

CITY OF BLANCHARD, OKLAHOMA



ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED
JUNE 30, 2016

**THE CITY OF BLANCHARD,
OKLAHOMA
ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

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ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

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INDEPENDENT AUDITOR'S REPORT



CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Blanchard, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the government activities, the business-type activities, and each major fund information of the City of Blanchard, Oklahoma as of and for the year ended June 30, 2016, and the related notes to the financial, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund, and the aggregate fund information of the City of Blanchard, Oklahoma, as of June 30, 2016, and the respective changes in modified cash basis financial position, and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.B.

Basis of Accounting

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

Other Matters

Supplemental and Other Information

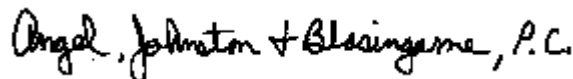
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Blanchard, Oklahoma basic financial statements. The supplemental and other information, as listed in the table of contents, are presented for additional analysis and are not a part of the basic financial statements. The schedule of expenditures of federal/state awards that is presented for the purpose of additional analysis by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards*, and is not a required part of the basic financial statements.

The schedule of debt service coverage, the schedule of cash balances and the schedule of expenditures of federal/state awards, are the responsibility of management, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the schedule of debt service coverage, the schedule of cash balances and the schedule of expenditures of federal/state awards are fairly stated in all material respect in relation to the basic financial statements as a whole.

The management discussion and analysis and the budgetary comparison information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Chickasha, Oklahoma
December 16, 2016

**CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

The management of the City of Blanchard is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the fiscal year ended June 30, 2016. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net position increased by \$590,718 and the assets of the City exceed its liabilities for the year ended June 30, 2016, by \$17,387,539 (net position).
- For the fiscal year ended June 30, 2016, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$2,418,138 compared to \$1,502,297 in FY 2015-an increase of \$915,841 or 61%.
- For the year ended June 30, 2016, unassigned fund balance on a modified cash basis for the General Fund was \$1,104,136 or 33% of General Fund revenues.

ABOUT THE CITY

- The City of Blanchard is an incorporated municipality with a population of approximately 8,280 located in McClain County in central Oklahoma. The City is a council-manager form of government. The City is governed by a five-member Council and operates under state law and City ordinances through the three branches of democratic government:
 - Legislative – the City Council is a five-member governing body elected by the citizens, 4 by ward and 1 at-large.
 - Executive – the City Manager is the Chief Executive Officer and is hired by the City Council
 - Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and through its Municipal Improvement Authority and Economic Trust Authority, certain utility services including water, wastewater, sanitation, and economic development activities, respectively.

The City's Financial Reporting Entity

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

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

- **The City of Blanchard** – an incorporated City that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the City – *reported as the primary government*
- **The Blanchard Municipal Improvement Authority (BMIA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, wastewater, and sanitation services of the City, with the City Council members serving as the trustees – *considered part of the primary government presentation for reporting purposes*
- **The Blanchard Economic Trust Authority (BETA)** – public trust created pursuant to 60 O.S. § 176 to stimulate economic growth and development of the City, with appointment of members by the City Council, with 2 members serving as trustees – *considered part of the primary government presentation for reporting purposes*

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Blanchard (the "City"), the Blanchard Municipal Improvement Authority (the "Municipal Improvement Authority") and the Blanchard Economic Trust Authority (the "Economic Trust Authority"). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

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

Reporting the City as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions to ask about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady as a result of the period'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 this question. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base, the condition of the City's roads, and quality of service to assess the overall health of the City. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those City assets and liabilities resulting from cash transactions.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities: *Governmental activities* - Most of the City's basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* - Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City's water, sewer, and sanitation utilities and economic development activities are reported as business-type activities.

Reporting the City's Most Significant Funds - Fund Financial Statements

Fund Financial Statements

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

Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting and current financial resources measurement focus that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps 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. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary funds - When the City, mainly through the Municipal Improvement Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. 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. The City's proprietary

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funds are the Blanchard Municipal Improvement Authority that accounts for the operation of the water, sewer, and sanitation activities and the Blanchard Economic Trust Authority that accounts for economic development.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 28-48 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund, a federal and state award schedule, a debt service coverage schedule, and a schedule of cash balances.

THE CITY AS A WHOLE

For the fiscal year ended June 30, 2016, net position on a modified cash basis for the governmental and business-type activities increased by \$590,718.

Net Position (Modified Cash Basis)
June 30, 2016

Following is a summary of net position reported on a modified cash basis for the City of Blanchard.

TABLE 1
NET POSITION (In Thousands)

	<u>Governmental Activities</u>		<u>% Inc. (Dec.)</u>	<u>Business-Type Activities</u>		<u>% Inc. (Dec.)</u>	<u>Total</u>		<u>% Inc. (Dec.)</u>
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
Current assets	\$ 2,428	\$ 1,513	60%	\$ 6,473	\$ 6,307	3%	\$ 8,901	\$ 7,820	14%
Capital assets, net	6,818	6,274	9%	13,168	12,147	8%	19,986	18,421	8%
Total assets	<u>9,246</u>	<u>7,787</u>	19%	<u>19,641</u>	<u>18,454</u>	6%	<u>28,887</u>	<u>26,241</u>	10%
Current liabilities	228	165	38%	623	485	28%	851	650	31%
Non-current liabilities	2,169	1,403	55%	8,479	7,391	15%	10,648	8,794	21%
Total liabilities	<u>2,397</u>	<u>1,568</u>	53%	<u>9,102</u>	<u>7,876</u>	16%	<u>11,499</u>	<u>9,444</u>	22%
Net position									
Net investment in capital assets	5,314	4,717	13%	9,582	9,395	2%	14,896	14,112	6%
Restricted	1,106	247	348%	142	252	-44%	1,248	499	150%
Unrestricted	429	1,255	-66%	815	931	-12%	1,244	2,186	-43%
Total net position	<u>\$ 6,849</u>	<u>\$ 6,219</u>	10%	<u>\$ 10,539</u>	<u>\$ 10,578</u>	0%	<u>\$ 17,388</u>	<u>\$ 16,797</u>	4%

The largest portion of the City's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. At year end, the net investment in capital assets, amounted to \$14,896,144.

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Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Current assets of the governmental activities increased approximately \$915,000 or 60% due primarily to debt proceeds from the 2015 Sales Tax Revenue Note.

**Changes in Net Position (Modified Cash Basis)
Year Ended June 30, 2016**

**TABLE 2
CHANGES IN NET POSITION (In Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2016	2015		2016	2015		2016	2015	
Revenues									
Charges for service	\$ 239	\$ 284	-16%	\$ 1,801	\$ 1,866	-3%	\$ 2,040	\$ 2,150	-5%
Operating grants and contributions	144	90	60%	-	-	-	144	90	60%
Capital grants and contributions	234	148	58%	631	532	19%	865	680	27%
Taxes	2,706	2,509	8%	-	-	-	2,706	2,509	8%
Intergovernmental revenue	60	58	3%	-	-	-	60	58	3%
Investment income	1	1	0%	2	1	100%	3	2	50%
Miscellaneous	103	94	10%	23	21	10%	126	115	10%
Total revenues	3,487	3,184	10%	2,457	2,420	2%	5,944	5,604	6%
Expenses									
General government	916	852	8%	-	-	-	916	852	8%
Public safety	1,120	1,067	5%	-	-	-	1,120	1,067	5%
Streets	477	449	6%	-	-	-	477	449	6%
Culture, parks and recreation	181	161	12%	-	-	-	181	161	12%
Interest on long-term debt	135	67	101%	-	-	-	135	67	101%
Water	-	-	-	1,156	1,111	4%	1,156	1,111	4%
Wastewater	-	-	-	339	339	0%	339	339	0%
Sanitation	-	-	-	633	545	16%	633	545	16%
Economic development	-	-	-	362	558	-35%	362	558	-35%
Industrial park	-	-	-	30	25	20%	30	25	20%
Quail haven	-	-	-	3	5	-40%	3	5	-40%
Total expenses	2,829	2,596	9%	2,523	2,583	-2%	5,352	5,179	3%
Excess (deficiency) before transfers	658	588	12%	(66)	(163)	60%	592	425	39%
Transfers	(28)	(212)	87%	28	212	-87%	-	-	-
Change in net position	630	376	68%	(38)	49	-178%	592	425	39%
Net position - beginning	6,219	5,843	6%	10,578	10,529	-	16,797	16,372	3%
Net position - ending	<u>\$ 6,849</u>	<u>\$ 6,219</u>	10%	<u>\$ 10,539</u>	<u>\$ 10,578</u>	-	<u>\$ 17,388</u>	<u>\$ 16,797</u>	4%

Governmental activities grant revenue increased from the prior year approximately \$54,000 or 60%. This is primarily due to a TSET Healthy Communities Grant.

