoma Municipal Retirement System (OMRF), a statewide fund established to administer pension plans for municipal employees. The defined contribution plan is funded through contributions as elected by each municipality. Participants are required to participate 3.5% of their covered compensation. The City contributed 9.21% of covered compensation for fiscal year 2015. Participants are permitted to make voluntary deductible contributions to the plan. OMRF issues a publically available financial report that can be obtained at [www.okmrf.org](http://www.okmrf.org).

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

**Benefits Provided**

OMRF provides retirement, disability, and death benefits. Retirement benefits are determined as 3 percent of the employee's final average compensation multiplied by the employee's years of service; final average compensation is the average of the 5 highest consecutive years of salaries out of the last 10 years of service. Vesting requires 7 years of service. Members are eligible for normal retirement at age 65 with 7 years of vested service. The benefit is payable immediately. Early retirement is available after age 55 with 7 years of vested service. Early retirement benefits are paid at the normal retirement age, or reduced 5% per year for commencement prior to the normal retirement age.

Disability retirement is provided for member's total and permanent disability after 7 or more years of service. The accrued benefit is payable upon disablement without reduction for early payment.

In-service death benefits are payable after vesting at 50% of the accrued benefit until the death of the spouse or remarriage. If the member was not vested at the time of in-service death, member contributions are returned, if any, with interest.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OMRF**

At June 30, 2015, the City reported an asset of \$56,933 for its proportionate share of the net pension liability. The net pension 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 that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating municipalities, actuarially determined.

Changes to the actuarial valuation between the measurement date of the net pension liability and the City's reporting dates are not expected to have a significant effect on the net pension liability.

For the year ended June 30, 2015, the City recognized pension expense of \$52,079. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ -
Changes of assumptions	-
Net difference between projected and actual earnings on pension plan investments	176,118
Changes in proportion and differences between City contributions and proportionate share of contributions	-
City contributions subsequent to the measurement date	-
<b>Total</b>	<b>\$ 176,118</b>

Other amounts reported deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2016	\$	(44,029)
2017		(44,029)
2018		(44,029)
2019		(44,029)
Thereafter		-

**Actuarial assumptions:** The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3 percent
Salary increases	5.07 percent, average
Investment rate of return	7.75 percent, net of pension plan investment expense and inflation

Mortality rates were based on the UP 1994 with projected mortality improvement. Valuation rates are projected for mortality improvement by the Society of Actuaries' table AA based upon the employee's year of birth.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period ended July 1, 2007 through June 30, 2011.

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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:

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

*Discount rate:* The discount rate used to measure the total pension liability was 7.75 percent, as 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 the member's working career. 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. Therefore, no separate cash flow projection is required to determine the sufficiency of the plan assets. The 20 year tax free bond yield of 3.29% was used in the analysis.

**Changes in the Net Pension Liability**

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Plan Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
<b>Balances at June 30, 2013</b>	2,423,000	2,273,423	149,577
<b>Changes for the year:</b>			
Service cost	81,507	-	81,507
Interest	186,931	-	186,931
Differences between expected and actual experience	-	-	-
Contributions - employer	-	82,471	(82,471)
Contributions - employee	-	29,666	(29,666)
Net investment income	-	368,247	(368,247)
Benefit payments, including refunds of employee contributions	(188,518)	(188,518)	-
Administrative expense	-	(5,436)	5,436
Other changes	-	-	-
<b>Net changes</b>	<u>79,920</u>	<u>286,430</u>	<u>(206,510)</u>
<b>Balances at June 30, 2014</b>	<u>\$ 2,502,920</u>	<u>\$ 2,559,853</u>	<u>\$ (56,933)</u>

*Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate:* The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the City's proportionate share of the 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:

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	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability/(asset)	241,938	(56,933)	(301,985)

*Pension plan fiduciary net position:* Detailed information about the pension plan's fiduciary net position is available in the separately issued OMRF financial report.

**B. Oklahoma Police Pension and Retirement System**

Plan description – The City of Tonkawa, 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 OPRRS. OPRRS issues a publicly available financial report that can be obtained at [www.ok.gov/OPPRS](http://www.ok.gov/OPPRS).

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

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

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

Contributions – The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 8% percent of their annual pay. Participating cities are required to contribute 13% of the employees' annual pay. Contributions to the pension plan from the City were \$31,579.

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 \$29,235 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 0.000868%.

