

**CITY OF PAULS VALLEY**

June 30, 2016

**TABLE OF CONTENTS**

	<b>Page</b>
<b>Independent Auditor's Report</b>	A - 1
<b>Basic Financial Statements</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Position	B - 1
Statement of Activities	B - 2
<b>Governmental Funds Financial Statements:</b>	
Balance Sheet - Governmental Funds	B - 3
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	B - 4
Reconciliation of Governmental Fund and Government-Wide Financial Statements - Governmental Funds	B - 5
<b>Proprietary Funds Financial Statements:</b>	
Statement of Net Position - Proprietary Funds	B - 6
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	B - 7
Statement of Cash Flows - Proprietary Funds	B - 8
<b>Notes to the Basic Financial Statements</b>	B - 9
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule - General Fund	C - 1
Budgetary Comparison Schedule - One Cent Fund	C - 2
Notes to Budgetary Comparison Schedules	C - 3
Exhibit 1 - Schedule of Share of Net Pension Liability (Asset) - Police Pension & Retirement System	C - 4
Exhibit 2 - Schedule of City Contributions - Police Pension & Retirement System	C - 4
Exhibit 3 - Schedule of Share of Net Pension Liability - Firefighters Pension & Retirement System	C - 5
Exhibit 4 - Schedule of City Contributions - Firefighters Pension & Retirement System	C - 5
<b>Supplementary Information</b>	
Combining Balance Sheet - Nonmajor Governmental Funds	D - 1
Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds	D - 2
Combining Balance Sheet - General Fund Accounts	D - 3
Combining Statement of Revenues, Expenditures and Changes in Fund Balances General Fund Accounts	D - 4
Schedule of Federal and State Awards	D - 5
<b>Internal Control and Compliance</b>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Accompanying Financial Statements Performed in Accordance With Government Auditing Standards	E - 1
Schedule of Findings and Questioned Costs	E - 3
Schedule of Prior Findings and Responses Disposition of Prior Year Findings	E - 4





**INDEPENDENT AUDITOR’S REPORT**

Members of the City Council  
City of Pauls Valley, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pauls Valley, Oklahoma, as of and for the year ended June 30, 2016, which collectively comprise the City’s basic financial statements as listed in the table of contents.

**Management’s Responsibility for the Financial Statements**

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

**Auditor’s Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 of material misstatement.

An audit involves 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 principles 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 opinions.

**Summary of Opinions**

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business Type Activities	Qualified
Discretely Presented Component Unit	Unmodified
Governmental Fund – General Fund	Unmodified
Governmental Fund – One Cent Fund	Unmodified
Governmental Fund – Capital Improvement	Unmodified
Aggregate Remaining Fund Information	Unmodified
Enterprise Fund – Pauls Valley Municipal Authority	Unmodified
Enterprise Fund – Pauls Valley Hospital Authority	Adverse
Aggregate Remaining Fund Information	Unmodified

### **Basis for Adverse Opinion on the Pauls Valley Hospital Authority (a major enterprise fund) and Qualified Opinion on the Business-Type Activities**

Management has not included the Pauls Valley Hospital Authority in the City's financial statements referred to above. Accounting principles generally accepted in the United States of America require the Pauls Valley Hospital Authority to be presented as a major enterprise fund and financial information as a part of the business-type activities, thus increasing the activity's assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues and expenses and changing its net position. Also this financial information it is anticipated would decrease the business-type net position by an undetermined amount. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the business-type activities and the omitted major enterprise fund entitled Pauls Valley Hospital Authority has not been determined.

#### **Adverse Opinion**

In our opinion because of the significance of the matter described in the "Basis for Adverse Opinion on the Pauls Valley Hospital (a major enterprise fund) and Qualified Opinion on the Business-Type Activities" paragraph, the financial statements referred to above do not present fairly the financial position of the Pauls Valley Hospital Authority of the City of Pauls Valley as of June 30, 2016, or the changes in financial position or cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Qualified Opinion**

In our opinion, except for the possible effects of the matters discussed in the "Basis for Adverse Opinion on the Pauls Valley Hospital Authority (a major enterprise fund) and Qualified Opinion on the Business-type Activity" paragraph the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Pauls Valley, Oklahoma, as of June 30, 2016, and the changes in financial position, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Unmodified Opinion**

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund other than the Pauls Valley Hospital Authority, and the aggregate remaining fund information of the City of Pauls Valley, 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 budgetary comparison information as listed in the table of contents 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 inquires of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statement, 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.

The City of Pauls Valley has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial

statements in an appropriate economic or history context. Our opinion on the basic financial statements is not affected by the missing information.

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pauls Valley's basic financial statements. The combining and individual nonmajor fund financial statements, the combining general fund statements, the schedule of federal and state awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

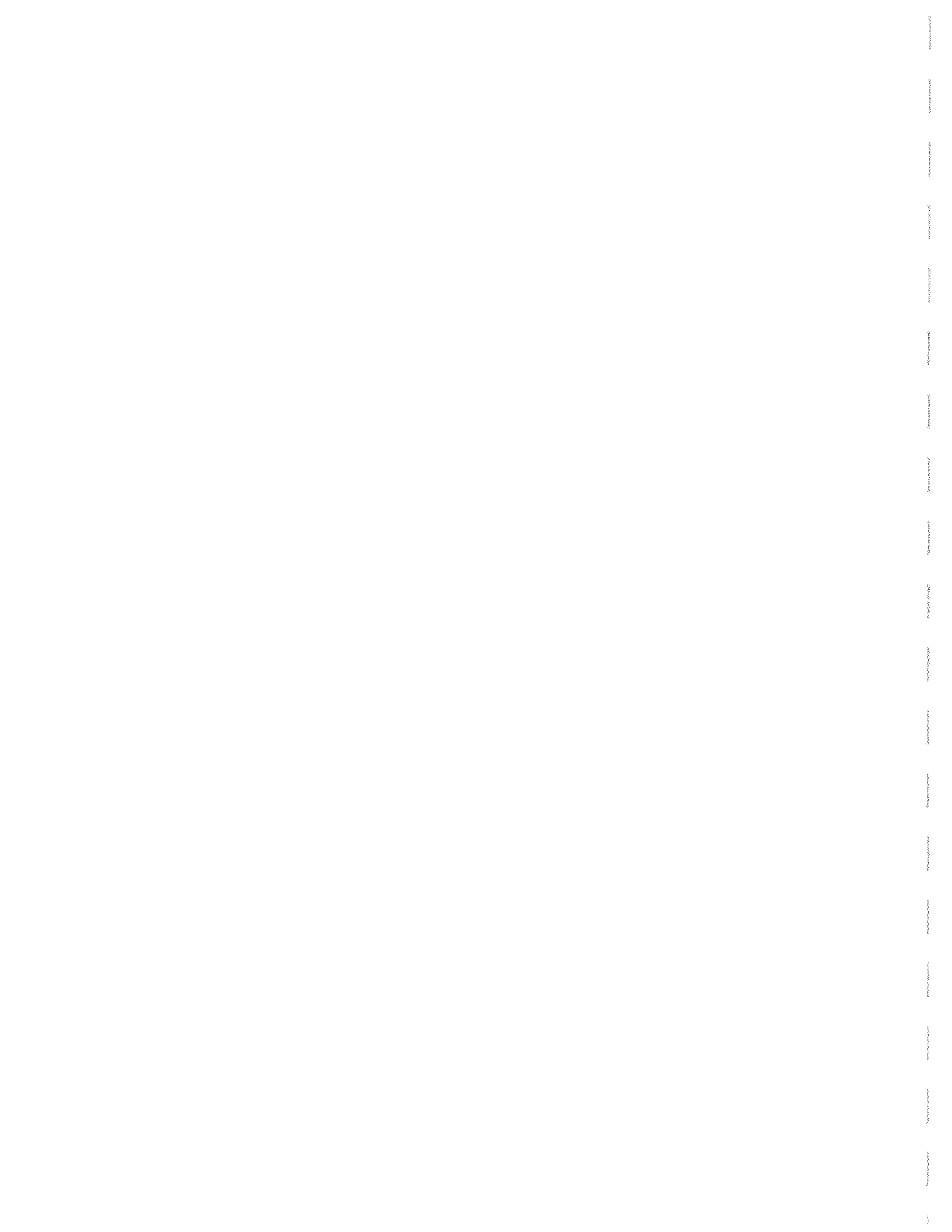
### **Pauls Valley Hospital Authority Going Concern**

As noted in the paragraph "Basis for Adverse Opinion on the Pauls Valley Hospital Authority and Qualified Opinion on the Business-Type Activities" the Pauls Valley Hospital Authority financial information is not included in the City's financial statements. In addition as described in note 3. B. the Hospital filed a voluntary petition for debt restructuring under Chapter 9 of the Federal Bankruptcy Code and was confirmed on February 2, 2016. Despite this confirmation the financial conditions continue to be difficult and these conditions continue to raise substantial doubt about the Hospital's ability to continue as a going concern.

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

In accordance with Government Auditing Standards, we have also issued our report dated February 22, 2017, on our consideration of the City'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 the 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 Pauls Valley's internal control over financial reporting and compliance.

Chickasha, Oklahoma  
February 22, 2017



**CITY OF PAULS VALLEY, OKLAHOMA**  
**Statement of Net Position**  
**June 30, 2016**

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Pauls Valley Airport Auth.</u>
<b><u>Assets</u></b>				
Current Assets:				
Cash and Cash Equivalents	\$ 8,199,995	\$ 170,200	\$ 8,370,195	\$ 174,936
Investments	-	717,703	717,703	-
Receivables, net	831,405	301,578	1,132,983	20,919
Prepaid Expenses	400,516	32,861	433,377	-
Inventory	19,227	-	19,227	31,123
Advance to Component Unit	28,900	-	28,900	-
Capital Assets:				
Land, Intangibles & Construction in Progress	2,194,723	344,526	2,539,249	94,942
Other Capital Assets, net	17,190,830	21,227,939	38,418,769	6,011,665
<i>Total Assets</i>	<u>28,865,596</u>	<u>22,794,807</u>	<u>51,660,403</u>	<u>6,333,585</u>
<b><u>Deferred Outflows of Resources</u></b>				
Deferred Amounts Related to Pensions	414,604	-	414,604	-
<i>Total Deferred Outflows of Resources</i>	<u>414,604</u>	<u>-</u>	<u>414,604</u>	<u>-</u>
<b><u>Liabilities</u></b>				
Current Liabilities:				
Accounts Payable	273,995	63,273	337,268	-
Accrued Expenses	154,080	44,064	198,144	2,949
Accrued Interest Payable	55,546	46,241	101,787	-
Due to Depositors	-	138,100	138,100	-
Landfill Closure and Postclosure Liability	-	134,407	134,407	-
Advance from Primary Government	-	-	-	28,900
Deferred Revenue	278,584	-	278,584	-
AT&T 911 Fee Advances	28,068	-	28,068	-
Capital Leases, Current Portion	162,201	80,042	242,243	-
Contract Payable, Current Portion	-	88,552	88,552	-
Notes Payable, Current Portion	434,393	335,000	769,393	-
Compensated Absences	194,801	89,645	284,446	-
Noncurrent Liabilities:				
Net Pension Liability	1,468,301	-	1,468,301	-
Capital Leases/Contract/Notes Payable	7,892,365	6,727,296	14,619,661	-
<i>Total Liabilities</i>	<u>10,942,334</u>	<u>7,746,620</u>	<u>18,688,954</u>	<u>31,849</u>
<b><u>Deferred Inflows of Resources</u></b>				
Deferred Amounts Related to Pensions	377,970	-	377,970	-
<i>Total Deferred Inflows of Resources</i>	<u>377,970</u>	<u>-</u>	<u>377,970</u>	<u>-</u>
<b><u>Net Position</u></b>				
Net Investment in Capital Assets	10,896,594	14,703,576	25,600,170	6,106,607
Restricted:				
Permanent Endowment	50,000	-	50,000	-
Debt Service	38,720	-	38,720	-
Capital Projects	3,920,430	-	3,920,430	-
Economic Development/Tourism	580,471	-	580,471	-
Streets	2,352,329	-	2,352,329	-
Public Safety	365,155	-	365,155	-
Ambulance	518	-	518	-
Culture and Recreation	639,889	-	639,889	-
Airport	-	-	-	195,129
Cemetery	17,396	-	17,396	-
Unrestricted	(901,606)	344,611	(556,995)	-
<i>Total Net Position</i>	<u>\$ 17,959,896</u>	<u>\$ 15,048,187</u>	<u>\$ 33,008,083</u>	<u>\$ 6,301,736</u>

