

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

**FINANCIAL STATEMENTS AND
AUDITOR'S REPORTS**

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

CITY OF TONKAWA, OKLAHOMA
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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, and each major fund of the City of Tonkawa, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of 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, and each major fund of the City of Tonkawa, Oklahoma, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 3–10 and 36–40 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 20, 2016, 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 20, 2016

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, 2016. The City's performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section. This discussion focuses on the City's primary government, and unless otherwise noted, component units reported separately from the primary government are not included. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL SUMMARY

- At June 30, 2016, the assets of the City exceeded its liabilities by \$10,071,365 (net position). Of this amount \$1,149,509 (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 and deferred outflows exceeded liabilities and deferred inflows by \$8,927,843.
- The City's total net position are comprised of the following:
 - (1) Invested in capital assets, net of related debt of \$7,463,947 include property and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase of construction of capital assets.
 - (2) Restricted net position of \$1,457,909.
 - (3) Unrestricted net position of \$1,149,509 represent the portion available to maintain the City's continuing obligations to citizens and creditors.
- Total liabilities of the City increased by \$171,894 during the fiscal year from \$3,358,258 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 \$479,988 from business-type activities to governmental activities, net position of governmental activities increased \$273,278 or 8%, and net position of business-type activities increased \$870,244 or 15%. 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, 2016 was \$10,071,365. This is a \$1,143,522 increase over June 30, 2015 net position of \$8,927,843. The City reported positive balances in total net position for both governmental and business-type activities, reporting \$3,549,697 and \$5,651,424, respectively. The City's overall financial position remained consistent between fiscal year 2016 and 2015.

Summary of Net Position

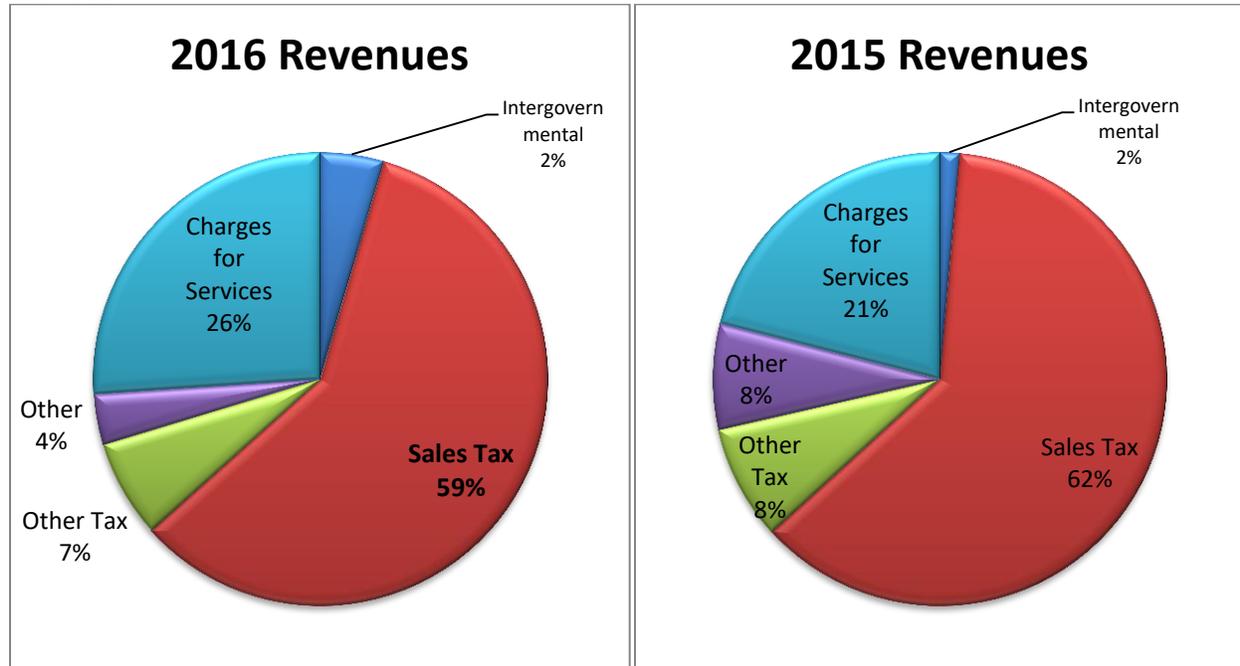
	Governmental Activities		Business-type Activities		Total		Change	
	2016	2015	2016	2015	2016	2015	\$	%
Current assets	\$ 2,165,893	\$ 2,199,699	\$ 2,149,580	\$ 1,784,501	\$ 4,315,473	\$ 3,984,200	\$ 331,273	8%
Capital assets, net	3,086,909	3,096,774	6,113,397	6,036,470	9,200,306	9,133,244	67,062	1%
Total assets	5,252,802	5,296,473	8,262,977	7,820,971	13,515,779	13,117,444	398,335	3%
Deferred outflow	215,102	26,780	-	-	215,102	26,780	188,322	703%
Current liabilities	55,921	53,856	635,451	319,074	691,372	372,930	318,442	85%
Non-current liabilities	1,389,134	1,530,834	1,105,858	1,850,473	2,494,992	3,381,307	(886,315)	-26%
Total liabilities	1,445,055	1,584,690	1,741,309	2,169,547	3,186,364	3,754,237	(567,873)	-15%
Deferred inflow	473,152	462,144	-	-	473,152	462,144	11,008	2%
Net investment in capital assets	3,048,190	3,019,372	4,415,757	3,912,559	7,463,947	6,931,931	532,016	8%
Restricted	292,708	292,708	1,165,201	671,177	1,457,909	963,885	494,024	51%
Unrestricted	208,799	(35,661)	940,710	1,067,688	1,149,509	1,032,027	117,482	11%
Net position	3,549,697	3,276,419	6,521,668	5,651,424	10,071,365	8,927,843	1,143,522	13%

