

CITY OF
TAHLEQUAH, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS
AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

City of Tahlequah, Oklahoma
June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Tahlequah, Oklahoma

Report on Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tahlequah, Oklahoma (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of Tahlequah Public Works Authority, Tahlequah Hospital Authority and City Light and Water Department (Tahlequah) which represents 100 percent of the assets, net positions, and revenues of those discretely presented component units. Those statements were audited by other auditors whose report has been furnished to me, and my opinion, insofar as it relates to the amounts included in Tahlequah Public Works Authority, Tahlequah Hospital Authority and City Light and Water Department (Tahlequah), is based solely on the report of the other auditors. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In my opinion, based on my audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tahlequah, Oklahoma, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tahlequah's basic financial statements.

The accompanying supplementary information as listed in the Table of Contents are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the supplementary information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated August 23, 2017 on my consideration of the City of Tahlequah's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Michael Green, CPA
August 23, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the City of Tahlequah's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the City's financial statements. All discretely presented component units which issued separate financial reports are disclosed in Note I to the financial statements.

FINANCIAL HIGHLIGHTS

- As reported on the statement of Net Position, Net Position increased by \$17,066,524.

The following highlights relate to the General Fund:

- Overall General Fund revenues of \$8,888,906 fell below budget projections by \$406,812.
- Collections of the 2% sales tax in the General Fund exceeded budget projections by \$10,759. Total 2% sales tax revenue was \$5,813,326, which was an increase over last fiscal year in the amount of \$111,505 or approximately 2%. Sales Tax accounted for 65% of this year's total revenues for the general fund.
- Transfers from City Light & Water are the General Fund's second largest source of revenue. This year's transfer of \$1,257,200 accounted for 14% of total revenues, and was an increase from last year by \$3,710.
- Use tax collections of 2% were below budget projections by \$10,203 but were up \$3,579 from the previous year.
- Northeast Public Facilities Authority made a transfer in the amount of \$80,000 which was the budgeted amount for this fiscal year.
- Revenue from building permits fell below this year's budget projection by \$10,589 but the revenue increased \$4,432 from last year's collections. Revenues from inspection fees came in above budget by \$348.
- Sales of Aviation Gasoline and Jet Fuel were below budget by a total of \$37,616.
- Revenues from the City Golf Course decreased this year by \$3,572.
- Municipal Court Fines, Fees, Costs and Forfeitures fell below projections in the amount of \$143,614. A total of \$465,906 was collected. This amount is \$40,362 more than the previous year. The City has continued the contract with American Municipal Services to collect warrants and old fines. Through the services of this company several thousand dollars have been received that would not have been collected otherwise.
- Interest income was below budget projections by \$1,482. The revenues from interest rose from the previous year in the amount of \$2,361. Current funds invested as of June 30, 2016 are \$3,682,352. With \$3,570,553 being held in the general operating account for daily operations.
- The cost of fuel stayed below estimated budget costs. A total of \$370,078 was budgeted, and \$136,232 was spent. The amount spent for fuel is a decrease over the previous year by \$62,220. This decrease is due in part to the conversion of city vehicles to natural gas and low oil prices.
- Employee health insurance costs are for administration of our health plan, along with the costs of re-insurance for claims exceeding \$30,000 per employee and a stop-loss carrier.

Annual amount expensed per employee was \$6,720 this is a \$321 or 5% increase from the previous year. The City continues to be on a partially self-funded insurance plan. Funds available for the payment of claims (under the specific limit of \$30,000) fell from \$540,984 on June 30, 2015 to \$429,773 on June 30, 2016. Employees were still required to pay \$25.00 per month for their health insurance.

- Transfers of \$565,931 were made to the Capital Improvement Fund from the General Fund for reserves to purchase equipment and for capital projects.
- Transfer of \$20,000 from general funds was made to Tahlequah Industrial Authority to meet debt requirements.
- Transfers of match funds for grants were \$3,773.
- A transfer was made to the Cops-In-Schools fund in the amount of \$115,778 for salary and fringe benefits for two school resource officers.
- All departments within the General Fund were under projected budget expenditures. Expenditures exceeded revenues by a total of \$128,319 for a decrease in fund balance June 30, for a total of \$2,907,803.
- **Street and Alley** Revenues of \$152,885 exceeded expenditures of \$112,861 for an increased fund balance of \$261,793.
- **Hotel Motel** Tax revenues exceeded projections by \$30,202. Revenues exceeded expenditures in the amount of \$25,320, resulting in a fund balance carryover of \$76,100.
- **Cemetery Care Fund** received \$4,713 from 12.5% of all cemetery lot sales and grave openings and closings. Leaving a fund balance carryover of \$73,881.
- The City's enterprise fund-**Solid Waste Services** Department-expended \$457,468 less than received in revenues and transfers from the General Fund. Sanitation receipts from Tahlequah Public Works exceeded budget expectations in the amount of \$45,064. Transfer station fees were above budget by \$69,409. Expenditures were at 67% of the year's budget. Lease Purchase payments were made in the amount of \$132,036 on equipment.
- **Stormwater Management Fund** received \$201,268 from stormwater management fees collected by Tahlequah Public Works Authority on customer utility billings. Permit fees of \$575 were collected. Expenditures totaled \$117,874. Revenues exceeded expenditures in the amount of \$83,970. Drainage projects in the amount of \$12,549 were completed.
- **Brookside Restoration Fund** received \$4,590 in rental fees. Repair costs to the porch roof in the amount of \$7,389 were made.
- The **School Resource Officer Expense Fund** No expenditures were made from the fund maintaining a fund balance of \$321.
- The **Capital Improvement Fund** received transfers from the General Fund in the amount of \$565,931 for various reserves for equipment and capital projects. \$27,600 was received from the Tahlequah Fire Department County Sales Tax Fund to make Lease-Purchase Payments on the new fire station built in Southridge addition. Total Lease-Purchase Payments, including interest of \$27,515 were made. \$217,369 was spent from this fund for the purchase of equipment and capital projects.
- The **Tahlequah Police Canine Fund** spent \$2,135 for equipment & training with no revenues coming in this decreased the fund balance to \$7,108.
- The **Tahlequah Police Dare Fund** No expenditures or revenues maintaining a fund balance of \$69.
- **The Restricted Sales & Use Tax Fund** was established to account for an earmarked one-half of one percent (.5%) sales and use tax that was approved by the voters at a special election held on August 7, 2009. The new tax was effective on October 1, 2009 and will end on September

30, 2019 or at such a time as the indebtedness issued pursuant to the tax is paid, whichever occurs earlier. Funds are to be transferred to Tahlequah Public Works for payment on the indebtedness. Funds are to be used for Tahlequah Public Schools construction fund in an amount of \$3,200,000 and the City of Tahlequah for public improvements in the amount of \$4,800,000. Funds were received in December 2009. Total receipts from earmarked sales and use tax were \$1,507,014 and total transferred to Tahlequah Public Works was \$1,507,014.

- The **Winter Wonderland Fund** was established to account for the funds received from skate fee revenues in the amount of \$28,786. After operating expenses were paid this fund ended with a balance of \$12,336.
- **The Restricted Sales & Use Tax Fund II** was established to account for earmarked three-quarters of one percent (.75%) sales and use tax that was approved by the voters at a special election held on January 8, 2013. The new tax was effective on April 1, 2013 and is to end on or before April 1, 2028 or at such time as the indebtedness issued pursuant to the excise tax is paid, whichever occurs earlier. Funds are to be transferred to Tahlequah Public Facilities Authority for payment on the indebtedness. Funds are to be used by the City of Tahlequah for public improvements in the amount of \$21,112,339. Funds were received beginning in June 2013. Total receipts from the ¾ cent earmarked sales and use tax were \$2,260,522 and transfers to Tahlequah Public Facilities Authority were \$2,260,522.
- **The Bond Improvement Fund II** was established to account for the funds which were received from the above bond issue in the amount of \$21,116,265 which included interest and dividends. These funds are to be used for public improvements which include Northeastern State University Event Center, Fire Engine and Equipment, Police Technology, Call out Sirens, Traffic and Pedestrian Safety, Sports Complex-Phase II, Phoenix Park Renovations, Greenbelt Development, CNG Truck Conversion, Swimming Pool, City Library, New Armory on Highway 51 (Remodel for Police Department and Emergency Management) and various Street Improvements. A total of \$1,681,622 was expended this year.
- The **Cops in School Retention Fund** is for the purpose of accounting for the expenses of providing four School Resource Officers for the Tahlequah Public School System. The expense, including salaries and fringe benefits, of two officers was paid by Tahlequah Public Schools in the amount of \$109,680. Two officers were funded by a transfer from the general fund of the City in the amount of \$115,778.
- Funds of \$6,719 were received from the **Bullet Proof Vest Grant Program** this fiscal year. This an ongoing 50% reimbursement grant. We are currently waiting for a reimbursement of \$2,320
- The **Relocate and Rehabilitate Taxiway Grant** fund has been kept open in anticipation of receipt of an award from the Oklahoma Aeronautics Commission. The funds are interest which has accrued on the match funds that were on the previous grant. OAC requires a separate fund and banking account and checks for their grants.
- **Tahlequah Impaired Driving Enforcement Grant VI** from the Oklahoma Highway Safety Office 14-15, \$8,897 was received and 2,906 of the award expired without being used.
- Tahlequah Police Department received \$9,030.00 reimbursement from the District Attorney's Council **JAG LLE 14 Grant** which was spent during 14-15 fiscal year.
- A contract was awarded from the Oklahoma Department of Commerce, **Community Development Block Grants 16140-14**, in the amount of \$126,747. Match funds required from the City came from the Bond Improvement II fund in the amount of \$144,575 were

transferred to the fund. No grant funds were received nothing was expended on the rehabilitation of the Green Building at 120 E Morgan St.

- **TSET Grant** award from the State of Oklahoma Tobacco Settlement Endowment Trust in the amount of \$8,000.00 in 2013 and \$92,000.00 was received in 2015 there was no match required by the City of Tahlequah. No expenditures have been made.
- **Safe Routes to School Grant (SRTS)** was approved by the State of Oklahoma Department of Transportation. This is a 100% reimbursable grant in the amount of \$217,025.00; of that amount \$197,025.00 is to be spent on infrastructure and \$20,000.00 as an educational component for non-infrastructure. \$1,082 was spent in 2015 and was reimbursed in 2016.
- **Tahlequah BEST (T-BEST) Grant 15** is an agreement entered into between Tahlequah Public Schools and Tahlequah Police Department with an award amount of \$6,000.00 to provide officers to enforce and prevent underage drinking. \$3,461.90 was spent and reimbursed. \$1,335.81 expired unused.
- A contract was awarded from the Oklahoma Department of Commerce, **Community Development Block Grant (CDBG 13) 15701-13** in the amount of \$91,464. Match funds required from the City came from the Bond Improvement II fund in the amount of \$91,464 were transferred to the fund. No grant funds were received nothing was expended on the rehabilitation of the Green Building at 120 E Morgan St.
- **Tahlequah Impaired Driving Enforcement Grant VII** from the Oklahoma Highway Safety Office 15-16, in the amount of \$17,000 and spent \$9,888.45; received \$6,605.97 and still waiting on reimbursement of \$3,282.48.
- A contract was awarded from the Department of Justice **Organized Crime Drug Enforcement Task Force** in the amount of \$5,000.00. \$1,747.29 was spent with reimbursements of \$984.06. Still waiting for \$762.71 in reimbursements.
- A contract was awarded from the Federal Bureau of Investigation **Eastern District of Oklahoma Violent Crime Grant** in the amount of \$17,000.00. Nothing has been spent on this grant.
- The City of Tahlequah received a total of \$36,779.93 in grant funds this fiscal year.