See accompanying notes to basis financial statements



**CITY OF PAULS VALLEY, OKLAHOMA**  
**Statement of Activities**  
**For the Year Ending June 30, 2016**

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	Pauls Valley Airport Authority
<b>Primary Government:</b>								
<b>Governmental Activities:</b>								
General Government	\$ 868,530	\$ 51,737	\$ 125	\$ -	\$ (816,668)	\$ -	\$ (816,668)	\$ -
Public Safety	2,293,269	209,658	14,808	5,816	(2,071,987)	-	(2,071,987)	-
Culture, Parks and Recreation	2,803,514	876,930	6,538	-	(1,920,046)	-	(1,920,046)	-
Streets	768,835	-	-	-	(768,835)	-	(768,835)	-
Cemetery	188,758	52,442	-	525	(135,791)	-	(135,791)	-
Airport (payments for Airport Auth)	31,080	-	-	1,334,813	1,303,733	-	1,303,733	-
Ambulance Contract	111,143	-	-	-	(111,143)	-	(111,143)	-
Economic Development/Tourism	447,731	112,589	-	-	(335,142)	-	(335,142)	-
Bond Issuance Costs	-	-	-	-	-	-	-	-
Interest on Long-term Debt	265,528	-	-	-	(265,528)	-	(265,528)	-
<b>Total Governmental Activities</b>	<b>7,778,388</b>	<b>1,294,356</b>	<b>21,471</b>	<b>1,341,154</b>	<b>(5,121,407)</b>	<b>-</b>	<b>(5,121,407)</b>	<b>-</b>
<b>Business-Type Activities:</b>								
Water	1,685,328	1,214,170	-	-	-	(471,158)	(471,158)	-
Sewer	578,302	372,398	-	-	-	(205,904)	(205,904)	-
Sanitation	1,143,873	1,435,502	-	-	-	291,629	291,629	-
Water Distribution	264,737	-	-	-	-	(264,737)	(264,737)	-
Hospital	-	-	-	-	-	-	-	-
Lake	160,406	43,981	-	-	-	(116,425)	(116,425)	-
Administration	668,815	-	-	-	-	(668,815)	(668,815)	-
<b>Total Business-Type Activities</b>	<b>4,501,461</b>	<b>3,066,051</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,435,410)</b>	<b>(1,435,410)</b>	<b>-</b>
<b>Total Primary Government</b>	<b>12,279,849</b>	<b>4,360,407</b>	<b>21,471</b>	<b>1,341,154</b>	<b>(5,121,407)</b>	<b>(1,435,410)</b>	<b>(6,556,817)</b>	<b>-</b>
<b>Component Unit:</b>								
Airport Authority	548,301	286,766	-	-	-	-	-	(261,535)
<b>Total Component Unit</b>	<b>548,301</b>	<b>286,766</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(261,535)</b>
<b>General Revenues:</b>								
<b>Taxes:</b>								
Sales and Use Taxes					6,520,797	-	6,520,797	-
Franchise Taxes					332,774	-	332,774	-
Hotel/Motel Taxes					326,000	-	326,000	-
E-911 Taxes					25,530	-	25,530	-
Advalorem Taxes					111,118	-	111,118	-
Intergovernmental Revenue					375,492	-	375,492	-
Investment Income					22,629	5,922	28,551	5
Miscellaneous					69,855	(147,064)	(77,209)	2,300
Payments from Primary Government					(1,362,148)	-	(1,362,148)	1,362,148
Payments to/for Hospital Authority					(1,189,236)	(320,201)	(1,509,437)	-
Transfers - Internal Activity					(725,186)	725,186	-	-
<b>Total General Revenues and Transfers</b>					<b>4,507,625</b>	<b>263,843</b>	<b>4,771,468</b>	<b>1,364,453</b>
<b>Change in Net Position</b>					<b>(613,782)</b>	<b>(1,171,567)</b>	<b>(1,785,349)</b>	<b>1,102,918</b>
<b>Net Position - Beginning</b>					<b>18,573,678</b>	<b>16,219,754</b>	<b>34,793,432</b>	<b>5,198,818</b>
<b>Net Position - Ending</b>					<b>\$ 17,959,896</b>	<b>\$ 15,048,187</b>	<b>\$ 33,008,083</b>	<b>\$ 6,301,736</b>

See accompanying notes to basic financial statements

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2016**

	<u>General</u>	<u>One Cent Fund</u>	<u>Capital Project Capital Improvement Fund</u>	<u>Non-major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 534,633	\$ 2,027,767	\$ -	\$ 1,485,038	\$ 4,047,438
Restricted cash and cash equivalents	193,407	38,720	3,920,430	-	4,152,557
Receivables:					
Accounts	67,357	-	-	-	67,357
Taxes	559,598	181,851	-	22,599	764,048
Prepaid expenses	398,016	-	-	2,500	400,516
Inventory	-	-	-	19,227	19,227
Advance to component unit	28,900	-	-	-	28,900
<i>Total Assets</i>	<u>1,781,911</u>	<u>2,248,338</u>	<u>3,920,430</u>	<u>1,529,364</u>	<u>9,480,043</u>
<b>Liabilities</b>					
Accounts payable	57,285	-	-	213,211	270,496
Accrued liabilities	135,636	-	-	6,943	142,579
Contractor Deposits	15,000	-	-	-	15,000
AT&T 911 fee advances	-	-	-	28,068	28,068
<i>Total Liabilities</i>	<u>207,921</u>	<u>-</u>	<u>-</u>	<u>248,222</u>	<u>456,143</u>
<b>Deferred Inflow of Resources</b>					
Grant Revenues	-	-	-	278,584	278,584
Police fines unavailable	26,612	-	-	-	26,612
<i>Total Deferred Inflow of Resources</i>	<u>26,612</u>	<u>-</u>	<u>-</u>	<u>278,584</u>	<u>305,196</u>
<b>Fund Balances</b>					
Nonspendable	426,916	-	-	71,727	498,643
Restricted	623,609	2,216,309	3,920,430	789,407	7,549,755
Committed	-	-	-	-	-
Assigned	36,207	-	-	142,620	178,827
Unassigned	460,646	32,029	-	(1,196)	491,479
<i>Total Fund Balances</i>	<u>1,547,378</u>	<u>2,248,338</u>	<u>3,920,430</u>	<u>1,002,558</u>	<u>8,718,704</u>
<i>Total Liabilities, Deferred Inflow of Resources and Fund Balances</i>	<u>\$ 1,781,911</u>	<u>\$ 2,248,338</u>	<u>\$ 3,920,430</u>	<u>\$ 1,529,364</u>	<u>\$ 9,480,043</u>

See accompanying notes to basic financial statements

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ending June 30, 2016**

	<u>General</u>	<u>One Cent Fund</u>	<u>Capital Project Capital Improvement Fund</u>	<u>Non-major Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
Taxes	\$ 5,488,112	\$ 1,365,460	\$ -	\$ 462,648	\$ 7,316,220
Intergovernmental	379,782	-	-	1,352,669	1,732,451
Charges for services	937,839	-	-	104,162	1,042,001
Fines and forfeitures	178,926	-	-	-	178,926
Licenses and permits	41,545	-	-	-	41,545
Investment income	2,024	4,020	10,136	1,388	17,568
Miscellaneous	53,212	-	-	54,780	107,992
<i>Total Revenues</i>	<u>7,081,440</u>	<u>1,369,480</u>	<u>10,136</u>	<u>1,975,647</u>	<u>10,436,703</u>
<b>Expenditures</b>					
<b>Current:</b>					
Administration	645,770	-	-	-	645,770
Police	1,267,177	-	-	12,035	1,279,212
Fire	842,077	-	-	-	842,077
Emergency 911	-	-	-	-	-
Special Ambulance Service	-	-	-	167,211	167,211
Streets	499,874	-	-	-	499,874
Shop	99,398	-	-	-	99,398
Park	163,733	-	-	-	163,733
Cemetery	167,104	-	-	-	167,104
Golf	315,675	-	-	-	315,675
Library	145,943	-	-	58,451	204,394
Senior center	90,426	-	-	-	90,426
Airport	27,430	-	-	-	27,430
Aquatic	431,891	-	-	-	431,891
Recreation	681,336	-	-	-	681,336
Animal control	122,866	-	-	-	122,866
Economic development/Tourism	-	-	-	490,212	490,212
Capital outlay	322,150	147,957	1,374,294	13,795	1,858,196
Debt service	785,951	-	-	-	785,951
<i>Total Expenditures</i>	<u>6,608,801</u>	<u>147,957</u>	<u>1,374,294</u>	<u>741,704</u>	<u>8,872,756</u>
Excess (Deficiency) of Revenues over Expenditures	<u>472,639</u>	<u>1,221,523</u>	<u>(1,364,158)</u>	<u>1,233,943</u>	<u>1,563,947</u>
<b>Other Financing Sources (Uses)</b>					
Proceeds from leases/loans	436,155	-	-	-	436,155
Transfers in	1,880,137	-	-	34,661	1,914,798
Transfers out	(1,484,167)	(1,155,817)	-	-	(2,639,984)
Payments to/for Hospital Authority	(1,189,236)	-	-	-	(1,189,236)
Transfers to component units	(21,600)	-	-	(1,340,548)	(1,362,148)
<i>Total Other Financing Sources (Uses)</i>	<u>(378,711)</u>	<u>(1,155,817)</u>	<u>-</u>	<u>(1,305,887)</u>	<u>(2,840,415)</u>
Net Change in Fund Balances	93,928	65,706	(1,364,158)	(71,944)	(1,276,468)
Fund Balances - Beginning	1,453,450	2,182,632	5,284,588	1,074,502	9,995,172
Fund Balances - Ending	<u>\$ 1,547,378</u>	<u>\$ 2,248,338</u>	<u>\$ 3,920,430</u>	<u>\$ 1,002,558</u>	<u>\$ 8,718,704</u>

*See accompanying notes to basic financial statements*

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Reconciliation of Governmental Fund and Government-Wide Financial Statements**  
**Governmental Funds**  
**June 30, 2016**

**Reconciliation to Statement of Net Assets:**

Fund balances of governmental funds	\$	8,718,704
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds:		19,385,554
Certain non-current assets are not available to pay current fund liabilities and, therefore, are deferred in the funds:		
Police fines receivable, net of allowance for doubtful accounts		26,612
Pension related deferred outflows		414,604
Long-term liabilities are not due and payable from current period and, therefore are not reported in the funds:		
Long term debt obligations		(8,544,506)
Accrued compensated absences		(194,801)
Net pension liability		(1,468,301)
Pension related deferred inflows		(377,970)
		17,959,896
Net assets of governmental activities	\$	17,959,896

**Reconciliation to Statement of Activities:**

Net change in fund balances of governmental funds	\$	(1,276,468)
Amounts reported for governmental activities on the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchases capitalized in governmental funds		1,851,380
Depreciation expense		(1,434,961)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:		
Change in deferred revenue		823
Note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Long term debt payments		523,535
Note payable proceeds		-
Lease proceeds		(436,155)
Change in accrued interest		(3,112)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Change in accrued compensated absences		(11,476)
The costs of pension benefits earned, net change in deferred inflows and deferred outflows is reported as an element of pension expenses:		
Net change in pension expenses		172,652
Change in net assets of governmental activities	\$	(613,782)

*See accompanying notes to basic financial statements*

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2016**

	<u>Pauls Valley Municipal Authority</u>	<u>Non-Major Enterprise Fund Sanitation Capital Improvement</u>	<u>Total Proprietary Funds</u>
<b><u>Assets</u></b>			
Current Assets:			
Cash and cash equivalents	\$ 152,485	\$ 14,187	\$ 166,672
Restricted cash and cash equivalents	3,528	-	3,528
Investments	529,125	-	529,125
Accrued interest receivable	757	-	757
Accounts receivable, net	300,821	-	300,821
Prepaid expenses	32,861	-	32,861
<i>Total Current Assets</i>	<u>1,019,576</u>	<u>14,187</u>	<u>1,033,763</u>
Noncurrent Assets:			
Restricted investments	188,578	-	188,578
Land and construction in progress	344,526	-	344,526
Other capital assets, net of accumulated depreciation	21,227,939	-	21,227,939
<i>Total Noncurrent Assets</i>	<u>21,761,044</u>	<u>-</u>	<u>21,761,044</u>
<i>Total Assets</i>	<u>22,780,620</u>	<u>14,187</u>	<u>22,794,807</u>
<b><u>Liabilities</u></b>			
Current Liabilities:			
Accounts payable	63,273	-	63,273
Accrued liabilities	44,064	-	44,064
Accrued interest payable	46,241	-	46,241
Due to depositors	138,100	-	138,100
Landfill closure and post closure liability	134,407	-	134,407
Capital lease obligations payable	80,042	-	80,042
Contract payable	88,552	-	88,552
Notes payable	335,000	-	335,000
Accrued compensated absences	89,645	-	89,645
<i>Total Current Liabilities</i>	<u>1,019,324</u>	<u>-</u>	<u>1,019,324</u>
Noncurrent Liabilities:			
Capital lease obligations payable	258,848	-	258,848
Contract payable	273,448	-	273,448
Notes payable	6,195,000	-	6,195,000
<i>Total Noncurrent Liabilities</i>	<u>6,727,296</u>	<u>-</u>	<u>6,727,296</u>
<i>Total Liabilities</i>	<u>7,746,620</u>	<u>-</u>	<u>7,746,620</u>
<b><u>Net Position</u></b>			
Invested in capital assets, net of related debt	14,703,576	-	14,703,576
Restricted	-	-	-
Unrestricted	330,424	14,187	344,611
<i>Total Net Position</i>	<u>\$ 15,034,000</u>	<u>\$ 14,187</u>	<u>\$ 15,048,187</u>

See accompanying notes to basic financial statements

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Statement of Revenues, Expenses and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ending June 30, 2016**

	<u>Pauls Valley Municipal Authority</u>	<u>Non-Major Enterprise Fund Sanitation Capital Improvement</u>	<u>Total Proprietary Funds</u>
<b>Operating Revenues</b>			
Charges for Services:			
Water revenue	\$ 1,198,224	\$ -	\$ 1,198,224
Sewer revenue	367,507	-	367,507
Sanitation revenue	1,408,963	7,788	1,416,751
Penalties	39,588	-	39,588
Lake revenue	43,981	-	43,981
<i>Total Operating Revenues</i>	<u>3,058,263</u>	<u>7,788</u>	<u>3,066,051</u>
<b>Operating Expenses</b>			
Water operations	794,726	-	794,726
Sewer operations	389,706	-	389,706
Sanitation operations	1,012,529	55	1,012,584
Administration	646,189	-	646,189
Water Distribution	264,737	-	264,737
Lake operations	112,526	-	112,526
Depreciation expense	953,226	-	953,226
<i>Total Operating Expenses</i>	<u>4,173,639</u>	<u>55</u>	<u>4,173,694</u>
<i>Operating Income (Loss)</i>	<u>(1,115,376)</u>	<u>7,733</u>	<u>(1,107,643)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	5,917	5	5,922
Interest expense and fiscal charges	(327,767)	-	(327,767)
Bond Closing Costs	(229,250)	-	(229,250)
Payments to/for Hospital Authority	(320,201)	-	(320,201)
Miscellaneous revenue	82,185	-	82,185
<i>Total Nonoperating Revenues (Expenses)</i>	<u>(789,116)</u>	<u>5</u>	<u>(789,111)</u>
Net Income (Loss) Before Contributions and Transfers	(1,904,492)	7,738	(1,896,754)
Capital contributions	-	-	-
Contribution expense	-	-	-
Transfers in	1,449,506	-	1,449,506
Transfers out	(724,319)	-	(724,319)
<i>Change in Net Position</i>	<u>(1,179,305)</u>	<u>7,738</u>	<u>(1,171,567)</u>
<i>Net Position - Beginning</i>	<u>16,213,305</u>	<u>6,449</u>	<u>16,219,754</u>
<i>Net Position - Ending</i>	<u>\$ 15,034,000</u>	<u>\$ 14,187</u>	<u>\$ 15,048,187</u>