Summary of Changes in Net Position

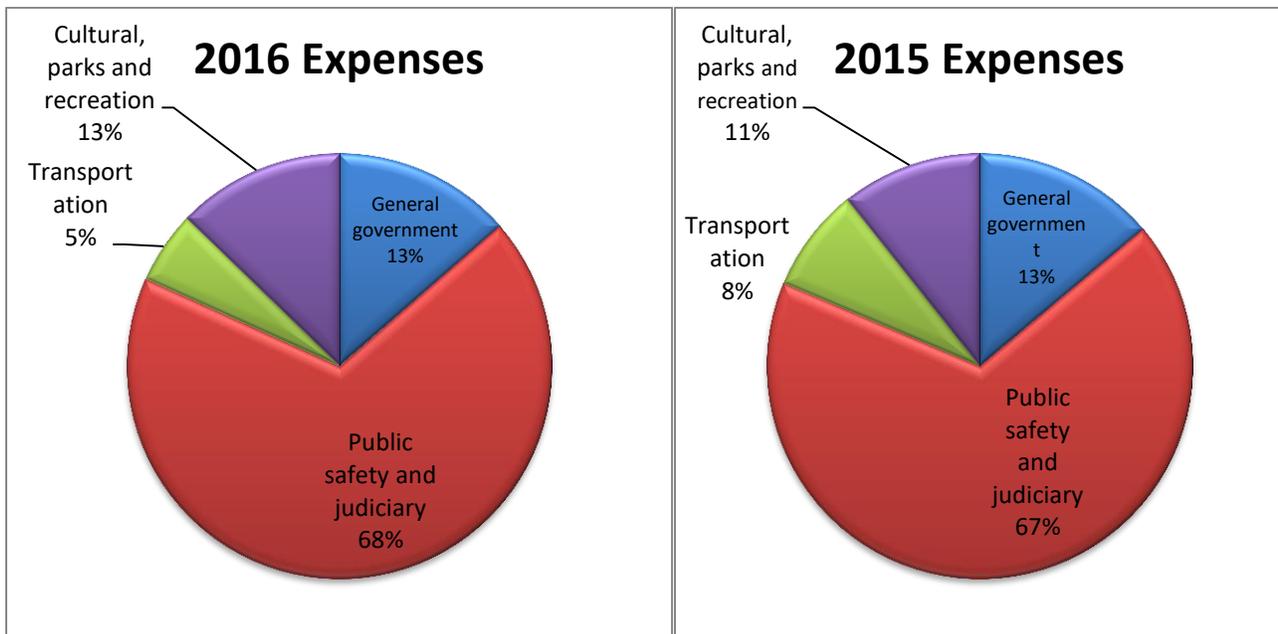
	Governmental Activities		Business-type Activities		Total		\$ Change	% Change
	2016	2015	2016	2015	2016	2015		
Revenues								
Program revenues	\$ 755,691	\$ 657,157	\$ 4,977,426	\$ 5,422,074	\$ 5,733,117	\$ 6,079,231	\$ (346,114)	-6%
Taxes and other general revenues	1,736,155	1,712,368	75,542	27,676	1,811,697	1,740,044	71,653	4%
Total revenues	2,491,846	2,369,525	5,052,968	5,449,750	7,544,814	7,819,275	(274,461)	-2%
Expenses								
General government	366,195	367,576	-	-	366,195	367,576	(1,381)	0%
Public safety and judiciary	1,839,444	1,786,441	-	-	1,839,444	1,786,441	53,003	3%
Transportation	149,097	210,419	-	-	149,097	210,419	(61,322)	-29%
Cultural, parks, and recreation	343,820	282,580	-	-	343,820	282,580	61,240	22%
Economic development	-	-	38,858	49,389	38,858	49,389	(10,531)	-21%
Electric	-	-	2,502,346	2,588,110	2,502,346	2,588,110	(85,764)	-3%
Water	-	-	574,678	551,463	574,678	551,463	23,215	4%
Sewer	-	-	233,740	197,824	233,740	197,824	35,916	18%
Sanitation	-	-	188,230	190,455	188,230	190,455	(2,225)	-1%
Customer service	-	-	164,884	202,742	164,884	202,742	(37,858)	-19%
Total expenses	2,698,556	2,647,016	3,702,736	3,779,983	6,401,292	6,426,999	(25,707)	0%
Excess (deficiency) before transfers	\$ (206,710)	\$ (277,491)	\$ 1,350,232	\$ 1,669,767	\$ 1,143,522	\$ 1,392,276	\$ (248,754)	-18%
Transfers	479,988	647,671	(479,988)	(647,671)	-	-	-	0%
Increase (decrease) in net position	\$ 273,278	\$ 370,180	\$ 870,244	\$ 1,022,096	\$ 1,143,522	\$ 1,392,276	\$ (248,754)	-18%

Revenues for the City maintained consistent between fiscal years, noting a 2% change. The change is the result of declining utility billing. Fiscal year 2016 noted mild temperatures resulting in a decrease in utility billings for the year as a whole. Operating expenses remained consistent year over year, noting a \$25,707 or 0% change.

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



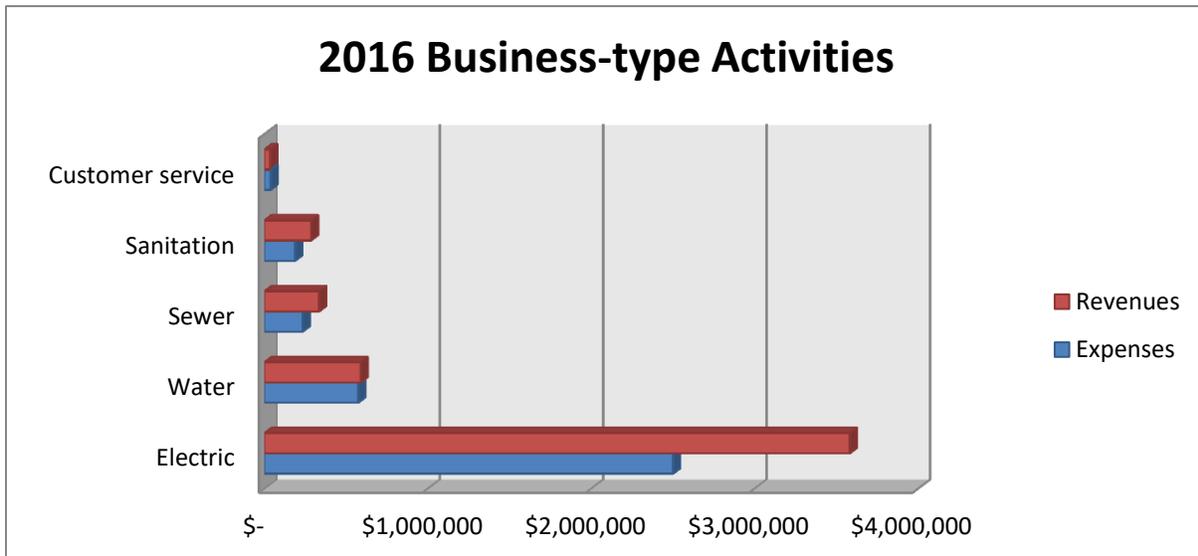
Taxes provided for 59% of the City's governmental revenues in fiscal year 2016 as compared to 62% in 2015. This decrease is the result of a declining state economy and related sales tax collections. Charges for services provided 26% of revenues for the City, as compared to 21% in prior year. Overall, the allocation of revenues by source were consistent between years.