For the year ended June 30, 2015, the City recognized pension expense of \$10,716. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 13,134
Changes of assumptions	-
Net difference between projected and actual earnings on pension plan investments	102,755
Changes in proportion and differences between City contributions and proportionate share of contributions	-
City contributions subsequent to the measurement date	-
<b>Total</b>	<b>\$ 115,889</b>

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

Year ended June 30:			
2016	\$	23,178	
2017		23,178	
2018		23,178	
2019		23,178	
2020		23,177	

**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:

Long-Term Expected Asset Class	Real Rate of Return
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%)
Employers' net pension liability (asset)	\$173,941	(\$29,235)	(\$200,466)

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

**C. Oklahoma Firefighters Pension and Retirement System**

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

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

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

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

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

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

*Contributions* – The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 9% of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the City were \$40,850 (fiscal year contributions).

*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 \$1,123,963 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 0.1093%.

For the year ended June 30, 2015, the City recognized pension expense of \$100,947. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 26,780	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	170,137
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	-	-
<b>Total</b>	<b>\$ 26,780</b>	<b>\$ 170,137</b>

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

Year ended June 30:	
2016	\$28,671
2017	28,671
2018	28,671
2019	28,671
2020	28,673

**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.

**CITY OF TONKAWA, 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 employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percent point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease <u>(6.5%)</u>	Current Discount <u>Rate (7.5%)</u>	1% Increase <u>(8.5%)</u>
Employers' net pension liability	\$1,467,686	\$1,123,963	\$835,828

*Pension plan fiduciary net position* – Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the FPRS; which can be located at [www.ok.gov/fprs](http://www.ok.gov/fprs).

**(5) COMMITMENTS AND CONTINGENCIES**

**A. Litigation**

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

**B. Grant Program Involvement**

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

**(6) 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:

		<b>Governmental Activities</b>
<b>Beginning Net Position</b>	<b>\$</b>	<b>4,379,398</b>
<b>Net pension obligations</b>		<b>(1,037,795)</b>
<b>Net deferred inflows on pension charges</b>		<b>(435,364)</b>
<b>Restated Beginning Net Position</b>	<b>\$</b>	<b>2,906,239</b>

**City of Tonkawa, Oklahoma**  
**General Fund**  
**June 30, 2015**  
**Budget and Actual (Non-GAAP Budgetary Basis)**

	<u>Original Budget</u>	<u>Revisions</u>	<u>Approved Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<b>REVENUES</b>					
Tax revenue	\$ 1,375,040	\$ -	\$ 1,375,040	\$ 1,617,608	\$ 242,568
Franchise taxes	32,974	-	32,974	39,347	6,373
Licenses and permits	8,000	-	8,000	790	(7,210)
Fines and forfeitures	190,000	-	190,000	96,300	(93,700)
Charges for services	229,000	-	229,000	362,567	133,567
Rental income	30,000	-	30,000	41,534	11,534
Intergovernmental	180,031	-	180,031	33,163	(146,868)
Interest income	3,500	-	3,500	2,941	(559)
Miscellaneous	52,750	-	52,750	170,857	118,107
Total revenues	<u>2,101,295</u>	<u>-</u>	<u>2,101,295</u>	<u>2,365,107</u>	<u>263,812</u>
<b>EXPENDITURES</b>					
Current:					
General government:					
General government	228,750	115,000	343,750	342,201	1,549
Total general government	<u>228,750</u>	<u>115,000</u>	<u>343,750</u>	<u>342,201</u>	<u>1,549</u>
Public safety and judiciary:					
Legal and courts	58,700	-	58,700	46,765	11,935
Code enforcement	35,000	5,000	40,000	36,061	3,939
Police	1,045,750	(115,000)	930,750	919,809	10,941
Fire	442,831	(20,000)	422,831	314,319	108,512
Ambulance	492,500	15,000	507,500	506,485	1,015
Total public safety and judiciary	<u>2,074,781</u>	<u>(115,000)</u>	<u>1,959,781</u>	<u>1,823,439</u>	<u>136,342</u>
Transportation:					
Street	170,500	10,500	181,000	180,958	42
Airport	8,000	-	8,000	7,811	189
Total transportation	<u>178,500</u>	<u>10,500</u>	<u>189,000</u>	<u>188,769</u>	<u>231</u>
Cultural, parks and recreation:					
Parks	143,500	(10,500)	133,000	131,468	1,532
Library	171,500	-	171,500	165,145	6,355
Total cultural, parks and recreation	<u>315,000</u>	<u>(10,500)</u>	<u>304,500</u>	<u>296,613</u>	<u>7,887</u>
Total expenditures	<u>2,797,031</u>	<u>-</u>	<u>2,797,031</u>	<u>2,651,022</u>	<u>146,009</u>
Revenue over (under) expenditures	(695,736)	-	(695,736)	(285,915)	117,803
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in/(out)	696,200	-	696,200	477,075	(219,125)
Net other financing sources (uses)	<u>696,200</u>	<u>-</u>	<u>696,200</u>	<u>477,075</u>	<u>(219,125)</u>
Revenues and other financing sources over (under) expenditures and other uses	<u>\$ 464</u>	<u>\$ -</u>	<u>\$ 464</u>	191,160	(101,322)
Fund balance at beginning of year (Non-GAAP budgetary basis)				<u>642,449</u>	<u>642,449</u>
Fund balance at end of year (Non-GAAP budgetary basis)				\$ 833,609	<u>\$ 541,127</u>
<b>ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES</b>					
Revenue and expenditure accruals				(364,728)	
Fund balance at end of year (GAAP basis)				<u>\$ 468,881</u>	