See accompanying notes to basic financial statements

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ending June 30, 2016**

	<b>Pauls Valley Municipal Authority</b>	<b>Non-Major Enterprise Fund Sanitation Capital Improvement</b>	<b>Total Proprietary Funds</b>
<b>Cash Flows From Operating Activities</b>			
Receipts from customers	\$ 2,968,424	\$ 7,788	\$ 2,976,212
Payments to suppliers	(1,911,933)	(55)	(1,911,988)
Payments for employees	(1,305,259)	-	(1,305,259)
Other receipts (payments)	2,931	-	2,931
<i>Net Cash Provided by Operating Activities</i>	<u>(245,837)</u>	<u>7,733</u>	<u>(238,104)</u>
<b>Cash Flows From Noncapital Financing Activities</b>			
Miscellaneous revenues	82,185	-	82,185
Hospital Subsidy	(320,201)	-	(320,201)
Transfers from other funds	1,449,506	-	1,449,506
Transfers to other funds	(724,319)	-	(724,319)
<i>Net Cash Provided by Noncapital Financing Activities</i>	<u>487,171</u>	<u>-</u>	<u>487,171</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Purchase of capital assets	(275,425)	-	(275,425)
Proceeds from issuances	6,530,000	-	6,530,000
Proceeds from debt	158,357	-	158,357
Principal paid on long-term debt	(6,713,716)	-	(6,713,716)
Interest & fiscal charges paid on long-term debt	(571,505)	-	(571,505)
<i>Net Cash Provided by (used in) Capital and Related Financing Activities</i>	<u>(872,289)</u>	<u>-</u>	<u>(872,289)</u>
<b>Cash Flows From Investing Activities</b>			
Interest received	5,823	5	5,828
Collection on notes and other receivables	-	-	-
Decrease (increase) in investments	(206,182)	-	(206,182)
<i>Net Cash Provided by Investing Activities</i>	<u>(200,359)</u>	<u>5</u>	<u>(200,354)</u>
<i>Net Increase in Cash and Cash Equivalents</i>	(831,315)	7,738	(823,577)
<i>Balance - Beginning of the Year</i>	<u>987,328</u>	<u>6,449</u>	<u>993,777</u>
<i>Balance - End of the Year</i>	<u>156,013</u>	<u>14,187</u>	<u>170,200</u>
<b>Reconciliation to Statement of Net Position:</b>			
Cash and cash equivalents	152,485	14,187	166,672
Restricted cash and cash equivalents	<u>3,528</u>	<u>-</u>	<u>3,528</u>
<i>Total cash and cash equivalents</i>	<u>156,013</u>	<u>14,187</u>	<u>170,200</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>			
Operating income (loss)	(1,115,376)	7,733	(1,107,643)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	953,226	-	953,226
Changes in assets and liabilities:			
Receivables	8,863	-	8,863
Prepaid expenses and inventory	(6,686)	-	(6,686)
Accounts payable and accrued expenses	9,906	-	9,906
Due to depositors	2,931	-	2,931
Contract Payable	(98,702)	-	(98,702)
<i>Net Cash Provided by Operating Activities</i>	<u>\$ (245,837)</u>	<u>\$ 7,733</u>	<u>\$ (139,402)</u>

*See accompanying notes to basic financial statements*

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

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**Note 1 - Summary of Significant Accounting Policies**

**1.A. Financial Reporting Entity**

The City of Pauls Valley's (the City) financial reporting entity includes the primary government (City of Pauls Valley), its blended and discretely presented component units.

**The City of Pauls Valley** – that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities.

The City of Pauls Valley is an incorporated municipality with a population of approximately 6,150 located in central Oklahoma. The City is a Home Rule Charter form of government and operates under a charter that provides for three branches of government:

- Legislative – the City Council is a five-member governing body elected by the citizens at large
- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

**Blended Component Unit:**

**Pauls Valley Municipal Authority** – that operates the water, wastewater, and sewer activities of the City (PVMA).

**Pauls Valley 522 District** - it is authorized to assess three mills of ad valorem tax to be used to provide ambulance service to the City of Pauls Valley. The District contracts with the Pauls Valley Hospital Authority to provide this service. The Special Ambulance Fund reports the District's activities.

**Omitted Blended Component Unit:**

**Pauls Valley Hospital Authority** – that operates the City hospital activities (PVHA).

**Discretely Presented Component Units:**

**Pauls Valley Airport Authority** – that operates the City airport activities (PVAA).

Each of these component units is a Public Trust established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets, which are acquired or constructed with Authority debt, or other Authority generated resources. In addition, the City has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

The PVMA, the EMS 522 District and the PVHA are required to be included as blended component units due to the financial control and shared board members with the City of Pauls Valley.

The PVAA has a separate board that manages the airport operations. However, due to the relationship described above it is discretely presented.

The Hospital audited financial statements were not available. Therefore, they are not included in the financial statements.



**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

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**Inactive Component Unit:**

**Pauls Valley Urban Renewal Authority** – that operated to identify dilapidated and/or abandoned structures and encourage the owners to rehabilitate the structures or purchase the structures using eminent domain. The Urban and Renewal Authority is financially inactive.

**1.B. Basis of Presentation**

Government-Wide Financial Statements - The Statement of Net Position and Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes, intergovernmental revenues, fees, licenses and permits, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental funds, and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**1.C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Measurement focus is a term used to describe “how” transactions are recorded within the various fund statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

The government-wide financial statements are reported using the *economic resources measurement focus* and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Sales taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Sales taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

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The City reports the following funds:

**Governmental Funds**

**Major Governmental Funds:**

- General Fund - is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund includes the Rose Garden Fund, Wacker Park Fund, and Beautification Fund.
- One Cent Fund – account for one cent sales tax that is 50% for street replacement, 25% for parks and 25% for general government.

*Capital Projects Fund:*

- Capital Improvement Fund – accounts for capital projects revenues, financing and capital expenditures

**Aggregated Non-Major Governmental Funds:**

*Special Revenue Funds:*

- Police Special Fund – accounts for a portion of court fine revenue and miscellaneous donations to be expended for police related expenditures.
- Cemetery Beautification Fund – accounts for miscellaneous donations and monument setting fees to be expended for the beautification of cemeteries.
- Senior Citizens Fund – accounts for revenues, grants and expenditures of the senior citizens' program.
- 911 Account Fund – accounts for E-911 revenues legally restricted for E-911 services.
- Marianne Ewert Bequest Fund – accounts for the permanently restricted endowment fund and the investment income restricted for park improvements.
- Nora Sparks Warren Library Trust Fund – accounts for investment income and donations for library expenditures.
- Tourism/Motel Tax Fund – accounts for revenues of a hotel/motel tax levy to be expended for the promotion of tourism.
- Special Ambulance Fund – accounts for the 522 District's property taxes collected for the purpose of operating an ambulance service. The service is contracted for through the hospital.

*Capital Projects Funds:*

- PV Airport Projects Fund – accounts for grant revenues and expenditures related to airport improvement projects.
- TIF Fund – accounts for revenues of ad valorem tax increments generated in the increment district boundaries to be expended for expenses of the Pauls Valley Economic Development Project Plan.
- Cemetery Care Fund – accounts for 25% of all cemetery revenues of which 12.5% is legally restricted for cemetery capital improvements.

**Proprietary Funds**

**Major Enterprise Fund:**

- Pauls Valley Municipal Authority – operates the water, sewer, and sanitation services of the City (blended component unit).

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

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**Non-Major Enterprise Fund:**

- Sanitation Capital Improvement Fund – accounts for a \$.25 fee assessed and collected from sanitation customers to be expended on capital improvements of the City’s sanitation service.

The City’s policy is to eliminate interfund transfers and balances in the statement of activities and net position to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances and then offset in the total column in the government-wide statements. Interfund transfers and balances between funds are not eliminated in the fund financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City’s enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **1.D. Assets, Liabilities and Fund Equity**

Cash and Investments - The City’s cash and cash equivalents are considered to be cash on hand, demand deposit accounts, interest bearing checking accounts and time deposit accounts including certificates of deposit with maturities of three months or less from the date of acquisition. Investments for the City, as well as for its component units, are reported at fair market value.

Inventories – The cost of consumable materials and supplies on hand are immaterial to the financial statements, and the City has therefore chosen to report these items as expenditures/expenses at the time of purchase. The Mercantile reported in the Tourism Fund, opened during the current fiscal year, has goods for sale inventory that is recorded at cost using the first-in/first-out method. The Pauls Valley Airport Authority has fuel inventory that is recorded at cost using the first-in/first-out method.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These costs are allocated to expense as used or consumed or with the passage of the applicable time period.

Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Receivables in governmental funds and governmental activities include tax accruals and intergovernmental revenue such as grant requests, since they are both measurable and available. Revenue from non-exchange transactions collectible but not available are deferred.

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

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Proprietary fund and business-type activities receivables include revenues earned at year end but not yet received. Billed and unbilled utility accounts receivable comprise the majority of the receivables. All such receivables are shown net of an allowance for uncollectible accounts.

Restricted Assets - Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to customer utility deposits, debt service and construction proceeds.

Capital Assets - The accounting for capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide statements, capital assets are accounted for as capital assets. Capital assets consist of land, intangible, construction in progress, building, improvements, machinery and equipment, and infrastructure. Recorded assets are reported at actual or estimated historical cost. A capitalization threshold of \$3,500 is used to report capital assets. Donated capital assets are recorded at estimated fair market value at the date of donation. Prior to July 1, 2001, governmental activities' infrastructure assets were not capitalized. These assets have not been valued or recorded as capital assets. Only infrastructure additions subsequent to July 1, 2001, have been included in the balances of capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

The depreciable capital assets of the primary government and the Pauls Valley Airport Authority are depreciated on a straight-line basis over useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 50 years
- Improvements other than buildings 20-30 years
- Machinery, furniture and equipment 5-24 years
- Utility property and improvements 15-50 years
- General Infrastructure 15-50 years

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

Capital lease acquired assets are depreciated in the same manner as other capital assets.

Due to Depositors - Represents the funds received from customers for their water utility deposits. These deposits are refunded or credited to the customer upon termination of the utility service and payment of all charges due and connected with the service.

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused vacation and compensatory time in varying amounts according to policies and contracts. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements.

Governmental funds report only the matured compensated absences payable to currently terminating employees.

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

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Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

In the governmental funds long-term debt is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financial sources and payment of principal and interest as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Deferred Outflow/Inflow of Resources – In addition to assets and liabilities, the statement of net position reports a separate section for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time. Deferred inflows of resources represent an acquisition on net position that applies to a future period which will not be recognized as an inflow of resources until that time.

Equity Classifications - In the government-wide and proprietary fund financial statements, equity is classified as net position and displayed in three components:

- a. *Net investment in capital assets* – 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 attributed to the acquisition, construction, or improvements of those assets.
- b. *Restricted* – Consists of net assets with constraints placed on the 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.
- c. *Unrestricted* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

It is the City’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the governmental fund financial statements fund equity is classified as fund balance. The fund balance is further classified as follows:

- a. *Nonspendable* – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. *Restricted* – consists of fund balance with constraints placed on the use of resources 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.
- c. *Committed* – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City’s highest level of decision-making authority, (i.e. ordinance).
- d. *Assigned* – includes amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority.
- e. *Unassigned* – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

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It is the City's policy that the order of spending and availability of the fund balance shall be to reduce funds from the listed areas in the following order: restricted, committed, assigned, and unassigned. Negative amounts shall not be reported for restricted, committed, or assigned funds.

**1.E. Fund Balance Deficit Prohibition**

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund (excluding public trusts). The City's Pauls Valley Airport Project Fund had negative fund balance of \$1,196 for the year ended June 30, 2016.

**1.F. Sales Tax Revenue**

Sales Tax - The City presently levies a four and one half-cent 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. By enabling legislation 3.25% is available for general government, .50% is restricted for street replacement and maintenance, .25% is restricted for park and recreation facilities and programs and .50% is for the hospital. Three and one-half cents is recorded in the General Fund and the remaining one-cent is recorded in the One Cent Sales Tax Fund. The restricted portion of the sales tax is tracked through the One Cent Sales Tax Fund and the half cent is transferred to the PVHA for debt service. The City is also required by contract to transfer one cent of its General Fund three-cent sales tax to the PVMA for debt retirement of the 2008 OWRB note and a lease-purchase agreement with Pauls Valley National Bank.

**1.G. Tax Incremental Financing (TIF)**

TIF is a method of obtaining financing using future gains in taxes to finance current improvements which will create the conditions for those gains. When a public project is carried out, the increase in the value of surrounding real estate, and perhaps new investment, generates increased property tax revenues dedicated to finance debt issued to pay for the project. The City uses TIF to stimulate economic development. The TIF Fund is used to account for the ad valorem tax received from Garvin County for payment of project costs until the expiration of the TIF district on December 31, 2022.

**1.H. Use of Estimates**

In preparing the City of Pauls Valley's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**1.I. Operating Revenues and Expenses**

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering good and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures and expenses in the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character: Current (further classified by function), debt service and capital outlay.

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

Proprietary Fund – By operating and non-operating.

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

**1.J. Internal and Interfund Balances and Transfers**

The City's policy is to eliminate interfund transfers and balances in the statement of activities and net position to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

**1.K. Property Tax Revenue**

Property Tax - Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by the voters. At present time the City levies no property tax to fund annual debt service requirements. However, Pauls Valley has organized an EMS District and it levies 3.00 mills for property taxes to fund the annual operations.

The property tax levy request is submitted to the county excise board for approval. The county assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax roll for submission to the county treasurer prior to October 1; the county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes is due prior to January 1. The second half is due prior to April 1.

If the first payment is not made timely, the entire tax becomes due and payable on January 2. Second half taxes become delinquent on April 1 of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of taxes due. The owner has two years to redeem the property by paying the taxes and penalty owed. If at the end of two years the owner has not done so, the purchaser is issued a deed to the property.

