



CITY OF OKEMAH, OKLAHOMA

**ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORTS**

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2019**

**THE CITY OF OKEMAH,
OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORTS**

**AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2019**

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2019

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and City Council
City of Okemah, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Okemah, Oklahoma (the "City") as of and for the year ended June 30, 2019, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1(B); this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2019, and the respective changes in modified cash basis financial position and where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1(B).

Basis of Accounting

We draw attention to Note 1(B) of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States. Our opinions are not modified with respect to this matter.

Other Matters

Report on Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the City's basic financial statements. The management's discussion and analysis, budgetary comparison information, the non-major governmental funds combining statements—modified cash basis, and the schedules of expenditures of federal and state awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The management's discussion and analysis on pages 10 through 17 and the budgetary comparison information on pages 49 and 50 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

The non-major governmental funds combining statements—modified cash basis and the schedules of expenditures 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 statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Matters, Continued

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2019, 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 solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Finlay + Cook, PLLC

Shawnee, Oklahoma
October 24, 2019

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MANAGEMENT DISCUSSION AND ANALYSIS

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2019**

The management of the City of Okemah is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities for the year ended June 30, 2019. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analysis in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net position decreased by \$386,485, and the assets of the City exceed its liabilities at June 30, 2019, by \$21.2 million (net position). Of this amount, \$1.7 million (unrestricted net position) is available to meet the government's ongoing needs.
- At June 30, 2019, the City's governmental funds reported combined ending fund balances on a modified cash basis of approximately \$2.4 million.
- At the end of fiscal year 2019, unassigned fund balance on a modified cash basis for the General Fund was \$545,023 or 33% of General Fund revenues.

About the City

The City of Okemah is an incorporated municipality with a population of approximately 3,085 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

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and certain utility services including water, sewer, sanitation and economic development services.

The City's Financial Reporting Entity

This annual report includes all activities for which the City of Okemah City Council is fiscally responsible. These activities, defined as the City's financial reporting entity, are operated within separate legal entities that make up the primary government.

The City's financial reporting entity includes the following separate legal entities.

- **The City of Okemah** – that operates the public safety, cemetery, streets and public works, culture and recreation, and administrative activities of the City, with such activities reported in the General Fund and various other governmental funds.
- **The Okemah Utilities Authority (OUA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, sewer and sanitation services of the City. The City of Okemah is the

beneficiary of the trust and the City Council serves as the governing body of the trust. The OUA is currently reported as an enterprise fund.

- **The Okemah Economic Development Authority (OEDA)** – public trust created pursuant to 60 O.S. § 176 to provide economic development opportunities, in or near the City, with the City Council members serving as the trustees. The OEDA is currently reported as an enterprise fund.

In addition, as required by state law, all debt obligations incurred by the trusts must be approved by two-thirds vote of the City Council. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trust within the City’s financial reporting entity. The public trusts do not issue separate annual financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Okemah (the “City”), the Okemah Utilities Authority (the “Authority”) and the Okemah Economic Development Authority (OEDA). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type, along with fund financial statements for the City (governmental funds) and the OUA and OEDA (enterprise funds).

The government-wide financial statements present the complete financial picture of the City using the modified cash basis of accounting. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt), arising from cash transactions. They present governmental and business-type activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City’s operations in more detail than the government-wide statements by providing information about the City’s most significant funds.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

One of the most frequently asked questions about the City’s finances is, “Has the City’s overall financial condition improved, declined or remained steady over the past year?” The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City’s sales tax base, the condition of the City’s roads, the quality of service to assess the overall health of the City. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those City assets and liabilities resulting from cash transactions.

These two government-wide statements report the City’s net position and changes in them from the prior year. You can think of the City’s net position – the difference between assets and liabilities– as one way to measure the City’s financial condition, or position. Over time, increases or decreases in the City’s net position are one indicator of whether its financial health is improving, deteriorating, or remaining steady. However, you must consider other nonfinancial factors, such as changes in the City’s tax base, the condition of the City’s roads, and the quality of services to assess the overall health and performance of the City.

As mentioned above, in the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities** -- Most of the City’s basic services are reported here, including the police, fire, general administration, streets, and parks. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.
- **Business-type activities** -- The City typically charges a fee to customers to help cover all or most of the cost of certain services it provides. The City’s water, wastewater, and sanitation activities and economic development activities are reported here.

Reporting the City’s Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. The City’s two kinds of funds – *governmental and proprietary* - use different accounting approaches.

Governmental funds -- Most of the City’s basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. The differences of results in the Governmental Fund financial statements to those in the Government-Wide financial statements are explained in a reconciliation following each Governmental Fund financial statement.

Proprietary funds – When the City, mainly through the Utilities Authority, charges customers for the services it provides, these services are generally reported in a type of proprietary fund known as an “enterprise fund”. The City’s proprietary-type enterprise funds are reported on the modified cash basis of accounting. For example, enterprise fund capital assets are capitalized and depreciated, while principal payments on long-term debt are recorded as a reduction to the liability. The City’s proprietary-type enterprise funds are the Okemah Utilities Authority that accounts for the operation of the water, sewer, and sanitation activities as well as the Okemah Economic Development Authority that accounts for economic development activities.

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Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 30-47 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents a Management's Discussion and Analysis, a Budgetary Comparison Schedule for the General Fund, and federal and state award schedules.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the primary government, on a modified cash basis, assets exceeded liabilities by \$21.2 million at the close of the most recent fiscal year.

NET POSITION - Modified Cash Basis (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2019	2018		2019	2018		2019	2018	
Current assets	\$ 2,399	\$ 2,418	-1%	\$ 876	\$ 1,361	-36%	\$ 3,275	\$ 3,779	-13%
Capital assets, net	7,036	7,006	0%	14,299	14,721	-3%	21,335	21,727	-2%
Total assets	9,435	9,424	0%	15,175	16,082	-6%	24,610	25,506	-4%
Current liabilities	20	18	11%	606	597	2%	626	615	2%
Non-current liabilities	12	32	-62%	2,742	3,243	-15%	2,754	3,275	-16%
Total liabilities	32	50	-36%	3,348	3,840	-13%	3,380	3,890	-13%
Net position									
Net investment in capital assets	7,004	6,957	1%	11,055	10,987	1%	18,059	17,944	1%
Restricted	1,295	1,193	9%	150	90	67%	1,445	1,283	13%
Unrestricted	1,104	1,224	-10%	622	1,165	-47%	1,726	2,389	-28%
Total net position	\$ 9,403	\$ 9,374	0%	\$ 11,827	\$ 12,242	-3%	\$ 21,230	\$ 21,616	-2%

The largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. For 2019, this net investment in capital assets, amounted to \$18.1 million. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A major portion of the City's net position, \$1.4 million, also represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is available to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position for both the governmental and business-type activities.

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Explanations are given for individual items in excess of 20% change and in excess of \$100,000 change as follows:

Business-Type Activities:

Current assets decreased 36% (about \$0.5 million) and Unrestricted Net Position decreased 47% (about \$0.5 million) resulting primarily from transfers to the General Fund for about the same amount.

Changes in Net Position

For the year ended June 30, 2019, on the modified cash basis of accounting, net position of the primary government changed as follows:

CHANGES IN NET POSITION - Modified Cash Basis (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2019	2018		2019	2018		2019	2018	
Revenues									
Charges for service	\$ 53	\$ 51	4%	\$ 2,096	\$ 2,139	-2%	\$ 2,149	\$ 2,190	-2%
Operating grants and contributions	68	114	-40%	-	-	-	68	114	-40%
Capital grants, debt proceeds and contributions	-	278	-100%	-	-	-	-	278	-100%
Taxes	1,429	1,331	7%	-	-	-	1,429	1,331	7%
Intergovernmental revenue	65	57	14%	-	-	-	65	57	14%
Investment income	14	10	40%	6	6	0%	20	16	25%
Miscellaneous	95	114	-17%	60	11	445%	155	125	24%
Total revenues	1,724	1,955	-12%	2,162	2,156	0%	3,886	4,111	-5%
Expenses									
General government	409	392	4%	-	-	-	409	392	4%
Public safety	1,151	1,064	8%	-	-	-	1,151	1,064	8%
Streets	405	449	-10%	-	-	-	405	449	-10%
Cemetery	55	52	6%	-	-	-	55	52	6%
Culture and Recreation	152	140	9%	-	-	-	152	140	9%
Economic development	-	-	-	128	102	25%	128	102	25%
Interest on long-term debt	3	-	100%	-	-	-	3	-	100%
Water	-	-	-	971	894	9%	971	894	9%
Sewer	-	-	-	743	655	13%	743	655	13%
Sanitation	-	-	-	255	251	2%	255	251	2%
Total expenses	2,175	2,097	4%	2,097	1,902	10%	4,272	3,999	7%
Excess (deficiency) before transfers and special item	(451)	(142)	218%	65	254	-74%	(386)	112	-445%
Transfers	480	199	141%	(480)	(199)	141%	-	-	-
Change in net position	29	57	-49%	(415)	55	-855%	(386)	112	-445%
Beginning net position	9,374	9,317	1%	12,242	12,187	0%	21,616	21,504	1%
Ending net position	\$ 9,403	\$ 9,374	0%	\$ 11,827	\$ 12,242	-3%	\$ 21,230	\$ 21,616	-2%