USING THIS ANNUAL REPORT

This annual report is presented in a format consistent with the presentation requirement of the Governmental Accounting Standards Board (GASB) Statement No.34. The report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities provide information about the city as a whole and present a longer-view of the City's finances. Fund financial statements, for governmental activities, 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.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. All governmental funds are accounted for using the modified accrual basis of accounting. Revenues are recognized

when they become measurable and available as net current assets. Taxpayer assessed income, gross receipts, and sales taxes are considered “measurable” when in the hands of intermediary collecting governments and are recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Reporting the City as a Whole

The City’s Reporting Entity Presentation

This annual report includes all activities for which the City Council for the City of Tahlequah is fiscally responsible. These activities, defined as the City’s reporting entity, are operated separate legal entities that make up the primary government and another separate legal entity that is included as a component entity.

The primary government includes the following legal entity:

- The City of Tahlequah

The component unit presentation includes the following legal entities:

- Tahlequah Public Works Authority
- Tahlequah Hospital Authority
- Tahlequah Industrial Authority
- Tahlequah Educational Facilities Authority
- Tahlequah Public Facilities Authority
- City Light and Water Department (Tahlequah)

The Government-Wide Statement of Net Position and Statement of Activities

Our financial analysis of the City as a whole begins on page 14. The government-wide financial statements are presented on pages 14 and 15. One of the most important questions asked about the City’s finances is, “Is the City as a whole better off or worse off as a result of the year’s activities?” 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 that question. These statements include all of the City’s assets and liabilities resulting from the use of the modified accrual basis of accounting.

These two statements report the City’s net position and changes in them. You can think of the City’s net position-the difference between assets and liabilities- as one way to measure the City’s financial health of financial position. Over time, increases or decreases in the City’s net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non financial factors, however, such as changes in the City’s sales tax base and the condition of the City’s streets, to assess the overall health of the City.

In the Statement of Net Position and the Statement of Activities, we divide the City into three kinds of activities:

Governmental activities. Most of the City's basic services are reported here, including the police, fire, general administration (managerial), streets, parks, cemetery, airport, maintenance and civil emergency management. Sales taxes, franchise fees, fines and forfeitures, licenses and permits, charges for services and transfers from City Light and Water finance most of these activities. State and federal grants also help to finance these activities.

Business-type activities. The City charges a fee to customers to help in covering all or most of the cost of certain services it provides. The City's solid waste system is reported here.

Component unit activities.

- Tahlequah Public Works Authority is a public trust created to provide utility services to the citizens of Tahlequah, Oklahoma and the surrounding community. The City is the beneficiary of the trust and the excess funds it generates.
- Tahlequah Hospital Authority is a public trust created to provide medical facilities to the Tahlequah metro area. The City of Tahlequah is the beneficiary of the trust and will receive all residual trust funds and assets upon termination of the trust.
- Tahlequah Industrial Authority is a public trust created to stimulate industry in the Tahlequah metro area through the creation of an industrial park. Land and infrastructure improvements are owned in trust by the City.
- Tahlequah Educational Facilities Authority is a public trust created to promote, finance and develop projects, facilities and services pertaining to educational institutions and the furtherance of educational opportunities; to expend all funds coming into the hands of the Trustees as revenue or otherwise for the payment of any indebtedness incurred by the Trustees for the purposes specified. The City receives no direct benefit or monies from the trust's activities. Upon the termination of this trust, the Trustees shall proceed to wind up the affairs of this Trust, and after payments of all debts, expenses and obligations out of the monies and distribute the residue of the money and properties of the Trust Estate to the Beneficiary, the City of Tahlequah.
- Tahlequah Public Facilities Authority is a public trust created to stimulate public growth and development; to promote the public well being of the Beneficiary by improving available resources, increasing meaningful job opportunities, promoting entrepreneurship and capital investment, while maintaining the Beneficiary's quality of life. The Beneficiary of the Trust is the City of Tahlequah. Upon the termination of this trust, the Trustees shall proceed to wind up the affairs of this Trust, and after payments of all debts, expenses and obligations out of the monies and distribute the residue of the money and properties of the Trust Estate to the Beneficiary.
- City Light and Water Development was originally the Municipal Utility Board of Tahlequah. When Tahlequah Public Works was established, this board continued as a legal entity to pay director's fees, legal fees, and municipal lighting expenses. Funds are transferred to this

entity from TPWA to pay the above expenses with the balance reverting to the City of Tahlequah General Fund.

Reporting the City's Most Significant Funds

The Fund Financial Statements

Our analysis of the City's major funds begins on page 16. The fund financial statements begin on page 16 and 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, the City Council establishes certain other funds, like the Tahlequah Public School Tax Fund, 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 such as the grant from the Federal Aviation Administration. The City's three kinds of funds—*governmental, proprietary and fiduciary*—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 balances left at year end that are available for spending. 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 you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation at the bottom of the fund financial statements. The City considers the General Fund, the Capital Improvement Fund and the Restricted Sales & Use Tax Fund I and Restricted Sales & Use Tax Fund II to be its significant or major governmental funds. All other governmental funds are aggregated in a single column entitled non-major funds.

Proprietary funds-When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. In fact, the City's proprietary (enterprise) fund financial statement is essentially the same as the business-type activities we report in the government-wide statements, but the fund statements provide more detail and additional information, such as cash flows. The City has one enterprise fund-the Solid Waste Services Fund.

Fiduciary funds- are used to account for assets that are held in a trustee or fiduciary capacity such as assets held per trust agreements and similar arrangements. The City is the trustee, or fiduciary, for the Municipal Court Bond Fund and Municipal Court CLEET Fund. It is also the trustee for the Cemetery Care Fund, in which 12.5% of all cemetery lot sales, opening and closings are placed in accordance with the laws of the State of Oklahoma. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Governmental Activities

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different from a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column, with revenues from the particular program reported to the right. The result is a Net (Expense)/Revenue. This type of format highlights the relative financial burden of each of the functions on the City's taxpayers. It also identified how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue, even it restricted for a specific purpose.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the General Fund Budget at various times. For the year ended June 30, 2016, General Fund expenditures were \$1,879,497 below final budgeted amounts, and General Fund revenues were \$406,812 below final budgeted amounts.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the City had \$37 million invested in capital assets, net of depreciation, including land, buildings, improvements, machinery, equipment, autos, infrastructure, computers and software, office equipment, furniture and work in progress.

This year's more significant capital assets additions included:

Telephone System City Hall	\$	33,083
Building Improvements	\$	75,359
Infrastructure North Moccasin	\$	147,162
Infrastructure E 4 th Street	\$	398,475
Police Equipment	\$	56,313
Police Car	\$	27,681
Street Case Backhoe	\$	87,382
Street (2) Brush hogs	\$	23,576
Street Sand Spreader	\$	23,835
Sports Complex	\$	4,360,107
Storm Water 2015 Ford F250	\$	33,975

SOLID WASTE SERVICES FUND-ENTERPRISE FUND

Recycle Building	\$ 166,589
Dumpsters	\$ 21,865
Fencing	\$ 15,523
Entrance Sign	\$ 6,462

Long-Term Debt

At June 30, 2016 the City had \$19,349 in a lease purchase agreement with BancFirst, Tahlequah, Oklahoma for the purchase of a portion of the new Fire Station #2 located in the Southridge Subdivision.

At June 30, 2016 the City had \$27,078 in a lease-purchase agreement with Welch State Bank, Welch, Oklahoma, for the purchase of a 2011 Case Dozer

At June 30, 2016 the City had \$15,002 in a lease-purchase agreement with Welch State Bank, Welch, Oklahoma, for a 2012 Hitachi Excavator.

At June 30, 2016 the City had \$2,110 in a lease-purchase agreement with Welch State Bank for Dura-patcher skid mounted road repair machine.

At June 30, 2016 the City had \$121,202 in a lease-purchase agreement with BancFirst for a 2011 Case Waste Handler.

At June 30, 2016 the City had \$9,029 in a lease-purchase agreement with Welch State Bank, Welch, Oklahoma, for a 2014 Freightliner Corona Tractor Truck.

At June 30, 2016 the City had \$29,166 in a lease-purchase agreement with BancFirst for a 2015 Excel Horizontal Waste Baler.

At June 30, 2016 the City had \$6,056 in a lease-purchase agreement with BancFirst for a 2006 Telescopic Boom Lift.

At June 30, 2016 the City had \$75,477 in a lease-purchase agreement with BancFirst for a Case 580SN Loader Backhoe.

Total Long Term Debt is \$304,469

ECONOMIC FACTORS AND NEXT YEAR'S BUDGT AND RATES

For the upcoming fiscal year ending June 30, 2017, the City's budget is fairly consistent with this year.

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's Finance Director at 111 S. Cherokee, Tahlequah, Oklahoma or telephone at (918)456-0651.

BASIC FINANCIAL STATEMENTS

City of Tahlequah, Oklahoma
Statement of Net Position
June 30, 2016

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents	\$ 2,373,928	\$ 2,599,307	\$ 4,973,235	\$ 20,675,994
Restricted Cash	-	-	-	12,665,578
Investments	3,319,851	15,627,365	18,947,216	-
Federal treasury obligations	-	-	-	-
Due from other funds	276,789	-	276,789	-
Accounts receivable	853,644	206,707	1,060,351	20,314,796
Current portion of deferred revenue	-	2,182,650	2,182,650	1,262,695
Inventory and supplies	-	-	-	3,854,346
Capital assets (Note 1-F)	53,063,976	6,370,772	59,434,748	72,240,471
Accumulated depreciation	(20,501,544)	(1,504,520)	(22,006,064)	-
Other noncurrent assets	-	15,887,700	15,887,700	24,281,642
Total Assets	39,386,644	41,369,981	80,756,625	155,295,522
Deferred outflows of resources:				
Deferred amounts related to pensions	1,188,305	-	1,188,305	-
Total Deferred Outflows	1,188,305	-	1,188,305	-
Total Assets and Deferred Inflows	\$ 40,574,949	\$ 41,369,981	\$ 81,944,930	\$ 155,295,522
Liabilities				
Due to other funds	\$ 261,977	\$ -	\$ 261,977	\$ -
Long-term liabilities (Note 4)				
Due within one year	92,136	5,026,968	5,119,104	3,506,537
Due in more than one year	52,936	15,957,779	16,010,715	37,261,095
Due to TPWA	128,703	-	128,703	-
Due to TPFA	193,055	-	193,055	-
Accounts payable	419,091	989	420,080	5,439,919
Accrued expenses	57,012	21,981	78,993	6,974,401
Accrued compensated absences	127,308	-	127,308	383,528
Bond/CLEET/deposits payable	22,622	34,683,793	34,706,415	1,484,328
Net pension liability	3,206,763	-	3,206,763	107,819
Total Liabilities	4,561,603	55,691,510	60,253,113	55,157,627
Deferred inflows of resources:				
Deferred amounts related to pensions	1,573,198	-	1,573,198	-
Total Deferred Outflows	1,573,198	-	1,573,198	-
Net Position				
Net investment in capital assets	32,562,432	6,294,672	38,857,104	36,155,618
Restricted for statutory requirements	-	-	-	-
Restricted for external contracts	-	-	-	4,605,923
Restricted	-	-	-	-
Unrestricted	1,877,716	(20,616,201)	(18,738,485)	57,788,035
Noncontrolling Interest in Joint Ventures	-	-	-	1,588,319
Total Net Position	34,440,148	(14,321,529)	20,118,619	100,137,895
Total Liabilities, Deferred Outflows and Net Position	\$ 40,574,949	\$ 41,369,981	\$ 81,944,930	\$ 155,295,522

The accompanying notes and auditor's report are an integral part of these financial statements.