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Governmental Activities

The City's governmental activities had an increase in net position of \$629,365.

**TABLE 3
Net Revenue (Expense) of Governmental Activities
(In Thousands)**

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
	General government	\$ 916		\$ 852	8%	
Public safety	1,120	1,067	5%	(942)	(863)	9%
Streets	477	449	6%	(403)	(234)	72%
Culture, parks and recreation	181	161	12%	(161)	(153)	5%
Interest on long-term debt	135	67	101%	(135)	(67)	101%
Total	<u>2,829</u>	<u>\$ 2,596</u>	9%	<u>(\$2,212)</u>	<u>(\$2,074)</u>	7%

For explanations of significant changes, see narrative on the previous page under Table 2.

Business-type Activities

The business-type activities had a decrease in net position of \$38,647.

**TABLE 4
Net Revenue (Expense) of Business-Type Activities
(In Thousands)**

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
	Water	\$ 1,156		\$ 1,111	4%	
Wastewater	339	339	0%	(75)	(72)	4%
Sanitation	633	545	16%	(62)	11	-664%
Economic Development	362	558	-35%	(362)	(558)	-35%
Quail Haven	3	5	-40%	(3)	(5)	-40%
Industrial Park	30	25	20%	557	256	118%
Total	<u>\$ 2,523</u>	<u>\$ 2,583</u>	-2%	<u>\$ (92)</u>	<u>\$ (185)</u>	-50%

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its fiscal year ended June 30, 2016, the governmental funds reported a combined fund balance of \$2,418,138. For the year ended June 30, 2016, the General Fund's total fund balance increased by \$915,841 due to mainly an increase in unspent debt proceeds.

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Budgetary Highlights

For fiscal year ended June 30, 2016, the General Fund reported actual modified cash basis revenues over final estimates by \$144,900 or a 4.6% positive variance. Grants were approximately \$143,000 more than final estimates. General Fund actual expenditures were under final appropriations by \$176,624 or a 6.4% positive variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2016, the City had approximately \$20 million in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and park facilities. Below are details regarding the City's capital assets as of June 30, 2016.¹

**TABLE 5
Capital Assets
(In Thousands)
(Net of accumulated depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 557	\$ 557	\$ 1,825	\$ 1,824	\$ 2,382	\$ 2,381
Buildings	1,974	1,802	251	239	2,225	2,041
Machinery, furniture and equipment	748	833	50	53	798	886
Infrastructure	2,701	2,464	-	-	2,701	2,464
Utility property	-	-	10,702	9,288	10,702	9,288
Construction in progress	838	619	340	743	1,178	1,362
Totals	<u>\$ 6,818</u>	<u>\$ 6,275</u>	<u>\$ 13,168</u>	<u>\$ 12,147</u>	<u>\$ 19,986</u>	<u>\$ 18,422</u>

This year's more significant capital asset additions include the following:

- Infrastructure \$432,108
- Utility property \$1,757,761

¹ For more detailed information on capital asset activity please refer to pages 36-37, Note 3. Capital Assets and Depreciation

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Debt Administration

At June 30, 2016, the City had \$11,362,989 in debt outstanding, reported on a modified cash basis, approximately a \$2,053,000 increase from the prior year due primarily to the issuance of a \$1,010,000 2015 Sales Tax Revenue Note and the issuance of a \$1,580,000 2016 Utility System and Sales Tax Revenue Note.

**TABLE 6
Long-Term Debt
(In Thousands)**

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>		<u>Total</u>
	<u>Activities</u>		<u>Activities</u>				<u>Percentage</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>
Notes payable	\$ 2,206	\$ 1,323	\$ 4,593	\$ 3,275	\$ 6,799	\$ 4,598	47.9%
Bonds payable	-	-	4,383	4,478	4,383	4,478	-2.1%
Capital leases	181	234	-	-	181	234	-22.6%
Totals	<u>\$ 2,387</u>	<u>\$ 1,557</u>	<u>\$ 8,976</u>	<u>\$ 7,753</u>	<u>\$ 11,363</u>	<u>\$ 9,310</u>	22.1%

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The City expects sales tax revenue to remain consistent.
- The City received approval for an Office of Attorney General Grant in the amount of \$165,717 on June 9, 2016. The proceeds from this grant will be used to purchase laptops and MobileCop units to increase technological capacity and to support intervention and enforcement in the City.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at 122 N. Main, Blanchard, Oklahoma 73010 or telephone at 405-485-9392.

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BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET POSITION AND ACTIVITIES

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Statement of Net Position (Modified Cash Basis) – June 30, 2016

City of Blanchard
Statement of Net Position
June 30, 2016

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,510,235	\$ 704,749	\$ 2,214,984
Restricted cash and equivalents	938,636	5,747,309	6,685,945
Internal balances	(20,878)	20,878	-
Capital Assets:			
Land and construction in progress	1,394,500	2,165,026	3,559,526
Other capital assets, net of depreciation	5,423,350	11,002,700	16,426,050
Total Assets	<u>\$ 9,245,843</u>	<u>\$ 19,640,662</u>	<u>\$ 28,886,505</u>
LIABILITIES			
Payable to other governments	\$ 2,500	\$ -	\$ 2,500
Due to depositors	6,035	126,122	132,157
Due to bondholders	1,320	-	1,320
Long-term liabilities:			
Due within one year	218,492	497,040	715,532
Due in more than one year	2,168,905	8,478,552	10,647,457
Total liabilities	<u>2,397,252</u>	<u>9,101,714</u>	<u>11,498,966</u>
NET POSITION			
Net investment in capital assets	5,313,950	9,582,194	14,896,144
Restricted for:			
Capital projects	1,037,359	-	1,037,359
Debt service	68,732	142,250	210,982
Unrestricted	428,550	814,504	1,243,054
Total net position	<u>\$ 6,848,591</u>	<u>\$ 10,538,948</u>	<u>\$ 17,387,539</u>

See accompanying notes to the basic financial statements.

CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016

Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2016

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

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General Government	\$ 915,790	\$ 114,833	\$ 457	\$ 229,266	\$ (571,234)	\$ -	\$ (571,234)
Public Safety	1,120,472	124,250	49,290	4,800	(942,132)	-	(942,132)
Streets	477,031	-	73,801	-	(403,230)	-	(403,230)
Culture and Recreation	181,023	-	20,169	-	(160,854)	-	(160,854)
Interest on Long-term debt	135,183	-	-	-	(135,183)	-	(135,183)
Total governmental activities	<u>2,829,499</u>	<u>239,083</u>	<u>143,717</u>	<u>234,066</u>	<u>(2,212,633)</u>	<u>-</u>	<u>(2,212,633)</u>
Business-Type Activities:							
Water	1,156,225	964,818	-	44,517	-	(146,890)	(146,890)
Wastewater	339,462	264,756	-	-	-	(74,706)	(74,706)
Sanitation	632,588	570,938	-	-	-	(61,650)	(61,650)
Economic Development	362,001	-	-	-	-	(362,001)	(362,001)
Quail Haven	3,331	-	-	-	-	(3,331)	(3,331)
Industrial Park	29,655	-	-	586,946	-	557,291	557,291
Total business-type activities	<u>2,523,262</u>	<u>1,800,512</u>	<u>-</u>	<u>631,463</u>	<u>-</u>	<u>(91,287)</u>	<u>(91,287)</u>
Total primary government	<u>\$ 5,352,761</u>	<u>\$ 2,039,595</u>	<u>\$ 143,717</u>	<u>\$ 865,529</u>	<u>\$ (2,212,633)</u>	<u>\$ (91,287)</u>	<u>\$ (2,303,920)</u>
General revenues:							
Taxes:							
Sales and use taxes					\$ 2,551,602	\$ -	\$ 2,551,602
Franchise taxes and public service taxes					154,496	-	154,496
Special assessment tax					39,944	16,851	56,795
Intergovernmental revenue not restricted to specific programs					60,448	-	60,448
Unrestricted investment earnings					1,771	2,186	3,957
Miscellaneous					61,802	5,538	67,340
Transfers					(28,065)	28,065	-
Total general revenues and transfers					<u>2,841,998</u>	<u>52,640</u>	<u>2,894,638</u>
Change in net position					629,365	(38,647)	590,718
Net position - beginning					6,219,226	10,577,595	16,796,821
Net position - ending					<u>\$ 6,848,591</u>	<u>\$ 10,538,948</u>	<u>\$ 17,387,539</u>

See accompanying notes to the basic financial statements.

**CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

**CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2016

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>TIF District Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,362,809	\$ 1,064,646	\$ 21,416	\$ 2,448,871
Due from other funds	75,818	-	25,811	101,629
Total assets	<u>\$ 1,438,627</u>	<u>\$ 1,064,646</u>	<u>\$ 47,227</u>	<u>\$ 2,550,500</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 26,663	\$ 29,450	\$ 66,394	\$ 122,507
Due to bondholders	1,320	-	-	1,320
Payable to other governments	2,500	-	-	2,500
Other payables	6,035	-	-	6,035
Total liabilities	<u>36,518</u>	<u>29,450</u>	<u>66,394</u>	<u>132,362</u>
Fund balances:				
Restricted for:				
Capital Improvements	2,163	1,035,196	-	1,037,359
Debt Service	68,732	-	-	68,732
Assigned	227,078	-	-	227,078
Unassigned (deficit)	1,104,136	-	(19,167)	1,084,969
Total fund balances	<u>1,402,109</u>	<u>1,035,196</u>	<u>(19,167)</u>	<u>2,418,138</u>
Total liabilities and fund balances	<u>\$ 1,438,627</u>	<u>\$ 1,064,646</u>	<u>\$ 47,227</u>	<u>\$ 2,550,500</u>

See accompanying notes to the basic financial statements.

CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
(Modified Cash Basis) – Year Ended June 30, 2016

	<u>General Fund</u>	<u>Capital Improvement Fund</u>	<u>TIF District Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 2,840,347	\$ -	\$ -	\$ 2,840,347
Intergovernmental	197,473	85,883	-	283,356
Licenses and permits	98,111	-	-	98,111
Charges for services	3,583	2,225	-	5,808
Fees and fines	124,250	10,914	-	135,164
Investment earnings	1,654	109	8	1,771
Miscellaneous	44,049	33,927	-	77,976
Assessment fee	39,944	-	-	39,944
Total revenues	<u>3,349,411</u>	<u>133,058</u>	<u>8</u>	<u>3,482,477</u>
EXPENDITURES				
Current:				
General government	847,950	418	1,909	850,277
Public safety	1,014,883	-	-	1,014,883
Highways and streets	230,713	-	-	230,713
Culture and recreation	107,572	-	-	107,572
Capital outlay	389,051	97,523	-	486,574
Debt service:				
Principal	115,860	64,319	-	180,179
Interest and other charges	62,924	72,259	-	135,183
Total expenditures	<u>2,768,953</u>	<u>234,519</u>	<u>1,909</u>	<u>3,005,381</u>
Excess (deficiency) of revenues over expenditures	<u>580,458</u>	<u>(101,461)</u>	<u>(1,901)</u>	<u>477,096</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term debt	-	1,010,000	-	1,010,000
Transfers in	1,192,240	53,329	42,611	1,288,180
Transfers out	(1,802,439)	(56,996)	-	(1,859,435)
Total other financing sources and uses	<u>(610,199)</u>	<u>1,006,333</u>	<u>42,611</u>	<u>438,745</u>
Net change in fund balances	(29,741)	904,872	40,710	915,841
Fund balances - beginning	1,431,850	130,324	(59,877)	1,502,297
Fund balances - ending	<u>\$ 1,402,109</u>	<u>\$ 1,035,196</u>	<u>\$ (19,167)</u>	<u>\$ 2,418,138</u>

See accompanying notes to the basic financial statements.

**CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Position Reconciliation:

Total fund balance, governmental funds	\$ 2,418,138
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.	6,817,850
Some liabilities (such as Notes Payable and Capital Lease Contract Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.	(2,387,397)
Net Position of Governmental Activities in the Statement of Net Position	<u>\$ 6,848,591</u>

**CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

Changes in Fund Balances – Changes in Net Position Reconciliation:

Net change in fund balances - total governmental funds:	\$	915,841
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
Capital asset purchases capitalized		969,689
Depreciation expense		(414,434)
Loss on disposal		(11,910)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:		
Principal payments on long-term debt		180,179
Proceeds of long-term debt		(1,010,000)
Change in net position of governmental activities	<u>\$</u>	<u>629,365</u>

See accompanying notes to the basic financial statements.

**CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016

Proprietary Funds Statement of Net Position (Modified Cash Basis) – June 30, 2016

	<u>Enterprise Funds</u>		
	<u>BMIA</u>	<u>Non-Major BETA</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 704,749	\$ -	\$ 704,749
Restricted:			
Cash and cash equivalents	5,742,665	4,644	5,747,309
Due from other funds	277,344	-	277,344
Total current assets	<u>6,724,758</u>	<u>4,644</u>	<u>6,729,402</u>
Non-current assets:			
Capital assets:			
Land and construction in progress	1,648,571	516,455	2,165,026
Other capital assets, net of accumulated depreciation	10,972,429	30,271	11,002,700
Total non-current assets	<u>12,621,000</u>	<u>546,726</u>	<u>13,167,726</u>
Total assets	<u>\$ 19,345,758</u>	<u>\$ 551,370</u>	<u>\$ 19,897,128</u>
LIABILITIES			
Current liabilities:			
Due to other funds	\$ -	256,466	\$ 256,466
Other accrued expenses	5,000	-	5,000
Deposits subject to refund	121,122	-	121,122
Notes payable	397,040	-	397,040
Bonds payable	100,000	-	100,000
Total current liabilities	<u>623,162</u>	<u>256,466</u>	<u>879,628</u>
Non-current liabilities:			
Notes payable	3,897,100	298,779	4,195,879
Bonds payable	4,282,673	-	4,282,673
Total non-current liabilities	<u>8,179,773</u>	<u>298,779</u>	<u>8,478,552</u>
Total liabilities	<u>8,802,935</u>	<u>555,245</u>	<u>9,358,180</u>
NET POSITION			
Net investment in capital assets	9,331,694	250,500	9,582,194
Restricted for debt service	142,250	-	142,250
Unrestricted (deficit)	1,068,879	(254,375)	814,504
Total net position	<u>\$ 10,542,823</u>	<u>\$ (3,875)</u>	<u>\$ 10,538,948</u>

See accompanying notes to the basic financial statements.

CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016

Proprietary Funds Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis) – Year Ended June 30, 2016

	<u>BMIA</u>	Non-Major <u>BETA</u>	<u>Total</u>
OPERATING REVENUES			
Water	\$ 964,818	\$ -	\$ 964,818
Sewer	264,756	-	264,756
Sanitation	570,938	-	570,938
Miscellaneous	16,851	-	16,851
Total operating revenues	<u>1,817,363</u>	<u>-</u>	<u>1,817,363</u>
OPERATING EXPENSES			
General government	-	744	744
Water	971,325	-	971,325
Wastewater	180,740	-	180,740
Sanitation	632,588	-	632,588
Industrial park	29,655	-	29,655
Depreciation	354,117	2,188	356,305
Total operating expenses	<u>2,168,425</u>	<u>2,932</u>	<u>2,171,357</u>
Operating income (loss)	<u>(351,062)</u>	<u>(2,932)</u>	<u>(353,994)</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	2,186	-	2,186
Miscellaneous revenue	561	500	1,061
Gain on capital asset disposal	-	5,109	5,109
Interest expense	(284,427)	(11,010)	(295,437)
Bond issuance cost	(57,100)	-	(57,100)
Total non-operating revenue (expenses)	<u>(338,780)</u>	<u>(5,401)</u>	<u>(344,181)</u>
Income (loss) before contributions and transfers	<u>(689,842)</u>	<u>(8,333)</u>	<u>(698,175)</u>
Capital grants and contributions	816,042	-	816,042
Transfers in	1,807,011	-	1,807,011
Transfers out	(1,963,525)	-	(1,963,525)
Change in net position	<u>(30,314)</u>	<u>(8,333)</u>	<u>(38,647)</u>
Total net position - beginning	<u>10,573,137</u>	<u>4,458</u>	<u>10,577,595</u>
Total net position - ending	<u>\$ 10,542,823</u>	<u>\$ (3,875)</u>	<u>\$ 10,538,948</u>

See accompanying notes to the basic financial statements.

CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016

Proprietary Funds Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2016

	Enterprise Funds		Total
	BMIA	Non-Major BETA	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 1,817,924	500	\$ 1,818,424
Payments to suppliers and employees	(1,809,308)	(744)	(1,810,052)
Receipts of customer meter deposits	28,201	-	28,201
Refunds of customer meter deposits	(30,195)	-	(30,195)
Interfund receipts/payments	(35,295)	5,845	(29,450)
Net cash provided by (used in) operating activities	(28,673)	5,601	(23,072)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	(1,963,525)	-	(1,963,525)
Transfers to other funds	1,807,011	-	1,807,011
Net cash provided by (used in) noncapital financing activities	(156,514)	-	(156,514)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(1,192,214)	-	(1,192,214)
Proceeds on sale of capital asset	-	5,109	5,109
Grants and contributions	631,463	-	631,463
Proceeds from debt	1,580,000	-	1,580,000
Bond issuance costs paid	(57,100)	-	(57,100)
Principal paid on debt	(361,876)	-	(361,876)
Interest and fiscal agent fees paid on debt	(279,633)	(11,010)	(290,643)
Net cash provided by (used in) capital and related financing activities	320,640	(5,901)	314,739
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	2,186	-	2,186
Net cash provided by investing activities	2,186	-	2,186
Net increase (decrease) in cash and cash equivalents	137,639	(300)	137,339
Balances - beginning of year	6,309,775	4,944	6,314,719
Balances - end of year	\$ 6,447,414	\$ 4,644	\$ 6,452,058
Reconciliation to Statement of Net Position:			
Cash and cash equivalents	\$ 704,749	\$ -	\$ 704,749
Restricted cash and cash equivalents - current	5,742,665	4,644	5,747,309
Total cash and cash equivalents, end of year	\$ 6,447,414	\$ 4,644	\$ 6,452,058
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:			
Operating income (loss)	\$ (351,062)	\$ (2,932)	\$ (353,994)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	354,117	2,188	356,305
Miscellaneous revenue	561	500	1,061
Change in assets and liabilities:			
Due from other funds	(35,295)	-	(35,295)
Due to other funds	-	5,845	5,845
Accounts payable	5,000	-	5,000
Deposits subject to refund	(1,994)	-	(1,994)
Net cash provided by (used in) operating activities	\$ (28,673)	\$ 5,601	\$ (23,072)
Noncash activities:			
Transfer of construction in progress from governmental activities	\$ 184,579	\$ -	\$ 184,579

See accompanying notes to the basic financial statements.

**CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City's financial reporting entity includes three separate legal entities reported as the primary government as follows:

- **The City of Blanchard** – operates the public safety, streets, health and welfare, culture and recreation, and administrative activities of the City.
- **The Blanchard Municipal Improvement Authority (BMIA)** – operates the water, wastewater and sanitation services of the City. The City of Blanchard is the beneficiary of the Trust and the City Council serves as the governing body of the Trust.
- **The Blanchard Economic Trust Authority (BETA)** – stimulate economic growth and development of the beneficiary City.

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

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

The City Council is the governing body (trustees) of the BMIA and the City is able to impose its will on the Authority through required approval of all debt obligations issued by this entity.

The City Council appoints the governing body (trustees) of the BETA. Two members of the City Council serve as trustees of the BETA.

As required by state law, all debt obligations incurred by the above trusts must be approved by two-thirds vote of the City Council. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trusts within the City's financial reporting entity. The public trusts do not issue separate annual financial statements and are treated as blended component units.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

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

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

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

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

- General government: License and permits and inspection fees and capital grants
- Public safety: Fine revenue, fire runs and operating and capital grants
- Streets and highways: Gas excise, commercial vehicle taxes and impact fees and operating grants
- Culture and recreation: capital grants

Governmental Funds:

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

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

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

**CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

Proprietary Funds:

Enterprise Funds – are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Blanchard Municipal Improvement Authority (BMIA) enterprise fund and the Blanchard Economic Trust Authority (BETA) enterprise fund. The BMIA fund accounts for activities of the public trust in providing, water, wastewater, and sanitation services to the public. The BETA fund accounts for economic growth and development of the beneficiary City.

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

Major Funds:

- General Fund – accounts for all activities not accounted for in other special-purpose funds.
- Capital Improvement Fund – accounts for sales tax restricted for capital improvement and capital improvement projects.
- TIF District Fund – accounts for all activities of the Blanchard Economic Development Project Plan.

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

The City’s proprietary funds are comprised of the following:

Major Fund:

- Blanchard Municipal Improvement Authority – accounts for the operation of the water and wastewater services and the outsourcing of sanitation services.

Non-Major Fund:

- Blanchard Economic Trust Authority – established to promote development of economic beneficial projects for the benefit of the City of Blanchard and its citizens. Generally it is funded through loans from the City or fees from revenue bond issues.

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

All of the above noted funds are legally required to adopt annual budgets or appropriations. The public trusts are not required to adopt legal annual appropriations. While each trust develops an annual budget, it is for financial management purposes and does not constitute legal appropriations.

C. Cash, Cash Equivalents, and Investments

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

For the purposes of the statements of net position, balance sheets, and statement of cash flows, cash and cash equivalents includes all demand and savings accounts. Trust account investments in open-ended mutual fund shares are also considered cash equivalents for reporting purposes.

For the year ended June 30, 2016, the City recognized \$3,957 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City's deposits are in demand and short-term time deposits.

D. Capital Assets and Depreciation

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

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$2,000 is used to report capital assets. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2003. Prior to July 1, 2003, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2003 are recorded at cost. In-kind donations of capital assets are not recorded on the modified cash basis of accounting.

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

- Buildings 15-39 years
- Machinery, furniture and equipment 3-20 years
- Infrastructure 15-50 years

E. Long-Term Debt

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

F. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 11.

G. Fund Balances and Net Position

Fund Statements:

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

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – included amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.
- d. Assigned – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

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

Net Position:

Net position is displayed in three components:

- a. *Net investment in capital assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted* - All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

H. Internal and Interfund Balances and Transfers

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

I. Use of Estimates

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

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2. Deposits and Investments

For the year ended June 30, 2016, the City recognized \$2,785 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City's deposits are in demand and short-term time deposits.

At June 30, 2016, the primary government held the following deposits and investments:

Type	Credit Rating	Carrying Value
Deposits:		
Demand deposits		\$ 2,436,572
		2,436,572
Investments:		
BOK Short-Term Cash Fund	AAAm	6,464,357
		6,464,357
Total deposits and investments		\$ 8,900,929
 Reconciliation to Statement of Net Position:		
Cash and cash equivalents		\$ 2,214,984
Restricted cash and cash equivalents		6,685,945
		\$ 8,900,929

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

As of June 30, 2016, the City was exposed to custodial credit risk as defined above. The money market mutual funds are not insured or guaranteed by the FDIC or any other government agency. The other City's accounts were fully collateralized at June 30, 2016.

Investment Interest Rate Risk - the City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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Investment Credit Risk - The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts.

As of June 30, 2016, no securities were held by the City.

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

Restricted Cash and Investments – The amounts reported as restricted assets on the statement of net position are comprised of amounts restricted for utility deposits, special assessments, debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2016 are as follows:

	Current	
	Cash and Cash Equivalents	
	Governmental	Business-type
Utility Deposits	-	121,132
Series 2007 Note Account	-	8,772
Series 2009 Note Account	-	46,382
Series 2014 Construction Account	-	830,798
Series 2014 Interest Account	-	3,877
Series 2014 Principal Account	-	15,003
Series 2014A Construction Account	-	3,127,585
Series 2014A Interest Account	-	26,632
Series 2014A Principal Account	-	16,667
Series 2015 Construction Account	854,047	-
Series 2015 Interest Account	3,694	-
Series 2015 Principal Account	10,000	-
Series 2016 Construction Account	-	1,520,900
Quail Haven Special Assessment Account	-	17,599
Fox Run Special Assessment Account	70,895	-
BETA Account	-	4,644
Debt Service Sales Tax Account	-	7,318
Total	\$ 938,636	\$ 5,747,309

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3. Capital Assets and Depreciation

For the year ended June 30, 2016, capital assets balances changed as follows:

	Balance at July 1, 2015	Additions	Disposals	Balance at June 30, 2016
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 556,716	\$ -	\$ -	\$ 556,716
Construction in progress	619,056	930,603	711,875	837,784
Total capital assets not being depreciated	<u>1,175,772</u>	<u>930,603</u>	<u>711,875</u>	<u>1,394,500</u>
Other capital assets:				
Buildings	2,464,027	263,818	-	2,727,845
Infrastructure	4,708,967	432,108	-	5,141,075
Machinery, furniture and equipment	1,961,766	55,036	43,496	1,973,306
Total other capital assets at historical cost	<u>9,134,760</u>	<u>750,962</u>	<u>43,496</u>	<u>9,842,226</u>
Less accumulated depreciation for:				
Buildings	662,375	91,416	-	753,791
Infrastructure	2,244,507	195,768	-	2,440,275
Machinery, furniture and equipment	1,129,146	127,250	31,586	1,224,810
Total accumulated depreciation	<u>4,036,028</u>	<u>414,434</u>	<u>31,586</u>	<u>4,418,876</u>
Other capital assets, net	<u>5,098,732</u>	<u>336,528</u>	<u>11,910</u>	<u>5,423,350</u>
Governmental activities capital assets, net	<u>\$ 6,274,504</u>	<u>\$ 1,267,131</u>	<u>\$ 723,785</u>	<u>\$ 6,817,850</u>
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$ 1,824,516			\$ 1,824,516
Construction in progress	743,385	1,354,886	1,757,761	340,510
Total capital assets not being depreciated	<u>2,567,901</u>	<u>1,354,886</u>	<u>1,757,761</u>	<u>2,165,026</u>
Other capital assets:				
Buildings	302,082	21,906	-	323,988
Machinery, furniture and equipment	182,872	-	-	182,872
Utility property	13,842,919	1,757,761	-	15,600,680
Total other capital assets at historical cost	<u>14,327,873</u>	<u>1,779,667</u>	<u>-</u>	<u>16,107,540</u>
Less accumulated depreciation for:				
Buildings	63,136	9,817	-	72,953
Machinery, furniture and equipment	130,239	3,088	-	133,327
Utility property improvements	4,555,161	343,399	-	4,898,560
Total accumulated depreciation	<u>4,748,536</u>	<u>356,304</u>	<u>-</u>	<u>5,104,840</u>
Other capital assets, net	<u>9,579,337</u>	<u>1,423,363</u>	<u>-</u>	<u>11,002,700</u>
Business-type activities capital assets, net	<u>\$ 12,147,238</u>	<u>\$ 2,778,249</u>	<u>\$ 1,757,761</u>	<u>\$ 13,167,726</u>

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

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Governmental Activities:		Business-Type Activities:	
General government	\$ 28,774	Water	\$ 195,395
Public safety	87,090	Sewer	158,722
Highways and streets	60,470	BETA	2,187
Culture, tourism, and recreation	238,100		<u>\$ 356,304</u>
	<u>\$ 414,434</u>		

The following capital assets were purchased by capital leases that were considered in-substance cash transactions. The table discloses the amount capitalized and the related depreciation expense through June 30, 2016.

<u>Date</u>	<u>Capital Asset</u>	<u>Amount</u>	<u>Accumulated Depreciation</u>
11/16/2012	2013 Backhoe Loader	\$ 65,335	\$ 27,257
4/10/2015	6 Police Cars	207,493	27,270
		<u>\$ 272,828</u>	<u>\$ 54,527</u>

4. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2016, the reporting entity's long-term debt changed as follows:

<u>Type of Debt</u>	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Governmental Activities:					
Capital lease payable	\$ 233,825	\$ -	\$ 52,593	\$ 181,232	\$ 54,092
Notes payable	1,323,750	1,010,000	127,585	2,206,165	164,400
Total Governmental Activities	<u>\$ 1,557,575</u>	<u>\$ 1,010,000</u>	<u>\$ 180,178</u>	<u>\$ 2,387,397</u>	<u>\$ 218,492</u>
Business-Type Activities:					
Notes Payable	\$ 3,274,794	\$ 1,580,000	\$ 261,876	\$ 4,592,918	\$ 397,040
Bonds Payable	4,545,000	-	100,000	4,445,000	\$ 100,000
Total Business-Type Activities	<u>\$ 7,819,794</u>	<u>\$ 1,580,000</u>	<u>\$ 361,876</u>	<u>\$ 9,037,918</u>	<u>497,040</u>
			Add: Unamortized bond discount	<u>(62,326)</u>	
				<u>8,975,592</u>	
Total Long-Term Debt				<u>\$ 11,362,989</u>	<u>\$ 715,532</u>

Reconciliation to Statement of Net Position:

Governmental Activities:

Due within one year	\$ 218,492
Due in more than one year	2,168,905
Total Governmental Activities Long-Term Liabilities	<u>\$ 2,387,397</u>

Business-Type Activities:

Due within one year	\$ 497,040
Due in more than one year	8,478,552
Total Business-Type Activities Long-Term Liabilities	<u>\$ 8,975,592</u>

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Governmental Activities:

At June 30, 2016, the governmental long-term debt of the financial reporting entity consisted of the following:

Capital Lease Obligation:

\$65,335 lease obligation for the purchase of a 2013 John Deere backhoe loader, payable in monthly installments of \$1,169.61 with an annual interest rate of 2.85%, final payment due November 2017.	\$	19,461
\$207,493 lease obligation for the purchase of 6 police cars, payable in monthly installments of \$3,732 with an annual interest rate of 2.99%, final payment due April 2020.		161,771
	Total Capital Leases Payable	<u>\$ 181,232</u>
	Current portion	\$ 54,092
	Noncurrent portion	127,140
	Total Capital Leases Payable	<u>\$ 181,232</u>

Notes Payable:

2009 Sales Tax Revenue Note payable to Bank of Oklahoma dated March 31, 2009, original amount of \$3,200,000 with an annual interest rate of 5.20% due in semi-annual installments of principal and interest beginning November 1, 2009, final installment due May 1, 2027, payable from and secured by a 2 cent sales tax. Proceeds were used 39% for library and 61% for wastewater. Balance represents 39% of total ending balance.	\$	885,300
2015 Sales Tax Revenue Note payable to Bank of Oklahoma dated November 10, 2015, original amount of \$1,010,000 with an annual interest rate of 2.25% due in semi-annual installments of principal and interest beginning May 1, 2016, final installment due November 1, 2025, payable from and secured by a 2 cent sales tax. Proceeds will be used to renovate the current and old city hall, remodel the senior center, and roof repairs for the library.		985,000
2014 Special Assessment District Note payable to First National Bank-Chickasha for street improvements in Fox Run I and Fox Run II additions dated May 29, 2014, original amount \$420,000 with a 3.25% interest rate, due in annual installments of principal and interest beginning May 29, 2015, final installment due May 29, 2024.		335,865
	Total Notes Payable	<u>\$ 2,206,165</u>
	Current portion	\$ 164,400
	Noncurrent portion	2,041,765
	Total Notes Payable	<u>\$ 2,206,165</u>

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Business-Type Activities:

Long-term commitments payable from net revenues generated by the utility resources or other resources pledged to the City's business-type activities at June 30, 2016, includes the following:

Notes Payable:

2007 Sales Tax Revenue Note payable to Bank of Oklahoma dated November 1, 2007, original amount \$650,000 with an annual interest rate of 3.823% due in semi-annual installments of principal and interest beginning May 1, 2008, final installment due November 1, 2022, payable from and secured by a 2 cent sales tax.	\$ 330,000
2009 Sales Tax Revenue Note payable to Bank of Oklahoma dated March 31, 2009, original amount of \$3,200,000 with an annual interest rate of 5.20% due in semi-annual installments of principal and interest beginning November 1, 2009, final installment due May 1, 2027, payable from and secured by a 2 cent sales tax. Proceeds were used 39% for library and 61% for wastewater. Balance represents 61% of total ending balance.	1,384,700
2014 Sales Tax Revenue Note payable to Bank of Oklahoma dated June 3, 2014, original amount \$1,135,000 with an annual interest rate of 2.41% due in semi-annual installments of principal and interest beginning November 1, 2014, final installment due November 1, 2024, payable from and secured by a 2 cent sales tax. Proceeds will be used to fund water systems telemetry and SCADA, wastewater lagoon irrigation system, screen for main sewer lift station, municipal building improvements and storm water drainage improvements.	965,000
2016 Utility System and Sales Tax Revenue Note payable to Bank of Oklahoma dated June 7, 2016, original amount \$1,580,000 with an annual interest rate of 2.19% due in semi-annual installments of principal and interest beginning November 1, 2016, final installment due May 1, 2026, payable from and secured by a 2 cent sales tax. Proceeds will be used to finance certain water system improvements, including replacement of a waterline crossing and acquisition of an automated meter reading system.	1,580,000
2008 Special Assessment District Note payable to First National Bank-Chickasha for water lines in Quail Haven/Oak Haven dated June 20, 2007, original amount \$275,271 with a 5% interest rate, due in annual installments of principal and interest beginning June 20, 2008, final installment due June 20, 2017.	34,439
Note Payable to Legacy Bank dated May 6, 2015, original amount \$298,779 with an annual interest rate of 3.42% due in quarterly installments of principal and interest beginning August 6, 2015, final installment due May 6, 2025. BETA used the proceeds to purchase 48.81 acres south of the Industrial Park.	298,779
Total Notes Payable	\$ 4,592,918
Current portion	\$ 397,040
Noncurrent portion	4,195,878
Total Notes Payable	\$ 4,592,918

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Bonds Payable:

2014A Blanchard Municipal Improvement Authority Utility System and Sales Tax Revenue Bonds payable to Bank of Oklahoma dated July 8, 2014, original amount \$4,620,000 with an annual interest rate between 2% and 4.125% due in annual installments between \$75,000 and \$250,000 beginning May 1, 2015, final installment due May 1, 2044, payable from and secured by a 1 cent sales tax. Proceeds will be used to construct and acquire improvements to the City's water distribution and storage system.