Explanations are given for individual items in excess of 20% change and in excess of \$100,000 change as follows:

Governmental Activities

Capital grants decreased 100% (or \$278,000) due primarily to a FEMA grant received in the prior year to repair the storm drainage system at 2nd and Ash damaged by the 2015 flood.

Transfers changed 141% (or about \$280,000) resulting from additional transfers from OEDA and OUA to the General Fund.

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**Net Revenue (Expense) of Governmental Activities
(In Thousands)**

	<u>Total Expense of Services</u>		<u>% Inc. (Dec.)</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. (Dec.)</u>
	<u>2019</u>	<u>2018</u>		<u>2019</u>	<u>2018</u>	
	General government	\$ 409		\$ 392	4%	
Public safety	1,151	1,064	8%	(1,110)	(982)	13%
Streets	405	449	-10%	(376)	(165)	128%
Cemetery	55	52	6%	(36)	(4)	800%
Culture and Recreation	152	140	9%	(137)	(121)	13%
Interest on long-term debt	3	-	100%	(3)	-	100%
Total	<u>\$ 2,175</u>	<u>\$ 2,097</u>	4%	<u>(\$2,055)</u>	<u>(\$1,654)</u>	24%

Explanations for significant changes are explained in the tables above.

Business-type Activities

The business-type activities, on the modified cash basis of accounting, had a decrease in net position of approximately \$415,000. In reviewing the departmental net (expense)/revenue, water and sanitation utility activity charges for services in 2019 were sufficient to cover expenses.

**Net Revenue (Expense) of Business-Type Activities
(In Thousands)**

	<u>Total Expense of Services</u>		<u>% Inc. Dec.</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. Dec.</u>
	<u>2019</u>	<u>2018</u>		<u>2019</u>	<u>2018</u>	
	Water	\$ 971		\$ 894	9%	
Wastewater	743	655	13%	(63)	33	-291%
Sanitation	255	251	2%	45	28	61%
Economic Development	128	102	25%	(41)	1	-4200%
Total	<u>\$ 2,097</u>	<u>\$ 1,902</u>	10%	<u>\$ (2)</u>	<u>\$ 237</u>	-101%

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2019 fiscal year, the governmental funds reported, on a modified cash basis of accounting, a combined fund balance of about \$2.4 million or a 1% decrease. The OUA and OEDA enterprise funds reported, on a modified cash basis of accounting, combined net position of \$11.8 million or a 3.4% decrease from 2018.

Other fund highlights include:

- For the year ended June 30, 2019, the General Fund's total fund balance increased by \$200,830 or 53%.
- However, the Capital Improvement Fund decreased its Fund Balance by \$209,253 or 11.7%.

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Budgetary Highlights

For the year ended June 30, 2019, the General Fund reported actual budgetary basis revenues over final estimates by \$149,499 or a 5.9% positive variance which was due mainly to tax revenues exceeding final estimates. General Fund actual expenditures were under final appropriations by \$68,293 or a 2.7% positive variance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2019, the City had \$21.3 million invested in capital assets (net of depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and park facilities. This represents a net decrease of approximately \$392,000 under last year.

	Capital Assets					
	(In Thousands)					
	(Net of accumulated depreciation)					
	Governmental		Business-Type		Total	
	Activities		Activities			
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Land	\$ 445	\$ 445	\$ 1,738	\$ 1,738	\$ 2,183	\$ 2,183
Buildings	718	736	4,981	5,097	5,699	5,833
Imp. other than buildings	1,246	1,316	2,600	2,665	3,846	3,981
Machinery, furniture and equipment	200	275	208	230	408	505
Infrastructure	4,398	4,202	-	-	4,398	4,202
Utility property	-	-	4,772	4,991	4,772	4,991
Construction in progress	29	32	-	-	29	32
Totals	<u>\$ 7,036</u>	<u>\$ 7,006</u>	<u>\$ 14,299</u>	<u>\$ 14,721</u>	<u>\$ 21,335</u>	<u>\$ 21,727</u>

This year's more significant capital asset addition includes:

City Wide Overlay Project	\$499,595
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See Note 3 to the financial statements for more detail information on the City's capital assets and changes therein.

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Long-Term Debt

At year-end, the City had \$3.3 million in long-term debt outstanding which represents a \$510,000 or 13.5% decrease from the prior year. The City's changes in long-term debt by type of debt are as follows:

	Long-Term Debt (In Thousands)						Total Percentage Change
	Governmental Activities		Business-Type Activities		Total		
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	
Notes payable	\$ -	\$ -	\$ 3,210	\$ 3,679	\$ 3,210	\$ 3,679	-12.7%
Capital leases	32	50	33	56	65	106	-38.7%
Totals	<u>\$ 32</u>	<u>\$ 50</u>	<u>\$ 3,243</u>	<u>\$ 3,735</u>	<u>\$ 3,275</u>	<u>\$ 3,785</u>	-13.5%

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

The following information outlines significant known factors that will affect subsequent year finances:

- The FY 2020 budget is consistent to prior years for operational expenses.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at 502 W. Broadway, Okemah, Oklahoma 74859-2400 or telephone at 918-623-1050.

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BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

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Statement of Net Position (Modified Cash Basis)– June 30, 2019

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,168,766	\$ 595,483	\$ 1,764,249
Investments	1,230,274	281,044	1,511,318
Capital Assets:			
Land and construction in progress	473,489	1,738,000	2,211,489
Other capital assets, net of depreciation	6,562,534	12,560,622	19,123,156
Total Assets	<u>9,435,063</u>	<u>15,175,149</u>	<u>24,610,212</u>
LIABILITIES			
Meter deposit liability	-	104,989	104,989
Due to other governments	29	-	29
Long-term liabilities			
Due within one year	19,615	500,851	520,466
Due in more than one year	12,130	2,742,542	2,754,672
Total liabilities	<u>31,774</u>	<u>3,348,382</u>	<u>3,380,156</u>
NET POSITION			
Net investment in capital assets	7,004,278	11,055,229	18,059,507
Restricted for:			
Debt Service	-	149,987	149,987
Capital projects	1,101,378	-	1,101,378
Cemetery	192,708	-	192,708
Library	1,029	-	1,029
Unrestricted	1,103,896	621,551	1,725,447
Total net position	<u>\$ 9,403,289</u>	<u>\$ 11,826,767</u>	<u>\$ 21,230,056</u>

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
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Statement of Activities (Modified Cash Basis) –Year Ended June 30, 2019