City of Tahlequah, Oklahoma
Statement of Activities
For the Year Ended June 30, 2016

Functions/Programs	Program Revenues				Net (Expense)/Revenue and Changes in Net Position			
	<i>Expenses</i>	<i>Charges for Services</i>	<i>Operating Grants & Subsidies</i>	<i>Capital Grants & Subsidies</i>	Primary Government			<i>Component Units</i>
					<i>Governmental Activities</i>	<i>Business-Type Activities</i>	<i>Total</i>	
Primary Government:								
General government	2,972,524	-	2,500	-	(2,970,024)	-	(2,970,024)	-
Public safety	3,958,940	526,441	38,587	36,149	(3,357,763)	-	(3,357,763)	-
Public services	2,349,055	602,956	495,766	-	(1,250,333)	-	(1,250,333)	-
Culture and recreation	1,191,800	97,288	-	-	(1,094,512)	-	(1,094,512)	-
<i>Total governmental activities</i>	<u>10,472,319</u>	<u>1,226,685</u>	<u>536,853</u>	<u>36,149</u>	<u>(8,672,632)</u>	<u>-</u>	<u>(8,672,632)</u>	<u>-</u>
Business-Type Activities:								
Sanitation	1,827,348	2,174,113	-	-	-	346,765	346,765	-
TPFA	2,371,968	2,297,602	-	-	-	(74,366)	(74,366)	-
TEFA	774,051	2,152,104	-	-	-	1,378,053	1,378,053	-
<i>Total Business-type activities</i>	<u>4,973,367</u>	<u>6,623,819</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,650,452</u>	<u>1,650,452</u>	<u>-</u>
Total Primary Government	<u>15,445,686</u>	<u>7,850,504</u>	<u>536,853</u>	<u>36,149</u>	<u>(8,672,632)</u>	<u>1,650,452</u>	<u>(7,022,180)</u>	<u>-</u>
Component Units:								
Tahlequah Hospital Authority	94,885,062	94,047,292	-	378,091				(459,679)
Tahlequah Industrial Authority	89,930	70,150	-	-				(19,780)
Tahlequah Public Works/City Light and Water	20,666,066	22,864,082	-	-				2,198,016
<i>Total Component Unit</i>	<u>115,641,058</u>	<u>116,981,524</u>	<u>-</u>	<u>378,091</u>				<u>1,718,557</u>
General Revenues:								
					6,825,652	-	6,825,652	-
					-	-	-	689,145
					350,694	-	350,694	1,635,734
					(33,032)	-	(33,032)	(11,752)
					2,930,961	-	2,930,961	263,598
<i>Total general revenues and transfers</i>					<u>10,074,275</u>	<u>-</u>	<u>10,074,275</u>	<u>2,576,725</u>
					1,401,643	1,650,452	3,052,095	4,295,282
					33,038,505	(15,971,981)	17,066,524	95,842,613
					<u>34,440,148</u>	<u>(14,321,529)</u>	<u>20,118,619</u>	<u>100,137,895</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

City of Tahlequah, Oklahoma
Balance Sheet-Governmental Funds
June 30, 2016

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 449,609	\$ 613,536	\$ 1,310,783	\$ 2,373,928
Investments	2,524,851	795,000	-	3,319,851
Due from other funds	276,789	-	-	276,789
Accounts receivable	844,474	-	9,170	853,644
Total Assets	\$ 4,095,723	\$ 1,408,536	\$ 1,319,953	\$ 6,824,212
Liabilities				
Accrued payroll	\$ 54,691	\$ -	\$ 2,321	\$ 57,012
Accounts payable	327,091	-	92,000	419,091
Bonds/CLEET/deposits payable	22,622	-	-	22,622
Payable to TPWA	128,703	-	-	128,703
Payable to TPFA	193,055	-	-	193,055
Due to other funds	1,641	-	260,336	261,977
Total Liabilities	727,803	-	354,657	1,082,460
Fund Balance				
Unassigned	3,367,920	1,408,536	965,296	5,741,752
Assigned	-	-	-	-
Total Net Position	3,367,920	1,408,536	965,296	5,741,752
Total Liabilities and Net Position	\$ 4,095,723	\$ 1,408,536	\$ 1,319,953	\$ 6,824,212

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

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

Net pension asset	-
Some liabilities, including pension obligations, are applicable to future periods and, therefore, are not reported in the funds:	
Accrued compensated absences	(127,308)
Net pension liability-measurement date is June 30, 2015	(3,206,763)
Long term debt	(145,072)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$20,501,544	32,562,432
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions	1,188,305
Deferred inflows of resources related to pensions	(1,573,198)
Net Position of Governmental Activities	\$ 34,440,148

The accompanying notes and auditor's report are an integral part of these financial statements.

City of Tahlequah, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balance-Governmental Funds
For the Year Ended June 30, 2016

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Revenues				
Taxes	\$ 6,514,565	\$ 34,500	\$ 276,587	\$ 6,825,652
Charges for services	361,524	-	241,432	602,956
Fines and forfeitures	526,441	-	-	526,441
Licenses and permits	97,288	-	-	97,288
Miscellaneous	140,268	3,245	207,181	350,694
Grants and subsidies	-	36,149	536,853	573,002
Total Revenues	<u>7,640,086</u>	<u>73,894</u>	<u>1,262,053</u>	<u>8,976,033</u>
Expenditures				
General government:				
Managerial	1,450,891	-	-	1,450,891
City Clerk	56,960	-	-	56,960
City Treasurer	13,688	-	-	13,688
City Attorney	55,526	-	-	55,526
Municipal Judge	145,554	-	-	145,554
Maintenance	224,319	-	71,794	296,113
Hotel/Motel	-	-	99,882	99,882
Public safety:				
Law Enforcement	2,374,877	-	249,514	2,624,391
Fire	1,089,663	-	-	1,089,663
Emergency Management	92,432	-	-	92,432
Public services:				
Cemetery	229,675	-	-	229,675
Streets	931,428	-	112,862	1,044,290
Airport	162,046	-	550,851	712,897
Culture and recreation:				
Parks and Recreation	990,650	-	93,804	1,084,454
Library	22,700	-	-	22,700
Capital Outlay	2,133,839	244,884	53,913	2,432,636
Total Expenditures	<u>9,974,248</u>	<u>244,884</u>	<u>1,232,620</u>	<u>11,451,752</u>
Excess/(deficiency) of Revenues over Expenditures	(2,334,162)	(170,990)	29,433	(2,475,719)
Other Financing Sources/(Uses)				
Transfers in	2,992,666	565,931	129,778	3,688,375
Transfers out	(743,414)	-	(14,000)	(757,414)
Total Other Financing Sources/(Uses)	<u>2,249,252</u>	<u>565,931</u>	<u>115,778</u>	<u>2,930,961</u>
Net Change in Fund Balance	(84,910)	394,941	145,211	455,242
Fund Balance-Beginning	<u>3,452,835</u>	<u>1,013,595</u>	<u>820,085</u>	<u>5,286,515</u>
Fund Balance-Ending	<u>\$ 3,367,925</u>	<u>\$ 1,408,536</u>	<u>\$ 965,296</u>	<u>\$ 5,741,757</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

City of Tahlequah, Oklahoma
Reconciliation of the Statements of Revenue, Expenditures and Changes in Fund Balance of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2016

Net change in fund balance-total governmental funds	455,242
Amounts reported for governmental activities in the Statement of Activities are different because:	
Government-wide Statement of Activities report the cost of pension benefits earned net of employee contributions is reported as an element of pension expense. The fund financial statements reported pension contributions as expenditures.	698,733
Repayment of principal debt is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position, while proceeds from loans are included in governmental	
Loan proceeds	(108,699)
Repayment of principal	146,606
Governmental funds report outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciated expenses. This is the amount by which capital outlays exceeded depreciation net of gain/loss on disposal of assets in the current period.	243,961
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in:	
Accrued compensated absences	(1,168)
Loss on asset disposition	(33,032)
Change in Net Position - Statement of Activities	<u><u>\$ 1,401,643</u></u>

The accompanying notes and auditor's report are an integral part of these financial statements.

City of Tahlequah, Oklahoma
Statement of Net Position-Proprietary Fund
June 30, 2016

	<u>Sanitation</u>	<u>TPFA</u>	<u>TEFA</u>	<u>Total</u>
Assets				
Current Assets:				
Cash and cash equivalents	\$ 1,237,412	\$ 1,324,885	\$ 37,010	\$ 2,599,307
Investments	362,500	12,664,055	2,600,810	15,627,365
Taxes receivable	-	193,055	-	193,055
Accounts receivable	13,652	-	-	13,652
Current amount receivable on capital lease purchase	-	-	2,182,650	2,182,650
Total Current Assets	1,613,564	14,181,995	4,820,470	20,616,029
Noncurrent Assets:				
Land and construction in progress	76,100	-	-	76,100
Other capital assets, net of accumulated depreciation	6,294,672	-	-	6,294,672
Less: Accumulated Depreciation	(1,504,520)	-	-	(1,504,520)
Noncurrent amount receivable on capital lease purchase	-	-	15,887,700	15,887,700
Total Noncurrent Assets	4,866,252	-	15,887,700	20,753,952
Total Assets	\$ 6,479,816	\$ 14,181,995	20,708,170	41,369,981
Liabilities				
Current Liabilities:				
Accrued payroll	\$ 21,981	\$ -	\$ -	\$ 21,981
Accounts payable	-	530	459	989
Current portion of deferred revenue on capital lease purchases	-	-	2,182,650	2,182,650
Current portion of capital lease purchases payable	89,318	-	-	89,318
Current portion of bonds payable	-	1,135,000	1,620,000	2,755,000
Total Current Liabilities	111,299	1,135,530	3,803,109	5,049,938
Noncurrent Liabilities:				
Noncurrent portion of deferred revenue on capital lease purchases	-	-	15,887,700	15,887,700
Capital lease purchases payable	70,079	-	-	70,079
Bonds payable	-	20,683,793	14,000,000	34,683,793
Total Noncurrent Liabilities	70,079	20,683,793	29,887,700	50,641,572
Total Liabilities	181,378	21,819,323	33,690,809	55,691,510
Net Position				
Net investment in capital assets	6,294,672	-	-	6,294,672
Unrestricted	3,766	(7,637,328)	(12,982,639)	(20,616,201)
Total Net Position	6,298,438	(7,637,328)	(12,982,639)	(14,321,529)
Total Liabilities and Net Position	\$ 6,479,816	\$ 14,181,995	\$ 20,708,170	\$ 41,369,981

The accompanying notes and auditor's report are an integral part of these financial statements.