**Note 2 – Detailed Notes on all Funds**

**2.A. Deposits and Investments Risk**

At June 30, 2016, the primary government reporting entity had the following deposits and investments:

<u>Type of Deposits and Investments</u>	<u>Credit Rating</u>	<u>Carrying Value</u> <u>Primary Government</u>	<u>Carrying Value</u> <u>Component Unit</u>
<b>Deposits:</b>			
Demand deposits		\$ 4,217,637	\$ 174,936
Time deposits		663,480	-
Money market mutual funds:			
Caval Hill U.S. Treasury	AAA-m	54,223	-
First United Money Market Funds		<u>4,152,558</u>	<u>-</u>
<b>Total Deposits</b>		<u>\$ 9,087,898</u>	<u>\$ 174,936</u>
<b>Reconciliation to Statement of Net Position:</b>			
Cash and cash equivalents		\$ 8,370,195	\$ 174,936
Investments		<u>717,703</u>	<u>-</u>
<b>Total Cash and Investments</b>		<u>\$ 9,087,898</u>	<u>\$ 174,936</u>

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

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*Custodial Credit Risk - 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 to it. The City does have a written deposit policy for custodial credit risk that requires collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2016 The City of Pauls Valley accounts were fully collateralized.

*Investment Credit Risk* – – The City does have a written investment policy that limits its investment choices according to the limitations stated in the *Oklahoma Statutes*. *Oklahoma Statutes* allow the City to invest in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposits or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district; and government money market funds regulated by the SEC.

Public trusts created under O.S. Title 60, are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

*Investment Interest Rate Risk* – The City does have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than one year from the date of purchase. All certificates of deposit have maturities of one year or less.

*Concentration of Investment Credit Risk* – The City places no limit on the amount it may invest in any one issuer.

**2.B. Restricted Assets**

Amounts reported as restricted assets in the proprietary fund Statement of Net Position and the governmental funds Balance Sheet are comprised of amounts due to depositors related to utility deposits and debt and construction funds related to bonds. The restricted assets as of June 30, 2016 were as follows:

<u>Type of Restricted Assets</u>	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
FUB - Debt and Construction -Gov. Funds	\$ 4,152,557	\$ -
BOK – Debt and Construction – Proprietary	-	54,223
Utility Deposits-Proprietary	<u>3,528</u>	<u>134,355</u>
Total Restricted Assets	<u>\$ 4,156,085</u>	<u>\$ 188,578</u>

**2.C. Receivables**

Accounts receivable consist of customer utilities services provided, both billed and unbilled, due at year-end, reported net of allowance for uncollectible amounts, in the enterprise fund and taxes and police fines in the governmental funds. Interest receivable on investments is also recorded. Receivables as of June 30, 2016, including the applicable allowances for uncollectible accounts are as follows:



**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

<u>Receivables:</u>	Governmental Activities	Business-Type Activities	Total	Presented CU PVAA
Interest	\$ -	\$ 757	\$ 757	\$ -
Police Fines	393,349	-	393,349	-
Grants	-	-		
Accounts	-	284,464	284,464	22,127
Unbilled Accounts	23,425	45,116	68,541	
Taxes	764,048	-	764,048	
Gross Receivables	1,180,822	330,337	1,511,159	22,127
Less: Allowance for Uncollectibles	(349,417)	(28,760)	(378,177)	(1,208)
Net Total Receivables	<u>\$ 831,405</u>	<u>\$ 301,577</u>	<u>\$ 1,132,982</u>	<u>\$ 20,919</u>

**2.D. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

<u>Primary Government</u>	Balance 06/30/15	Additions	Disposals	Balance 06/30/16
<b>Government Activities:</b>				
Capital assets, not being depreciated:				
Intangibles	\$ 50,000			\$ 50,000
Land	721,981			721,981
Construction in Progress	58,216	1,422,742	(58,216)	1,422,742
Total capital assets, not being depreciated	<u>830,197</u>	<u>1,422,742</u>	<u>(58,216)</u>	<u>2,194,723</u>
Capital assets, being depreciated:				
Buildings	16,864,931	195,892		17,060,823
Improvements	4,782,738	160,677		4,943,415
Machinery, furniture and equipment	5,636,381	130,285	(48,944)	5,717,722
Infrastructure	1,130,017	-		1,130,017
Total capital assets, being depreciated	<u>28,414,067</u>	<u>486,854</u>	<u>(48,944)</u>	<u>28,851,977</u>
Less accumulated depreciation for:				
Buildings	3,437,889	756,534		4,194,423
Improvements	2,207,141	312,135		2,519,276
Machinery, furniture and equipment	4,536,294	340,811	(48,944)	4,828,161
Infrastructure	93,806	25,481		119,287
Total accumulated depreciation	<u>10,275,130</u>	<u>1,434,961</u>	<u>(48,944)</u>	<u>11,661,147</u>
Total capital assets, being depreciated, net	<u>18,138,937</u>	<u>(948,107)</u>	<u>-</u>	<u>17,190,830</u>
Governmental activities capital assets, net	<u>\$ 18,969,134</u>	<u>\$ 474,635</u>	<u>\$ (58,216)</u>	<u>\$ 19,385,553</u>

**CITY OF PAULS VALLEY, OKLAHOMA**

**Notes To the Basic Financial Statements**

**For the Year Ended June 30, 2016**

<u>Business-Type Activities</u>	<u>Balance</u> <u>06/30/15</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>06/30/16</u>
Capital assets, not being depreciated:				
Land	\$ 344,526	\$ -	\$ -	\$ 344,526
Construction in Progress	21,620	-	(21,620)	-
Total capital assets, not being depreciated	<u>366,146</u>	<u>-</u>	<u>(21,620)</u>	<u>344,526</u>
Capital assets, being depreciated:				
Buildings	285,516	-		285,516
Improvements	14,221,978	39,998		14,261,976
Machinery, furniture and equipment	3,023,903	227,223	(101,110)	3,150,016
Utility property	34,249,190	67,259		34,316,449
Total capital assets, being depreciated	<u>51,780,587</u>	<u>334,480</u>	<u>(101,110)</u>	<u>52,013,957</u>
Less accumulated depreciation for:				
Buildings	141,841	11,554		153,395
Improvements	2,702,507	297,785		3,000,292
Machinery, furniture and equipment	2,414,336	174,569	(29,490)	2,559,415
Utility Property	24,603,598	469,318		25,072,916
Total accumulated depreciation	<u>29,862,282</u>	<u>953,226</u>	<u>(29,490)</u>	<u>30,786,018</u>
Total capital assets, being depreciated, net	<u>21,918,305</u>	<u>(618,746)</u>	<u>(71,620)</u>	<u>21,227,939</u>
Business-type activities capital assets net	<u>\$ 22,284,451</u>	<u>\$ (618,746)</u>	<u>\$ (93,240)</u>	<u>\$ 21,572,465</u>

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

**Discretely Presented Component Unit**

	<u>Balance</u> <u>06/30/15</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>06/30/16</u>
<b>Pauls Valley Airport Authority:</b>				
Capital assets, not being depreciated:				
Land	\$ 94,942	\$ -	\$ -	\$ 94,942
Construction in Progress	11,400	-	(11,400)	-
Total capital assets, not being depreciated	<u>106,342</u>	<u>-</u>	<u>(11,400)</u>	<u>\$ 94,942</u>
Capital assets, being depreciated:				
Buildings	668,326	-		668,326
Improvements	5,355,454	-		5,355,454
Machinery, furniture and equipment	270,236	92,222		362,458
Infrastructure	1,948,795	1,264,226		3,213,021
Total capital assets, being depreciated	<u>8,242,811</u>	<u>1,356,448</u>	<u>-</u>	<u>9,599,259</u>
Less accumulated depreciation for:				
Buildings	426,167	49,722		475,889
Improvements	2,591,586	188,870		2,780,456
Machinery, furniture and equipment	249,701	23,085		272,786
Infrastructure	19,488	38,976		58,464
Total accumulated depreciation	<u>3,286,942</u>	<u>300,653</u>	<u>-</u>	<u>3,587,595</u>
Total capital assets, being depreciated, net	<u>4,955,869</u>	<u>1,055,795</u>	<u>-</u>	<u>6,011,664</u>
Governmental activities capital assets, net	<u>\$ 5,062,211</u>	<u>\$ 1,055,795</u>	<u>\$ (11,400)</u>	<u>\$ 6,106,606</u>

Depreciation expense was charged to functions/programs of the primary government as follows in the Statement of Activities:

<b>Governmental Activities:</b>	
General Government	\$ 116,939
Public Safety	166,390
Culture, Parks and Recreation	909,733
Streets	219,735
Cemetery	<u>22,164</u>
Total depreciation expense - governmental activities	<u>\$1,434,961</u>
<b>Business-Type Activities:</b>	
Water	\$ 572,191
Sewer	187,946
Sanitation	124,605
Administration	20,929
Lake	<u>47,555</u>
Total depreciation expense - business-type activities	<u>\$ 953,226</u>

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

**2.E. Long-Term Debt**

Long-term liability activity for the year ended June 30, 2016, was as follows:

	<u>Balance</u> <u>6/30/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/16</u>	<u>Due Within</u> <u>One Year</u>
<b>Governmental Activities:</b>					
Capital Lease Obligations	\$ 202,268	\$ 436,155	\$ 104,190	\$ 534,232	162,201
Note Payable	8,374,072	-	419,345	7,954,727	434,393
Compensated Absences	183,324	11,476	-	194,800	-
Total Long-term Liabilities	<u>\$ 8,759,663</u>	<u>\$ 447,631</u>	<u>\$ 523,535</u>	<u>\$ 8,683,759</u>	<u>\$ 596,594</u>
<b>Business-Type Activities PVMA:</b>					
Capital Lease Obligations	\$ 302,736	\$ 158,357	\$ 122,203	\$ 338,890	\$ 80,042
Notes Payable	6,632,837	6,530,000	6,632,837	6,530,000	335,000
Contract Payable	440,000	-	78,000	362,000	88,552
Compensated Absences	85,505	4,140	-	89,645	-
Total Long-term Liabilities	<u>\$ 7,461,078</u>	<u>\$ 6,692,497</u>	<u>\$ 6,833,040</u>	<u>\$ 7,320,535</u>	<u>\$ 503,594</u>

Governmental Activities - State statutes prohibit the City from incurring any indebtedness or obligations that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. As of June 30, 2016, the long-term debt payable from governmental fund resources consisted of the following:

Capital Lease Obligations:

\$88,253 lease obligation with Caterpillar Financial for a Caterpillar 420EL, payable in monthly installments of \$1,593.63, final payment due June 2017 with interest at 3.20%	20,388
\$47,889 lease obligation with Caterpillar Finance for a skid steer loader payable in monthly installments of \$1,396.86 final payment due November 2016 with interest at 3.20%. The use and debt is considered 1/3 street dept. and 2/3 PVMA	1,846
\$176,623 lease obligation with Pauls Valley National Bank for a fire rescue truck payable in monthly installments of \$3,213, final payment due June 2017 with interest at 3.3%.	36,849
\$84,420 lease obligation with First United Bank for two Police Chevy Tahoes payable in two annual installments of \$44,752.74 final payment due January 2017 with interest at 3.99%.	43,036
\$365,155 lease obligation with PNC Equipment Finance for a 2016 Pierce Pumper Truck payable in annual installments of \$58,985.78, final payment due December 8, 2022 with interest at 3.11%.	365,155
\$71,000 lease obligation with NEC for phone equipment payable in monthly installments of \$2,784.62 final payment due February 2021 with interest at 6.6%.	<u>66,958</u>
Total Capital Lease Obligations	<u>\$ 534,232</u>
Current portion	162,201
Non-current portion	<u>372,031</u>
Total Capital Lease Obligations	<u>\$ 534,232</u>

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

Notes Payable:

\$3,200,000 notes payable to First United Bank, payable in monthly installments, final payment due October 2032 with interest at 3.85% (Pool Construction)	2,784,727
\$5,470,000 notes payable to Branch Banking & Trust Co., secured by pledged sales tax, payable in semi-annual installments, final payment due March 2030 with interest at 2.67% (Street Improvements)	<u>5,170,000</u>
Total Notes Payable	<u>\$ 7,954,727</u>
Current portion	434,393
Non-current portion	<u>7,520,334</u>
Total Notes Payable	<u>\$ 7,954,727</u>

Business-Type Activities – As of June 30, 2016, long-term debt payable from proprietary fund resources consisted of the following:

**PVMA Long-term Debt:**

Capital Lease Obligations:

\$47,889 lease obligation with Caterpillar Finance for a skid steer loader payable in monthly installments of \$1,396.86 final payment due November 2016 with interest at 3.20%. The use and debt is considered 1/3 street dept. and 2/3 PVMA	3,692
\$91,270 lease obligation with Welch State Bank for a Caterpillar backhoe, payable in monthly installments of \$1,148, final payment due March 2017 with interest at 5.339%	9,400
\$33,509 lease obligation with Caterpillar Financial for a Caterpillar Mini Excavator, payable in monthly installments of \$977, final payment due October 2017 with interest at 3.20%	14,337
\$193,494 lease obligation with Caterpillar Financial for a Caterpillar 930K, payable in monthly installments of \$2,745, final payment due May 2020 with interest at 2.65%	160,438
\$87,357 lease obligation with Caterpillar Financial for a Caterpillar 2016 Track Type Tractor, payable in monthly installments of \$1,341.48, final payment due March 2019 with interest at 2.95%.	84,065
\$71,000 lease obligation with NEC for phone equipment payable in monthly installments of \$2,784.62 final payment due February 2021 with interest at 6.6%.	<u>66,958</u>
Total Capital Lease Obligations	<u>\$ 338,890</u>
Current portion	80,042
Non-current portion	<u>258,848</u>
Total Capital Lease Obligations	<u>\$ 338,890</u>

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

Notes Payable:

\$5,420,000 Pauls Valley Municipal Authority System and Sales Tax Revenue Note, Series 2016A, secured by water, sewer and sanitation revenues and pledged sales tax, payable in semi-annual installments, final payment due September 2028 with interest at 2.5%. 5,420,000