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General Government	\$ 409,480	\$ 16,624	\$ -	\$ -	\$ (392,856)	\$ -	\$ (392,856)
Public Safety	1,150,798	9,338	31,900	-	(1,109,560)	-	(1,109,560)
Streets	405,069	-	28,575	-	(376,494)	-	(376,494)
Cemetery	55,372	19,326	-	-	(36,046)	-	(36,046)
Culture and Recreation	152,089	7,253	7,725	-	(137,111)	-	(137,111)
Interest on Long-term debt	3,096	-	-	-	(3,096)	-	(3,096)
Total governmental activities	<u>2,175,904</u>	<u>52,541</u>	<u>68,200</u>	<u>-</u>	<u>(2,055,163)</u>	<u>-</u>	<u>(2,055,163)</u>
Business-type activities:							
Water	971,119	1,028,587	-	-	-	57,468	57,468
Wastewater	742,882	679,771	-	-	-	(63,111)	(63,111)
Sanitation	254,902	299,552	-	-	-	44,650	44,650
Economic Development	128,662	88,000	-	-	-	(40,662)	(40,662)
Total business-type activities	<u>2,097,565</u>	<u>2,095,910</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,655)</u>	<u>(1,655)</u>
Total primary government	<u>4,273,469</u>	<u>2,148,451</u>	<u>68,200</u>	<u>-</u>	<u>(2,055,163)</u>	<u>(1,655)</u>	<u>(2,056,818)</u>
General revenues:							
Taxes:							
Sales and use taxes					\$ 1,314,791	\$ -	\$ 1,314,791
Franchise taxes and public service taxes					92,135	-	92,135
Hotel/motel taxes					22,857	-	22,857
Intergovernmental revenue not restricted to specific programs					65,421	-	65,421
Unrestricted investment earnings					13,609	6,064	19,673
Miscellaneous					95,479	59,977	155,456
Transfers					479,971	(479,971)	-
Total general revenues and transfers					<u>2,084,263</u>	<u>(413,930)</u>	<u>1,670,333</u>
Change in net position					29,100	(415,585)	(386,485)
Net position - beginning					9,374,189	12,242,352	21,616,541
Net position - ending					<u>\$ 9,403,289</u>	<u>\$ 11,826,767</u>	<u>\$ 21,230,056</u>

See accompanying notes to the basic financial statements.

**CITY OF OKEMAH, OKLAHOMA
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BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2019

Governmental Funds Balance Sheet (Modified Cash Basis)- June 30, 2019

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 212,551	\$ 865,735	\$ 90,480	\$ 1,168,766
Investments	377,106	706,733	146,435	1,230,274
Due from other funds	-	-	10,031	10,031
Total assets	<u>589,657</u>	<u>1,572,468</u>	<u>246,946</u>	<u>2,409,071</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 10,031	\$ -	\$ -	\$ 10,031
Payable to other governments	29	-	-	29
Total liabilities	<u>10,060</u>	<u>-</u>	<u>-</u>	<u>10,060</u>
Fund balances:				
Restricted	-	1,101,378	193,737	1,295,115
Assigned	34,574	471,090	53,209	558,873
Unassigned	545,023	-	-	545,023
Total fund balances	<u>579,597</u>	<u>1,572,468</u>	<u>246,946</u>	<u>2,399,011</u>
Total liabilities and fund balances	<u>\$ 589,657</u>	<u>\$ 1,572,468</u>	<u>\$ 246,946</u>	<u>\$ 2,409,071</u>

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2019

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
(Modified Cash Basis) – Year Ended June 30, 2019

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,429,783	\$ -	\$ -	\$ 1,429,783
Intergovernmental	101,300	-	31,303	132,603
Charges for services	22,329	-	5,264	27,593
Fees and fines	8,655	-	291	8,946
Licenses and permits	15,433	-	-	15,433
Investment earnings	5,848	6,303	1,458	13,609
Miscellaneous	69,671	24,690	2,705	97,066
Total revenues	<u>1,653,019</u>	<u>30,993</u>	<u>41,021</u>	<u>1,725,033</u>
EXPENDITURES				
Current:				
General government	249,714	-	-	249,714
Public Safety:				
Police	484,447	-	-	484,447
Fire	49,975	-	2,690	52,665
Police Dispatcher	219,582	-	-	219,582
Civil Defense	83,464	-	-	83,464
Police - COPS Grant	45,306	-	-	45,306
Animal Control	66,483	-	-	66,483
Code Enforcement	77,322	-	-	77,322
Cemetery	49,731	-	-	49,731
Streets	127,037	-	23,685	150,722
Culture and recreation:				
Library	88,629	-	8,169	96,798
Park and recreation	3,769	-	-	3,769
Swimming pool	21,025	-	-	21,025
Capital Outlay	-	593,623	2,803	596,426
Debt Service:				
Principal	18,216	-	-	18,216
Interest and other charges	3,096	-	-	3,096
Total Expenditures	<u>1,587,796</u>	<u>593,623</u>	<u>37,347</u>	<u>2,218,766</u>
Excess (deficiency) of revenues over expenditures	<u>65,223</u>	<u>(562,630)</u>	<u>3,674</u>	<u>(493,733)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,024,880	353,377	5,830	1,384,087
Transfers out	<u>(889,273)</u>	<u>-</u>	<u>(19,675)</u>	<u>(908,948)</u>
Total other financing sources and uses	<u>135,607</u>	<u>353,377</u>	<u>(13,845)</u>	<u>475,139</u>
Net change in fund balances	200,830	(209,253)	(10,171)	(18,594)
Fund balances - beginning	378,767	1,781,721	257,117	2,417,605
Fund balances - ending	<u>\$ 579,597</u>	<u>\$ 1,572,468</u>	<u>\$ 246,946</u>	<u>\$ 2,399,011</u>

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
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Reconciliation of Governmental Funds and Government-Wide Financial Statements- (Modified Cash Basis):

Total fund balance, governmental funds	\$	2,399,011
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.		
		7,036,023
Some liabilities, (Capital Leases), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		
		(31,745)
Net Position of Governmental Activities		\$ 9,403,289
Net change in fund balances - total governmental funds:	\$	(18,594)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
Capital asset purchases capitalized		521,913
Expensed CIP		(5,499)
Depreciation expense		(486,936)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:		
Principal payments on long-term debt		18,216
Change in net position of governmental activities		\$ 29,100

See accompanying notes to the basic financial statements.

**CITY OF OKEMAH, OKLAHOMA
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As of and for the Year Ended June 30, 2019**

BASIC FINANCIAL STATEMENTS – PROPRIETARY-TYPE ENTERPRISE FUNDS

CITY OF OKEMAH, OKLAHOMA
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Proprietary Funds Statement of Net Position (Modified Cash Basis) - June 30, 2019

	Enterprise Funds		Total
	Okemah Utilities Authority	Okemah Economic Development Authority	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 327,326	\$ 115,767	\$ 443,093
Investments	164,633	13,825	178,458
Restricted:			
Cash and cash equivalents	152,390	-	152,390
Investments	102,586	-	102,586
Total current assets	<u>746,935</u>	<u>129,592</u>	<u>876,527</u>
Non-current assets:			
Capital Assets:			
Land and construction in progress	1,520,000	218,000	1,738,000
Other capital assets, net of accumulated depreciation	10,333,320	2,227,302	12,560,622
Total non-current assets	<u>11,853,320</u>	<u>2,445,302</u>	<u>14,298,622</u>
Total assets	<u><u>12,600,255</u></u>	<u><u>2,574,894</u></u>	<u><u>15,175,149</u></u>
LIABILITIES			
Current Liabilities:			
Meter deposit liability	104,989	-	104,989
Current portion of:			
Capital lease obligation	23,445	-	23,445
Notes payable	467,410	9,996	477,406
Total current liabilities	<u>595,844</u>	<u>9,996</u>	<u>605,840</u>
Non-current liabilities:			
Capital lease obligation	9,806	-	9,806
Notes payable	2,483,509	249,227	2,732,736
Total non-current liabilities	<u>2,493,315</u>	<u>249,227</u>	<u>2,742,542</u>
Total liabilities	<u><u>3,089,159</u></u>	<u><u>259,223</u></u>	<u><u>3,348,382</u></u>
NET POSITION			
Net investment in capital assets	8,869,150	2,186,079	11,055,229
Restricted for debt service	149,987	-	149,987
Unrestricted	491,959	129,592	621,551
Total net position	<u><u>\$ 9,511,096</u></u>	<u><u>\$ 2,315,671</u></u>	<u><u>\$ 11,826,767</u></u>

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2019

Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position (Modified Cash Basis) - Year Ended June 30, 2019