City of Tahlequah, Oklahoma
Statement of Revenues, Expenses and Changes in Fund Net Position-Proprietary Fund
For the Year Ended June 30, 2016

	<u>Sanitation</u>	<u>TPFA</u>	<u>TEFA</u>	<u>Total</u>
Operating Revenues				
Charges for services:				
Transfer station fees	\$ 319,409	\$ -	\$ -	\$ 319,409
Sanitation/TPWA	1,825,064	-	-	1,825,064
TPFA/TEFA revenue	-	2,297,602	2,152,104	4,449,706
Miscellaneous operating revenue	29,640	-	-	29,640
Total Operating Revenues	<u>2,174,113</u>	<u>2,297,602</u>	<u>2,152,104</u>	<u>6,623,819</u>
Operating Expenses				
Salaries and employee benefits	851,489	-	-	851,489
Materials and supplies	665,300	-	-	665,300
TPFA/TEFA expenses	-	13,059	14,471	27,530
Depreciation	272,432	-	-	272,432
Total Operating Expenses	<u>1,789,221</u>	<u>13,059</u>	<u>14,471</u>	<u>1,816,751</u>
Operating Income	384,892	2,284,543	2,137,633	4,807,068
Non-Operating Revenues/(Expenses)				
TPFA/TEFA expenses	-	(2,358,909)	(759,580)	(3,118,489)
Gain/(loss) on disposal of asset	(31,385)	-	-	(31,385)
Interest expense	(6,742)	-	-	(6,742)
Total Non-Operating Revenues/(Expenses)	<u>(38,127)</u>	<u>(2,358,909)</u>	<u>(759,580)</u>	<u>(3,156,616)</u>
Net Income/(Loss) Before Transfers	346,765	(74,366)	1,378,053	1,650,452
Transfers	-	-	-	-
Change in Net Position	346,765	(74,366)	1,378,053	1,650,452
Total Net Position-Beginning (See Note 9)	<u>5,951,673</u>	<u>(7,562,962)</u>	<u>(14,360,692)</u>	<u>(15,971,981)</u>
Total Net Position-Ending	<u>\$ 6,298,438</u>	<u>\$ (7,637,328)</u>	<u>\$ (12,982,639)</u>	<u>\$ (14,321,529)</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

City of Tahlequah, Oklahoma
Statement of Cash Flows-Proprietary Fund
For the Year Ended June 30, 2016

	<u>Sanitation</u>	<u>TPFA</u>	<u>TEFA</u>	<u>Total</u>
Cash flows from operating activities				
Receipts from customers	\$ 2,146,746	\$ 26,128	\$ 2,152,104	4,324,978
Other operating cash receipts	29,640	2,260,522	-	2,290,162
Payments to or on behalf of employees	(858,279)	(6,217)	(6,459)	(870,955)
Payments to suppliers	(665,299)	(15,120)	(7,828)	(688,247)
Net cash flow provided by operations	<u>652,808</u>	<u>2,265,313</u>	<u>2,137,817</u>	<u>5,055,938</u>
Cash flows from non-capital financing activities				
TPFA/TEFA non financing activities	-	48,418	293,087	341,505
Net cash flow used for non-capital financing activities	<u>-</u>	<u>48,418</u>	<u>293,087</u>	<u>341,505</u>
Cash flows from capital and related financing activities				
TPFA/TEFA capital and financing activities	-	(228,325)	(2,432,125)	(2,660,450)
Purchase of capital assets net of retirement	(13,707)	-	-	(13,707)
Cash used by capital leasing activity	(147,974)	-	-	(147,974)
Net cash flow used for capital and related financing activities	<u>(161,681)</u>	<u>(228,325)</u>	<u>(2,432,125)</u>	<u>(2,822,131)</u>
Cash flows from investing activities				
Loss on disposal of asset	-	(1,681,621)	-	(1,681,621)
	<u>(31,385)</u>	<u>-</u>	<u>-</u>	<u>(31,385)</u>
	<u>(31,385)</u>	<u>(1,681,621)</u>	<u>-</u>	<u>(1,713,006)</u>
Net increase/(decrease) in cash and cash equivalents	459,742	403,785	(1,221)	862,306
Beginning cash and cash equivalents	<u>777,670</u>	<u>921,100</u>	<u>38,231</u>	<u>1,737,001</u>
Ending cash and cash equivalents	<u>\$ 1,237,412</u>	<u>\$ 1,324,885</u>	<u>\$ 37,010</u>	<u>\$ 2,599,307</u>
Reconciliation of operating income/(loss) to net cash flows provided by operating activities:				
Operating income	384,892	2,284,543	2,137,633	4,807,068
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	272,432	-	-	272,432
(Increase)/decrease in accounts receivable	2,273	(10,952)	-	(8,679)
Increase/(decrease) in accrued expenses	(6,789)	(8,278)	184	(14,883)
Net cash flow provided by operations	<u>652,808</u>	<u>2,265,313</u>	<u>2,137,817</u>	<u>5,055,938</u>

The accompanying notes and auditor's report are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

City of Tahlequah, Oklahoma
Notes to the Basic Financial Statements
June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Tahlequah, Oklahoma (oversight unit) conform to the accounting principles generally accepted in the United States of America for state and local governments.

A. REPORTING ENTITY

The City of Tahlequah was incorporated on June 9, 1908, under the laws and constitution of the State of Oklahoma. On June 18, 1940, a voter approved charter was established.

The City Council, an elected five member group constituting an on-going entity, is the level of government which has governance responsibilities over all activities related to the City of Tahlequah within the jurisdiction of the City. The City receives funding from local, state, and federal government sources; and must comply with the requirements of these funding source entities. However, the City of Tahlequah is not included in any government “reporting entity” as defined in Section 2100, Codification of Government Accounting and Financial Reporting Standards, since the Council members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters.

The City provides various services, and consists of many different activities and smaller accounting entities. These include a community hospital, economic loan program, industrial park, police force, firefighting and prevention force, sewage treatment plant, water treatment plant, storm water drainage system, traffic control system, street lighting, street maintenance force (including construction, repair, and snow and ice removal), a parks and recreation system, rubbish collection and recycling service, and a staff to provide the necessary support to these service providers. All are responsible to the citizens of Tahlequah, and are therefore included within the reporting entity.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic—but not the only—criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in the evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the City and/or its citizens, or whether the activity is conducted within the geographic boundaries of the City and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence

City of Tahlequah, Oklahoma
Notes to the Basic Financial Statements
June 30, 2016

of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the following potential component units are included in the City's reporting entity as aggregate discretely presented component units.

Tahlequah Public Works Authority

The Tahlequah Public Works Authority is a public trust created to provide utility services to the citizens of Tahlequah, Oklahoma, and the surrounding community. The City of Tahlequah is the beneficiary of the trust and the excess funds the trust generates. Audited financial statements for this component unit can be obtained at its general offices located at 103 North College. During the 2015-2016 fiscal year, the TPWA transferred \$1,253,490 (cash basis) to the City of Tahlequah through the City Light and Water Department.

City Light and Water Department (Tahlequah)

This department originally began as the Municipal Utility Board of Tahlequah. The Tahlequah City charter, adopted in 1940, set up this board to operate all utilities. When the Tahlequah Public Works Authority (TPWA) was established, this board continued, as a legal entity, to pay director fees, legal fees, and municipal lighting expenses. Funds are transferred to this entity from TPWA to pay the above expenses with the balance reverting to the City of Tahlequah General Fund. Audited financial statements for this component unit can be obtained at its general offices located at 103 North College.

Tahlequah Hospital Authority

The Tahlequah Hospital Authority is a public trust created on June 3, 1974, to provide medical facilities to the Tahlequah metro area. The City of Tahlequah, Oklahoma, is the beneficiary of the trust and will receive all residual trust funds and assets upon termination of the trust. Audited financial statements for this component unit can be obtained at its general offices located at 1400 East Downing.

Tahlequah Industrial Authority

The Tahlequah Industrial Authority is a public trust created to stimulate industry in the Tahlequah metro area through the creation of an industrial park. Land and infrastructure improvements are owned in the trust by the City of Tahlequah, Oklahoma. Audited financial statements for this component unit can be obtained at the City of Tahlequah's City Hall.

Tahlequah Redevelopment Authority

The Tahlequah Redevelopment Authority is a public trust created to provide zero profit financing to local business interests. The City of Tahlequah, Oklahoma, receives no direct benefit or monies from the trust's activities. The Authority had no activity during the fiscal year.

Northeastern Oklahoma Public Facilities Authority

The Northeastern Oklahoma Public Facilities Authority is not a component unit of the City of Tahlequah. According to GASB Statements No. 14, the Primary Government (City of Tahlequah)

City of Tahlequah, Oklahoma
Notes to the Basic Financial Statements
June 30, 2016

must have financial accountability for a component unit, appoint a voting majority of the component unit's board, impose its will, be a financial benefit or burden, be fiscally dependent and/or be able to designate management. This entity does not fall under this criteria. The City of Tahlequah is merely a beneficiary of this public trust.

Based upon the application of these same criteria discussed above, the following potential component units are included in the City's reporting entity as blended component units, and are incorporated into the financial statement of the primary government.

Tahlequah Educational Facilities Authority (TEFA)

The Tahlequah Educational Facilities Authority is a public trust created to assist the City of Tahlequah in making the most efficient use of all of their economic resources and powers in accordance with the needs and benefits of the City of Tahlequah in order to lessen the burdens on government and to stimulate educational growth and development; to promote the educational well being by improving available resources, increasing meaningful job opportunities, promoting entrepreneurship and capital investment, while maintaining quality of life; to inventory educational services, facilities, and resources; and to promote, stimulate, encourage, and finance the growth and development of education of the City of Tahlequah as a whole, all in order to achieve maximum utilization of the human, economic, recreational, natural resources and tourist attractions within the City of Tahlequah.

Tahlequah Public Facilities Authority (TPFA)

The Tahlequah Public Facilities Authority is a public trust created to assist the City of Tahlequah in making the most efficient use of all of their economic resources and powers in accordance with the needs and benefits of the City of Tahlequah in order to lessen the burdens on government and to stimulate public growth and development; to promote public well being by improving available resources, increasing meaningful job opportunities, promoting entrepreneurship and capital investment, while maintaining quality of life; to inventory public services, facilities, and resources; and to promote, stimulate, encourage, and finance the growth and development of the City of Tahlequah as a whole, all in order to achieve maximum utilization of the human, economic, recreational, natural resources and tourist attractions within the City of Tahlequah.