	\$ 4,445,000
Total bonds payable before bond discount	\$ 4,445,000
Bond discount	(62,326)
Total bonds payable	\$ 4,382,674
Current portion	\$ 100,000
Noncurrent portion	4,282,674
Total Bonds Payable	\$ 4,382,674

Payment Requirements to Maturity:

Pledge of Future Revenues

Year Ending June 30.	Governmental Activities				Business Type Activities			
	Capital Lease Obligations		Notes Payable		Notes Payable		Bonds Payable	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	54,092	4,726	164,400	78,133	397,040	148,227	100,000	159,734
2018	47,481	3,147	173,300	72,103	414,615	137,838	100,000	157,734
2019	42,958	1,825	177,200	65,757	419,251	124,062	100,000	155,734
2020	36,701	514	189,150	59,202	430,939	109,909	110,000	153,734
2021	-	-	198,050	52,270	445,773	95,746	110,000	150,434
2022-2026	-	-	1,204,615	146,656	2,329,751	243,653	610,000	700,120
2027-2031	-	-	99,450	3,904	155,549	6,106	705,000	599,656
2032-2036	-	-	-	-	-	-	855,000	460,750
2037-2041	-	-	-	-	-	-	1,035,000	278,580
2042-2045	-	-	-	-	-	-	720,000	60,225
Totals	\$ 181,232	\$ 10,212	\$ 2,206,165	\$ 478,025	\$ 4,592,918	\$ 865,541	\$ 4,445,000	\$ 2,876,701

Sales Tax Pledge

The City has pledged two cents of the sales tax in the General Fund to repay \$650,000 of the 2007 Sales Tax Revenue Note, \$3,200,000 of the 2009 Sales Tax Revenue Note, \$1,135,000 of the 2014 Sales Tax Revenue Note, \$1,010,000 of the 2015 Sales Tax Revenue Note, and \$1,580,000 of the 2016 Utility System and Sales Tax Revenue Note issued by the Blanchard Municipal Improvement Authority. The proceeds of these notes provided financing for the library construction, sewer lagoon land acquisition and improvements, renovation of the current and old city hall, remodeling of the senior center, roof repairs for the library, water system improvements, and acquisition of an automated meter reading system. The notes are payable from future sales tax revenue and are payable through 2022, 2027, 2024, 2025, and 2026, respectively. The total principal and interest payable for the remainder of the life of these notes is \$7,355,670. The City received \$1,137,666 in pledged sales taxes this fiscal year. Debt service payments of \$500,782 for the current fiscal year were 44% of the pledged sales taxes.

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The City has pledged an additional one cent of the sales tax in the General Fund to repay \$4,620,000 of the Utility System and Sales Tax Revenue Bonds Series 2014A issued by the Blanchard Municipal Improvement Authority. The proceeds from the revenue bonds will provide financing for the construction and improvement of the City's water distribution and storage system. The bonds are payable from future sales tax revenue and are payable through 2044. The total principal and interest payable for the remainder of the life of these bonds is \$7,321,701. The City received \$568,833 in pledged sales taxes this fiscal year. Debt service payments of \$263,734 for the current fiscal year were 46% of the pledged sales taxes.

5. Sales Tax Revenue

Sales tax revenue represents a four cent tax on each dollar of taxable sales within the City. The four cents is received and recorded in the City's General Fund. The City has pledged three3 cents of their four cent sales tax to secure debt service payments in the BMIA.

6. Property Tax Levy

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

7. Schedule of Transfers Between Funds and Legal Entities

Internal balances between funds and legal entities are comprised of the following:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
BETA	BMIA	242,049	Vendor reimbursements
BETA	General Fund	8,572	Vendor reimbursements
Court	General Fund	852	Court fine revenue
BETA	BMIA	5,845	Industrial Park
Capital Projects	BMIA	29,450	Reimbursement error
General Fund	TIF	25,811	Sales tax
TIF	General Fund	66,394	Vendor and payroll reimbursements
Total		<u>\$ 378,973</u>	

Reconciliation to Fund Financial Statements:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>	<u>Net Activity/ Internal Balances</u>
Governmental Funds	\$ 101,629	\$ (122,507)	\$ (20,878)
Proprietary Funds	277,344	(256,466)	20,878
Total	<u>\$ 378,973</u>	<u>\$ (378,973)</u>	<u>\$ -</u>

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Transfers between legal entities are comprised of the following:

Transfer From	Transfer To	Amount	Purpose of Transfer
BMIA	General Fund	7,018	Debt Service Payments-Backhoe
Capital Improvement	General Fund	6,484	Correct Liberty Cash for Police Car Equipment
BMIA	General Fund	110,429	Debt Service Payments-Library
BMIA	General Fund	1,068,309	Return Sales Tax
General Fund	Capital Improvement	48,422	Sales Tax transfer
General Fund	Capital Improvement	4,907	City Match-SCBA Fire Grant
General Fund	TIF	42,611	Sales Tax transfer
General Fund	BMIA	1,706,499	Sales Tax Transfer
General Fund	BMIA	50,512	Debt Service-2015 Sales Tax Revenue Note
Industrial Park	BMIA	50,000	Reimburse Industrial Park Expenses Paid by BMIA
Total		<u>\$ 3,095,191</u>	

Reconciliation to Fund Financial Statements:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	\$ (1,859,435)	\$ 438,745	\$ (1,420,690)
Proprietary Funds	(38,647)	10,577,595	10,538,948
	<u>\$ (1,898,082)</u>	<u>\$ 11,016,340</u>	<u>9,118,258</u>

Reconciliation to Statement of Activities:

Net transfers-governmental activities	(1,420,690)
Transfer of assets from business-type to governmental	(9,118,258)
Transfer of assets from governmental to business-type	(184,579)
Transfers - internal activity	<u>(10,723,527)</u>

8. Fund Balance and Net Position

The following tables show the fund balance classifications as shown on the Governmental Funds Balance Sheet and Proprietary Fund Statement of Net Position:

	General Fund	Capital Improvement Fund	TIF District Fund	Total
Fund Balances:				
Restricted for:				
Capital Improvements	\$ 2,163	\$ 1,035,196	\$ -	\$ 1,037,359
Debt Service-Fox Run Assessment District	68,732	-	-	68,732
Total Restricted	<u>70,895</u>	<u>1,035,196</u>	<u>-</u>	<u>1,106,091</u>
Assigned for next year's budget	<u>227,078</u>	<u>-</u>	<u>-</u>	<u>227,078</u>
Unassigned (deficit)	<u>1,104,136</u>	<u>-</u>	<u>(19,167)</u>	<u>1,084,969</u>
Total Fund Balance	<u>\$ 1,402,109</u>	<u>\$ 1,035,196</u>	<u>\$ (19,167)</u>	<u>\$ 2,418,138</u>
Restricted for:				
Debt Service	<u>\$ 142,250</u>			
Total Enterprise Fund Restrictions	<u>\$ 142,250</u>			

9. Risk Management

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

- General Liability, Fleet Coverage, and Physical Property – Covered through participation in Oklahoma Municipal Assurance Group risk entity pool.
- Fire Department Vehicles – Covered through participation in the Risk Management Division of the Department of Central Services, State of Oklahoma self-insurance pool.
- Workers' Compensation – Workers' compensation is covered through participation in Consolidated Benefits Resources.
- Employee's Group Health and Life – Covered through participation in commercial insurance-Blue Cross Blue Shield.

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

10. Pension Plan Participation

The City of Blanchard participates in four pension or retirement plans:

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
3. City of Blanchard/BMIA Retirement Plan (401a) (the "Plan") – a deferred compensation plan
4. City of Blanchard Deferred Compensation Plan For Public Employees (457) (the "457") – a defined contribution plan

OFPRS:

Plan Summary Information. The City of Blanchard, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS). This plan covers all full-time and volunteer firemen except the fire chief. The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 49-100, the City must participate in the plan if they employ full-time or volunteer firefighters. The City has no responsibility or authority for the operation or administration of the pension program nor has it any related liability, except for the current contribution requirements.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

**CITY OF BLANCHARD, OKLAHOMA
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Funding Policy. For volunteer firefighters, the City is required to contribute \$60 per year per volunteer, while there is no required contribution by the volunteer.