For the year ended June 30, 2016, total expenses for governmental activities were \$2,698,556 compared to \$2,647,016 in fiscal year 2015. Of this amount, public safety and judiciary with \$1,839,444, was the largest operating service department at 68% 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, 2016, 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 2016 was \$2,576,067 compared to \$2,797,031 in fiscal year 2015. Budget amendments were approved by Council during the fiscal year increasing the budget by \$171,167. 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, 2016, the City had \$7,463,947 invested in capital assets, net of related debt, including vehicles and equipment for police and fire operations, street improvements, and park facilities, in governmental activities and electric lines, water lines and sewer lines in business-type activities. Refer to the table below.

Primary Government Capital Assets (net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land and CIP	\$ -	\$ -	\$ 23,259	\$ 23,259	\$ 23,259	\$ 23,259
Buildings	584,832	602,767	129,726	140,421	714,558	743,188
Machinery & equipment	531,634	585,140	228,828	188,567	760,462	773,707
Utility property & improvements	1,970,443	1,908,867	5,735,316	5,684,223	7,705,759	7,593,090
Totals	<u>\$ 3,086,909</u>	<u>\$ 3,096,774</u>	<u>\$ 6,117,129</u>	<u>\$ 6,036,470</u>	<u>\$ 9,204,038</u>	<u>\$ 9,133,244</u>

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

- Blinn Park playground equipment
- John Deere tractor
- Street overlay at Plum
- Infrastructure improvements at NOC
- Water system improvements

Long-Term Debt

At year-end, the City had \$1,245,109 in long-term debt outstanding. The City's changes in long-term debt by type of debt are as follows:

	Governmental Activities		Business-type Activities	
	2016	2015	2016	2015
Notes payable	38,719	76,268	\$ 1,212,640	\$ 1,481,313
Bonds payable	-	-	485,000	720,000
less current portion	<u>(38,719)</u>	<u>(37,550)</u>	<u>(452,531)</u>	<u>(454,870)</u>
Totals	<u>\$ -</u>	<u>\$ 38,718</u>	<u>\$ 1,245,109</u>	<u>\$ 1,746,443</u>

ECONOMIC FACTORS AND NEXT YEARS'S BUDGET AND RATES

Economic Environment

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

Fiscal Year 2017 Budget

The budget includes the following highlights for the fiscal year:

- Recurring sales tax revenues are budgeted at 90%, resulting in approximately \$140,000 of unbudgeted revenue.

- Utility rate increase are included in the budget: electric 2%, water 1.2%, sewer 1.2%, and pass-through sanitation 1.2%
- The City has applied for grants including Fire Safer grant for 2 additional fire fighters, AFG for fire equipment, TAP grant for sidewalks, and CDBG for water lines.
- The City has budgeted capital improvements in excess of \$1,032,500.

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, 2016

ASSETS	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and cash equivalents	\$ 233,336	\$ 422,777	\$ 656,113
Investments	-	113,231	113,231
Accounts receivable (net)	52,742	95,681	148,423
Receivable from other governments	106,818	-	106,818
Total current assets	<u>392,896</u>	<u>631,689</u>	<u>1,024,585</u>
Restricted assets:			
Cash	1,707,855	1,379,729	3,087,584
Investments	20,000	137,992	157,992
Total restricted assets	<u>1,727,855</u>	<u>1,517,721</u>	<u>3,245,576</u>
Noncurrent Assets:			
Pension asset	45,142	170	45,312
Land and construction in progress	-	23,259	23,259
Other capital assets (net of accumulated depreciation)	3,086,909	6,090,138	9,177,047
Total noncurrent assets	<u>3,132,051</u>	<u>6,113,567</u>	<u>9,245,618</u>
Total assets	<u>5,252,802</u>	<u>8,262,977</u>	<u>13,515,779</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges on pension obligations	215,102	-	215,102
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 17,202	\$ 14,144	\$ 31,346
Notes payable, current	38,719	202,531	241,250
Total current liabilities	<u>55,921</u>	<u>216,675</u>	<u>272,596</u>
Liabilities payable from restricted assets:			
Accrued interest payable	-	3,792	3,792
Customer deposits payable	-	164,984	164,984
Bonds payable, current	-	250,000	250,000
Total liabilities payable from restricted assets	<u>-</u>	<u>418,776</u>	<u>418,776</u>
Noncurrent liabilities:			
Due to other funds	189,446	(189,446)	-
Compensated absences	76,570	50,195	126,765
Pension liability	1,123,118	-	1,123,118
Notes payable, non-current	-	1,010,109	1,010,109
Bonds payable, non-current	-	235,000	235,000
Total noncurrent liabilities	<u>1,389,134</u>	<u>1,105,858</u>	<u>2,494,992</u>
Total liabilities	<u>1,445,055</u>	<u>1,741,309</u>	<u>3,186,364</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows on pension obligations	473,152	-	473,152
NET POSITION			
Net investment in capital assets	3,048,190	4,415,757	7,463,947
Restricted	292,708	1,165,201	1,457,909
Unrestricted	208,799	940,710	1,149,509
Total net position	<u>\$ 3,549,697</u>	<u>\$ 6,521,668</u>	<u>\$ 10,071,365</u>