B. FUND ACCOUNTING

The City uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." The City utilizes two fund categories and five fund types.

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Governmental Fund Types

Governmental funds are used to account for all or most of government's general activities, including the collection and disbursement of earmarked monies (special revenue funds).

General Funds- The General Fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenue sources include sales taxes and charges for services (i.e. refuse revenues). Expenditures include all cost associated with the daily operations of the City except for programs specially funded for building repairs and maintenance and construction.

Special Revenue Fund- Special Revenue Funds are to account for the proceeds of specific revenue sources or grants (other than special assessments or expendable trusts) that are legally restricted to expenditures for special funds.

Capital Project Fund- Capital Project Funds are used to account for the acquisitions of capital facilities being financed from intergovernmental revenues or transfers from funds other than those recorded in proprietary funds.

Proprietary Fund Types

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the City (internal service funds).

Fiduciary Fund Types

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the City. When these assets are held under the terms of a formal trust agreement, either a nonexpendable trust fund or an expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the City is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the City holds on behalf of others as their agent and do not involve measurements of results of operations.

Expendable Trust Funds- These funds account for assets received and expended by the City as trustee and are reported as governmental funds in the financial statements. These funds include:

Cemetery Care – A trust established to account for the portion of cemetery lot sales designated for perpetual care and capital improvements of the cemetery.

Brookside Restoration Fund – A trust fund established to account for public donations and city contributions towards the restoration of the historic Brookside House.

City of Tahlequah, Oklahoma
Notes to the Basic Financial Statements
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Agency Funds- These funds are used to account for assets held by the City as a custodial trustee, and do not involve measurement of results of operations. These funds include the Municipal Court Bonds, and are reported as a liability in the general fund.

<u>Cash in Escrow</u>	<u>6/30/2016</u>
Court Bonds	16,407
CLEET Accounts	6,215
	<u>22,622</u>

Government- Wide Statement

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical costs 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, 2003. Prior to July 1, 2003 governmental funds' infrastructure assets were not capitalized. Infrastructure assets acquired since July 1, 2003 are recorded at cost.

Depreciation of all exhaustible capital assets arising from cash transaction is recorded as an expense in the Statement of Activities under general government, with the accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$1,000 is used to report capital assets. The range of estimated useful lives by type of assets is as follows:

Buildings	10-50 years
Improvements	5-10 years
Machinery, furniture, and equipment	5-20 years
Automobiles	5-20 years
Infrastructure	5-50 years

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in the governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

C. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting is related to the timing of the measurements made, regardless of the measurement focus applied. All governmental funds are

City of Tahlequah, Oklahoma
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accounted for using the modified accrual basis of accounting. Revenues are recognized when they become measurable and available as net current assets.

Taxpayer assessed income, gross receipts, and sales tax are considered “measurable” when in the hands of intermediary collecting governments and are recognized as revenue at that time. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred.

Revenue Recognition

In applying the accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current period or soon enough thereafter to be used to pay obligations of the current period): taxes, services, investment earnings and fines and forfeitures. Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus governmental fund accounting is on decreased in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred.

Reservation of Fund Equity

Fund balances are reserved for encumbrances as further explained in Note 1-D.

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable, available financial resources has not been reported as an expenditure or fund liability of the governmental fund that will pay it. Rights to receive sick pay benefits have not been reported in the general long-term debt account group. This practice differs from accounting principles generally accepted in the United States of America. In accordance with provisions of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The amount of vacation and compensatory time susceptible to accrual in accordance with SFAS No. 43, has been reflected as a liability in the Statement of Net Position.

D. ENCUMBRANCES

Encumbrances outstanding at year end represent the estimated amount of the expenditures ultimately to result if unperformed purchase orders in process are completed. Encumbrances accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve the portion of the applicable

City of Tahlequah, Oklahoma
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appropriation, is utilized as an extension of formal budgetary integration in the governmental funds. Unencumbered appropriations lapse at the end of the fiscal year. Such encumbrances constitute the equivalent of expenditures for budgetary purposes and accordingly, the accompanying financial statements present comparisons at actual results to the budgets of governmental funds on the same basis of accounting that the financial statements are presented. The unencumbered balance of each appropriation lapses at year end, reverts to the respective fund from which it was appropriated, and becomes available for future appropriation.

Requirement for All Budgeted Funds

For day to day management control expenditures plus encumbrances may not exceed budget at the expenditure type level of each cost center. The Council may transfer unencumbered appropriations within programs within funds. Appropriation control is by program within a fund. Council may, by ordinance, transfer amounts among programs within and between funds.

Unassigned Fund Balance

Fund balance represents the funds not encumbered by purchase order, legal contracts, and outstanding warrants.

E. REVENUES, EXPENDITURES, AND INTERFUND TRANSACTIONS

Tax Revenues

Tax revenues include sales, alcohol, use, gross receipts, cable TV fees, and franchise fees.

Licenses and Permits

Revenues including building and sign permits, inspection fees, animal shelter fees, zoning fees, and occupational licenses.

Charges for Services

Primary revenues consist of transfer station fees; cemetery lot sales; cemetery openings and closings; airport, golf course, and pool income from operations.

Fines and Forfeitures

The revenues are generated from the administration of the police department as cases are adjudicated through the City's court system. They primarily consist of bond forfeitures.

Intergovernmental Programs

This revenue, reported in the General Fund, results from transfers from component units that are shown as such on the component unit's financial statement. The Special Revenue Fund accounts for grants and entitlements in this category.

City of Tahlequah, Oklahoma
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Miscellaneous Revenue

This revenue account is all other revenue collected by the City.

Expenditures

Expenditures have been classified by the following five service areas provided to the citizens of the City. The specific departments which are contained within each service area are also identified. All departmental capital expenditures are included in the capital outlay classifications.

General Government	Public Safety	Public Services
Managerial	Building Inspector	Street Dept
City Clerk	Civil Defense	Animal Shelter
City Treasurer	Fire Dept	City Airport
City Attorney	Law Enforcement	Cemetery
Municipal Judge		
Maintenance Dept	Cultural & Recreation	Capital Outlay
Fringe Benefits	Library	Consists of all capital
Purchasing	Parks Dept	expenditures for all depts

Interfund Transactions

Loans to funds are properly classified as due to and due from amounts, and transactions which constitute reimbursements to a fund appropriately cancel the original transactions. Expenditures initially made with loaned funds are properly classified within the fund (see Note 3). All other interfund transfers are reported as operating transfers. Operating transfers are identified as other financing sources (uses) in the financial statements.

Investments

Investments on hand at June 30, 2016, consist of the following.

Governmental Funds: General Fund

<i>Number-Type</i>	<i>Maturity</i>	<i>Interest Rate</i>	<i>Carrying Amount</i>	<i>Market Value</i>
FHL Bank	3/12/2021	3.625%	198,424	198,424
Various CDs-Variou banks	Various	Various	2,326,427	2,326,427
			\$ 2,524,851	\$ 2,524,851

Governmental Funds: Capital Improvement Fund

<i>Number-Type</i>	<i>Maturity</i>	<i>Interest Rate</i>	<i>Carrying Amount</i>	<i>Market Value</i>
Various CDs-Edward Jones	Various	Various	795,000	795,000
			\$ 795,000	\$ 795,000

Total Investments-Governmental Funds

\$ 3,319,851

Proprietary Funds: Sanitation

<i>Number-Type</i>	<i>Maturity</i>	<i>Interest Rate</i>	<i>Carrying Amount</i>	<i>Market Value</i>
Various CDs-Edward Jones	Various	Various	362,500	362,500
			\$ 362,500	\$ 362,500

City of Tahlequah, Oklahoma
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Proprietary Funds: Tahlequah Public Facilities Authority (TPFA)

<u>Number-Type</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Carrying Amount</u>	<u>Market Value</u>
BancFirst, OKC	Various	Various	12,664,055	12,664,055
			\$ 12,664,055	\$ 12,664,055

Proprietary Funds: Tahlequah Educational Facilities Authority (TEFA)

<u>Number-Type</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Carrying Amount</u>	<u>Market Value</u>
BancFirst, OKC	Various	Various	2,600,810	2,600,810
			\$ 2,600,810	\$ 2,600,810

Total Investments-Proprietary Funds

\$ 15,627,365

The City's bank balance in all depository accounts, excluding investments, was \$4,973,235 at June 30, 2016.

At June 30, 2016 all cash deposits and certificates of deposits were either FDIC insured or covered by collateral pledged by the banks trust department.

F. ASSETS, LIABILITIES AND NET POSITION

Cash and Cash Equivalents

Pooled cash and investments – a “pooled cash” concept is used in maintaining the cash and investment account in the accounting records. Under this method all cash is pooled for investment purposes, and each fund has equity in the pooled amount.

Inventories

The value of consumable inventories at June 30, 2016, is not material to the financial statements. Purchases for inventory items are considered expenditures at the time the items were encumbered.

Capital Assets

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

City of Tahlequah, Oklahoma
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	Balance June 30, 2015	Additions	Disposals	Balance June 30, 2016
Capital assets not being depreciated				
Land	3,283,400	-	-	3,283,400
Construction in progress	7,228,723	1,424,050	(5,094,380)	3,558,393
Total capital assets not being depreciated	10,512,123	1,424,050	(5,094,380)	6,841,793
Capital assets being depreciated				
Automobiles and trucks	4,053,814	78,856	(59,137)	4,073,533
Buildings and building improvements	9,644,237	1,119,370	(59,502)	10,704,105
Infrastructure	21,203,871	4,264,762	(1,200)	25,467,433
Computers and office equipment	1,268,470	30,688	(89,144)	1,210,014
Machinery and equipment	4,644,534	421,122	(298,558)	4,767,098
Total capital assets being depreciated	40,814,926	5,914,798	(507,541)	46,222,183
Total Capital Assets	51,327,049	7,338,848	(5,601,921)	53,063,976
Less: Accumulated depreciation	(18,975,549)	(2,000,504)	474,509	(20,501,544)
Governmental Activities, Capital Assets, Net	<u>32,351,500</u>	<u>5,338,344</u>	<u>(5,127,412)</u>	<u>32,562,432</u>

Depreciation expense for governmental activities is charged to functions as follows:

General government	827,107
Public safety	535,529
Public services	454,065
Culture and recreation	183,803
Total depreciation from governmental activities	<u>2,000,504</u>

Capital asset activity for business-type activities for the year ended June 30, 2016 was as follows:

	Balance June 30, 2015	Additions	Disposals	Balance June 30, 2016
Capital assets not being depreciated				
Land	76,100	-	-	76,100
Construction in progress	166,589	-	(166,589)	-
Total capital assets not being depreciated	242,689	-	(166,589)	76,100
Capital assets being depreciated				
Other capital assets	6,175,438	211,661	(92,427)	6,294,672
Total capital assets being depreciated	6,175,438	211,661	(92,427)	6,294,672
Total Capital Assets	6,418,127	211,661	(259,016)	6,370,772
Less: Accumulated depreciation	(1,293,150)	(272,432)	61,062	(1,504,520)
Business-Type Activities, Capital Assets, Net	<u>5,124,977</u>	<u>(60,771)</u>	<u>(197,954)</u>	<u>4,866,252</u>

City of Tahlequah, Oklahoma
Notes to the Basic Financial Statements
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NOTE 2: CASH AND INVESTMENTS

The City's investment policies are governed by city charter and state statute. Permissible investments include direct obligations of the United States Government and agencies; certificates of deposit of savings and loan associations, and bank and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance.