Schedule of Retirement Plan Contributions for Volunteer Firefighters

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
June 30, 2014	\$ 1,380	\$ 1,380
June 30, 2015	\$ 1,440	\$ 1,440
June 30, 2016	\$ 1,320	\$ 1,320

The City participates in the OFPRS for all paid firefighters. OFPRS plan members are required to contribute 9% to the plan. The City is required by state law to contribute 14% per year of covered payroll per paid firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

Schedule of Retirement Plan Contributions OFPRS Cost-Sharing Plan

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
June 30, 2014	\$ 5,644	\$ 5,644
June 30, 2015	\$ 7,507	\$ 7,507
June 30, 2016	\$ 6,341	\$ 6,341

OPPRS:

Plan Summary Information. The City of Blanchard, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Police Pension and Retirement System (OPPRS). The OPPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 50-102, the City must participate in the plan if they employ a certain number of fulltime police officers. The City has no responsibility or authority for the operation or administration of the pension program nor has it any related liability, except for the current contribution requirements.

The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OPPRS
1001 N.W. 63rd St., Suite 305
Oklahoma City, OK 73116-7335

**CITY OF BLANCHARD, OKLAHOMA
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Funding Policy. The City is required by state law to contribute 13% of covered payroll per year for each police officer. Employees contribute 8% of covered payroll. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The OPPRS contributions are as follows:

Schedule of Retirement Plan Contributions OPPRS Cost-Sharing Plan

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
June 30, 2014	\$ 28,216	\$ 28,216
June 30, 2015	\$ 31,285	\$ 31,285
June 30, 2016	\$ 35,493	\$ 35,493

City of Blanchard Deferred Compensation Plan (401a)

The City has provided effective July 1, 1998 a deferred compensation plan known as the City of Blanchard/BMIA Retirement Plan (401a) (the “Plan”). The Plan is administered by the City and the plan assets are supervised by Nationwide Retirement Solutions. The deferred compensation plan is available to all employees. The City contributes 5% of all full-time employees’ gross salary to this plan every pay period. The authority to establish and amend the provisions of the Plan rests with the City Council.

Schedule of Retirement Plan Contributions – Deferred Compensation Plan

<u>Fiscal Year</u>	<u>Employer Contribution</u>
June 30, 2014	\$ 40,420
June 30, 2015	\$ 44,530
June 30, 2016	\$ 45,640

City of Blanchard Deferred Compensation Plan (457)

The City has provided effective January 23, 1990, a defined contribution plan known as the City of Blanchard Deferred Compensation Plan For Public Employees (457) (the “457”). The 457 is administered by the City and the plan assets are supervised by Nationwide Retirement Solutions. The defined contribution plan is available to all employees. The City’s contribution is contingent on the employee’s participation. The city contributes 50% of the employees’ contribution up to \$25 per pay period. The authority to establish and amend the provisions of the 457 rests with the City Council.

**CITY OF BLANCHARD, OKLAHOMA
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Schedule of Retirement Plan Contributions – Defined Contribution Plan

<u>Fiscal Year</u>	<u>Employer Contribution</u>	<u>Employee Contribution</u>
June 30, 2014	\$ 3,074	\$ 8,287
June 30, 2015	\$ 3,540	\$ 10,470
June 30, 2016	\$ 4,378	\$ 13,195

11. Commitments and Contingencies

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2016 is \$80,007 for governmental activities and \$22,705 for business-type activities.

Litigation:

The City and its public trusts are parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a Sinking Fund for the payment of any court assessed judgment rendered against the City. (This provision is not available to public trusts.) While the outcome of the above noted proceedings or threatened litigation cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Federal and State Award Programs:

The City of Blanchard participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

12. Subsequent Events

The City received an Office of Attorney General Grant was awarded in the amount of \$30,120 on October 28, 2016. The proceeds from this grant will be used to fund overtime policing in high violent crime areas.

Also, the City received an Oklahoma Highway Safety Grant in the amount of \$10,000 on October 1, 2016. The proceeds from this grant will be used to fund overtime traffic enforcement within the Safety Corridor project guidelines.

13. Assessment District Revenue

Water Assessment District

On March 13, 2007, pursuant to the request of specific owners of specific tracts of property located in the Quail Haven/Oak Haven subdivision, the City established the Quail Haven (South)/Oak Haven Water System Improvement District. Ordinance No. 2007-07 established the assessment district and set forth the terms of the assessment necessary to repay the water improvement debt incurred by the BMIA on behalf of the Quail Haven/Oak Haven property owners. A note payable to First National Bank-Chickasha of \$257,271 payable in annual installments over ten years with an interest rate of 5%, was obtained to pay for the water improvement project. Each tract owner was assessed their prorated share of the debt plus 5% interest payable in ten annual installments to be billed by the McClain County Treasurer. The assessment will be paid to the McClain County Treasurer and the Treasurer will remit the payments to the City, who then transfers the monies to the BMIA for its use in funding debt service on the note.

The assessment, as determined by the amortization schedule of the debt, is submitted to the McClain County Treasurer by the City no later than October 1 of each year. The County Treasurer, upon receipt of the certified assessment, levies the assessment on the Quail Haven/Oak Haven Water System Improvement District tract owners by submitting a bill to each owner with a due date of December 31. The tract owners must pay within 15 days after the due date or the County charges them a penalty of 1.5% of the assessment per month. The County remits assessments and penalties to the BMIA. Early payoffs of assessment balances may be paid to the City Clerk at any time and shall include interest accrued on the deferred balance.

Delinquent installment payments result in foreclosure on the tract or parcel of land and sold in the manner provided by law for the foreclosure of mortgages on land. Any real estate sold under any order judgment may be redeemed by the owner or his assignee at any time within one year of the date of sale by paying to the purchaser the amount paid with interest from the date of purchase at the rate of 12% per year.

Street Assessment District

On February 17, 2014, pursuant to the request of specific owners of specific tracts of property located in the Fox Run I and Fox Run II subdivisions, the City established the Fox Run I and Fox Run II Street Improvement District. Ordinance No. 597 established the assessment district and set forth the terms of the assessment necessary to repay the street improvement debt incurred by the BMIA on behalf of the Fox Run I and Fox Run II property owners. A note payable to First National Bank-Chickasha of \$420,000 payable in annual installments over ten years with an interest rate of 3.25%, was obtained to pay for the street improvement project.

Each tract owner was assessed their prorated share of the debt plus 5% interest payable in ten annual installments to be billed by the McClain County Treasurer. The assessment will be paid to the McClain County Treasurer and the Treasurer will remit the payments to the City, who then transfers the monies to the BMIA for its use in funding debt service on the note.

CITY OF BLANCHARD, OKLAHOMA
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The assessment, as determined by the amortization schedule of the debt, is submitted to the McClain County Treasurer by the City no later than October 1 of each year. The County Treasurer, upon receipt of the certified assessment, levies the assessment on the Fox Run I and Fox Run II Street Improvement District tract owners by submitting a bill to each owner with a due date of December 31. The tract owners must pay within 15 days after the due date or the County charges them a penalty of 1.5% of the assessment per month. The County remits assessments and penalties to the BMIA. Early payoffs of assessment balances may be paid to the City Clerk at any time and shall include interest accrued on the deferred balance.

Delinquent installment payments result in foreclosure on the tract or parcel of land and sold in the manner provided by law for the foreclosure of mortgages on land. Any real estate sold under any order judgment may be redeemed by the owner or his assignee at any time within one year of the date of sale by paying to the purchaser the amount paid with interest from the date of purchase at the rate of 12% per year.

**CITY OF BLANCHARD, OKLAHOMA
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SUPPLEMENTAL INFORMATION

**CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

Budgetary Comparison Schedules (Modified Cash Basis) – General Fund – Year Ended June 30, 2016