City of Tonkawa, Oklahoma
Statement of Activities
June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	
Governmental activities:					
General government:					
General government	\$ 131,877	\$ 38,685	\$ 18,976	\$ 73,045	\$ (1,171)
Administration	234,318	-	-	-	(234,318)
Total general government	<u>366,195</u>	<u>38,685</u>	<u>18,976</u>	<u>73,045</u>	<u>(235,489)</u>
Public safety and judiciary:					
Legal and courts	66,985	-	-	-	(66,985)
Code enforcement	1,393	-	-	-	(1,393)
Police	871,427	118,944	32,377	-	(720,106)
Fire	434,890	6,590	4,290	-	(424,010)
Ambulance	464,749	330,365	99,063	-	(35,321)
Total public safety and judiciary	<u>1,839,444</u>	<u>455,899</u>	<u>135,730</u>	<u>-</u>	<u>(1,247,815)</u>
Transportation:					
Streets	136,186	-	28,635	-	(107,551)
Airport	12,911	-	-	-	(12,911)
Total transportation	<u>149,097</u>	<u>-</u>	<u>28,635</u>	<u>-</u>	<u>(120,462)</u>
Cultural, parks and recreation:					
Parks	190,190	4,721	-	-	(185,469)
Library	153,630	-	-	-	(153,630)
Total cultural, parks and recreation	<u>343,820</u>	<u>4,721</u>	<u>-</u>	<u>-</u>	<u>(339,099)</u>
Total governmental activities	<u>2,698,556</u>	<u>499,305</u>	<u>183,341</u>	<u>73,045</u>	<u>(1,942,865)</u>
Business-type activities:					
Electric	2,502,346	3,583,074	-	-	1,080,728
Water	574,678	589,512	-	-	14,834
Sewer	233,740	335,132	-	-	101,392
Sanitation	188,230	285,451	-	-	97,221
Customer service	164,884	116,390	20,000	11,400	(17,094)
Economic development	38,858	7,867	28,600	-	(2,391)
Total business-type activities	<u>3,702,736</u>	<u>4,917,426</u>	<u>48,600</u>	<u>11,400</u>	<u>1,274,690</u>
Total primary government	<u>\$ 6,401,292</u>	<u>\$ 5,416,731</u>	<u>\$ 231,941</u>	<u>\$ 84,445</u>	<u>\$ (668,175)</u>

(Continued)

City of Tonkawa, Oklahoma
Statement of Activities
June 30, 2016

Changes in Net Position

(Continued)

	Governmental Activities	Business-type Activities	Total
Net (expense)/revenue	\$ (1,942,865)	\$ 1,274,690	\$ (668,175)
General revenues:			
Taxes:			
Sales taxes	1,384,540	-	1,384,540
Use taxes	63,474	-	63,474
Franchise taxes	38,630	-	38,630
Cigarette taxes	16,712	-	16,712
Alcoholic beverage tax	13,717	-	13,717
Investment income	10,864	6,772	17,636
Gain on sale of assets	-	-	-
Miscellaneous	71,085	68,770	139,855
Change in pension obligation	137,133	-	137,133
Transfers-Internal activity	479,988	(479,988)	-
Total general revenues and transfers	<u>2,216,143</u>	<u>(404,446)</u>	<u>1,811,697</u>
Change in net position	273,278	870,244	1,143,522
Net position-beginning	3,276,419	5,651,424	8,927,843
Net position-ending	<u>\$ 3,549,697</u>	<u>\$ 6,521,668</u>	<u>\$ 10,071,365</u>

City of Tonkawa, Oklahoma
Balance Sheet
June 30, 2016

	<u>General Fund</u>	<u>Capital Projects Improvement Fund</u>	<u>Special Revenue Blinn Park Memorial Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 706,927	\$ 1,231,169	\$ 3,095	\$ 1,941,191
Investments	-	-	20,000	20,000
Accounts receivable	14,516	-	-	14,516
Fines receivable, net of allowance	38,226	-	-	38,226
Receivable from other governments	106,818	-	-	106,818
Total assets	<u>\$ 866,487</u>	<u>\$ 1,231,169</u>	<u>\$ 23,095</u>	<u>\$ 2,120,751</u>
LIABILITIES				
Accounts payable	\$ 17,202	\$ -	\$ -	\$ 17,202
Current portion of capital lease	38,719	-	-	38,719
Due from other funds	189,446	-	-	189,446
Total liabilities	<u>245,367</u>	<u>-</u>	<u>-</u>	<u>245,367</u>
FUND BALANCES				
Restricted	7,159	-	20,000	27,159
Committed	427,143	1,231,169	-	1,658,312
Assigned	43,887	-	3,095	46,982
Unassigned	142,931	-	-	142,931
Total fund balances	<u>621,120</u>	<u>1,231,169</u>	<u>23,095</u>	<u>1,875,384</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 866,487</u>	<u>\$ 1,231,169</u>	<u>\$ 23,095</u>	<u>\$ 2,120,751</u>
Total fund balance - total governmental funds				1,875,384
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				
			4,831,260	
			<u>(1,744,351)</u>	3,086,909
Long-term liabilities are not due and payable in the current period and are not reported in the funds				
			(76,570)	
			45,142	
			(3,923)	
			(1,119,195)	
			<u>(258,050)</u>	<u>(1,412,596)</u>
Net position of governmental activities				<u>\$ 3,549,697</u>

City of Tonkawa, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
June 30, 2016

	<u>General Fund</u>	<u>Capital Projects Improvement Fund</u>	<u>Special Revenue Blinn Park Memorial Fund</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>				
Sales taxes	\$ 1,384,540	\$ -	\$ -	\$ 1,384,540
Use taxes	63,474	-	-	63,474
Franchise taxes	38,630	-	-	38,630
E911 fees	32,377	-	-	32,377
Cigarette tax	16,712	-	-	16,712
Alcoholic Beverage Tax	13,717	-	-	13,717
Licenses and permits	6,349	-	-	6,349
Fines and forfeitures	118,944	-	-	118,944
Investment income	4,536	6,312	16	10,864
Charges for services	456,614	-	-	456,614
Rental income	30,906	-	-	30,906
Intergovernmental	105,970	-	-	105,970
Donations	4,531	-	-	4,531
Miscellaneous	68,782	-	-	68,782
Total revenues	<u>2,346,082</u>	<u>6,312</u>	<u>16</u>	<u>2,352,410</u>
<u>EXPENDITURES</u>				
General government:				
General government	110,161	-	-	110,161
Administration	234,318	-	-	234,318
Total general government	<u>344,479</u>	<u>-</u>	<u>-</u>	<u>344,479</u>
Public safety and judiciary:				
Legal and courts	66,985	-	-	66,985
Code enforcement	1,393	-	-	1,393
Police	853,779	-	-	853,779
Fire	404,664	-	-	404,664
Ambulance	445,736	-	-	445,736
Total public safety and judiciary	<u>1,772,557</u>	<u>-</u>	<u>-</u>	<u>1,772,557</u>
Transportation:				
Street	95,282	-	-	95,282
Airport	12,911	-	-	12,911
Total transportation	<u>108,193</u>	<u>-</u>	<u>-</u>	<u>108,193</u>
Cultural, parks and recreation:				
Parks	98,475	-	-	98,475
Library	152,463	-	-	152,463
Total cultural, parks and recreation	<u>250,938</u>	<u>-</u>	<u>-</u>	<u>250,938</u>
Capital outlay	<u>252,632</u>	<u>-</u>	<u>-</u>	<u>252,632</u>
Total expenditures	<u>2,728,799</u>	<u>-</u>	<u>-</u>	<u>2,728,799</u>
Excess (deficiency) of revenues over expenditures	<u>(382,717)</u>	<u>6,312</u>	<u>16</u>	<u>(376,389)</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers in	1,864,253	448,238	-	2,312,491
Transfers out	(1,588,543)	(243,960)	-	(1,832,503)
Total other financing sources and uses	<u>275,710</u>	<u>204,278</u>	<u>-</u>	<u>479,988</u>
Net change in fund balances	(107,007)	210,590	16	103,599
Fund balances - beginning, restated	728,127	1,020,579	23,079	1,771,785
Fund balances - ending	<u>\$ 621,120</u>	<u>\$ 1,231,169</u>	<u>\$ 23,095</u>	<u>\$ 1,875,384</u>