Deposits

The City's cash deposits at June 30, 2016 are categorized to give an indication of the level of risk assumed by the City at year end as follows:

Deposit Categories of Credit Risk

- (A) Insured and collateralized with securities held by the City or by its agent in the City's name.
- (B) Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- (C) Uncollateralized.

Category:	<u> A </u>	<u> B </u>	<u> C </u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Cash/Investment	<u>4,473,235</u>	<u>500,000</u>	<u> -</u>	<u>4,973,235</u>	<u>4,973,235</u>

NOTE 3: INTERFUND RECEIVABLES AND PAYABLES

Short term advances between funds are accounted for in the appropriate interfund receivable and payable accounts. The interfund receivable or payables at June 30, 2016 were as follows:

Governmental General Fund-due from Others	276,789
Governmental General Fund-due to Others	(1,641)
Bullet Proof Vest Special Revenue-due to General Fund	(3,763)
TIDE Grant-due to General Fund	(17,000)
SRTS Grant-due to General Fund	(217,025)
Org Crime Grant-due to General Fund	(5,000)
FBI Grant-due to General Fund	(17,548)
Others-due to General Fund	<u>(14,812)</u>
NET	<u> -</u>

NOTE 4: GENERAL LONG TERM DEBT

The City's long-term debt is described below, segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. General long term debt consists of lease purchase agreements.

City of Tahlequah, Oklahoma
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Long Term Debt – Governmental Funds

The City of Tahlequah entered into an agreement with BancFirst in May 2011 to finance the construction of a Fire Station in the amount of \$138,000. Payments are due monthly in the amount of \$2,293 for 60 months at an interest rate of 3.75%. The balance outstanding as of June 30, 2016 was \$19,349.

The City of Tahlequah entered into a lease purchase agreement with Welch State Bank in September 2012 to purchase a 2011 Case Dozer in the amount of \$103,062. Payments are due monthly in the amount of \$1,847 for 60 months at an interest rate of 2.89%. The balance outstanding as of June 30, 2016 was \$27,078.

The City of Tahlequah entered into a lease purchase agreement with Welch State Bank in September 2012 to purchase a 2012 Hitachi Excavator in the amount of \$136,844. Payments are due monthly in the amount of \$3,020 for 48 months at an interest rate of 2.78%. The balance outstanding as of June 30, 2016 was \$15,002.

The City of Tahlequah entered into a lease purchase agreement with Welch State Bank in July 2013 to purchase a Durapatch skid mounted road repair machine in the amount of \$76,530. Payments are due monthly in the amount of \$2,214 for 36 months at an interest rate of 2.47%. The balance outstanding as of June 30, 2016 was \$2,110.

The City of Tahlequah entered into a lease purchase agreement with BancFirst in September 2005 to purchase a 2006 Telescopic Boon Lift in the amount of \$24,362. Payments are due monthly in the amount of \$2,030 for 12 months at an interest rate of 1.95%. The balance outstanding as of June 30, 2016 was \$6,056.

The City of Tahlequah entered into a lease purchase agreement with BancFirst in February 2016 to purchase a Case580SN Loader Backhoe in the amount of \$84,583. Payments are due monthly in the amount of \$2,427 for 36 months at an interest rate of 2.06%. The balance outstanding as of June 30, 2016 was \$75,477

The following is a summary of the long term debt transactions of the City for the year ended June 30, 2016:

Outstanding Long-Term Debt Payable from Governmental Activities:

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
Capitalized Lease Obligations	182,979	108,699	(146,606)	145,072
<i>Total</i>	182,979	108,699	(146,606)	145,072

Maturities of long-term outstanding debt for Governmental activities as of June 30, 2016 was as follows:

June 30,	Principal	Interest
2017	92,136	2,064
2018	33,827	738
2019	19,109	143
Total	145,072	2,945

Long Term Debt – Proprietary Funds

The City of Tahlequah entered into a lease purchase agreement with BancFirst in July 2013 to purchase a 2011 Case 721f Waste Handler in the amount of \$248,770. Payments are due monthly in the amount of \$4,480 for 60 months at an interest rate of 3.20%. The balance outstanding as of June 30, 2016 was \$121,202.

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The City of Tahlequah entered into a lease purchase agreement with Welch State Bank in August 2015 to purchase 2014 Freightliner Corona Truck in the amount of \$107,300. Payments are due monthly in the amount of \$4,582 for 24 months at an interest rate of 2.36%. The balance outstanding as of June 30, 2016 was \$9,029.

The City of Tahlequah entered into a lease purchase agreement with BancFirst in February 2015 to purchase a 2015 Excel EX62 Horizontal (waste) Baler in the amount of \$76,488. Payments are due monthly in the amount of \$3,254 for 24 months at an interest rate of 2.00%. The balance outstanding as of June 30, 2016 was \$29,166.

Long-term debt for business-type activities for the year ended June 30, 2016 was as follows:

Outstanding Long-Term Debt Payable from Sanitation:

	Balance June 30, 2015	Additions	Retirements	Balance June 30, 2016
Capitalized Lease Obligations	182,981	-	23,584	159,397
<i>Total</i>	182,981	-	23,584	159,397

Maturities of long-term outstanding debt for Sanitation as of June 30, 2016 was as follows:

June 30,	Principal	Interest
2017	89,318	3,148
2018	52,462	1,477
2019	17,617	117
Total	159,397	4,742

Maturities of other long-term outstanding debt for Proprietary Funds as of June 30, 2016 was as follows:

Outstanding Long-Term Debt Payable from TEFA:

June 30,	Principal	Interest
2017	1,620,000	827,349
2018	1,745,000	745,682
2019	1,875,000	652,756
2020	2,015,000	547,591
2021	2,165,000	431,621
2022-2026	6,200,000	419,970
Total	15,620,000	3,624,969

Outstanding Long-Term Debt Payable from TPFA:

June 30,	Principal	Interest	Premium Reduction	Final Interest
2017	1,135,000	687,099	(16,213)	670,886
2018	1,215,000	647,374	(16,213)	631,161
2019	1,290,000	610,924	(16,213)	594,711
2020	1,350,000	688,994	(16,213)	672,781
2021	1,455,000	521,494	(16,213)	505,281
2022-2026	8,600,000	1,771,042	(72,471)	1,698,571
2027-2031	6,605,000	363,675	(15,248)	348,427
Total	21,650,000	5,290,602	(168,784)	5,121,818

City of Tahlequah, Oklahoma
Notes to the Basic Financial Statements
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NOTE 5: OTHER POST EMPLOYMENT BENEFITS

The City does not offer any early retirement incentive plans.

NOTE 6: EMPLOYMENT RETIREMENT SYSTEM

Employees and Plans

The City participates in three employee pension systems, they are:

- Oklahoma Firefighters Pension and Retirement Plan
- Oklahoma Police Pension and Retirement Plan
- Oklahoma Public Employees Retirement System

Oklahoma Firefighters Pension and Retirement System

Plan description - The City of Tahlequah, as the employer, participates in the Oklahoma Firefighters Pension and Retirement – a cost sharing, multiple employer, defined benefit plan administered by the Oklahoma Firefighters Pension and Retirement System (FPRS). Title II of the Oklahoma State Statues grants the authority to establish and amend the benefit terms to the FPRS. FPRS issues a publicly available financial report that can be obtained at the Plan's administrative web site.

Benefits provided - FPRS provides retirement, disability and death benefits to members of the plan. Benefits for members hired prior to November 1, 2013 are determined as 50% of the employee's final average compensation times the employee's years of service. Final average compensation is defined as the average of the highest 30 consecutive months of the last 60 months or participating service. For volunteer firefighters, the monthly pension benefits for normal retirement is \$150.60 per month.

Benefits for members hired after November 1, 2013 are determined as 55 % of the employee's final average compensation. Final average compensation is defined as the average of the highest 30 consecutive months of the last 60 months or participating service. For volunteer firefighters, the monthly pension benefit for normal retirement is \$165.66 per month.

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

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pension is \$150.60 with less than 20 years of service or \$7.53 per year of service with a maximum of 30 years.

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

Contributions- The contribution requirements of the Plan are at an established rate determined by Oklahoma Statutes and are not based on actuarial calculations. Employees are required to contribute 9% of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the City were \$94,212 (fiscal year contributions). The State of Oklahoma also made on-behalf contributions to FPRS in an amount during the calendar year and this is reported as both a revenue and an expenditure in the General Fund Statement of Revenues, Expenditures and Change in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$0. These on-behalf payments did not meet the criteria of a special funding situation.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions- At June 30, 2016 the City reported a net pension liability of \$2,614,231 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension asset was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based on this information, the City's proportion was .246298%.

For the year ended June 30, 2016, the City recognized pension expenses of \$57,218. At June 30, 2016 the City reported outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	51,649	-
Changes of assumptions	218,668	-
Net difference between projected and actual earnings on pension plan investments	92,676	287,548
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City Contributions subsequent to the measurement date	-	-
Total	362,993	287,548

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

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

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

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

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

	<u>Long term Expected Real Rate of Return</u>
Fixed Income	5.13%
Domestic Equity	8.02%
International	
Equity	9.94%
Real Estate	7.47%
Other Assets	6.25%

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

City of Tahlequah, Oklahoma
Notes to the Basic Financial Statements
June 30, 2016

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

	1% Decrease	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
Employer's Net Pension Liability/(Asset)	3,394,300	2,614,231	1,959,977

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

Oklahoma Police Pension and Retirement system

Plan description- The City of Tahlequah, as the employer, participates in the Oklahoma Police Pension and Retirement Plan, a cost-sharing, multiple employer, defined benefit pension plan administrated by the Oklahoma Police Pension and Retirement System (OPPRS). Title II of the Oklahoma State Statues, through the Oklahoma Legislature, grants the authority to establish and amend the benefit terms to the OPPRS. OPPRS issues a publicly available financial report that can be obtained at www.ok.gov/OPPRS.

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

Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered. Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participant's final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated

City of Tahlequah, Oklahoma
Notes to the Basic Financial Statements
June 30, 2016

percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.

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

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

Contributions- The contributions requirement of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 8% of their annual pay. Participating cities are required to contribute 13% of the employee's annual pay. Contributions to the pension plan from the City were \$160,650. The State of Oklahoma made on behalf contributions to OPPRS in an amount during the calendar year and this is reported as both a revenue and an expenditure in the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance. In the government-wide Statement of Activities, revenue is recognized for the state's on-behalf contributions on an accrual basis of \$0. These on-behalf payments did not meet the criteria of a special funding situation.

Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions- At June 30, 2016, the City reported a liability of \$17,826 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2015. The City's proportion of the net pension asset was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon the information, the City's proportion was .004372%.

For the year ended June 30, 2016, the City recognized pension expense of \$246,606. At June 30, 2016 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	98,571
Changes of assumptions	22,476	-
Net difference between projected and actual earnings on pension plan investments	319,436	388,031
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City Contributions subsequent to the measurement date	-	-
Total	341,912	486,602

City of Tahlequah, Oklahoma
Notes to the Basic Financial Statements
June 30, 2016

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

Inflation	3%
Salary increases	4.5% to 17% average, including inflation
Investment rate of return	7.5% net of pension plan investment expense

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

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

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

	<u>Long term Expected Real Rate of Return</u>
Fixed Income	2.24%
Domestic Equity	4.87%
International Equity	7.68%
Real Estate	5.47%
Private Equity	5.96%
Commodities	3.08%

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

City of Tahlequah, Oklahoma
Notes to the Basic Financial Statements
June 30, 2016

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

	1% Decrease	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
Employer's Net Pension Liability/(Asset)	1,071,123	17,826	(870,176)

Pension plan fiduciary net position- Detailed information about the detailed plan's fiduciary net position is available in the separately issued financial report of the OPPR, which can be found at www.ok.gov/OPPRS.

Oklahoma Public Employees Retirement System

Plan Description - The City contributes to the Oklahoma Public Employees Retirement Plan (the plan), a cost-sharing, multiple employer, public employees retirement system administered by the Oklahoma Public Employees Retirement System (OPERS). The plan provides retirement, disability and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the legislature of the State of Oklahoma. Title 74 of the Oklahoma Statutes, Section 901-943, as amended, assigns the authority. Annual financial report that includes financial statements and required supplementary information for the Plan may be obtained from OPERS or from their website: www.opers.ok.gov/.

Benefits provided- Members qualify for full retirement benefits at their specified normal retirement age or, for any person who becomes a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement age date is further qualified to require that all members employed on or after January 1, 1983 must have six or more years of full-time equivalent employment with a participating employer before eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at the age of 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

City of Tahlequah, Oklahoma
Notes to the Basic Financial Statements
June 30, 2016

Disability retirement benefits are available to members having eight years of credited service whose disability status has been certified as being within one year of last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

Contributions- Plan members and the City are required to contribute at a rate set by statute. The contribution requirements of plan members and the City are established and may be amended by the legislation of the State of Oklahoma. The contribution rate for the City is 16.5% and the employee's contribution rate is 3.5%. Contributions by the City amount to \$466,051 for the fiscal year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016 the City reported a liability of approximately \$574,706 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the employer contributing entity's percentage of the total employer contributions for the year ended June 30, 2015. At June 30, 2015, the City's proportion was approximately 0.15978071%.

For the year ended June 30, 2016, the City recognized pension expense of \$394,910. At June 30, 2016, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	-	63,900
Changes of assumptions	8,941	-
Net difference between projected and actual earnings on pension plan investments	474,459	735,148
Changes in proportion and differences between City contributions and proportionate share of contributions	-	-
City Contributions subsequent to the measurement date	-	-
Total	483,400	799,048

Actuarial Assumptions- The total pension liability was determined by an actuarial valuation as of July 1, 2014, using the following actuarial assumptions applied to all prior period included in the measurements.

City of Tahlequah, Oklahoma
Notes to the Basic Financial Statements
June 30, 2016

Actuarial cost method	Entry age normal
Inflation	3%
Salary increases	4.5% to 8.4%, including inflation
Investment rate of return	7.5% net of pension plan investment expense

Mortality rates were based on the RP-2000 Combined Active/Retired Healthy Mortality Table projected to 2010 using Scale AA (disabled members were set forward 15 years).

The long term expected rate of return on pension plan investments were determined using a long-normal distributions analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	Long term Expected Real Rate of Return
US Large Cap Equity	38.00%
US Small Cap Equity	6.00%
US Fixed Income	25.00%
International Stock	18.00%
Emerging Market	
Stock	6.00%
TIPS	3.50%
Rate Anticipation	3.50%

Discount Rate- The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan’s fiduciary net position was projected through 2114 to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

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

City of Tahlequah, Oklahoma
Notes to the Basic Financial Statements
June 30, 2016

	1% Decrease	Current Discount Rate	1% Increase
	6.50%	7.50%	8.50%
Employer's Net Pension Liability/(Asset)	2,141,500	574,706	(789,274)

Pension plan fiduciary net position- Detailed information about the Plan's fiduciary net position is available in the separately issued OPERS financial report.

NOTE 7: RISK MANAGEMENT

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Pending Litigation

The City is a party to various legal proceedings which involve civil tort claims against the City. It is the opinion of legal counselors that the result of an unfavorable outcome is not great. Legal counsel also asserts that the City of Tahlequah has limits of liability under the Oklahoma Tort Claims Act. The City also has sufficient insurance coverage and/or tort immunity in effect to protect the City from any material loss or liability due to pending claims or litigation.

A listing of all court cases filed against the City of Tahlequah and their status can be found at the website www.odcr.com.

NOTE 8: USE OF ESTIMATES

The preparation of financial statements in conformity with the accounting principles generally accepted in the United States of America used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

NOTE 9: RESTATEMENTS OF BEGINNING NET POSITION

Net position of the Government-Wide Governmental Activities financial statements has been restated to reflect the correct pension liability as of June 30, 2015 in the amount of \$2,580,797. This amount was previously reported at \$456,847, resulting in a net change of \$2,123,950 and a corrected beginning net position of \$33,038,505 for governmental activities. This is a material

City of Tahlequah, Oklahoma
Notes to the Basic Financial Statements
June 30, 2016

error identified in the current period, and as such is required to be an adjustment to beginning net position if comparative financial statements are not presented.

Net position of the Tahlequah Public Facilities Authority has been restated to reflect the inclusion of Taxes Receivable and a net increase in beginning net position of \$178,695, within the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position. The correct beginning net position for Tahlequah Public Facilities Authority is \$7,562,962. This is a material error identified in the current period, and as such is required to be an adjustment to beginning net position if comparative financial statements are not presented.

NOTE 10: SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the audit report, which is the date the financials were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

City of Tahlequah, Oklahoma
Schedule of Federal Awards
June 30, 2016

Grantor/Pass-Through Grantor/Program Title	CFDA NUMBER	AWARD AMOUNT	BALANCE 6/30/15	AWARDED (CLOSED)	Current Year Expenditures	Balance 6/30/16
<u>FEDERAL AWARDS</u>						
<u>U.S. Department of Justice</u>						
Bullet Proof Vest 2013	16.607	-	371.89	(371.89)	-	-
Bullet Proof Vest 2014	16.607	-	4,982.05	-	(870.00)	4,112.05
COMMUNITY SOLUTIONS						
DOJ Overtime Grant 15	16.590	-	50.28	(50.28)	-	-
Sub-Total Department of Justice		-	5,404.22	(422.17)	(870.00)	4,112.05
<u>U.S. Department of Transportation</u>						
CSPP-FAA GRANT	20.106	-	494,582.15	(23,716.00)	(470,866.15)	-
<u>Pass Through the State of Oklahoma</u>						
Land Acquisition Grant						
CDBG 13	14.228	91,464.00	-	-	-	91,464.00
CDBG 14	14.228	-	126,747.00	-	-	126,747.00
FEMA REIMBURSEMENT						
TIDE VI	20.600	-	8,618.71	(2,906.06)	(5,712.65)	-
TIDE VII	20.600	17,000.00	-	-	(9,888.45)	7,111.55
TMA-FAA Grant(AMENDED IN 14-15)						
Civil Emergency Management	97.042	25,000.00	12,500.00	-	(25,000.00)	12,500.00
Safe Routes to School	20.000	-	215,943.00	-	-	215,943.00
Sub-Total Pass Through State of OK		133,464.00	363,808.71	(2,906.06)	(40,601.10)	453,765.55
<u>STATE AWARDS</u>						
T-Set Grant (Tobacco SETTLEMENT)	-	-	100,000.00	-	-	100,000.00
Total State Awards			100,000.00	-	-	100,000.00

City of Tahlequah, Oklahoma
Budgetary Comparison Schedule
June 30, 2016

	<u>Budgeted Amounts</u>			Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Resources (Inflows)				
Taxes	6,458,511	6,458,511	6,452,340	(6,171)
Licenses and permits	93,250	93,250	97,288	4,038
Charges for services	375,500	375,500	361,524	(13,976)
Fines and forfeitures	664,520	664,520	526,441	(138,079)
Miscellaneous	264,600	264,600	140,268	(124,332)
Intergovernmental revenue	<u>1,439,337</u>	<u>1,439,337</u>	<u>1,311,045</u>	<u>(128,292)</u>
<i>Total resources</i>	<u>9,295,718</u>	<u>9,295,718</u>	<u>8,888,906</u>	<u>(406,812)</u>
Transfers				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Amounts available for appropriation				
	<u>9,295,718</u>	<u>9,295,718</u>	<u>8,888,906</u>	<u>(406,812)</u>
Charges to appropriations (Outflows)				
Managerial				
Personal services	1,010,188	1,010,188	871,713	138,475
Materials and supplies	82,180	82,180	66,891	15,289
Other services and charges	684,799	684,799	513,302	171,497
Capital outlay	799,572	799,572	158,106	641,466
Transfers	<u>400,778</u>	<u>400,778</u>	<u>719,482</u>	<u>(318,704)</u>
<i>Total Managerial</i>	<u>2,977,517</u>	<u>2,977,517</u>	<u>2,329,494</u>	<u>648,023</u>
City Clerk				
Personal services	<u>58,759</u>	<u>58,759</u>	<u>57,031</u>	<u>1,728</u>
<i>Total City Clerk</i>	<u>58,759</u>	<u>58,759</u>	<u>57,031</u>	<u>1,728</u>
City Treasurer				
Personal services	<u>14,544</u>	<u>14,544</u>	<u>13,724</u>	<u>820</u>
<i>Total City Treasurer</i>	<u>14,544</u>	<u>14,544</u>	<u>13,724</u>	<u>820</u>
City Attorney				
Personal services	<u>59,260</u>	<u>59,260</u>	<u>55,596</u>	<u>3,664</u>
<i>Total City Attorney</i>	<u>59,260</u>	<u>59,260</u>	<u>55,596</u>	<u>3,664</u>
Municipal Judge				
Personal services	<u>152,797</u>	<u>152,797</u>	<u>145,419</u>	<u>7,378</u>
<i>Total Municipal Judge</i>	<u>152,797</u>	<u>152,797</u>	<u>145,419</u>	<u>7,378</u>
Cemetery				
Personal services	223,590	223,590	206,499	17,091
Materials and supplies	29,428	29,428	21,619	7,809
Other services and charges	5,500	5,500	1,876	3,624
Capital outlay	<u>30,000</u>	<u>30,000</u>	<u>10,000</u>	<u>20,000</u>
<i>Total Cemetery</i>	<u>288,518</u>	<u>288,518</u>	<u>239,994</u>	<u>48,524</u>