\$1,110,000 Pauls Valley Municipal Authority System and Sales Tax Revenue Note, Series 2016B, secured by water, sewer and sanitation revenues and pledged sales tax, payable in semi-annual installments, final payment due September 2028 with interest at 4.2%. 1,110,000

Total Notes Payable \$ 6,530,000

Current portion 335,000  
Non-current portion 6,195,000  
Total Notes Payable \$ 6,530,000

Contract Payable:

\$1,491,248 face amount, noninterest bearing contract payable to Garvin County RWD#4 for certain water infrastructure, payable monthly as a reduction of the sellers account receivable utility account, final payment due March 2021 with imputed interest at 4.18%, (less unamortized discount based on imputed interest rate - \$30,547), See also contingent liability note. \$ 362,000

Current portion 88,552  
Non-current portion 273,448  
Total Contract Payable \$ 362,000

The capital assets acquired through capital leases are as follows:

Date	Capital Asset	Amount	Accumulated Depreciation
Machinery and Equipment:			
7/3/2012	Backhoe Loader	\$ 88,523	\$ 34,566
5/8/2012	Fire Rescue Truck	176,623	72,121
12/9/2014	Police Tahoe SUV	42,075	12,623
12/9/2014	Police Tahoe SUV	42,075	12,623
10/23/2013	Skid Steer Loader	15,963	4,257
11/15/15	Phone System	71,000	4,142
10/23/2013	Skid Steer Loader	31,926	8,514
2/21/2013	Tractor	101,110	29,490
10/14/2014	Mini Excavator	33,509	11,170
5/12/2015	Wheel Loader	141,020,	30,554
12/9/2008	Backhoe	91,270	69,784
11/15/15	Phone System	71,000	4,142
2/29/16	Track/Loader Tractor	<u>117,653</u>	<u>7,844</u>
		<u>\$1,023,477</u>	<u>\$ 289,843</u>

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

Annual debt service requirements to maturity are as follows:

Governmental Activities:

Year Ending June-30	Capital Lease Obligations		Notes Payable	
	Principal	Interest	Principal	Interest
2017	162,201	18,312	434,393	242,468
2018	62,445	13,248	444,336	229,248
2019	64,916	10,777	459,476	215,630
2020	67,498	8,196	474,571	201,791
2021	64,582	5,542	490,367	186,984
2022-2026	112,590	5,382	2,678,020	700,021
2027-2031	-	-	2,674,085	262,763
2032-2035	-	-	299,479	8,373
	<u>\$ 534,232</u>	<u>\$ 61,457</u>	<u>\$7,954,727</u>	<u>\$2,047,278</u>

BusinessType Activities

PVMA:

Year Ending June-30	Capital Lease Obligations		Notes Payable		Contracts Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	80,042	10,729	335,000	134,071	88,552	13,448
2018	60,464	8,191	464,000	169,641	92,326	9,675
2019	101,104	5,858	478,000	156,688	96,259	5,740
2020	86,412	2,582	490,000	143,353	84,863	1,663
2021	10,868	270	505,000	129,656	-	-
2022-2026	-	-	2,739,000	428,100	-	-
2027-2029	-	-	1,519,000	64,526	-	-
	-	-	-	-	-	-
	<u>\$338,890</u>	<u>27,630</u>	<u>\$6,530,000</u>	<u>\$1,226,035</u>	<u>\$362,000</u>	<u>\$ 30,526</u>

Interest and Administration expenses were charged to functions as follows in the Statement of Activities:

Business Type Activities	
Water	317,911
Sewer	650
Sanitation	6,684
Lake	325
Administration	1,697
	<u>327,267</u>

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

**Utility Revenues Pledged**

The City has pledged future water, sewer, and sanitation customer revenues, net of specified operating expenses, to repay a \$6,530,000 Utility System and Sales Tax Revenue Notes Series 2016A and 2016B in a. Proceeds from debt were used to refinance promissory note to OWRB-Series 2008 DWSRF Bond. The notes are payable from water, sewer, and sanitation customer net revenues and future sales tax revenue (discussed below) and are payable through 2029, respectively. The total principal and interest payable for the remainder of the life of the notes are \$7,756,035. Total customer net revenues for the current year were \$3,104,255. The required debt service payments on the OWRB-Series 2008 were \$577,982 for the current fiscal year and were 18.62% of the net water, sewer and sanitation utility revenues.

**Sales Tax Revenues Pledged**

The City had pledged one half of one cent sales tax revenues to repay \$10.325 million in a promissory note to OWRB issued January 2008. Proceeds from the note provided financing for water system improvements. This note was refinanced in June, 2016 with Series 2016A and 2016B for \$6,350,000. The note is payable from future sales tax revenue and net utility revenue (discussed above). The total principal and interest remaining to be paid on the note is \$7,756,035, payable through September 2029. Pledged sales tax received in the current year was \$679,753. Debt Service payments of \$577,892 for the current fiscal year were 118% of pledged sales taxes.

Also the one half of one cent sales tax that is restricted for streets and alleys has been designated to the payment of the \$5.47 million note payable for street improvements. The principal and interest on this note through March, 2030 is \$6,230,791. Pledged sales tax received in the current year was \$682,730. Debt Service payments of \$439,178 for the current fiscal year were 64.33% of pledged sales taxes.

**Debt Service Coverage Requirement**

The OWRB debt agreements require that Net Revenue Available for Debt Service must equal 125% of maximum annual debt service. Actual coverage was as follows:

	<b>OWRB Series 2008</b>
Net Revenue Available for Debt Service:	
Operating Revenues	\$ 3,066,051
Miscellaneous Revenue	82,185
Less Lake Revenue	(43,981)
Total Operating Revenue	3,104,255
Operating Expenses	4,173,694
Less Lake Expenses	(112,526)
Less Lake Administration Expenses	( 9,269)
Less Depreciation/Amortization	(953,226)
Total Operating Expenses	3,098,673
1/2 Sales Tax Transfer (Sr. 2008)	679,753
Net Revenues Available for Debt Service	\$ 685,335
<b><u>Debt Service Requirements:</u></b>	
Annual debt service payments - OWRB 2008	577,982
Total Debt Service Requirement	577,982
Coverage	119%
Coverage Requirement	125%



**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

Note: Operating revenues and expenses include only the following leased systems: water, sewer, and sanitation. Also the coverage requirement has not been met. The OWRB debt was liquidated in the fiscal year. However, it was replaced with 2016A and 2016B Notes. The debt requirement in 2016-17 on these notes is \$469,071. Based on current year debt service revenue the coverage amount would be 146%. However, in 2017-18 the debt service require is \$633,641 and the coverage amount then would be 108%.

**2.F. Landfill Closure and Post Closure Requirements**

A \$134,407 accrued liability has been recognized in Pauls Valley Municipal Authority to represent the total estimated amount owed by the Authority for closure and post closure requirements dictated by the U.S. Environmental Protection Agency and the Oklahoma Department of Environmental Quality regulations and represented the cumulative amount of such costs reported to date based on the use of approximately 21.36% of the estimated capacity of the landfill. It is estimated that an additional \$629,323 will be recognized as closure and post closure expense between the current balance sheet date and the date the landfill is expected to be filled to capacity. However, the actual cost of closure and post closure may be higher due to inflation, changes in technology, or changes in landfill laws and regulation. The City expects to close the landfill in April 2087. The estimated remaining landfill life is 72 years. Currently, the City is in compliance with DEQ assurances.

**2.G. Interfund Receivables, Payables, and Transfers**

Transfers between funds and legal entities are comprised of the following:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
One Cent Sales Tax Fund	General Fund	\$ 366,668	Operating subsidy
One Cent Sales Tax Fund	General Fund	709,145	Debt Activity
One Cent Sales Tax Fund	General Fund	80,004	Per grant agreement
General Fund	Police Special Fund	4,192	To fund capital purchases
General Fund	PVMA	1,359,506	Sales tax transfer
General Fund	PVMA	90,000	To fund capital purchases
General Fund	911 Account Fund	30,469	Operating subsidy
PVMA	General Fund	590,120	Operating subsidy
PVMA	General Fund	134,199	Debt Activity
General Fund	PVAA	21,600	Operating subsidy
PV Airport Projects Fund	PVAA	<u>1,340,548</u>	To transfer capital assets
		<u>\$4,726,451</u>	
PVMA	PVHA	320,201	Operating subsidy
General Fund	PVHA	493,031	Operating subsidy
General Fund	PVHA	<u>696,205</u>	Debt Activity
		<u>\$ 1,509,437</u>	

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

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**Reconciliation to Fund Financial Statements:**

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 724,320	\$ (4,000,889)	\$ (3,276,569)
Enterprise Funds	1,449,506	(1,044,521)	404,985
Total	<u>\$ 2,173,826</u>	<u>\$ (5,045,410)</u>	<u>\$ (2,871,584)</u>

The remaining difference in Net Transfers is component units transfers of \$2,871,584 composed of \$1,509,437 to PVHA and \$1,362,148 to the PVAA.

**Reconciliation to Statement of Activities – governmental and business-type activities:**

Net Transfers Governmental	\$ 3,276,570
Payments to Component Unit	(1,362,148)
Payment for the benefit of PVHA	(1,189,236)
Net Transfers-Enterprise Activity	<u>\$ 725,186</u>

**Reconciliation to Statement of Activities – primary government and component units:**

Transfers from general fund to component unit-PVAA management fee	\$ 21,600
Transfers from governmental fund to PVAA component unit Capital Outlay	<u>1,340,548</u>
Payments from primary government	<u>\$ 1,362,148</u>

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

**2.H. Fund Equity/Net Position**

**Governmental Fund Balances** – Fund balance classifications as shown in the Governmental Funds Balance Sheet in accordance with GASB Statement 54 is as follows:

	General Fund	One Cent Tax Fund	Capital Project Fund	Other Governmental Funds	Total
<i>Fund Balance:</i>					
<b>Nonspendable:</b>					
Perm. Endow-Parks	-	-	-	50,000	50,000
Prepaid expenses	398,016	-	-	2,500	400,516
Inventory	-	-	-	19,227	19,227
Long-term receivable	28,900	-	-	-	28,900
<b>Restricted for:</b>					
Cemetery	-	-	-	17,396	17,396
Senior Citizens	-	-	-	176	176
Ambulance	-	-	-	518	518
Library	-	-	-	190,846	190,846
TIF District	-	-	-	69,912	69,912
Debt service	-	38,720	-	-	38,720
Parks and Recreation	430,201	18,666	-	-	448,867
Streets	193,407	2,158,923	3,920,430	-	6,272,760
Tourism/Econ Dev	-	-	-	510,559	510,559
Pool	-	-	-	-	-
Community Center	-	-	-	-	-
<b>Assigned to:</b>					
Police	-	-	-	41,601	41,601
Parks and Recreation	36,207	-	-	109	36,316
Tourism/Econ Dev	-	-	-	-	-
Library	-	-	-	58,155	58,155
911	-	-	-	3,914	3,914
Cemetery	-	-	-	38,841	38,841
Other Purposes	-	-	-	-	-
<b>Unassigned</b>	<u>460,646</u>	<u>32,030</u>	<u>-</u>	<u>(1,196)</u>	<u>491,480</u>
<i>Total Fund Balance</i>	<u>1,547,377</u>	<u>2,248,339</u>	<u>3,920,430</u>	<u>1,002,558</u>	<u>8,718,704</u>

**Note 3 - Other Notes**

**3.A. Risk Management**

The City and its public trusts are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss as follows:

- General Liability, Fleet Coverage, and Physical Property – Covered through participation in Oklahoma Municipal Assurance Group risk entity pool.
- Airport General Liability – Covered through purchase of commercial insurance.
- Workers' Compensation – Workers' compensation is covered through participation in the Oklahoma Municipal Assurance Group risk entity pool.

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

- Employee's Group Medical – Covered through purchase of commercial insurance.

The City's risk is transferred to the risk entity pool except for claim deductible amounts. The risk pool maintains deposits for claim reserves and other purposes for the benefit of the city. Management believes the insurance coverage listed above is sufficient to preclude any significant uninsured losses to the City, and such claims have not exceeded the coverage over the past three years.

**3.B. Contingencies**

**Federal and State Award Programs** - The City of Pauls Valley participates in various federal and state grant/loan programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**Litigation** - The City is a party to various legal proceedings that normally occur in the course of governmental operations. The financial statements do not include accrual or provision for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City Sinking Fund for the payment of any court-assessed judgement rendered against the City. This provision is not applicable to authorities or public trusts. 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.

**Commitments-Construction** – At June 30, 2016, the City had pending construction project contracts in progress. The commitments related to the remaining contract balances are summarized as follows:

<u>Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>	<u>Fund</u>
Wacker Park Bank Shell	\$ 40,027	\$ 40,027	General Fund
Street Reconstruction	\$1,568,055	\$ 193,761	General Fund

**Contingent Liability** – The City of Pauls Valley has a contract with Garvin County Rural Water District No. 4 for the purchase of certain water infrastructure. See Note 2.E. Contract Payable for consideration for sale of infrastructure. Additional consideration for industrial/commercial customers has not been determined as of June 30, 2016. This amount when determined shall be added to the contract payable and capital assets for water infrastructure.

**Below is the debt incurred by the City on behalf of the hospital (hospital financial data has been excluded from this report) –**

	<u>Balance 6/30/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/16</u>	<u>Due Within One Year</u>
<b>Business-Type Activities PVHA:</b>					
Notes Payable	\$ 9,905,710	\$ -0-	\$ 506,097	\$ 9,399,612	\$ 533,392

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

This debt is issued in the name of the PVMA and is secured by sales tax of the City. All of these funds were used capital improvements and support for the hospital. See note below about the PVHA as a going concern. Despite the status of the hospital the City will be responsible for this debt.