(Continued)

City of Tonkawa, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
June 30, 2016

(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 \$ 103,599

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	252,632
Depreciation expense	(262,497)

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	37,550	37,550
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In the statement of activities, the cost of pension benefits earned net of
employee contributions are reported as an component of pension expense.
The fund financial statements report pension contributions as expenditures.

139,435

Some expenses reported in the statement of activites do not require the use of
current financial resources and are not reported as expenditures in governmental funds.

	Current Year	Prior Year	
Compensated absences	\$ 76,570	\$ 79,129	2,559

	\$ 273,278
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City of Tonkawa, Oklahoma
Statement of Net Position
June 30, 2016

	Tonkawa Municipal Authority	Tonkawa Development Authority	Total Enterprise Funds
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 370,914	\$ 51,863	\$ 422,777
Investments	99,008	14,223	113,231
Due from other funds	189,446	-	189,446
Accounts receivable (net)	95,681	-	95,681
Total current assets	<u>755,049</u>	<u>66,086</u>	<u>821,135</u>
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	1,379,729	-	1,379,729
Investments	137,992	-	137,992
Total restricted assets	<u>1,517,721</u>	<u>-</u>	<u>1,517,721</u>
Noncurrent assets:			
Other assets	-	170	170
Capital assets (net)	6,097,005	16,392	6,113,397
Total noncurrent assets	<u>6,097,005</u>	<u>16,562</u>	<u>6,113,567</u>
Total assets	<u>\$ 8,369,775</u>	<u>\$ 82,648</u>	<u>\$ 8,452,423</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 14,144	\$ -	\$ 14,144
Compensated absences, current	-	-	-
Notes payable, current	202,531	-	202,531
Total current liabilities	<u>216,675</u>	<u>-</u>	<u>216,675</u>
Liabilities payable from restricted assets:			
Customer deposits payable	164,984	-	164,984
Accrued interest payable	3,792	-	3,792
Bonds payable, current	250,000	-	250,000
Total liabilities payable from restricted assets	<u>418,776</u>	<u>-</u>	<u>418,776</u>
Noncurrent liabilities:			
Compensated absences, non-current	50,195	-	50,195
Notes payable, non-current	1,010,109	-	1,010,109
Bonds payable, noncurrent	235,000	-	235,000
Total noncurrent liabilities	<u>1,295,304</u>	<u>-</u>	<u>1,295,304</u>
Total liabilities	<u>1,930,755</u>	<u>-</u>	<u>1,930,755</u>
NET POSITION			
Net investment in capital assets	4,399,365	16,392	4,415,757
Restricted	1,098,945	66,256	1,165,201
Unrestricted	940,710	-	940,710
Total net position	<u>\$ 6,439,020</u>	<u>\$ 82,648</u>	<u>\$ 6,521,668</u>

City of Tonkawa, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Position
June 30, 2016

	Tonkawa Municipal Authority	Tonkawa Development Authority	Total Enterprise Funds
<u>Operating revenues:</u>			
Charges for services:			
Electric charges	\$ 3,583,074	\$ -	\$ 3,583,074
Water charges	589,512	-	589,512
Sewer charges	335,132	-	335,132
Sanitation charges	285,451	-	285,451
Penalties	62,658	-	62,658
Total charges for services	<u>4,855,827</u>	<u>-</u>	<u>4,855,827</u>
Lease and rental income	-	7,867	7,867
Donations	-	28,600	28,600
Miscellaneous	153,902	-	153,902
Total operating revenues	<u>5,009,729</u>	<u>36,467</u>	<u>5,046,196</u>
<u>Operating expenses:</u>			
Cost of goods sold	2,073,910	-	2,073,910
Personal services	645,795	-	645,795
Materials and supplies	254,709	573	255,282
Other services and charges	346,804	31,510	378,314
Depreciation and amortization	300,454	6,775	307,229
Total operating expenses	<u>3,621,672</u>	<u>38,858</u>	<u>3,660,530</u>
Net operating income	1,388,057	(2,391)	1,385,666
<u>Nonoperating revenue (expense):</u>			
Investment income	6,515	257	6,772
Interest expense	(32,978)	-	(32,978)
Bad debt expense	(9,228)	-	(9,228)
Grant income	-	-	-
Gain/(loss) on sale of assets	-	-	-
Total nonoperating revenue (expense)	<u>(35,691)</u>	<u>257</u>	<u>(35,434)</u>
Net income before contributions and transfers	1,352,366	(2,134)	1,350,232
Transfers from other funds	1,319,445	-	1,319,445
Transfers to other funds	(1,799,433)	-	(1,799,433)
Change in net position	872,378	(2,134)	870,244
Net position-beginning of year	5,566,642	84,782	5,651,424
Net position-end of year	<u>\$ 6,439,020</u>	<u>\$ 82,648</u>	<u>\$ 6,521,668</u>