	Enterprise Funds		Total
	Okemah Utilities Authority	Okemah Economic Development Authority	
REVENUES			
Charges for services:			
Water	\$ 969,440	\$ -	\$ 969,440
Sewer	679,771	-	679,771
Sanitation	299,552	-	299,552
Penalties	20,136	-	20,136
Rents and leases	22,283	88,000	110,283
Camping fees	11,576	-	11,576
Lake permits	5,152	-	5,152
Miscellaneous	2,871	-	2,871
Total operating revenues	<u>2,010,781</u>	<u>88,000</u>	<u>2,098,781</u>
OPERATING EXPENSES			
Administration	326,488	-	326,488
Water treatment plant	486,632	-	486,632
Distribution and maintenance	68,811	-	68,811
Sewer collection	106,317	-	106,317
Lake	80,535	-	80,535
Wastewater treatment plant	249,760	-	249,760
Sanitation	189,168	-	189,168
Economic development	-	82,516	82,516
Depreciation	415,125	46,146	461,271
Total Operating Expenses	<u>1,922,836</u>	<u>128,662</u>	<u>2,051,498</u>
Operating income (loss)	<u>87,945</u>	<u>(40,662)</u>	<u>47,283</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	5,713	351	6,064
Interest expense	(50,899)	-	(50,899)
Miscellaneous revenue	57,024	82	57,106
Total non-operating revenue (expenses)	<u>11,838</u>	<u>433</u>	<u>12,271</u>
Income (loss) before transfers	99,783	(40,229)	59,554
Transfers in	353,377	176,689	530,066
Transfers out	(705,205)	(300,000)	(1,005,205)
Change in net position	<u>(252,045)</u>	<u>(163,540)</u>	<u>(415,585)</u>
Total net position - beginning	9,763,141	2,479,211	12,242,352
Total net position - ending	<u>\$ 9,511,096</u>	<u>\$ 2,315,671</u>	<u>\$ 11,826,767</u>

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
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Proprietary Funds Statement of Cash Flows (Modified Cash Basis) - Year Ended June 30, 2019

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Okemah Utilities Authority</u>	<u>Okemah Economic Development Authority</u>	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,067,805	\$ 88,082	\$ 2,155,887
Payments to suppliers	(766,505)	(82,516)	(849,021)
Payments to employees	(741,206)	-	(741,206)
Receipts of customer meter deposits	23,867	-	23,867
Refunds of customer meter deposits	(23,880)	-	(23,880)
Net cash provided by operating activities	<u>560,081</u>	<u>5,566</u>	<u>565,647</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	(705,205)	176,689	(528,516)
Transfers to other funds	353,377	(300,000)	53,377
Net cash provided by (used in) noncapital financing activities	<u>(351,828)</u>	<u>(123,311)</u>	<u>(475,139)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(38,492)	-	(38,492)
Principal paid on debt	(481,476)	(9,996)	(491,472)
Interest and fiscal agent fees paid on debt	(50,899)	-	(50,899)
Net cash provided by (used in) capital and related financing activities	<u>(570,867)</u>	<u>(9,996)</u>	<u>(580,863)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
(Purchase) sale of investments	200,001	(117)	199,884
Interest and dividends	5,713	351	6,064
Net cash provided by investing activities	<u>205,714</u>	<u>234</u>	<u>205,948</u>
Net increase (decrease) in cash and cash equivalents	(156,900)	(127,507)	(284,407)
Balances - beginning of year	<u>636,616</u>	<u>243,274</u>	<u>879,890</u>
Balances - end of year	<u>\$ 479,716</u>	<u>\$ 115,767</u>	<u>\$ 595,483</u>
Reconciliation to Statement of Net Position:			
Cash and cash equivalents	\$ 327,326	\$ 115,767	\$ 443,093
Restricted cash and cash equivalents - current	152,390	-	152,390
Total cash and cash equivalents, end of year	<u>\$ 479,716</u>	<u>\$ 115,767</u>	<u>\$ 595,483</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 87,945	\$ (40,662)	\$ 47,283
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	415,125	46,146	461,271
Miscellaneous revenue	57,024	82	57,106
Change in assets and liabilities:			
Deposits subject to refund	(13)	-	(13)
Net cash provided by operating activities	<u>\$ 560,081</u>	<u>\$ 5,566</u>	<u>\$ 565,647</u>

See accompanying notes to the basic financial statements.

CITY OF OKEMAH, OKLAHOMA
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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City's financial reporting entity includes three separate legal entities reported as the primary government. The two public trust Authorities listed below are classified as blended component unit enterprise funds because (1) the City Council serves as trustees of the Authorities; (2) all debt obligations of the Authority must be approved by 2/3rds vote of the City Council; and (3) the Authorities are managed by City management.

- **The City of Okemah** – that operates the public safety, cemetery, streets and public works, health and welfare, culture and recreation, and administrative activities.
- **The Okemah Utilities Authority** – public trust created pursuant to 60 O.S. § 176 of which the City is beneficiary that operates the water, sewer, and sanitation services of the City. The OUA has historically been accounted for in the City's reporting entity financial statements as an Enterprise Fund.
- **The Okemah Economic Development Authority (OEDA)** – public trust created pursuant to 60 O.S. § 176 of which the City is beneficiary to provide economic development opportunities, in or near the City. The OEDA has historically been accounted for in the City's reporting entity financial statements as an Enterprise Fund.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, and Statement No. 61, *The Financial Reporting Entity: Omnibus* and includes all component units for which the City is financially accountable.

The component units are Public Trusts 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.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net position and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

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- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Program revenues within the statement of activities are derived directly from each activity or from parties outside the City's taxpayers. The City has the following program revenues in each activity:

- General government: License and permits
- Public safety: Fine revenue, EMPG operating grants, and other miscellaneous grants
- Streets and highways: Gas excise and commercial vehicle taxes
- Cemetery: Cemetery lot sales and interments
- Culture and recreation: Swimming pool fees, library fines, and library operating grants
- Economic development: rents and leases
- Water, wastewater, and sanitation: utility revenues

Governmental Funds:

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Projects Funds

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets

The City's governmental funds are comprised of the following:

Major Funds:

- General Fund - accounts for all activities not accounted for in other special-purpose funds.

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- Capital Improvement Fund – (Capital Project Fund) accounts for funds designated for capital outlay and debt service on capital related debt. One cent sales tax is being transferred to this fund for capital improvements as required by voter-restriction.

Non-Major Funds (Reported as Other Governmental Funds):

Special Revenue Funds:

- Rural Fire Fund - accounts for rural fire run fees and grants restricted for fire operations.
- Library Fund - accounts for all library revenue retained for library use only.
- Street and Alley Fund - accounts for commercial vehicle tax and gasoline excise tax legally restricted for street and alley repairs and maintenance. This fund was closed during the current fiscal year and remaining funds transferred to the general fund.

Capital Project Fund:

- Cemetery Perpetual Fund - accounts for the transfer of 25% (state law requires 12.5%) of cemetery lot sales and interment fees restricted for cemetery capital improvements.

The governmental funds are reported on a modified cash basis of accounting. Only current financial assets and liabilities arising from cash transactions are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period.

Proprietary Funds:

The City's proprietary-type funds are comprised of the following enterprise funds:

Okemah Utilities Authority Enterprise Fund-further split into separate enterprise accounts for internal reporting purposes as follows:

- Okemah Utilities Authority Gross Revenue Account – accounts for the operation of the water, sewer, and sanitation activities.
- Okemah Capital Reserve Account – accounts for money set aside by council as a savings tool.
- Okemah Bond Account – accounts for the transfer of one cent sales tax restricted for debt service on OUA debt.

Okemah Economic Development Authority Enterprise Fund:

- Okemah Economic Development Authority Fund – accounts for activities related to promoting economic development.

For purposes of the statement of revenues, expenses and changes in fund net position, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three months or less, and money market accounts. Investments consist of long-term certificates of deposits and are reported at cost.

D. Capital Assets and Depreciation

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund type operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$1,000 is used to report capital assets. Capital assets are reported at actual or estimated historical cost. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1996. Prior to July 1, 2000, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2000 are recorded at cost.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 40-50 years
- Improvements other than buildings 10-25 years
- Machinery, furniture and equipment 3-20 years
- Utility property and improvements 10-50 years
- Infrastructure 5-50 years

E. Long-Term Debt

Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund types or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary funds are the same in the fund statements as it is in the government-wide statements.

F. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 12.

G. Fund Balances and Net Position

Fund Balances:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- 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 or 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. The City’s highest level of decision-making authority is made by 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. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- 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.

It is the City’s policy to first use restricted fund balance prior to the use of unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net position is 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 attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* - Consists of net position 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 net position* - All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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 position are available.

H. 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.

I. Use of Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgments and may vary from actual results.

2. Deposits and Investments

For the year ended June 30, 2019, the City recognized \$19,673 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City’s deposits are in demand and short-term time deposits.