**Schedules of Required Supplementary Information**

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

	<u><b>2015*</b></u>
City's portion of the net pension liability (asset)	0.0868%
City's proportionate share of the net pension liability (asset)	\$ (29,235)
City's covered-employee payroll	\$ 328,403
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-9%
Plan fiduciary net position as a percentage of the total pension liability	112.16%

\* 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><b>2015*</b></u>
Contractually required contribution	\$ 31,579
Contributions in relation to the contractually required contribution	<u>(31,579)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 328,403
Contributions as a percentage of covered-employee payroll	9.62%

**Schedules of Required Supplementary Information**

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

	<u>2015*</u>
City's portion of the net pension liability (asset)	0.1093%
City's proportionate share of the net pension liability (asset)	\$ 1,123,963
City's covered-employee payroll	\$ 209,076
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	538%
Plan fiduciary net position as a percentage of the total pension liability	-771.14%

\* 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	\$ 40,850
Contributions in relation to the contractually required contribution	<u>(40,850)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 209,076
Contributions as a percentage of covered-employee payroll	19.54%

**Schedules of Required Supplementary Information**

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

	<u>2015*</u>
<b>Total pension liability</b>	
Service cost	\$ 81,507
Interest	186,931
Changes in benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	<u>(188,518)</u>
<b>Net change in total pension liability</b>	\$ 79,920
<b>Total pension liability - beginning</b>	<u>2,423,000</u>
<b>Total pension liability - ending (a)</b>	<u><u>\$2,502,920</u></u>
<b>Plan fiduciary net position</b>	
Contributions - employer	82,471
Contributions - employee	29,666
Net investment income	368,247
Benefit payments, including refunds of employee contributions	(188,518)
Administrative expense	(5,438)
Other	-
<b>Net change in plan fiduciary net position</b>	<u>286,428</u>
<b>Plan fiduciary net position - beginning</b>	<u>2,273,423</u>
<b>Plan fiduciary net position - ending (b)</b>	<u><u>\$2,559,851</u></u>
<b>City's net pension liability - ending (a) - (b)</b>	<u><u>\$ (56,931)</u></u>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	102.27%
<b>Covered-employee payroll</b>	\$ 879,822
<b>City's net pension liability as a percentage of covered-employee payroll</b>	-6.47%

**Schedules of Required Supplementary Information**

**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)	0.5393%
City's proportionate share of the net pension liability (asset)	\$ (56,933)
City's covered-employee payroll	\$ 879,822
City's proportionate share of the net pension liability (asset) as a percentage of its covered-emplc	-6.47%
Plan fiduciary net position as a percentage of the total pension liability	106.69%

\* 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	\$ 82,471
Contributions in relation to the actuarially determined contribution	<u>(82,471)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 879,822
Contributions as a percentage of covered-employee payroll	9.37%



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 Council  
City of Tonkawa, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tonkawa, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of Tonkawa, Oklahoma's basic financial statements, and have issued our report thereon dated December 29, 2015.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

## **Purpose of this Report**

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

*FSW&B CPAs-PLLC*

FSW&B CPAs-PLLC  
Tonkawa, Oklahoma  
December 29, 2015