City of Tonkawa, Oklahoma
Statement of Cash Flows
June 30, 2016

	Tonkawa Municipal Authority	Tonkawa Development Authority	Total Enterprise Funds
<u>Cash flows from operating activities:</u>			
Receipts from customers/contracts	\$ 5,011,057	\$ 7,867	\$ 5,018,924
Payments to suppliers	(2,798,033)	(32,083)	(2,830,116)
Payments to employees	(632,232)	-	(632,232)
Other operating revenues	153,902	28,600	182,502
Net cash provided (used) by operating activities	1,734,694	4,384	1,739,078
<u>Cash flows from non-capital financing activities:</u>			
Transfers from other funds	1,319,445	-	1,319,445
Transfers to other funds	(1,799,433)	-	(1,799,433)
Net cash provided (used) by non-capital financing activities	(479,988)	-	(479,988)
<u>Cash flows from capital and related financing activities:</u>			
Purchase of capital assets	(383,507)	(650)	(384,157)
Principal paid on debt	(426,271)	-	(426,271)
Interest and fiscal charges paid on debt	(32,978)	-	(32,978)
Net cash provided (used) by capital and related financing activities	(842,756)	(650)	(843,406)
<u>Cash flows from investing activities:</u>			
(Purchase)/liquidation of investments, unrestricted	6,515	215	6,730
Net cash provided (used) by investing activities	6,515	215	6,730
Net increase (decrease) in cash and cash equivalents	418,465	3,949	422,414
Cash and cash equivalents, July 1, 2015	1,332,178	47,914	1,380,092
Cash & cash equivalents, June 30, 2016	\$ 1,750,643	\$ 51,863	\$ 1,802,506
Cash, including time deposits	\$ 370,914	\$ 51,863	\$ 422,777
Restricted cash, including time deposits	1,379,729	-	1,379,729
Total cash and cash equivalents, end of year	\$ 1,750,643	\$ 51,863	\$ 1,802,506
<u>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</u>			
Operating income (loss)	\$ 1,388,057	\$ (2,391)	\$ 1,385,666
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation and amortization	300,454	6,775	307,229
Bad debt	9,228	-	9,228
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	8,039	-	8,039
(Increase) decrease in other assets	137,963	-	137,963
Increase (decrease) in accounts payable	(122,610)	-	(122,610)
Increase (decrease) in compensated absences	13,563	-	13,563
Total adjustments	346,637	6,775	353,412
Net cash provided (used) by operating activities	\$ 1,734,694	\$ 4,384	\$ 1,739,078

(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, 2016.

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.

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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>	<u>Primary Government</u>			
	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings (1)</u>	<u>Weighted Average Days to Maturity (2)</u>
Primary government				
<u>INVESTMENTS:</u>				
Certificates of deposit	\$ 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, 2016, the City has estimated an allowance of \$69,467 and \$317,730 for governmental and business-type activities, respectively.

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Capital Assets

Changes in Capital Assets

	Primary Government			
	Balance at July 1, 2015	Additions	Deletions	
<i><u>Governmental Activities</u></i>				
Buildings & structures	\$ 729,245	\$ -	\$ -	\$ 729,245
Machinery, furniture, & equipment	1,439,087	86,115	-	1,525,202
Infrastructure & improvements	2,410,296	166,517	-	2,576,813
	4,578,628	252,632	-	4,831,260
Less accumulated depreciation	1,481,854	262,497	-	1,744,351
	\$ 3,096,774	\$ (9,865)	\$ -	\$ 3,086,909
<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	93,007	-	440,881
Infrastructure & improvements	7,735,401	291,150	-	8,026,551
	8,370,444	384,157	-	8,754,601
Less accumulated depreciation	2,333,974	307,230	-	2,641,204
	\$ 6,036,470	\$ 76,927	\$ -	\$ 6,113,397
Total primary government	\$ 9,133,244	\$ 67,062	\$ -	\$ 9,200,306

Depreciation Expense

Primary Government			
Governmental Activities		Business-type Activities	
General government	\$ 24,275	Electric	\$ 50,631
Public safety & judiciary	104,436	Water	154,359
Transportation	40,904	Sewer	76,928
Cultural, parks & recreation	92,882	Customer service	18,537
		Economic development	6,775
Total depreciation expense	\$ 262,497	Total depreciation expense	\$ 307,230

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. \$ 38,719

\$ 38,719

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. 202,653

\$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. 9,537

\$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. 444,654

\$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. 555,797

\$ 1,212,640

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. \$ 345,000

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. 140,000

\$ 485,000

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Changes in Long-Term Debt

<u>Type of Debt</u>	<u>Balance at July 1, 2015</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance at June 30, 2016</u>	<u>Due Within One Year</u>
Governmental activities:					
<i>Capital lease payable</i>					
First Capital Equipment Leasing Corp	\$ 76,268	\$ -	\$ 37,550	\$ 38,718	\$ 38,718
Business-type activities:					
<i>Notes Payable</i>					
OWRB - 2002	\$ 232,273	\$ -	\$ 29,620	\$ 202,653	\$ 28,916
OWRB - 1995	33,514	-	23,977	9,537	9,536
OWRB - 2002A	497,350	-	52,696	444,654	57,289
OWRB - 2002B	640,774	-	84,977	555,797	77,227
Total notes payable	<u>\$ 1,403,911</u>	<u>\$ -</u>	<u>\$ 191,270</u>	<u>\$ 1,212,641</u>	<u>\$ 172,968</u>
<i>Bonds Payable</i>					
Series 2006	450,000	-	105,000	345,000	110,000
Series 2008	270,000	-	130,000	140,000	140,000
Total business-type activities	<u>\$ 720,000</u>	<u>\$ -</u>	<u>\$ 235,000</u>	<u>\$ 485,000</u>	<u>\$ 250,000</u>
Total primary government	<u><u>\$ 2,200,179</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 463,820</u></u>	<u><u>\$ 1,736,359</u></u>	<u><u>\$ 461,686</u></u>

Annual Debt Service Requirements

Year Ending June 30	Capital Lease Payable		Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 38,719	\$ 747	\$ 172,968	\$ 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	-	-	178,832	10,111	-	-
2022-2024	-	-	347,880	7,966	-	-
Totals	<u>\$ 38,719</u>	<u>\$ 747</u>	<u>\$ 1,212,641</u>	<u>\$ 97,590</u>	<u>\$ 485,000</u>	<u>\$ 35,145</u>

(3) REVENUES AND EXPENSES

Interfund Transfers

	<u>Due From</u>	<u>Due To</u>
GENERAL FUND		
Tonkawa Municipal Authority	\$ 189,446	\$ -
Total General Fund	<u>189,446</u>	<u>-</u>
TONKAWA MUNICIPAL AUTHORITY		
General Fund	<u>-</u>	<u>189,446</u>
Total Tonkawa Municipal Authority	<u>-</u>	<u>189,446</u>
GRAND TOTAL	<u>\$ 189,446</u>	<u>\$ 189,446</u>