At June 30, 2019, the primary government held the following deposits and investments:

Type	Credit Rating	Carrying Value
Deposits:		
Petty cash		1,498
Demand deposits		1,612,764
Time deposits - certificates of deposit		1,511,318
Investments:		
Cavanal Hill Government Securities Money Market Fund	AAAm	149,987
Total deposits and investments		\$ 3,275,567
Reconciliation to Statement of Net Position:		
Cash and cash equivalents		\$ 1,764,249
Investments		1,511,318
		\$ 3,275,567

Custody Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by a counterparty or a counterparty’s trust, department or agent, but not in the government’s name.

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As of June 30, 2019, the City’s deposits were insured or collateralized and the City was not exposed to Custody Credit Risk.

Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable. All time deposits will mature within the next 12 months.

At June 30, 2019, the City’s investments with maturity dates were limited to time deposits that were not exposed to interest rate risk.

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments 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 deposit 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. These investment limitations do not apply to the City’s public trusts.

As of June 30, 2019, the City’s investments consisted of \$149,987 of money market open-ended mutual funds invested in U.S. Treasury securities with a credit rating of AAAM as rated by Standard and Poor’s.

Concentration of Investment Credit Risk

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no investment policy regarding concentration of credit risk.

At June 30, 2019, the City had no concentration of credit risk as defined above.

Restricted Cash and Investments – The amounts reported as restricted assets on the proprietary fund statement of net position are comprised of amounts restricted for debt service, or utility deposit purposes. The restricted assets as of June 30, 2019 are as follows:

	Current	
	Cash and cash equivalents	Investments
Utility Deposits	\$ 2,403	\$ 102,586
OWRB debt service	51,759	-
Series 2014 Principal Account	90,249	-
Series 2014 Interest Account	7,979	-
Series 2014 Construction Account	-	-
Total	\$ 152,390	\$ 102,586

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3. Capital Assets and Depreciation

Capital Assets:

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. Capital assets are reported at actual or estimated historical cost. Donated capital assets are recorded at their fair value at the date of donation. For the year ended June 30, 2019, capital assets balances changed as follows:

	Balance at July 1, 2018	Additions	Disposals	Balance at June 30, 2019
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 444,708	\$ -	\$ -	\$ 444,708
Construction in progress	32,373	1,908	5,500	28,781
Total capital assets not being depreciated	<u>477,081</u>	<u>1,908</u>	<u>5,500</u>	<u>473,489</u>
Other capital assets:				
Buildings	1,517,292	7,500	-	1,524,792
Improvements	2,008,999	-	-	2,008,999
Infrastructure	8,965,940	499,595	-	9,465,535
Machinery, furniture and equipment	2,165,299	12,910	-	2,178,209
Total other capital assets at historical cost	<u>14,657,530</u>	<u>520,005</u>	<u>-</u>	<u>15,177,535</u>
Less accumulated depreciation for:				
Buildings	781,354	25,496	-	806,850
Improvements	693,158	69,536	-	762,694
Infrastructure	4,763,515	303,812	-	5,067,327
Machinery, furniture and equipment	1,890,039	88,091	-	1,978,130
Total accumulated depreciation	<u>8,128,066</u>	<u>486,935</u>	<u>-</u>	<u>8,615,001</u>
Other capital assets, net	<u>6,529,464</u>	<u>33,070</u>	<u>-</u>	<u>6,562,534</u>
Governmental activities capital assets, net	<u>\$ 7,006,545</u>	<u>\$ 34,978</u>	<u>\$ 5,500</u>	<u>\$ 7,036,023</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,738,000	\$ -	\$ -	\$ 1,738,000
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>1,738,000</u>	<u>-</u>	<u>-</u>	<u>1,738,000</u>
Other capital assets:				
Buildings	8,474,337	-	-	8,474,337
Improvements	3,047,016	-	-	3,047,016
Machinery, furniture and equipment	1,150,455	35,223	-	1,185,678
Utility property	10,253,312	3,269	-	10,256,581
Total other capital assets at historical cost	<u>22,925,120</u>	<u>38,492</u>	<u>-</u>	<u>22,963,612</u>
Less accumulated depreciation for:				
Buildings	3,376,999	116,149	-	3,493,148
Improvements	381,798	66,138	-	447,936
Machinery, furniture and equipment	920,499	57,113	-	977,612
Utility Property Improvements	5,262,423	221,871	-	5,484,294
Total accumulated depreciation	<u>9,941,719</u>	<u>461,271</u>	<u>-</u>	<u>10,402,990</u>
Other capital assets, net	<u>12,983,401</u>	<u>(422,779)</u>	<u>-</u>	<u>12,560,622</u>
Business-type activities capital assets, net	<u>\$ 14,721,401</u>	<u>\$ (422,779)</u>	<u>\$ -</u>	<u>\$ 14,298,622</u>

Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

Governmental Activities:		Business-Type Activities:	
General government	151,292	Water	204,489
Public safety	68,930	Sewer	194,339
Highways and streets	243,717	Sanitation	16,297
Cemetery	1,590	Economic development	46,146
Culture and recreation	21,406		
	<u>\$ 486,935</u>		<u>\$ 461,271</u>

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4. Capital Lease Receivable

The Okemah Economic Development Authority (OEDA) and Sertco Industries entered into a building lease on October 14, 2010 for a period of twenty years. The monthly lease payments are \$2,083 but may be waived if Sertco fills a certain number of permanent positions within a specified time period. For fiscal year 2019, these permanent positions were filled and, therefore, no monthly lease payments were made by Sertco. Sertco may exercise the right to purchase the property at any time during the lease for the unamortized portion of a \$500,000 CDBG grant used to construct and purchase the property. The lease began when the CDBG grant was closed during the June 30, 2017 fiscal year. OEDA has recorded the building as an asset.

The OEDA along with Okfuskee County Industrial Authority as tenants in common and Platinum Core and Tube, Inc. entered into a building lease on May 1, 2015 for a period of sixty months. In July 2017, the lease was assigned from Platinum Core and Tube, Inc. to Caraustar Industrial and Consumer Products Group, Inc. and in August 2018 the lease was amended. The amended building lease covers the period of May 1, 2015 to April 30, 2025, which is a period of one hundred twenty months. The monthly lease payments are \$13,000 until the lessors complete construction of a loading dock and enclosure in the building. After completion of this project, the monthly lease payments will then be \$15,000. As of June 30, 2019, the project has not yet been completed. Also, the monthly lease payments will be reduced \$5,000 if the tenant employs at least 14 full time employees. For fiscal year 2019, OEDA received \$8,000 each month in lease payments with the exception of the June payment which was received in July 2019. Caraustar may exercise the right to purchase the property for \$1,400,000 at any time during the lease.

5. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2019, the City reporting entity's long-term debt changed as follows:

<u>Type of Debt</u>	<u>Balance</u> <u>July 01, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Capital lease payable	\$ 49,961	\$ -	\$ 18,216	\$ 31,745	\$ 19,615
Total Governmental Activities	<u>\$ 49,961</u>	<u>\$ -</u>	<u>\$ 18,216</u>	<u>\$ 31,745</u>	<u>\$ 19,615</u>
Business-Type Activities:					
Notes payable from direct borrowings and direct placements	\$ 3,678,917	\$ -	\$ 468,775	\$ 3,210,142	\$ 477,406
Capital lease payable	55,948	-	22,697	33,251	23,445
Total Business-Type Activities	<u>\$ 3,734,865</u>	<u>\$ -</u>	<u>\$ 491,472</u>	<u>\$ 3,243,393</u>	<u>\$ 500,851</u>
Total Long-Term Debt	<u>\$ 3,784,826</u>	<u>\$ -</u>	<u>\$ 509,688</u>	<u>\$ 3,275,138</u>	<u>\$ 520,466</u>
Reconciliation to Statement of Net Position:					
Governmental Activities:					
Due within one year				\$ 19,615	
Due in more than one year				12,130	
Total Governmental Activities Long-term liabilities				<u>\$ 31,745</u>	
Business-Type Activities:					
Due within one year				500,851	
Due in more than one year				2,742,542	
Total Business-Type Activities Long-term liabilities				<u>\$ 3,243,393</u>	

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Governmental activities long-term debt payable from the Capital Improvement Fund includes:

Capital Lease Payable:

\$88,800 lease obligation for purchase of phone system, payable in monthly installments of \$1,776 with an annual interest rate of 7.44%, final payment due December 2020.	\$	31,745
Total Capital Leases Payable	\$	<u>31,745</u>
Current portion	\$	19,615
Noncurrent portion		<u>12,130</u>
Total Capital Leases Payable	\$	<u><u>31,745</u></u>

Business-type activities long-term debt payable from net revenues generated by the utility resources pledged to the debt include the following:

Okemah Utilities Authority:

Notes Payable:

2014 Utility System and Sales Tax Revenue Note, original amount of \$1,820,000, dated September 1, 2014, by Okemah Utilities Authority, secured by and payable from utility revenues and pledged sales tax as well as a mortgage on the water and sanitary sewer systems; the collateral is issued on a parity with the 2011 OWRB Promissory Note Payable; interest rate at 2.45%, with final payment due October 1, 2022. In the event of default on the OWRB loans, the lender may: 1) file suit to require any or all of the borrower covenants to be performed; 2) accelerate the payment of principal and interest accrued on the note; 3) appoint temporary trustees to take over, operate and maintain the System on a profitable basis; or 4) file suit to enforce or enjoin the action or inaction of the borrower under the provisions of the indenture; 5) foreclose the mortgage, lien and security interest.