\$3,150,000 notes payable to First United Bank, secured by Sales Tax revenues, payable in monthly installments, final payment due June 2033 with interest at 4.25%.	2,902,085
\$1,025,000 sales tax note payable to Pauls Valley National Bank, secured by sales tax revenues, payable in monthly installments, final payment due June 2033 with interest at 4.25%.	937,268
\$5,155,000 2014A sales tax revenue note to First United Bank, secured by sales tax revenues, payable in monthly installments, final payment due June 2034 with initial interest of 2.078%	5,151,959
\$991,000 2014B sales tax revenue note payable to First United Bank, secured by sales tax revenues, payable in monthly installments, final payment due July 2017 with initial interest of 3.45%	<u>408,300</u>
<b>Total hospital notes payable</b>	<b><u>\$ 9,399,612</u></b>
Current Portion	533,392
Non-current portion	<u>8,866,220</u>
<b>Total</b>	<b><u>\$ 9,399,612</u></b>

Year Ending June-30	Notes Payable	
	Principal	Interest
2017	533,392	391,149
2018	392,744	370,786
2019	397,181	354,149
2020	413,300	337,170
2021	431,419	318,898
2022-2026	2,444,600	1,297,007
2027-2031	3,003,728	718,684
2032-2034	1,783,248	106,354
	<u>\$9,399,612</u>	<u>\$3,894,197</u>

**Going Concern - Pauls Valley Hospital Authority** – The Hospital is a component unit of the City of Pauls Valley. But as of the release of the City’s audited financial statements the hospital audit had not been completed. Therefore, the City has elected to omit the financial information of the Hospital.

During the current fiscal year the PVMA and the City has supplemented the operations of the hospital through operational payments and debt payments in the amount of \$1,509,437. The citizens have approved additional sales tax to liquidate the hospital related debt.

As a result of sustained annual operating losses caused by declining patient service revenue and increased debt obligations, on March 1, 2013, the Hospital filed a voluntary petition for bankruptcy protection from creditors under Chapter 9 of the Federal Bankruptcy Code.

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

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Upon filing the petition, an automatic stay commenced, that prohibited Hospital creditors from taking action against the Hospital, its property, and its officers and inhabitants if the action seeks to enforce a claim against the Hospital for pre-petition debts.

The Hospital prepared a Plan of Adjustment (the Plan) for approval by the Bankruptcy Court. The Plan was confirmed February 2, 2016 and specifies how the pre-petition debts of the Hospital will be discharged, including various unpaid amounts associated with the failure to pay certain taxes. The Plan provides that such tax obligations will be paid over five years without interest, consistent with the requirements of the Federal Bankruptcy Code. The Plan also includes provisions for settlement of secured claims, administrative claims, and unsecured claims. Per the Plan, payment for all such claims will commence in 2016.

Accounting standard for governmental entities for Chapter 9 bankruptcy require an adjustment to liabilities discharged through a confirmed Plan when all conditions existing prior to the Plan becoming binding are resolved. Any resulting gains resulting from the re-measurement of liabilities are to be recorded as extraordinary items. As a result, liabilities will be re-measured in the financial statements for the year ending June 30, 2016. The estimated gain is approximately \$1,450,000.

The June 30, 2014 and June 30, 2015 financial statements were issued September 9, 2016 and are available at City Hall.

The Hospital has remained open since the confirming of the bankruptcy petition. However, the Hospital is facing significant financial difficulties. These difficulties raise substantial doubt about the Hospital's ability to continue to as a going concern.

Copies of the Plan and all exhibits referred to therein are on file and available for review at the Office of the Clerk of the United States Bankruptcy Court, Western District of Oklahoma. Copies of the Plan may also be found via Court's website <https://ecf.okwb.uscourts.gov/> or upon written request to counsel for Pauls Valley Hospital Authority in its Chapter 9 bankruptcy case via email at [ckutmas@mmsk.com](mailto:ckutmas@mmsk.com) or facsimile at (918)430-3770.

### **3.C. Pension Plans**

The City of Pauls Valley participates in four retirement plans:

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
3. Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF) – an agent multiple-employer defined contribution plan
4. Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF) – an agent multiple-employer defined contribution plan

#### **Oklahoma Firefighter's Pension – Statewide Cost Sharing Plan**

**Plan Description** – The City of Pauls Valley, as the employer, participates in the Firefighter's Pension and Retirement Plan – a statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Firefighter's Pension and Retirement System (OFPRS). Title 11 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the OFPRS. OFPRS issues a publicly available financial report can be obtained at [www.ok.gov/fprs](http://www.ok.gov/fprs).

**Summary of significant accounting policies** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Firefighters Pension &

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

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Retirement System (OPFRS) and additions to/deductions from OPFRS's fiduciary net position have been determined on the same basis as they are reported by OPFRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Benefits provided** – OPFRS 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 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 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 services 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 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 not-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 contribution 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 \$59,008 (fiscal year contributions). The State of Oklahoma also made on-behalf contributions to OPFRS in an amount during the calendar year and this is reported both as a revenue and an expenditure in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$125,531. The on-behalf payments did not meet the criteria of a special funding situation.

**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 \$1,460,388 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 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 .13759%.

For the year ended June 30, 2016, the City recognized pension expense of \$134,122. 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 PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 28,853	\$ -
Net difference between projected and actual earnings on pension plan investments	51,771	160,633
Changes in Proportion	53,472	
City contributions subsequent to the Measurement date	59,008	-
Total	\$ 193,104	\$ 160,633

The \$59,008 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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	\$ (19,281)
2018	(19,281)
2019	(19,281)
2020	26,781
2021	3,819
2022	708
	\$ (26,537)

**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:



**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20%	5.13%
Domestic equity	37%	8.02%
International equity	20%	9.49%
Real Estate	10%	7.47%
Other assets	13%	6.25%

**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 employees 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Employers' net pension liability (asset) \$	1,896,166	\$ 1,460,388	\$ 1,094,906

**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 OFPRS; which can be located at [www.ok.gov/fprs](http://www.ok.gov/fprs).

**Oklahoma Policemen Pension – Statewide Cost Sharing Plan**

**Plan description** – The City of Pauls Valley, as the employer, participates in the Oklahoma Police Pension and Retirement Plan – a cost-sharing multi-employer defined benefit plan administered by the Oklahoma Police Pension and Retirement System (OPPRS). Title 11 of the Oklahoma State Statutes, through the Oklahoma Legislature, grants the authority to establish and amend the benefit terms to the OPPRS. OPPRS issues a publicly available financial report may be obtained at [www.ok.gov/OPPRS](http://www.ok.gov/OPPRS).

**Summary of significant accounting policies** – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Police Pension & Retirement System (OPPRS) and additions to/deductions from OPPRS's fiduciary net position have been determined on the same basis as they are reported by OPPRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Benefits provided** – OPPRS provides retirement, disability and death benefits to members of the plan. The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. Contributions are refundable, without interest, upon

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

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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 contribution 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 8% 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 \$79,708. The State of Oklahoma also made on-behalf contributions to OPPRS in an amount during the calendar year and this is reported both as a revenue and an expenditure in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$68,433. The on-behalf payments did not meet the criteria of a special funding situation.

**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 \$7,913 for its proportionate share of the net pension liability. The net pension liability was measure as of June 30, 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 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 .1941%.

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

For the year ended June 30, 2016, the City recognized pension expense of \$29,346. 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>
Differences between expected and actual experience	\$ -	\$ 43,755
Net difference between projected and actual earnings on pension plan investments	141,795	172,243
City contributions subsequent to the Measurement date	<u>79,705</u>	<u>-</u>
Total	\$ <u>221,500</u>	\$ <u>217,337</u>

The \$79,705 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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	\$ (32,342)
2018	(32,342)
2019	(32,342)
2020	26,116
2021	<u>(4,632)</u>
	\$ <u>(75,542)</u>

**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 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.

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

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The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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>Long-Term Expected Real Rate of Return</u>
Fixed income	2.24%
Domestic equity	4.87%
International equity	7.68%
Real Estate	5.47%
Private Equity	5.80%
Other assets	2.96%

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 employees 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-percent 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) \$	475,460	7,913	(386,262)

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

**Oklahoma Municipal Retirement Fund – Defined Contribution Plans**

**Municipal Retirement Plan** - The City has provided a defined contribution plan and trust known as the City of Pauls Valley Plan (the "Plan") in the form of The Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF). OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The Plan is administered by OMRF and plan assets

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes To the Basic Financial Statements**  
**For the Year Ended June 30, 2016**

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are supervised by OMRF. The defined contribution plan is available to all full-time employees not participating in another plan. Employees are eligible to participate three months from the date of employment. Employees are required to contribute at least 1% but no more than 5% of compensation. Employer contributions shall equal 100% of the total mandatory contributions by employees. City contributions for each employee begin vesting after two years of service and are fully vested after six years. If an employee terminates before becoming fully vested, the employer's contributions are forfeited and may be used to reduce the City's current period contribution requirements. The authority to amend the provisions of the plan rests with the City Council.

**Schedule of Retirement Contributions – Defined Contribution Plan**

<u>Fiscal Year</u>	<u>Employer Contribution</u>	<u>Employee Contribution</u>
6/30/14	\$ 57,818	\$ 57,818
6/30/15	\$ 63,726	\$ 63,694
6/30/16	\$ 71,176	\$ 78,233

**City Manager Retirement Plan** - The City has provided a defined contribution plan and trust known as the City of Pauls Valley Plan (the "Plan") in the form of The Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF) available only to the city manager. OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The Plan is administered by OMRF and plan assets are supervised by OMRF. The city manager is required to contribute to the Plan 3.5% of compensation. The City Council determines the City's contribution rate each year. However, the maximum contribution amount from employee and employer is limited to \$46,000. City contributions for the city manager begin vesting immediately. The authority to amend the provisions of the plan rests with the City Council.

**Schedule of Retirement Contributions – Defined Contribution Plan**

<u>Fiscal Year</u>	<u>Employer Contribution</u>	<u>Employee Contribution</u>
6/30/14	\$ 8,638	\$ 3,591
6/30/15	\$ 9,097	\$ 3,781
6/30/16	\$ 9,171	\$ 3,812

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ending June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Beginning Budgetary Fund Balance</b>	\$ -	\$ 300,000	\$ 1,420,036	\$ (1,120,036)
<b>Revenue</b>				
Taxes	5,250,000	5,250,000	4,866,006	383,994
Intergovernmental	181,000	188,000	186,865	1,135
Charges for Services	841,500	952,500	925,676	26,824
Fines and Forfeitures	177,000	182,500	176,269	6,231
Licenses and Permits	37,000	42,000	40,355	1,645
Investment Income	2,500	12,500	1,966	10,534
Miscellaneous	56,000	149,000	63,151	85,849
Loan Proceeds	-	-	436,155	(436,155)
Transfers In	1,674,422	1,925,866	1,880,137	45,729
<b>Total Revenues</b>	<u>8,219,422</u>	<u>8,702,366</u>	<u>8,576,580</u>	<u>125,786</u>
<b>Amounts available for appropriations</b>	<u>8,219,422</u>	<u>9,002,366</u>	<u>9,996,616</u>	<u>(994,250)</u>
<b>Expenses</b>				
Transfers	1,608,767	1,592,167	1,505,767	86,400
Administration	971,279	1,314,677	1,280,793	33,884
Police	1,226,430	1,244,760	1,239,662	5,098
Fire	838,630	797,080	760,246	36,834
Street	1,015,726	1,003,291	963,538	39,753
Shop	100,030	100,830	98,985	1,845
Park	163,984	179,534	175,912	3,622
Cemetery	189,546	177,804	166,249	11,555
Golf	381,922	347,352	331,520	15,832
Library	140,025	147,220	146,218	1,002
Senior Center	66,446	91,741	90,333	1,408
Airport	24,484	47,884	25,315	22,569
Aquatic	559,451	817,151	812,391	4,760
Recreation	654,176	697,711	691,070	6,641
Animal Control	140,750	132,985	123,031	9,954
<b>Total Expenses</b>	<u>8,081,646</u>	<u>8,692,187</u>	<u>8,411,030</u>	<u>281,157</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$ 137,776</u>	<u>\$ 310,179</u>	<u>\$ 1,585,586</u>	<u>\$ (1,275,407)</u>
<b>Reconciliation of Budget to GAAP</b>				
Change in Accruals			(74,416)	
Fund Balance - GAAP			<u>\$ 1,511,170</u>	

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Budgetary Comparison Schedule**  
**One Cent Fund**  
**For the Year Ending June 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Beginning Budgetary Fund Balance</b>	\$ -	\$ -	\$ 2,182,632	\$ (2,182,632)
<b>Revenue</b>				
Taxes	1,466,667	1,466,667	1,359,506	107,161
Investment Income	2,500	2,500	4,020	(1,520)
Transfer In	-	-	-	-
<b>Total Revenues</b>	<u>1,469,167</u>	<u>1,469,167</u>	<u>1,363,526</u>	<u>105,641</u>
<b>Amounts available for appropriations</b>	<u>1,469,167</u>	<u>1,469,167</u>	<u>3,546,158</u>	<u>(2,076,991)</u>
<b>Expenses</b>				
Transfers out	1,135,866	1,135,866	1,155,817	(19,951)
Capital Outlay	330,801	330,801	147,957	182,844
<b>Total Expenses</b>	<u>1,466,667</u>	<u>1,466,667</u>	<u>1,303,774</u>	<u>162,893</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$ 2,500</u>	<u>\$ 2,500</u>	<u>\$ 2,242,384</u>	<u>\$ (2,239,884)</u>
Reconciliation of Budget to GAAP				
Change in Accruals			5,954	
Fund Balance - GAAP			<u>\$ 2,248,338</u>	

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Notes to Budgetary Comparison Schedules**  
**For the year Ended June 30, 2016**

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1. The City prepares its budgets for all funds on the cash basis of accounting. For budgetary purposes expenditures are recorded in the period the invoice is received and paid. All unexpended encumbrances lapse at year-end and therefore are not recorded as expenditures for budgetary purposes. The Capital Improvement Fund, even though it is considered a major fund, is a capital project fund and is not required to have a budget vs. actual presented.
2. The appropriated budget is prepared by fund, department and categories (personal services, materials and supplies, other services, capital outlay, debt service and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