	<u>Transfers In</u>	<u>Transfers Out</u>
GENERAL FUND		
Capital Improvement Fund	\$ 114,158	\$ 306,751
Tonkawa Municipal Authority	1,750,095	1,281,792
Total General Fund	<u>1,864,253</u>	<u>1,588,543</u>
CAPITAL IMPROVEMENT FUND		
General Fund	306,751	141,487
Tonkawa Municipal Authority	141,487	102,473
Total Capital Improvement Fund	<u>448,238</u>	<u>243,960</u>
TONKAWA MUNICIPAL AUTHORITY		
General Fund	1,281,792	1,750,095
Capital Improvement Fund	37,653	49,338
Total Tonkawa Municipal Authority	<u>1,319,445</u>	<u>1,799,433</u>
GRAND TOTAL	<u>\$ 3,631,936</u>	<u>\$ 3,631,936</u>

(4) PENSION AND POST-EMPLOYMENT PLANS

The City participates in three employee pension systems as follows:

<u>Name of Plan</u>	<u>Type of Plan</u>
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 2016. 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.

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, 2016, 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, 2015, 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, 2016, the City recognized pension expense of \$46,559. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	(73,272)
Net difference between projected and actual earnings on pension plan investments	75,273	(132,089)
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City contributions subsequent to the measurement date	-	-
Total	<u><u>\$ 75,273</u></u>	<u><u>\$ (205,361)</u></u>

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

Year ended June 30:

2017	\$	(44,647)
2018		(44,647)
2019		(44,647)
2020		3,852
Thereafter		1

Actuarial assumptions: The total pension liability in the June 30, 2016 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.

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The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period ended July 1, 2007 through June 30, 2011.

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, 2015 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%
	<u>100%</u>		
		Average Real Return	4.75%
		Inflation	<u>3.00%</u>
		Long term expected return	<u><u>7.75%</u></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>
Balances at June 30, 2014	2,502,920	2,559,851	(56,931)
Changes for the year:			
Service cost	94,903	-	94,903
Interest	186,098	-	186,098
Differences between expected and actual experience	(92,708)	-	(92,708)
Contributions - employer	-	80,800	(80,800)
Contributions - employee	-	30,706	(30,706)
Net investment income	-	70,258	(70,258)
Benefit payments, including refunds of employee contributions	(207,173)	(207,173)	-
Administrative expense	-	(5,260)	5,260
Other changes	-	-	-
Net changes	<u>(18,880)</u>	<u>(30,669)</u>	<u>11,789</u>
Balances at June 30, 2015	<u>\$ 2,484,040</u>	<u>\$ 2,529,182</u>	<u>\$ (45,142)</u>

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate: The following

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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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
City's proportionate share of the net pension liability/(asset)	246,062	(45,142)	(285,627)

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.

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 \$35,355.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, 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, 2015, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension 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, 2015. Based upon this information, the City's proportion was 0.0962%.

For the year ended June 30, 2016, the City recognized pension expense of \$16,311. At June 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 21,693
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	70,299	85,395
Changes in proportion and differences between City contributions and proportionate share of contributions	7,742	-
City contributions subsequent to the measurement date	-	-
Total	\$ 78,041	\$ 107,088

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	\$ (12,954)
2017	(12,954)
2018	(12,954)
2019	(12,954)
2020	12,726
Thereafter	(1,177)

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

Inflation:	3%
Salary increases:	4.5% to 17.0% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense
Mortality rates:	Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA.

Active employees (post-retirement) and nondisabled pensioners:
 RP-2000 Blue Collar Healthy Combined table with fully generational improvement using scale AA.

Disabled pensioners: RP-2000 Blue Collar Healthy Combined table with age set forward 4 years with fully generational improvement using Scale AA.

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

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

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

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

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

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net pension liability (asset)	\$235,691	\$3,923	(\$191,475)

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

C. Oklahoma 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.

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 \$40,334 (fiscal year contributions).

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2016, the City reported a liability of \$1,123,963 for its proportionate share of the net pension liability. The net pension liability was measured as of July 1, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information the City's proportion was 0.10544%.

For the year ended June 30, 2016, the City recognized pension expense of \$87,988. At June 30, 2016, 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, 2016

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 22,112	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	39,676	123,104
Changes in proportion and differences between City contributions and proportionate share of contributions	-	37,600
City contributions subsequent to the measurement date	-	-
Total	\$ 61,788	\$ 160,704

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:	
2017	\$(27,424)
2018	(27,424)
2019	(27,424)
2020	15,111
2021	2,050

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

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

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

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

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

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

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

benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percent point lower (6.5%) or 1-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	\$1,453,153	\$1,119,195	\$839,097

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

(5) COMMITMENTS AND CONTINGENCIES

A. Litigation

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

B. Grant Program Involvement

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

C. Subsequent Event

Effective August 2016, the Tonkawa Municipal Authority issued Utility System and Sales Tax Revenue Note, Series 2016 in the amount of \$3,435,000 for infrastructure and capital improvement projects. The note carries an interest rate of 1.99% maturing July 2027.

(6) PRIOR PERIOD ADJUSTMENT

The beginning fund balance of the General Fund was restated for the deferred inflows and outflows in the amount of \$435,364 resulting from the City's net pension obligation.