1,295,000

2011 Promissory Note payable to Oklahoma Water Resources Board, original amount of \$2,565,000 dated June 24, 2011, secured by and payable from utility revenues and pledged sales tax as well as a mortgage on the water and sanitary sewer systems and facilities, interest rate of 2.72%, with final payment due March 15, 2032. In the event of default on the OWRB loans, the lender may: 1) file suit to require any or all of the borrower covenants to be performed; 2) accelerate the payment of principal and interest accrued on the note; 3) appoint temporary trustees to take over, operate and maintain the System on a profitable basis; or 4) file suit to enforce or enjoin the action or inaction of the borrower under the provisions of the loan agreement; 5) increase the interest rate to 14% on the defaulted payments.

1,655,919

Total Notes Payable	\$	<u>2,950,919</u>
Current portion		467,410
Noncurrent portion		<u>2,483,509</u>
Total Notes Payable	\$	<u><u>2,950,919</u></u>

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Capital Lease Payable:

\$111,371 lease obligation for the purchase of a sanitation truck, payable in monthly installments of \$2,015 with an annual interest rate of 3.25%, final payment due November 2020	\$	33,251
Total Capital Leases Payable	\$	<u>33,251</u>
Current portion	\$	23,445
Noncurrent portion		<u>9,806</u>
Total Capital Leases Payable	\$	<u>33,251</u>

Okemah Economic Development Authority:

Long-term debt commitments payable from net revenues generated by rental revenues and sales tax pledged to OEDA, and their outstanding balances at June 30, 2019, includes the following:

Notes Payable:

Oklahoma Department of Commerce note dated November 2, 1999 (and amended May 15, 2005), by Okemah Economic Development Authority, authorized amount of \$400,000, payable in monthly installments of \$833, including principal with a 0% interest rate, with final payment due May 15, 2045 secured by and payable from rental agreements between the OEDA and Quantum Industries and 1/2 cent sales tax. The note does not have any other collateral. In the event of default, the lender may demand that all liabilities and obligations to the lender would be due and payable immediately, cease extending credit to OEDA, and exercise all rights and remedies possessed by lender. Also, at the lender's discretion, the note interest rate may be increased to 6% in the event of default.

	\$	259,223
Total Notes Payable	\$	<u>259,223</u>
Current portion	\$	9,996
Noncurrent portion		<u>249,227</u>
Total Notes Payable	\$	<u>259,223</u>

Long-term debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	Governmental Activities		Business-Type Activities			
	Capital Leases Payable		Notes Payable From Direct Borrowings and Direct Placements		Capital Lease Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 19,615	\$ 1,697	\$ 477,406	\$ 74,583	\$ 23,445	\$ 735
2021	12,130	302	490,510	62,597	9,806	111
2022	-	-	498,579	50,463	-	-
2023	-	-	316,733	38,061	-	-
2024	-	-	129,888	32,578	-	-
2025-2029	-	-	701,671	110,659	-	-
2030-2034	-	-	486,072	21,318	-	-
2035-2039	-	-	49,980	-	-	-
2040-2044	-	-	49,980	-	-	-
2045	-	-	9,323	-	-	-
Totals	<u>\$ 31,745</u>	<u>\$ 1,999</u>	<u>\$ 3,210,142</u>	<u>\$ 390,259</u>	<u>\$ 33,251</u>	<u>\$ 846</u>

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6. Net Position and Fund Balances

Net position is 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 attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net position* - Consists of net position 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 net position* - All other net position that does not meet the definition of “restricted” or “net investment of capital assets.”

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 position are available.

Fund Balance:

The following tables show the fund balance classifications as shown on the Governmental Funds Balance Sheet:

	Major Capital Project Fund		Other Governmental Funds	TOTAL
	General Fund	Capital Improvement		
Fund Balances:				
Restricted for:				
Capital projects	\$ -	1,101,378	\$ -	\$ 1,101,378
Library operations	-	-	1,029	1,029
Cemetery capital	-	-	192,708	192,708
Sub-total Restricted	-	1,101,378	193,737	1,295,115
Assigned to:				
Capital projects	-	471,090	-	471,090
Library operations	-	-	30,438	30,438
Cemetery capital and operations	-	-	22,771	22,771
Use of fund balance for subsequent budget	34,574	-	-	34,574
Sub-total Assigned	34,574	471,090	53,209	558,873
Unassigned:	545,023	-	-	545,023
TOTAL FUND BALANCES	\$ 579,597	\$ 1,572,468	\$ 246,946	\$ 2,399,011

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7. Sales Tax Revenue

Sales tax revenue represents a 3.5 cent local tax on each dollar of taxable sales within the City. 1 cent is voter-restricted for debt service on OUA debt (per ordinance 99-02-01), 1 cent is voter-restricted for capital improvements and/or job growth if needed (per ordinance 99-02-01), and ½ cent voter-restricted for economic development (per ordinance 99-03-01). Ordinance 99-03-01 is the only ordinance with a termination date of December 31, 2019. 3 ½ cents of the sales tax is received and recorded in the General Fund, with 2 ½ cents transferred to the appropriate funds as noted above.

Pledge of Future Revenues

Sales Tax Pledge- The City has pledged 2.5 cents (or 71.4%) of future sales tax revenues to repay \$5,855,000 of Amended 1998 and 2011 Series Oklahoma Water Resources Board Notes Payable and 2014 Taxable Revenue Notes Payable. Proceeds from the bonds and notes provided financing for the utility system and industrial park capital assets. The bonds are payable through 2019, 2032, and 2022, respectively. The total principal and interest payable for the remainder of the life of these notes is \$3,341,178. Total pledged sales tax for the year was \$868,915. Debt service payments of \$542,998 for the current fiscal year were 62.49% of the pledged sales taxes.

Sales Tax Pledge – The OEDA has pledged 0.5 cents (or 14.29%) of future sales tax revenues to repay \$400,000 of an Amended CDBG Note Payable. Proceeds from the note was used for roadway improvements and construction of a publicly owned building to support the start-up of Quantum Construction Technologies, Inc. The note is payable through 2045. The total principal and interest payable for the remainder of the life of the note is \$259,223. Total pledged sales tax for the year was \$173,832. Debt service payments of \$9,996 for the current fiscal year were 5.75% of the pledged sales taxes.

Utility Net Revenue Pledge- The City has also pledged future water and sewer net revenues to repay \$5,855,000 of Amended 1998 and 2011 Series Oklahoma Water Resources Board Notes Payable and 2014 Utility System and Sales Tax Revenue Note. Proceeds from the bonds and notes provided financing for the utility system capital assets. The bonds are payable through 2019, 2032 and 2022, respectively. The total principal and interest payable for the remainder of the life of these notes is \$3,341,178. The bonds are payable from the above-mentioned utility net revenues. The debt service payments on the notes this year were \$542,998 which was 73.61% of pledged net utility revenues of \$737,691. Additional debt service payments paid with sales tax in previous note.

8. Property Tax Levy

The City presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the City.

9. Internal and Interfund Balances and Transfers

The City’s policy is to eliminate interfund transfers and balances in the statements 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

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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.