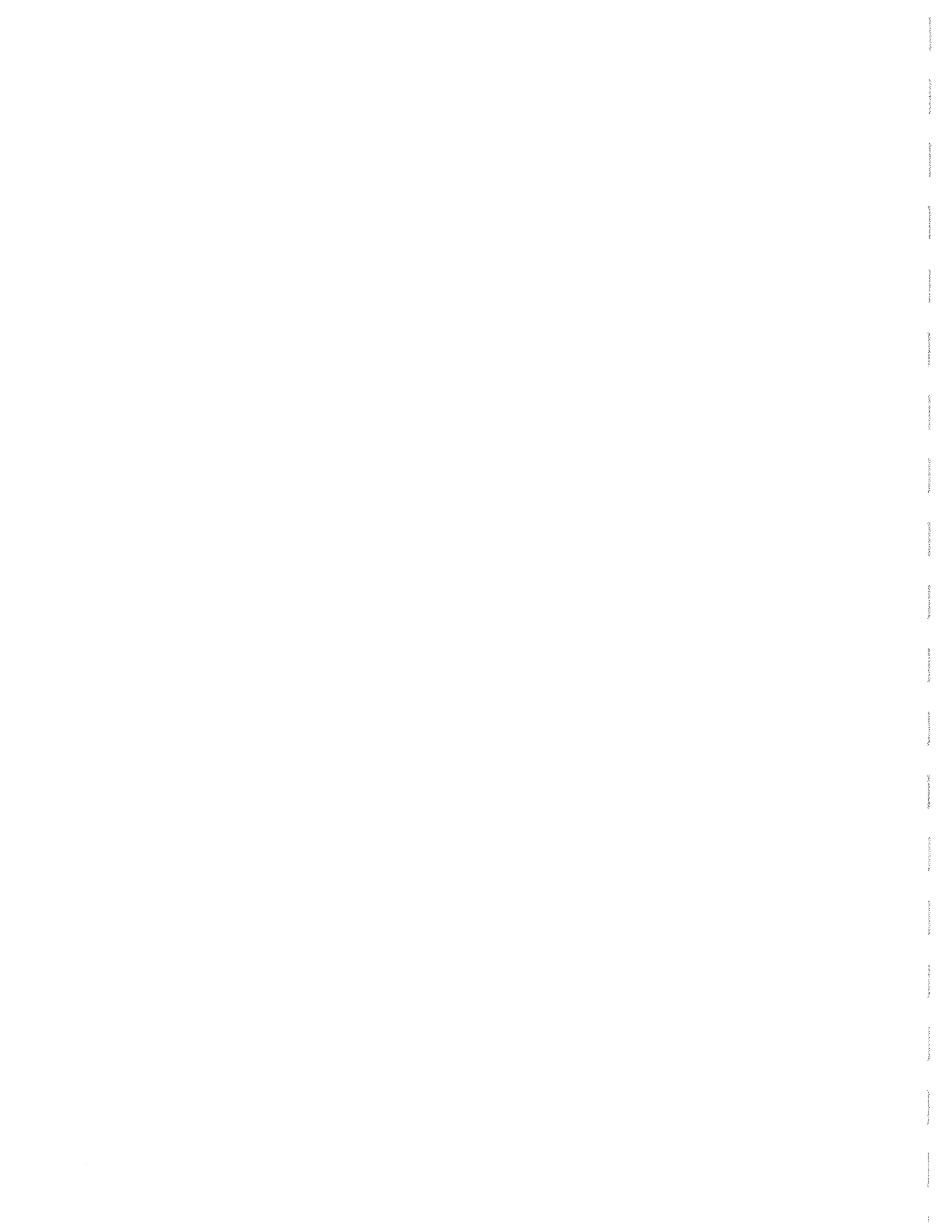
The city manager submits an annual budget to the City Council in accordance with the Oklahoma Municipal Budget Act. In June the City Council adopts annual fiscal year appropriated budgets for all city funds.

3. The budgetary basis differs from the modified accrual basis as shown below:

	General Fund	One Cent Sales Tax Fund
Total revenue-budgetary basis	\$ 8,211,425	\$ 1,363,526
Total expense-budgetary basis	(8,411,030)	(1,303,774)
Change in fund balance-budgetary basis	(199,605)	59,752
Revenue Accruals	( 75,326)	5,954
Expenditure Accruals	910	-0-
Change in fund balance-GAAP basis	\$ (274,021)	\$ 65,706

4. One Cent Fund overspent transfers out by \$19,951.





**CITY OF PAULS VALLEY, OKLAHOMA**  
**Required Supplemental Information**  
**On Pension Plan Funding Progress**  
**For the year Ended June 30, 2016**

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**Exhibit 1**  
**Schedule of the City of Pauls Valley Proportionate Share of the Net Pension Liability (Asset)**  
**Oklahoma Police Pension & Retirement System**  
**Last 10 Fiscal Years\***

	2014	2015
City's proportion of the net pension liability (asset)	.1957%	.1941%
City's proportionate share of the net pension liability (asset)	\$ (65,886)	\$ 7,913
City's covered-employee payroll	\$ 535,736	\$ 548,547
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(12.30%)	1.44%
Plan fiduciary net position as a percentage of the total pension liability (asset)	101.53%	99.82%

\*The amounts present for each fiscal year were determined as of 6/30

**Notes to Schedule:**

Only the last 2 fiscal years are presented because 10-year data is not yet available.

**Exhibit 2**  
**Schedule of the City Contributions**  
**Oklahoma Police Pension & Retirement System**  
**Last 10 Fiscal Years\***

	2014	2015
Statutorily required contribution	\$ 68,883	\$ 71,311
Contributions in relation to the statutorily required contribution	68,883	71,311
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 535,736	\$ 548,547
Contributions as a percentage of covered-employee payroll	13.0%	13.0%

\*The amounts present for each fiscal year were determined as of 6/30

**Notes to Schedule:**

Only the last 2 fiscal years are presented because 10-year data is not yet available.

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Required Supplemental Information**  
**On Pension Plan Funding Progress**  
**For the year Ended June 30, 2016**

**Exhibit 3**  
**Schedule of the City of Pauls Valley Proportionate Share of the Net Pension Liability (Asset)**  
**Oklahoma Firefighters Pension & Retirement System**  
**Last 10 Fiscal Years\***

	2014	2015
City's proportion of the net pension liability (asset)	.1321%	.13759%
City's proportionate share of the net pension liability (asset)	\$ 1,358,550	\$ 1,460,388
City's covered-employee payroll	\$ 343,153	\$ 367,786
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	395.90%	367.07%
Plan fiduciary net position as a percentage of the total pension liability (asset)	68.12%	68.27%

\*The amounts present for each fiscal year were determined as of 6/30

**Notes to Schedule:**

Only the last 2 fiscal years are presented because 10-year data is not yet available.

**Exhibit 4**  
**Schedule of the City Contributions**  
**Oklahoma Firefighters Pension & Retirement System**  
**Last 10 Fiscal Years\***

	2014	2015
Statutorily required contribution	\$ 46,801	\$ 51,490
Contributions in relation to the statutorily required contribution	46,801	51,490
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 343,153	\$ 367,786
Contributions as a percentage of covered-employee payroll	14.0%	14.0%

\*The amounts present for each fiscal year were determined as of 6/30

**Notes to Schedule:**

Only the last 2 fiscal years are presented because 10-year data is not yet available.

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2016**

	Special Revenue							Capital Projects			Total Nonmajor Governmental Funds	
	Police Special	Cemetery Beautification	Senior Citizens	911 Account	Marianne Ewert Bequest	Tourism Motel Tax	PV Special Ambulance	NSW Library Trust	PV Airport Project	TIF		Cemetery Care
<b>Assets</b>												
Cash and Cash Equivalents	\$ 42,023	\$ 11,439	\$ 176	\$ 30,020	\$ 50,109	496,961	\$ -	\$ 527,585	\$ 212,015	\$ 69,912	\$ 44,798	\$ 1,485,038
Investments	-	-	-	-	-	-	-	-	-	-	-	-
Receivables:												
Interest	-	-	-	-	-	-	-	-	-	-	-	-
Taxes	-	-	-	1,962	-	20,119	518	-	-	-	-	22,599
Prepaid Expenses	-	-	-	-	-	2,500	-	-	-	-	-	2,500
Inventory	-	-	-	-	-	19,227	-	-	-	-	-	19,227
Due from Other Governments	-	-	-	-	-	-	-	-	-	-	-	-
Due from Other Funds	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Net Position</b>	<b>42,023</b>	<b>11,439</b>	<b>176</b>	<b>31,982</b>	<b>50,109</b>	<b>538,807</b>	<b>518</b>	<b>527,585</b>	<b>212,015</b>	<b>69,912</b>	<b>44,798</b>	<b>1,529,364</b>
<b>Liabilities</b>												
Accounts Payable	-	-	-	-	-	-	-	-	213,211	-	-	213,211
Accrued Liabilities	422	-	-	-	-	6,521	-	-	-	-	-	6,943
AT&T 911 Fee Advances	-	-	-	28,068	-	-	-	-	-	-	-	28,068
Deferred Revenue	-	-	-	-	-	-	-	278,584	-	-	-	278,584
<b>Total Liabilities</b>	<b>422</b>	<b>-</b>	<b>-</b>	<b>28,068</b>	<b>-</b>	<b>6,521</b>	<b>-</b>	<b>278,584</b>	<b>213,211</b>	<b>-</b>	<b>-</b>	<b>526,806</b>
<b>Fund Balances</b>												
Nonspendable	-	-	-	-	50,000	21,727	-	-	-	-	-	71,727
Restricted	-	10,618	176	-	-	510,559	518	190,846	-	69,912	6,778	789,407
Committed	-	-	-	-	-	-	-	-	-	-	-	-
Assigned	41,601	821	-	3,914	109	-	-	58,155	-	-	38,020	142,620
Unassigned	-	-	-	-	-	-	-	-	(1,196)	-	-	(1,196)
<b>Total Fund Balances</b>	<b>41,601</b>	<b>11,439</b>	<b>176</b>	<b>3,914</b>	<b>50,109</b>	<b>532,286</b>	<b>518</b>	<b>249,001</b>	<b>(1,196)</b>	<b>69,912</b>	<b>44,798</b>	<b>1,002,558</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 42,023</b>	<b>\$ 11,439</b>	<b>\$ 176</b>	<b>\$ 31,982</b>	<b>\$ 50,109</b>	<b>\$ 538,807</b>	<b>\$ 518</b>	<b>\$ 527,585</b>	<b>\$ 212,015</b>	<b>\$ 69,912</b>	<b>\$ 44,798</b>	<b>\$ 1,529,364</b>

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2016**

	Special Revenue							Capital Projects			Total Nonmajor Governmental Funds	
	Police Special	Cemetery Beautification	Senior Citizens	911 Account	Marianne Ewert Bequest	Tourism Motel Tax	NSW Library Trust	PV Special Ambulance	PV Airport Project	TIF		Cemetery Care
<b>Revenues</b>												
Taxes	\$ -	\$ -	\$ -	\$ 25,530	\$ -	\$ 326,000	\$ -	\$ 110,984	\$ -	\$ 134	\$ -	\$ 462,648
Intergovernmental	-	-	-	-	-	-	5,651	-	1,347,018	-	-	1,352,669
Charges for Services	-	-	-	-	-	97,384	-	-	-	-	6,778	104,162
Fines and Forfeitures	-	-	-	-	-	-	-	-	-	-	-	-
Investment Income	113	18	-	1	100	342	696	-	34	-	84	1,388
Miscellaneous	25,723	525	125	-	-	-	28,407	-	-	-	-	54,780
<i>Total Revenues</i>	<u>25,836</u>	<u>543</u>	<u>125</u>	<u>25,531</u>	<u>100</u>	<u>423,726</u>	<u>34,754</u>	<u>110,984</u>	<u>1,347,052</u>	<u>134</u>	<u>6,862</u>	<u>1,975,647</u>
<b>Expenditures</b>												
Current:												
Police	12,035	-	-	-	-	-	-	-	-	-	-	12,035
Emergency 911	-	-	-	-	-	-	-	-	-	-	-	-
Special Ambulance Service	-	-	-	56,068	-	-	-	111,143	-	-	-	167,211
Library	-	-	-	-	-	-	58,451	-	-	-	-	58,451
Senior Citizens	-	-	-	-	-	-	-	-	-	-	-	-
Recreation	-	-	-	-	-	-	-	-	-	-	-	-
Streets	-	-	-	-	-	-	-	-	-	-	-	-
Economic Development	-	-	-	-	-	490,212	-	-	-	-	-	490,212
Airport	-	-	-	-	-	-	-	-	-	-	-	-
Capital Outlay	13,295	-	500	-	-	-	-	-	-	-	-	13,795
Debt Service	-	-	-	-	-	-	-	-	-	-	-	-
<i>Total Expenditures</i>	<u>25,330</u>	<u>-</u>	<u>500</u>	<u>56,068</u>	<u>-</u>	<u>490,212</u>	<u>58,451</u>	<u>111,143</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>741,704</u>
<i>Excess (Deficiency) of Revenues over Expenditures</i>	<u>506</u>	<u>543</u>	<u>(375)</u>	<u>(30,537)</u>	<u>100</u>	<u>(66,486)</u>	<u>(23,697)</u>	<u>(159)</u>	<u>1,347,052</u>	<u>134</u>	<u>6,862</u>	<u>1,233,943</u>
<b>Other Financing Sources</b>												
Transfers In	4,192	-	-	30,469	-	-	-	-	-	-	-	34,661
Transfers Out	-	-	-	-	-	-	-	-	-	-	-	-
Contribution Expense	-	-	-	-	-	-	-	-	(1,340,548)	-	-	(1,340,548)
Transfers to Component Unit	-	-	-	-	-	-	-	-	-	-	-	-
<i>Total Other Financing Sources</i>	<u>4,192</u>	<u>-</u>	<u>-</u>	<u>30,469</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,340,548)</u>	<u>-</u>	<u>-</u>	<u>(1,305,887)</u>
Net Change in Fund Balances	4,698	543	(375)	(68)	100	(66,486)	(23,697)	(159)	6,504	134	6,862	(71,944)
Fund Balances - Beginning	36,903	10,896	551	3,982	50,009	598,772	272,698	677	(7,700)	69,778	37,936	1,074,502
Fund Balances - Ending	\$ <u>41,601</u>	\$ <u>11,439</u>	\$ <u>176</u>	\$ <u>3,914</u>	\$ <u>50,109</u>	\$ <u>532,286</u>	\$ <u>249,001</u>	\$ <u>518</u>	\$ <u>(1,196)</u>	\$ <u>69,912</u>	\$ <u>44,798</u>	\$ <u>1,002,558</u>