**City of Tonkawa, Oklahoma
General Fund
June 30, 2016
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>
REVENUES					
Tax revenue	\$ 1,424,538	\$ 20,000	\$ 1,444,538	\$ 1,478,443	\$ 33,905
Franchise taxes	30,000	-	30,000	38,630	8,630
Licenses and permits	7,000	-	7,000	6,349	(651)
Fines and forfeitures	100,000	-	100,000	151,321	51,321
Charges for services	180,000	-	180,000	456,614	276,614
Rental income	35,000	-	35,000	30,906	(4,094)
Intergovernmental	150,000	-	150,000	105,970	(44,030)
Interest income	1,500	-	1,500	4,536	3,036
Miscellaneous	55,800	-	55,800	73,313	17,513
Total revenues	<u>1,983,838</u>	<u>20,000</u>	<u>2,003,838</u>	<u>2,346,082</u>	<u>342,244</u>
EXPENDITURES					
Current:					
General government:					
General government	250,415	95,000	345,415	344,479	936
Total general government	<u>250,415</u>	<u>95,000</u>	<u>345,415</u>	<u>344,479</u>	<u>936</u>
Public safety and judiciary:					
Legal and courts	91,665	-	91,665	66,985	24,680
Code enforcement	6,656	-	6,656	1,393	5,263
Police	961,444	(92,881)	868,563	853,779	14,784
Fire	399,552	17,881	417,433	404,664	12,769
Ambulance	316,850	130,000	446,850	445,736	1,114
Total public safety and judiciary	<u>1,776,167</u>	<u>55,000</u>	<u>1,831,167</u>	<u>1,772,557</u>	<u>58,610</u>
Transportation:					
Street	204,000	(80,530)	123,470	95,282	28,188
Airport	14,000	-	14,000	12,911	1,089
Total transportation	<u>218,000</u>	<u>(80,530)</u>	<u>137,470</u>	<u>108,193</u>	<u>29,277</u>
Cultural, parks and recreation:					
Parks	160,500	101,697	262,197	98,475	163,722
Library	170,985	-	170,985	152,463	18,522
Total cultural, parks and recreation	<u>331,485</u>	<u>101,697</u>	<u>433,182</u>	<u>250,938</u>	<u>182,244</u>
Total expenditures	<u>2,576,067</u>	<u>171,167</u>	<u>2,747,234</u>	<u>2,476,167</u>	<u>271,067</u>
Revenue over (under) expenditures	(592,229)	(151,167)	(743,396)	(130,085)	71,177
OTHER FINANCING SOURCES (USES)					
Operating transfers in/(out)	444,781	49,470	444,781	275,710	(169,071)
Net other financing sources (uses)	<u>444,781</u>	<u>49,470</u>	<u>444,781</u>	<u>275,710</u>	<u>(169,071)</u>
Revenues and other financing sources over (under) expenditures and other uses	<u>\$ (147,448)</u>	<u>\$ (101,697)</u>	<u>\$ (298,615)</u>	145,625	(97,894)
Fund balance at beginning of year (Non-GAAP budgetary basis)				<u>833,609</u>	<u>833,609</u>
Fund balance at end of year (Non-GAAP budgetary basis)				\$ 979,234	<u>\$ 735,715</u>
ADJUSTMENTS TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES					
Revenue and expenditure accruals				(358,114)	
Fund balance at end of year (GAAP basis)				<u>\$ 621,120</u>	

Schedules of Required Supplementary Information

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

	<u>2015*</u>	<u>2016*</u>
City's portion of the net pension liability (asset)	0.0868%	0.0962%
City's proportionate share of the net pension liability (asset)	\$ (29,235)	\$ 3,923
City's covered-employee payroll	\$ 328,403	\$ 298,859
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-9%	1%
Plan fiduciary net position as a percentage of the total pension liability	112.16%	100.00%

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

SCHEDULE OF CITY CONTRIBUTIONS
Oklahoma Police Pension Retirement Plan

	<u>2015*</u>	<u>2016*</u>
Contractually required contribution	\$ 31,579	\$ 35,355
Contributions in relation to the contractually required contribution	<u>(31,579)</u>	<u>(35,355)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 328,403	\$ 298,859
Contributions as a percentage of covered-employee payroll	9.62%	11.83%

Schedules of Required Supplementary Information

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

	<u>2015*</u>	<u>2016*</u>
City's portion of the net pension liability (asset)	0.1093%	0.1054%
City's proportionate share of the net pension liability (asset)	\$ 1,123,963	\$ 1,119,195
City's covered-employee payroll	\$ 209,076	\$ 159,995
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	538%	700%
Plan fiduciary net position as a percentage of the total pension liability	-771.14%	-767.45%

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

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

	<u>2015*</u>	<u>2016*</u>
Contractually required contribution	\$ 40,850	\$ 40,334
Contributions in relation to the contractually required contribution	<u>(40,850)</u>	<u>(40,334)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 209,076	\$ 159,995
Contributions as a percentage of covered-employee payroll	19.54%	25.21%

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>	<u>2016*</u>
Total pension liability		
Service cost	\$ 81,507	\$ 94,903
Interest	186,931	186,098
Changes in benefit terms	-	-
Differences between expected and actual experience	-	(92,708)
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	<u>(188,518)</u>	<u>(207,173)</u>
Net change in total pension liability	\$ 79,920	\$ (18,880)
Total pension liability - beginning	<u>2,423,000</u>	<u>2,502,920</u>
Total pension liability - ending (a)	<u><u>\$ 2,502,920</u></u>	<u><u>\$ 2,484,040</u></u>
Plan fiduciary net position		
Contributions - employer	82,471	80,800
Contributions - employee	29,666	30,706
Net investment income	368,247	70,258
Benefit payments, including refunds of employee contributions	(188,518)	(207,173)
Administrative expense	(5,438)	(5,260)
Other	-	-
Net change in plan fiduciary net position	<u>286,428</u>	<u>(30,669)</u>
Plan fiduciary net position - beginning	<u>2,273,423</u>	<u>2,559,851</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 2,559,851</u></u>	<u><u>\$ 2,529,182</u></u>
City's net pension liability - ending (a) - (b)	<u><u>\$ (56,931)</u></u>	<u><u>\$ (45,142)</u></u>
Plan fiduciary net position as a percentage of the total pension liability	102.27%	101.82%
Covered-employee payroll	\$ 879,822	\$ 712,740
City's net pension liability as a percentage of covered-employee payroll	-6.47%	-6.33%

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, 2016

	<u>2015*</u>	<u>2016*</u>
City's portion of the net pension liability (asset)	0.5393%	0.5177%
City's proportionate share of the net pension liability (asset)	\$ (56,933)	\$ (45,142)
City's covered-employee payroll	\$ 879,822	\$ 712,740
City's proportionate share of the net pension liability (asset) as a percentage of its covered-emplo	-6.47%	-6.33%
Plan fiduciary net position as a percentage of the total pension liability	106.69%	101.78%

* 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>	<u>2016*</u>
Actuarially determined contribution	\$ 82,471	\$ 80,800
Contributions in relation to the actuarially determined contribution	<u>(82,471)</u>	<u>(80,800)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll	\$ 879,822	\$ 712,740
Contributions as a percentage of covered-employee payroll	9.37%	11.34%



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, OK

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 and each major fund of the City of Tonkawa, OK, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Tonkawa, OK's basic financial statements, and have issued our report thereon dated December 20, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Tonkawa, OK'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, OK's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Tonkawa, OK'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, OK'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

Stillwater, OK
December 20, 2016