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2019 were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	OUA Enterprise Fund	\$ 353,377	Sales tax transfer
General Fund	Capital Improvement Fund	353,377	Sales tax transfer
General Fund	OEDA Enterprise Fund	176,689	Sales tax transfer
General Fund	Rural Fire Fund	690	Operating
General Fund	Rural Fire Fund	2,000	To move grant to correct fund
General Fund	Street & Alley Fund	3,000	Operating
General Fund	Library Fund	140	Operating
OUA Enterprise Fund	General Fund	500,000	Operating
OUA Enterprise Fund	General Fund	200,000	Move CD to correct fund
OUA Enterprise Fund	General Fund	5,205	Debt service
Library Fund	General Fund	15,492	To close fund
Library Fund	General Fund	812	To move grant to correct fund
Street & Alley Fund	General Fund	3,371	To close fund
OEDA	General Fund	300,000	Operating
Total		<u>\$ 1,914,153</u>	

Reconciliation to Fund Financial Statements and Government-Wide Statement of Activities:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Government-Wide Net Transfers</u>
Governmental Funds	\$ 1,384,087	\$ (908,948)	\$ 475,139
Proprietary Funds	530,066	(1,005,205)	(475,139)
	<u>\$ 1,914,153</u>	<u>\$ (1,914,153)</u>	<u>-</u>

	<u>Governmental</u>	<u>Business-Type</u>
Net transfers	\$ 475,139	\$ (475,139)
Transfer of assets from Business-Type	4,832	(4,832)
	<u>\$ 479,971</u>	<u>\$ (479,971)</u>

Balances:

Interfund receivable and payables at June 30, 2019 were comprised of the following:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
General Fund	Cemetery Perpetual Fund	10,031	Cemetery revenue
Total		<u>\$ 10,031</u>	

Reconciliation to Fund Financial Statements:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 10,031	\$ (10,031)	\$ -
Total	<u>\$ 10,031</u>	<u>\$ (10,031)</u>	<u>\$ -</u>

10. Risk Management

The City is 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 by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

11. Pension Plan Participation

The City of Okemah participates in three pension or retirement plans:

1. Oklahoma Firefighter’s Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust (OkMRF-DBP) – an agent multiple-employer defined benefit plan
3. Oklahoma Municipal Retirement Fund Defined Contribution Plan (OkMRF-DCP) – an agent multiple-employer defined contribution plan

Firefighter Pension System:

Plan Summary Information. The City of Okemah, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter’s Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ full-time or volunteer firefighters.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 6601 N. Broadway Extension, Suite 100, Oklahoma City, OK 73116.

Funding Policy. OFPRS plan members that are volunteer firefighters are not required to contribute to the plan. The City is required by state law to contribute \$60 per year for each volunteer firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OFPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2017	\$840	\$840
2018	\$960	\$960
2019	\$840	\$840

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OkMRF Defined Benefit Plan:

The City contributes to the City of Okemah Plan and Trust in the form of The Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust, an agent multiple employer - defined benefit plan, for all eligible employees except for those covered by the Firefighter Pension System. Administration of the City's individual plan rests with the City Council. The overall operations of OMRF are supervised by a nine-member Council of Trustees elected by the participating municipalities. The North Trust Company acts as administrator and securities custodian.

1. Eligibility Factors, Contribution Methods and Benefit Provisions

Provision	OMRF Plan
a. Eligible to Participate	Full-time, non-uniformed employees of the City upon hire.
b. Contribution Requirements:	
-Authorization	By City ordinance
-Actuarially Determined	Yes
-Employer Rate	8.16% of covered payroll
-Employee Rate	3.75% of earnings
c. Period Required to Vest	7 years of credited service
d. Eligibility for Distribution	-Normal retirement at age 65 with 7 years of service -Early retirement at age 55 with 7 years of service -Disability retirement with 7 years of service -Marital death benefit with 7 years of service
e. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
f. Benefit Determination Methods:	
-Normal Retirement	1.875% of final average salary multiplied by credited years of service
-Early Retirement	Actuarially reduced benefit based upon age and years of service at termination
-Disability Retirement	Same as normal retirement
-Death Benefit	50% of employee's accrued benefit, but terminates upon spouse remarriage
-Prior to 7 Years Service	Return of employee contributions with accrued interest
g. Form of Benefit Payments	Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, optional form based on actuarial equivalent.

2. Actuarial Assumptions

<u>Date of Last Actuarial Valuation</u>	<u>July 1, 2018</u>
a. Actuarial cost method	Entry age normal
b. Rate of Return on Investments	7.25%
c. Projected Salary Increase	Rates by Age
d. Post Retirement Cost-of-Living Increase	2.75%
e. Inflation Rate	Separate inflation rate not available; inflation included in projected salary increase
f. Mortality	UP 1994 Group Annuity Mortality
g. Asset Valuation Method	Actuarial method

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For the year ended June 30, 2019, the City’s employer contribution to the plan was \$110,484 which was 8.63% of covered payroll--more than the actuarially required contribution. The OMRF contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2017	\$55,547	\$ 73,996
2018	\$91,681	\$101,697
2019	\$104,468	\$110,484

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 1001 NW 63rd St., Suite 260, Oklahoma City, Oklahoma, 73116.

OkMRF Defined Contribution Plan:

The City has also provided a defined contribution plan and trust known as the City of Okemah Plan and Trust (the “Plan”) in the form of The Oklahoma Municipal Retirement System 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 Voya Financial. The defined contribution plan is available to the City Manager. Benefits depend solely on amounts contributed to the plan plus investment earnings. The City Manager is eligible to participate upon employment, and is required to make contributions to the plan at 3.00%. Under the thrift option, the employee may contribute to the plan at varying rates. The City’s contributions, if any are made, (and interest allocated to the employee’s account) are vested at a rate of 100% upon participation. The authority to establish and amend the provisions of the plan rests with the City Council. For the year ended June 30, 2019, the City contributions were \$2,124 to the plan.

12. Commitments and Contingencies

Compensated Absences:

As a result of the City’s use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2019, is summarized as follows:

- General Fund and OUA Enterprise Fund – accrued compensated absences \$104,953

Outstanding Construction Contracts:

The City had the following outstanding construction contract commitments at June 30, 2019:

<u>Contractor/Project</u>	<u>Contract Amount</u>	<u>Remaining Balance</u>
A.O. Inc.	\$39,600	\$39,600

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Litigation:

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions 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 judgment rendered against the City. These statutory provisions do not apply to the City's public trust Authorities. 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.

Federal and State Award Programs:

The City of Okemah participates in various federal or state grant/loan programs from year to year. In 2019, the City's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has resolved findings from a recent monitoring visit from the Oklahoma Department of Commerce.

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OTHER SUPPLEMENTARY INFORMATION

CITY OF OKEMAH, OKLAHOMA
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Budgetary Comparison Schedule – General Fund (Modified Cash Basis) – Year Ended June 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance	\$ 50,000	\$ 50,000	\$ 378,767	\$ 328,767
Resources (Inflows):				
Taxes	1,294,500	1,294,500	1,429,783	135,283
Intergovernmental	122,000	122,000	101,300	(20,700)
Charges for services	16,100	16,100	22,329	6,229
Fines and forfeitures	-	-	8,655	8,655
Licenses and permits	9,600	9,600	15,433	5,833
Investment income	1,200	1,200	5,848	4,648
Miscellaneous	72,000	85,000	69,671	(15,329)
Transfers in	1,000,000	1,000,000	1,024,880	24,880
Total resources (Inflows)	<u>2,515,400</u>	<u>2,528,400</u>	<u>2,677,899</u>	<u>149,499</u>
Amounts available for appropriation	<u>2,565,400</u>	<u>2,578,400</u>	<u>3,056,666</u>	<u>478,266</u>
Charges to Appropriations (Outflows):				
General government	248,884	271,026	271,026	-
Police	542,360	502,360	484,447	17,913
Fire	75,250	55,886	49,975	5,911
Police Dispatcher	224,342	224,342	219,582	4,760
Streets	152,922	137,922	127,037	10,885
Animal Control	64,094	66,483	66,483	-
Cemetery	55,135	55,135	49,731	5,404
Parks and Recreation	5,340	5,340	3,769	1,571
Library	94,622	94,622	88,629	5,993
Code Enforcement	69,425	79,425	77,322	2,103
Civil Defense	87,788	87,788	83,464	4,324
Police - Cops in School	54,700	54,700	45,306	9,394
Swimming Pool	21,060	21,060	21,025	35
Transfers Out	849,440	889,273	889,273	-
Total Charges to Appropriations	<u>2,545,362</u>	<u>2,545,362</u>	<u>2,477,069</u>	<u>68,293</u>
Ending Budgetary Fund Balance	<u>\$ 20,038</u>	<u>\$ 33,038</u>	<u>\$ 579,597</u>	<u>\$ 546,559</u>

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Footnotes to Budgetary Comparison Schedule:

1. The budgetary comparison schedule is reported on the modified cash basis of accounting.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require City Manager's approval, while supplemental appropriations require City Council approval.