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Combining Balance Sheet**  
**General Fund Accounts**  
**For the Year Ended June 30, 2016**

	<u>General Fund Account</u>	<u>Rose Garden Fund Account</u>	<u>Wacker Park Fund Account</u>	<u>Beautification Fund Account</u>	<u>Total General Fund</u>
<b>Assets</b>					
Cash and cash equivalents	\$ 498,425	\$ 4,878	\$ 30,146	\$ 1,184	\$ 534,633
Restricted cash and cash equivalents	193,407	-			193,407
Accounts receivable, net	67,357	-			67,357
Taxes receivable	559,598	-			559,598
Due from other funds	-				-
Prepaid expenses	398,016	-			398,016
Advance to component unit	28,900				28,900
<i>Total Assets</i>	<u>1,745,703</u>	<u>4,878</u>	<u>30,146</u>	<u>1,184</u>	<u>1,781,911</u>
<b>Liabilities</b>					
Accounts payable	57,285				57,285
Accrued liabilities	135,636				135,636
Contractor Deposits	15,000				15,000
<i>Total Liabilities</i>	<u>207,921</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>207,921</u>
<b>Deferred Inflows of Resources:</b>					
Police fines unavailable	26,612				26,612
<i>Total Deferred Inflows of Revenue</i>	<u>26,612</u>				<u>26,612</u>
<b>Fund Balances</b>					
Nonspendable	426,916	-	-	-	426,916
Restricted	623,609	-	-	-	623,609
Committed	-	-	-	-	-
Assigned	-	4,878	30,146	1,184	36,208
Unassigned	460,646	-	-	-	460,646
<i>Total Fund Balances</i>	<u>1,511,170</u>	<u>4,878</u>	<u>30,146</u>	<u>1,184</u>	<u>1,547,378</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 1,745,703</u>	<u>\$ 4,878</u>	<u>\$ 30,146</u>	<u>\$ 1,184</u>	<u>\$ 1,781,911</u>

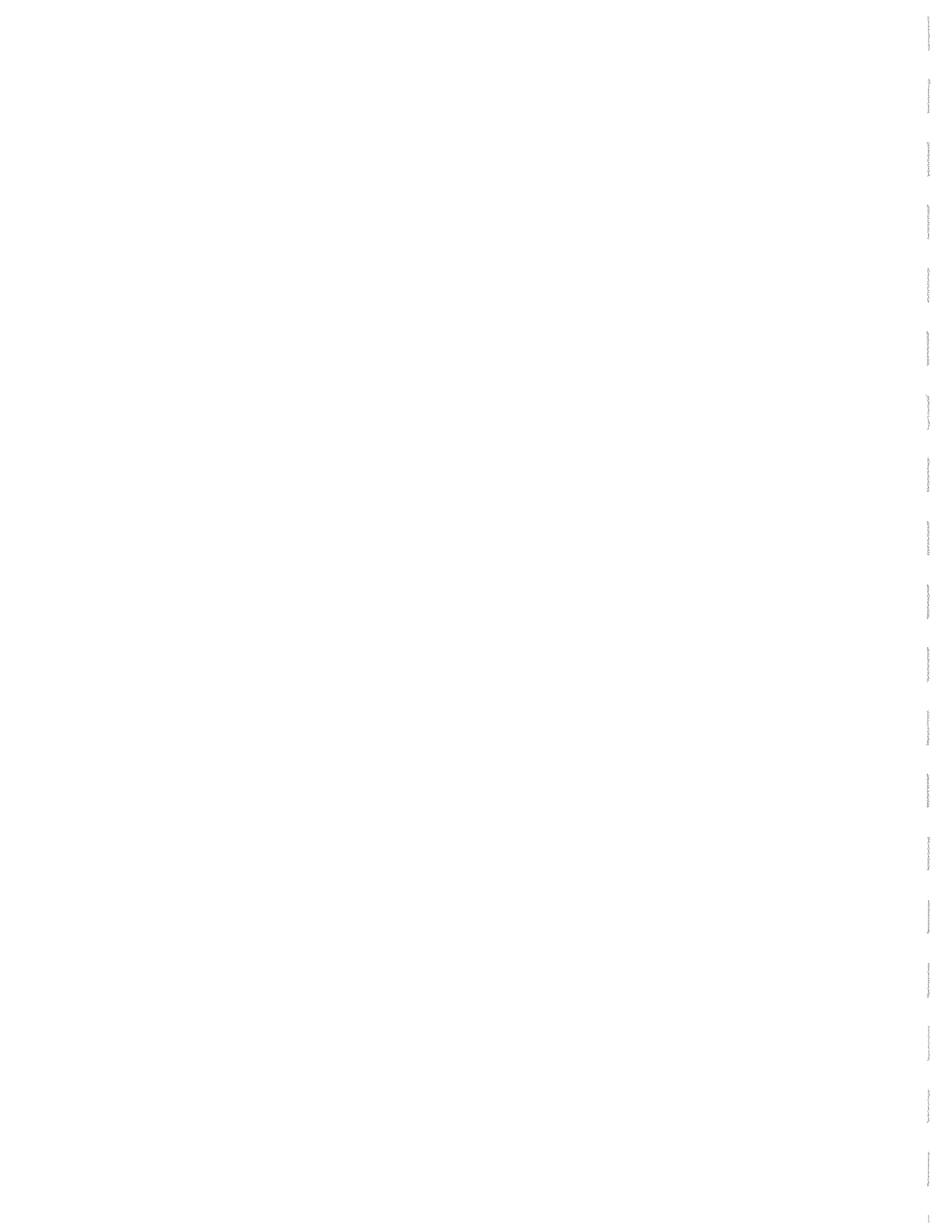
**CITY OF PAULS VALLEY, OKLAHOMA**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**General Fund Accounts**  
**For the Year Ended June 30, 2016**

	<u>General Fund Account</u>	<u>Rose Garden Fund Account</u>	<u>Wacker Park Fund Account</u>	<u>Beautification Fund Account</u>	<u>Total General Fund</u>
<b>Revenues</b>					
Taxes	\$ 5,488,112	-	-	-	\$ 5,488,112
Intergovernmental	379,782	-	-	-	379,782
Charges for services	937,839	-	-	-	937,839
Fines and forfeitures	178,926	-	-	-	178,926
Licenses and permits	40,355	-	-	1,190	41,545
Investment income	1,966	8	48	2	2,024
Miscellaneous	48,151	-	5,061	-	53,212
<i>Total Revenues</i>	<u>7,075,131</u>	<u>8</u>	<u>5,109</u>	<u>1,192</u>	<u>7,081,440</u>
<b>Expenditures</b>					
Current:					
Administration	645,770	-	-	-	645,770
Police	1,267,177	-	-	-	1,267,177
Fire	842,077	-	-	-	842,077
Streets	499,874	-	-	-	499,874
Shop	99,398	-	-	-	99,398
Park	160,218	-	-	3,515	163,733
Cemetery	167,104	-	-	-	167,104
Golf	315,675	-	-	-	315,675
Library	145,943	-	-	-	145,943
Senior center	90,426	-	-	-	90,426
Airport	27,430	-	-	-	27,430
Aquatic	431,891	-	-	-	431,891
Recreation	681,336	-	-	-	681,336
Animal control	122,866	-	-	-	122,866
Capital outlay	322,150	-	-	-	322,150
Debt service	785,951	-	-	-	785,951
<i>Total Expenditures</i>	<u>6,605,286</u>	<u>-</u>	<u>-</u>	<u>3,515</u>	<u>6,608,801</u>
<i>Excess (Deficiency) of Revenues over Expenditures</i>	<u>469,845</u>	<u>8</u>	<u>5,109</u>	<u>(2,323)</u>	<u>472,639</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	1,880,137	-	-	-	1,880,137
Transfers out	(1,484,167)	-	-	-	(1,484,167)
Capital lease/loan proceeds	436,155	-	-	-	436,155
Payments to/for Hospital Authority	(1,189,236)	-	-	-	(1,189,236)
Transfers to component units	(21,600)	-	-	-	(21,600)
<i>Total Other Financing Sources (Uses)</i>	<u>(378,711)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(378,711)</u>
Net Change in Fund Balances	91,134	8	5,109	(2,323)	93,928
Fund Balances - beginning	<u>1,420,036</u>	<u>4,870</u>	<u>25,037</u>	<u>3,507</u>	<u>1,453,450</u>
Fund Balances - ending	<u>\$ 1,511,170</u>	<u>\$ 4,878</u>	<u>\$ 30,146</u>	<u>\$ 1,184</u>	<u>\$ 1,547,378</u>

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Schedule of Federal and State Awards**  
**For the Year Ending June 30, 2016**

<u>Grantor/Program Title</u>	<u>Award Amount</u>	<u>Prior Year Revenues</u>	<u>Current Year Revenues</u>	<u>Prior Year Expenditures</u>	<u>Current Year Expenditures</u>
<b>Federal Awards:</b>					
<u>Department of Transportation</u>					
FAA AIP - Grant #3-40-0076-012-2013	\$ 1,669,253	\$ 1,504,920	\$ 54,731	\$ 1,504,920	\$ 54,731
FAA AIP - Grant #3-40-0076-013-2015	150,000	-	150,000	-	150,000
FAA AIP - Grant #3-40-0076-014-2015	79,067	-	79,067	-	79,067
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Federal Awards	<u>1,898,320</u>	<u>1,504,920</u>	<u>283,798</u>	<u>1,504,920</u>	<u>283,798</u>
 <b>State Awards:</b>					
Okla. Aeronautics Commission PVJ-14-FSA	\$ 92,736	\$ 85,266	\$ -	\$ 85,266	\$ -
Okla. Aeronautics Commission NPE #15141	\$ 1,051,225	\$ -	\$ 1,051,015	\$ -	\$ 1,051,015
Dept. Libraries State Aid	7,425	-	6,538	-	6,538
Dept. of Agriculture- Fire Operations	4,290	4,484	4,290	4,484	4,290
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total State Awards	<u>1,155,676</u>	<u>89,750</u>	<u>1,061,843</u>	<u>89,750</u>	<u>1,061,843</u>







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CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the City Council  
City of Pauls Valley, Oklahoma

We have audited 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, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Pauls Valley, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 22, 2017. We issued an adverse opinion on the major enterprise fund, the Pauls Valley Hospital Authority, and qualified our opinion on the Business-type activity, due to the omission of the Pauls Valley Hospital Authority.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine auditing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 16-2, and 16-3.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 16-1, 16-2 and 16-3.

### **City of Pauls Valley's Responses to Findings**

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of This Report**

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

Chickasha, Oklahoma  
February 22, 2017

**CITY OF PAULS VALLEY, OKLAHOMA**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2016**

- 16-1. Criteria – The OWRB debt requires revenue debt service coverage of 125%.
- Condition – The debt service coverage for the year is 119%.
- Cause – The net revenue for the year is lower than anticipated.
- Effect – The debt covenant requirements of 125% were not met.
- Recommendation – Review current year revenue and adjust income or expenses to stay in compliance.
- Management response – Utility rates were increased in the spring of 2016 and in January of 2017. It is anticipated this will put the City back in compliance.
- 16-2. Criteria – Purchase orders are to be used to initiate the purchasing process. The purchase order should be signed by the encumbrance clerk to verify budgeted funds are available.
- Condition – In our expenditure testing, we noted five of thirty-three purchase orders/purchase requisitions tested were prepared after date of invoice.
- Cause and Effect – Ordering goods or services prior to purchase order approve increases the possibility that goods or services could be ordered in excess of allowable budget constraints.
- Recommendation – The City needs to enhance proper purchase order procedures.
- Management response – Management agrees.
- 16-3. Criteria – Monthly payments are made on various notes. Procedures need to be in place to make sure payments are for the correct amounts.
- Condition – During testing of notes it appears a note's interest was overpaid by approximately \$8,000.
- Cause and Effect – The 2014 note for over 5 million dollars has a variable interest rate. The bank each month sends a statement showing the amount due. One month the statement was approximately twice the normal amount. There were no procedures establish to make sure payments are verified prior to payment.
- Recommendation – The City should verify all payments as appropriate prior to payment.
- Management response – Management has contacted the financial institution and is trying to resolve the issue.

**CITY OF PAULS VALLEY, OKLAHOMA  
DISPOSITION OF PRIOR YEAR FINDINGS  
Year Ended June 30, 2016**

**Deficiencies of Internal Control, Compliance and Other Matters**

- 15-1. Criteria – All cash collection points need to have established procedures that can account of all cash received. Also all cash collected should be deposited on a timely basis.
- Condition – Some donations at the library are not recorded and for fees collected no receipts are given. The employees indicated there were instances of collections not being recorded in the cash log book. Also cash was being used to pay bills rather than going through the City standard purchasing procedures. Also there were not enough documentation of cash payments to cover the cash known to be on hand.
- Disposition – This was not noted a problem during the 2015-16 fiscal year.
- 15-2. Criteria – All departments and functions of the City should follow the standard collection and purchasing processes.
- Condition – Okie Noodling event has a committee that reviews and monitors all the activity. However, these procedures for purchasing do not follow the normal purchasing procedures. Also the collection process could implement additional documentation procedures to better control the process.
- Disposition – This was not noted a problem during the 2015-16 fiscal year.
- 15-3. Criteria – Employee timesheets need to be signed by the employees and their department head.
- Condition – Timesheets are not always being signed by employees and/or their department heads. This needs to be done so there is no dispute as to hours worked and leave taken.
- Disposition – This was not noted a problem during the 2015-16 fiscal year.
- 15-4. Criteria – The OWRB debt requires revenue debt service coverage of 125%.
- Condition – The debt service coverage for the year is 119%.
- Disposition – This continues to be a finding during 2015-16 fiscal year.
- 15-5. Criteria – All allowable expenses on federal grant projects should be reported and claimed on a timely basis.
- Condition – There was a change in the contractual arrangement with the engineer on the FAA Airport Improvement Program. This additional amount was not reported and claimed with the FAA.
- Disposition – This was not noted a problem during the 2015-16 fiscal year.