City of Tahlequah, Oklahoma
Budgetary Comparison Schedule
June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Building Inspector	-	-	-	-
Emergency Management				
Personal services	66,899	66,899	65,485	1,414
Materials and supplies	9,880	9,880	7,504	2,376
Other services and charges	31,038	31,038	19,454	11,584
Capital outlay	-	-	-	-
<i>Total Emergency Management</i>	<u>107,817</u>	<u>107,817</u>	<u>92,443</u>	<u>15,374</u>
Fire Department				
Personal services	1,041,359	1,041,359	1,024,119	17,240
Materials and supplies	53,310	53,310	40,826	12,484
Other services and charges	38,720	38,720	24,678	14,042
Capital outlay	33,675	33,675	14,329	19,346
<i>Total Fire Department</i>	<u>1,167,064</u>	<u>1,167,064</u>	<u>1,103,952</u>	<u>63,112</u>
Law Enforcement				
Personal services	2,325,337	2,325,337	2,166,634	158,703
Materials and supplies	173,216	173,216	126,484	46,732
Other services and charges	90,271	90,271	83,192	7,079
Capital outlay	71,239	71,239	64,087	7,152
<i>Total Law Enforcement</i>	<u>2,660,063</u>	<u>2,660,063</u>	<u>2,440,397</u>	<u>219,666</u>
City Airport				
Personal services	59,019	59,019	58,043	976
Materials and supplies	198,056	198,056	88,519	109,537
Other services and charges	19,128	19,128	15,358	3,770
Capital outlay	-	-	-	-
<i>Total City Airport</i>	<u>276,203</u>	<u>276,203</u>	<u>161,920</u>	<u>114,283</u>
Street Department				
Personal services	836,648	836,648	787,059	49,589
Materials and supplies	284,826	284,826	136,376	148,450
Other services and charges	13,540	13,540	10,064	3,476
Capital outlay	565,854	565,854	154,386	411,468
<i>Total Street Department</i>	<u>1,700,868</u>	<u>1,700,868</u>	<u>1,087,885</u>	<u>612,983</u>
Library				
Personal services	-	-	-	-
Materials and supplies	2,100	2,100	2,005	95
Other services and charges	27,000	27,000	20,695	6,305
Capital outlay	-	-	-	-
<i>Total Library</i>	<u>29,100</u>	<u>29,100</u>	<u>22,700</u>	<u>6,400</u>
Parks Department				
Personal services	322,847	322,847	304,923	17,924
Materials and supplies	53,508	53,508	40,892	12,616
Other services and charges	53,750	53,750	56,552	(2,802)
Capital outlay	57,156	57,156	32,622	24,534
<i>Total Parks and Recreation</i>	<u>487,261</u>	<u>487,261</u>	<u>434,989</u>	<u>52,272</u>

City of Tahlequah, Oklahoma
Budgetary Comparison Schedule
June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Maintenance Department				
Personal services	173,859	173,859	172,676	1,183
Materials and supplies	44,692	44,692	36,146	8,546
Other services and charges	17,500	17,500	14,831	2,669
Capital outlay	20,000	20,000	18,272	1,728
<i>Total Maintenance Department</i>	<u>256,051</u>	<u>256,051</u>	<u>241,925</u>	<u>14,126</u>
Recreation Department				
Personal services	417,484	417,484	377,470	40,014
Materials and supplies	95,921	95,921	82,859	13,062
Other services and charges	114,497	114,497	129,011	(14,514)
Capital outlay	33,000	33,000	418	32,582
<i>Total Recreation Department</i>	<u>660,902</u>	<u>660,902</u>	<u>589,758</u>	<u>71,144</u>
<i>Total Charges to Appropriations</i>	10,896,724	10,896,724	9,017,227	1,879,497
<i>Ending Budgetary Fund Balance</i>	<u>(1,601,006)</u>	<u>(1,601,006)</u>	<u>(128,321)</u>	<u>(2,286,309)</u>

Adjustments to reconcile Budget to Statement of Revenues, Expenditures and Changes in Fund Balance

Accrued tax revenue 6/30/15	(774,345)
Accrued tax revenue 6/30/16	836,571
Accrued payroll 6/30/15	59,031
Accrued payroll 6/30/16	(53,915)
Transfer	(23,931)
Net change in fund balance	<u>(84,910)</u>

City of Tahlequah, Oklahoma
Notes to the Budgetary Comparison Schedule
June 30, 2016

BUDGETS AND BUDGETARY ACCOUNTING

Under state law the Mayor submits an annual budget to the council for consideration and approval no later than June 30. Such budget is based on expected cash expenditures by program within a fund and estimated cash receipts by source for all funds. The City follows these procedures in establishing the budgetary data reflected in the financial statements.

A proposed budget is submitted to the City Council for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.

Public hearings are conducted to obtain taxpayer comments.

Prior to July 1, the budget is legally enacted by the City Council through passage of an ordinance.

Any revisions that alter the total expenditures of any department generally must be approved by the City Council. Budgeted amounts in the accompanying financial statements include transfers and revisions to the original appropriations ordinance.

Formal budgetary integration is employed as a management control device during the year to the following funds:

- General Fund
- Hotel/Motel Fund
- Street and Alley Fund
- Cemetery Care Fund
- Capital Improvement Fund
- Brookside Restoration Fund

Annual budgets are legally adopted for the General Fund, Street and Alley Fund, Hotel/Motel Fund, Cemetery Care Fund, Brookside Restoration Fund, and Capital Improvement Fund. The budget of expenditures and encumbrances for these funds cannot exceed the estimated revenues. Budgetary control is maintained by department and by the following categories of expenditures: personal services, material and supplies, other services and charges, transfers and capital outlay. A comparison of budget to actual for the General Fund has been presented.

City of Tahlequah, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balance-Fiduciary Funds
June 30, 2016

	<u>Restricted Sales Tax Fund</u>
Revenues	
Sales Tax	3,633,323
Use Tax	134,213
Total Revenues	<u>3,767,536</u>
Expenditures	
	<u>-</u>
Excess of revenues over expenditures	3,767,536
Other Financing Sources/(Uses)	
Transfers to other funds	(3,767,536)
Total Other Financing Sources/(Uses)	<u><u>(3,767,536)</u></u>
Net Change in Fund Balance	7,535,072
Fund Balance-Beginning	-
Fund Balance-Ending	<u><u>\$ -</u></u>

The accompanying notes and auditor's report are an integral part of these financial statements.

City of Tahelquah, Oklahoma
Required Supplementary Information on Pension Plan Funding
For the Year Ended June 30, 2016

**Schedule of the City of Tahelquah's Proportionate Share of the Net Pension Liability:
Oklahoma Firefighters Pension and Retirement System**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
City's proportion of the net liability	0.246298%	0.2239%
City's proportionate share of the net liability	2,614,231	2,302,349
City's covered employee payroll	666,324	640,287
City's proportionate share of the net pension liability as a percentage of its covered employee liability	392.34%	359.58%
Plan fiduciary net position as a percentage of total pension liability	68.27%	68.12%

**Schedule of the City of Tahelquah's Pension Contributions:
Oklahoma Firefighters Pension and Retirement System**

Statutorily required contributions	94,212	95,544
Contributions in relation to the statutorily required contribution	94,212	95,544
Contribution deficiency/(excess)	-	-
City's covered employee payroll	666,324	640,287
Contributions as a percentage of covered employee payroll	14.14%	14.90%

Note: Only the current and prior fiscal year is presented because 10 year data is not yet available.

City of Tahelquah, Oklahoma
Required Supplementary Information on Pension Plan Funding
For the Year Ended June 30, 2016

**Schedule of the City of Tahelquah's Proportionate Share of the Net Pension Liability:
Oklahoma Police Pension and Retirement System**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
City's proportion of the net liability	0.4372%	0.4099%
City's proportionate share of the net liability/(asset)	17,826	(138,025)
City's covered employee payroll	1,291,082	1,212,688
City's proportionate share of the net pension liability as a percentage of its covered employee liability	1.38%	-11.38%
Plan fiduciary net position as a percentage of total pension liability	55.55%	101.53%

**Schedule of the City of Tahelquah's Pension Contributions:
Oklahoma Police Pension and Retirement System**

Statutorily required contributions	160,650	140,822
Contributions in relation to the statutorily required contribution	160,650	140,822
Contribution deficiency/(excess)	-	-
City's covered employee payroll	1,291,082	1,216,888
Contributions as a percentage of covered employee payroll	12.44%	11.60%

Note: Only the current and prior fiscal year is presented because 10 year data is not yet available.

City of Tahelquah, Oklahoma
Required Supplementary Information on Pension Plan Funding
For the Year Ended June 30, 2016

**Schedule of the City of Tahelquah's Proportionate Share of the Net Pension Liability:
Oklahoma Public Employees Retirement System**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>
City's proportion of the net liability	0.15978071%	0.15168993%
City's proportionate share of the net liability	574,706	278,448
City's covered employee payroll	2,786,642	2,616,023
City's proportionate share of the net pension liability as a percentage of its covered employee liability	20.62%	10.64%
Plan fiduciary net position as a percentage of total pension liability	96.0%	97.9%

**Schedule of the City of Tahelquah's Pension Contributions:
Oklahoma Public Employees Retirement System**

Statutorily required contributions	466,051	452,102
Contributions in relation to the statutorily required contribution	466,051	452,102
Contribution deficiency/(excess)	-	-
City's covered employee payroll	2,786,642	2,616,023
Contributions as a percentage of covered employee payroll	16.72%	17.30%

Note: Only the current and prior fiscal year is presented because 10 year data is not yet available.

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

The Honorable Mayor and City Council
City of Tahlequah, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tahlequah, Oklahoma (the City), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated August 23, 2017. My report was modified to include a reference to other auditors. Other auditors audited the financial statements of Tahlequah Public Works Authority, Tahlequah Hospital Authority and City Light and Water Department (Tahlequah) as described in my report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I 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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be material weaknesses listed as item 2016-1.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2016-1.

City of Tahlequah's Response to Findings

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "Michael Green". The signature is stylized and cursive.

Michael Green, CPA
August 23, 2017

SCHEDULE OF FINDINGS AND RESPONSES

2016-1:

Condition and Criteria: The State of Oklahoma requires an annual audit report within six months of the year end. The financial statements were not available to audit until several months after this deadline.

Effect: The City was in violation of this state requirement. This also creates potential problems with funding sources and could create a situation where management decisions are not made based on relevant financial information.

Cause: There does not appear to be adequate controls or procedures in place to cause the financial statements to be completed on a timely basis.

Auditor's Recommendation: The financial statements for the City are complex. It is important to have adequate training and support for the staff. If an outside firm is contracted to assist in the preparation of the financial statements, the City should have a policy or agreement in place that will require the work to be done in a time frame that will allow the audit to be completed by the due date. I believe a draft of the financial statements could be completed by the end of October each year if the records are in good shape.

Views of Responsible Officials and Planned Corrective Actions: The City of Tahlequah plans to implement the above recommendations.