Total Resources (Inflows) Per Budgetary Comparison Schedule	\$ 2,677,899
Adjusted Total Resources	2,677,899
Total Resources (Inflows) Per Statement of Revenues, Expenditures and Changes in Fund Balance:	
Total Revenues	1,653,019
Transfer In	1,024,880
Total Resources (Inflows) Per Statement of Revenues, Expenditures	2,677,899
Charges to Appropriations (Outflows) Per Budgetary Comparison Schedule:	2,477,069
Adjusted Total Charges to Appropriations	2,477,069
Total Expenditures and Transfers Per Statement of Revenues, Expenditures	
Total Expenditures	1,587,796
Transfers Out	889,273
	\$ 2,477,069

CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2019

Combining Balance Sheet – Nonmajor Governmental Funds (Modified Cash Basis) – June 30, 2019

	<u>Special Revenue Funds</u>			<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
	<u>Rural Fire Fund</u>	<u>Library Fund</u>	<u>Street & Alley Fund</u>	<u>Cemetery Perpetual Fund</u>	
ASSETS					
Cash and cash equivalents	\$ -	\$ 75	\$ -	\$ 90,405	\$ 90,480
Investments	-	31,392	-	115,043	146,435
Due from other funds	-	-	-	10,031	10,031
Total assets	<u>-</u>	<u>31,467</u>	<u>-</u>	<u>215,479</u>	<u>246,946</u>
FUND BALANCES:					
Restricted	-	1,029	-	192,708	193,737
Assigned	-	30,438	-	22,771	53,209
Total fund balances	<u>-</u>	<u>31,467</u>	<u>-</u>	<u>215,479</u>	<u>246,946</u>
Total fund balances	<u>\$ -</u>	<u>\$ 31,467</u>	<u>\$ -</u>	<u>\$ 215,479</u>	<u>\$ 246,946</u>

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds (Modified Cash Basis) – For the Year Ended June 30, 2019

	<u>Special Revenue Funds</u>			<u>Capital Project Fund</u>	<u>Total-Other Governmental Funds</u>
	<u>Rural Fire Fund</u>	<u>Library Fund</u>	<u>Street & Alley Fund</u>	<u>Cemetery Perpetual Fund</u>	
REVENUES					
Intergovernmental	\$ -	\$ 7,725	\$ 23,578	\$ -	\$ 31,303
Charges for services	-	432	-	4,832	5,264
Fines and forfeitures	-	291	-	-	291
Investment earnings	-	165	1	1,292	1,458
Miscellaneous	-	2,228	477	-	2,705
Total revenues	<u>-</u>	<u>10,841</u>	<u>24,056</u>	<u>6,124</u>	<u>41,021</u>
EXPENDITURES					
Current:					
Fire	2,690	-	-	-	2,690
Streets	-	-	23,685	-	23,685
Library	-	8,169	-	-	8,169
Capital Outlay	-	2,803	-	-	2,803
Total Expenditures	<u>2,690</u>	<u>10,972</u>	<u>23,685</u>	<u>-</u>	<u>37,347</u>
Excess (deficiency) of revenues over expenditures	<u>(2,690)</u>	<u>(131)</u>	<u>371</u>	<u>6,124</u>	<u>3,674</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	2,690	140	3,000	-	5,830
Transfers out	-	(16,304)	(3,371)	-	(19,675)
Total other financing sources and uses	<u>2,690</u>	<u>(16,164)</u>	<u>(371)</u>	<u>-</u>	<u>(13,845)</u>
Net change in fund balances	-	(16,295)	-	6,124	(10,171)
Fund balances - beginning	-	47,762	-	209,355	257,117
Fund balances - ending	<u>\$ -</u>	<u>\$ 31,467</u>	<u>\$ -</u>	<u>\$ 215,479</u>	<u>\$ 246,946</u>

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2019**

Schedule of Federal Awards Expended – Year Ended June 30, 2019

Federal Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Pass Thru Grant #	Award Amount	Contract Expenditures
FEDERAL AWARDS:				
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
Oklaohma Department of Emergency Management Emergency Performance Grant	97.042	EMPG 18	\$ 25,000	\$ 25,000
TOTAL FEDERAL AWARDS			<u>\$ 25,000</u>	<u>\$ 25,000</u>

Footnotes to Federal Awards Schedules:

- The Schedule of Expenditures of Federal Awards is prepared on a basis consistent with the measurement of awards expended as defined in Uniform Guidance. This may differ at times from the modified cash basis by accruing certain grant expenditures.

Schedule of State Awards (Modified Cash Basis) – Year Ended June 30, 2017

State Grantor/Pass through agency Grantor/Program Title	Pass Thru Grant #	Award Amount	Contract Expenditures	
STATE AWARDS:				
<u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u>				
State Aid	N/A	\$ 7,681	\$ 7,681	
Continuing Education Grant	N/A	44	44	
		<u>\$ 7,725</u>	<u>\$ 7,725</u>	
<u>OKLAHOMA DEPARTMENT OF ENVIRONMENTAL QUALITY:</u>				
LEPC Grant	N/A	\$ 1,000	\$ 1,000	
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Rural Fire Grant	N/A	\$ 4,000	\$ 4,000	
TOTAL STATE AWARDS			<u>\$ 12,725</u>	<u>\$ 12,725</u>

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2019**

INTERNAL CONTROL AND COMPLIANCE INFORMATION

**CITY OF OKEMAH, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2019**

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

Honorable Mayor and City Council
City of Okemah, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Okemah, Oklahoma (the "City"), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 24, 2019. Our report includes an explanatory paragraph which noted that the financial statements were prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Our report also includes an explanatory paragraph disclaiming an opinion on management's discussion and analysis and budgetary comparison information.

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 the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(Continued)

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

Internal Control Over Financial Reporting, Continued

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 have not been 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 a deficiency in internal control, described in the accompanying schedule of findings and responses as Finding 2019-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

City's Response to Finding

The City's response to the finding identified in our audit is described in the 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
October 24, 2019

CITY OF OKEMAH, OKLAHOMA

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2019

FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

SIGNIFICANT DEFICIENCY

2019-001. Segregation of Duties

Condition: The City currently has a lack of segregation of duties in the procedures performed by the utility clerk. The utility clerk is responsible for all aspects of the utility billing procedures, from the creation of the bill to the collection of the payment.

Criteria: Segregation of duties over custody, bookkeeping, and reconciliation is important to have adequate control over financial assets.

Cause: The City's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Effect: Without proper segregation of duties, there is an increase in the risk that errors and fraud related to the billing and collection activities could occur and not be detected within a timely basis.

Recommendation: Efficient segregation of duties in a small city environment is often difficult; however, we feel that the governing body and city management should be aware of the risk associated with this lack of segregation of duties and attempt to exercise as much oversight control in these areas as possible and feasible. Such control could consist of accounts receivable reconciliation reviews, payment posting report reviews, and utility adjustment reviews.

Views of Responsive Officials and Planned Corrective Actions: See attached corrective action plan.

CITY OF OKEMAH, OKLAHOMA

2019 CORRECTIVE ACTION PLAN

Year Ended June 30, 2019

Name of auditee: **City of Okemah**

Name of audit firm: **Finley & Cook, PLLC**

Period covered by the audit: **2018-2019**

CAP prepared by: **Relena Haddox, City Clerk/Treasurer**

A. Current Findings on the Schedule of Findings, Questioned Costs, and Recommendations

1. Finding 2019-001:

Significant deficiency in internal control over financial reporting—Segregation of Duties.

Management has implemented additional review procedures for collection of payments and an additional review for any rate changes in the utility billing system to help with the segregation of duties. A separate individual reviews the daily utility report that shows all activities (payments, voids, changes) that were posted to a customer account in conjunction with the daily payments received reports to ensure payments were posted properly and any changes made to a customer account were valid.