City of Blanchard Budget and Actual (with Variances) - Budgetary Basis General Fund				
	Budgeted Amounts		<u>Actual Amounts - Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 2,643,900	\$ 2,869,544	\$ 2,840,347	\$ (29,197)
Licenses and permits	73,625	93,410	98,111	4,701
Intergovernmental	-	54,090	197,473	143,383
Fees and fines	171,525	102,363	124,250	21,887
Investment earnings	1,450	1,663	1,654	(9)
Miscellaneous	27,705	43,497	47,632	4,135
Total revenues	<u>2,918,205</u>	<u>3,164,567</u>	<u>3,309,467</u>	<u>144,900</u>
EXPENDITURES				
Departmental:				
<i>General Government:</i>				
General government	943,426	1,108,659	1,052,598	56,061
Park department	127,679	174,514	164,478	10,036
Total General Government	<u>1,071,105</u>	<u>1,283,173</u>	<u>1,217,076</u>	<u>66,097</u>
<i>Public Safety:</i>				
Police	708,214	899,153	849,667	49,486
Fire	193,113	230,669	203,213	27,456
Total Public Safety	<u>901,327</u>	<u>1,129,822</u>	<u>1,052,880</u>	<u>76,942</u>
<i>Street:</i>				
Street	304,304	336,554	302,969	33,585
Total Street	<u>304,304</u>	<u>336,554</u>	<u>302,969</u>	<u>33,585</u>
Total Expenditures	<u>2,276,736</u>	<u>2,749,549</u>	<u>2,572,925</u>	<u>176,624</u>
Excess (deficiency) of revenues over expenditures	<u>641,469</u>	<u>415,018</u>	<u>736,542</u>	<u>321,524</u>
OTHER FINANCING SOURCES (USES)				
Transfers	(871,022)	(866,723)	(610,199)	256,524
Total other financing sources and uses	<u>(871,022)</u>	<u>(866,723)</u>	<u>(610,199)</u>	<u>256,524</u>
Net change in fund balances	(229,553)	(451,705)	126,343	578,048
Fund balances - beginning	1,431,850	1,431,850	1,431,850	-
Fund balances - ending	<u>\$ 1,202,297</u>	<u>\$ 980,145</u>	<u>\$ 1,558,193</u>	<u>\$ 578,048</u>
Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balance				
2015 Sales Tax Revenue Note			(110,429)	
Fox Run Assessment District			<u>(45,655)</u>	
Total Fund Balance-General Fund			<u>1,402,109</u>	

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements. For budgetary comparison purposes, the City considers all encumbrances to lapse at year-end; therefore encumbrances are not considered expenditures for budgetary comparison purposes. However, the City will re-appropriate these lapsed encumbrances in the subsequent year budget.
2. The legal level of appropriation control is the department level within a fund. Transfer appropriations require the City Manager's approval and supplemental appropriations require City Council's approval.

**CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Schedule of Expenditures of Federal and State Awards – For Year Ended June 30, 2016

Federal/State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Agency or Pass Thru Number	Program or Award Amount	Contract Expenditures
FEDERAL ASSISTANCE:				
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>				
Passed through Oklahoma Department of Transportation: Utility Relocation SH-76	20.205	STP-244C(024)SS	\$ 294,588	\$ 24,853
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
Passed through Oklahoma Department of Emergency Management: Assistance to Firefighters	97.044	EMW-2013-FO-06024	96,529	9,550
Disaster Grant-Flooding/Tornadoes/Staight-Line Winds	97.036	FEMA-4222	71,004	71,004
Total U.S. Department of Homeland Security			167,533	80,554
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
Passed through Oklahoma Department of Commerce: Community Development Block Grant	14.228	16110 ED 87	1,000,000	603,027
Community Development Block Grant	14.228	16396 CDBG 15	249,842	143,383
Total U.S. Department of Housing and Urban Development			1,249,842	746,410
TOTAL FEDERAL AWARDS			\$ 1,711,963	\$ 851,817
STATE ASSISTANCE:				
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Rural Fire Grant	N/A	N/A	\$ 4,290	\$ 4,290
<u>OKLAHOMA TOBACCO SETTLEMENT ENDOWMENT TRUST:</u>				
Healthy Incentives Program	N/A	N/A	45,000	45,000
TOTAL STATE ASSISTANCE			\$ 49,290	\$ 49,290

Notes to Schedule of Expenditures of Federal Awards

Note A – Significant Accounting Policies – The accompanying schedule of expenditures of federal awards is prepared on a basis consistent with the definition of federal awards as defined in the Uniform Guidance.

**CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

Schedule of Debt Service Coverage Requirements – For Year Ended June 30, 2016

Gross Revenue Available for Debt Service:

Gross revenue	\$ 1,817,363
Sales tax revenue	568,833
Total Revenue	<u>2,386,196</u>
Operating Expenses	<u>1,814,308</u>
Net Revenue Available for Debt Service	<u>\$ 571,888</u>
Debt Service Requirements:	
2014A BMIA Utility System and Sales Tax Revenue Bonds	<u>\$ 263,734</u>
Coverage	<u>217%</u>
Coverage Requirement	<u>125%</u>

**CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

Schedule of Cash Balances – For Year Ended June 30, 2016

	Governmental Funds	Insurance Account	Total
General Fund	\$ 1,190,216	\$ -	\$ 1,190,216
Fox Run	70,895	-	70,895
Capital Improvement Fund	173,281	-	173,281
Technology Fund	23,624	-	23,624
Trustee Accounts	867,741	-	867,741
TIF District	21,416	-	21,416
Insurance Account	-	101,698	101,698
Total Cash	<u>\$ 2,347,173</u>	<u>\$ 101,698</u>	<u>\$ 2,448,871</u>
	Proprietary Funds		
BMIA	\$ 687,266	\$ -	\$ 687,266
Industrial Park	(31,616)	-	(31,616)
Accrued Leave	15,200	-	15,200
Quail Haven	17,599	-	17,599
Debt Service	7,318	-	7,318
Trustee Accounts	5,596,616	-	5,596,616
Utility Deposits	121,132		121,132
BETA	4,644		4,644
	-	33,899	33,899
Total Cash	<u>\$ 6,418,159</u>	<u>\$ 33,899</u>	<u>\$ 6,452,058</u>
Total Insurance Account		<u>\$ 135,597</u>	

**CITY OF BLANCHARD, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

INTERNAL CONTROL AND COMPLIANCE INFORMATION



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

Members of the City Council
City of Blanchard, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund aggregate remaining fund information of the City of Blanchard, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 16, 2016. Our report included an emphasis of matter paragraph on the City's use of the modified cash basis of accounting.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 may exist that were not. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 16-1.

Compliance and Other Matters

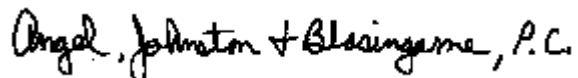
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 questioned costs as items: 16-1.

City of Blanchard's Responses to Findings

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

Purpose of this Report

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



Chickasha, Oklahoma
December 16, 2016

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Members of the City Council
City of Blanchard, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited City of Blanchard's compliance with the types of compliance requirements described in the *OMB Circular Compliance Supplement* that could have direct and material effect on each of the City's major federal programs for the year ended June 30, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and the Audit Requirements for Federal Awards* (Uniform Guidance). These standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on the compliance for each major program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Blanchard, Oklahoma complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs for the year ending June 30, 2016.

Other Matters

The results of our auditing procedures disclose an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 16-01. Our opinion on each major federal program is not modified with respect to this matter.

The City response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

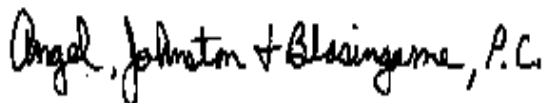
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

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

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Angel Johnston, & Blasingame, PC



Chickasha, Oklahoma
December 16, 2016

**CITY OF BLANCHARD, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016**

Section 1

Summary of Auditor's Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditor's report issued on whether financial statements are prepared in accordance with the modified cash basis | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | None reported |
| b. Significant deficiency identified? | Yes |
| c. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|---------------|
| 1. Internal control over major program: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiency identified not considered to be material weaknesses? | None reported |
| 2. Type of auditor's report issued on compliance for major program: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |

4. Identification of major programs:

CFDA Number

Name of Federal Program

14.228

Community Development Block Grant

Dollar threshold used to distinguish between Type A or Type B programs:

\$750,000

5. Auditee qualified as low-risk auditee?

No

CITY OF BLANCHARD, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

Section 2

Findings-Financial Statement Audit

SIGNIFICANT DEFICIENCY

16-1. Criteria – There should be established reconciliation procedures for police fines adjustments.

Condition – The City has not established a police fine adjustment reconciliation procedure. The adjustment population has not be clearly identified and monitored to prevent unauthorized adjustments from occurring and not being identified.

Cause – The City’s police fine software does not have an adjustment reconciliation process. There have not been additional processes added to monitor this process.

Effect – Not reconciling adjustments increases the potential for fraud or abuse.

Recommendation – Create a system to identify and verify all adjustments. This system should be monitored by an individual(s) outside of the normal police fine system.

Planned corrective actions – Management plans to work with the software vendor to create a report that shows fine balances before and after adjustments are made in order to reconcile fine adjustments monthly.

CITY OF BLANCHARD, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

Section 3

Findings and Question Costs-Major Federal Award Programs Audit

None reported

Section 4

Findings and Question Costs-Major State Award Programs Audit

None reported

CITY OF BLANCHARD, OKLAHOMA
Disposition of Prior Year Audit Findings
Year Ended June 30, 2016

Financial Statement Audit Findings:

15-1. Criteria – Criteria – Bank accounts should all be authorized by the City Council.

Condition – Related to the lease financing of vehicles a financial institution required a bank account be opened. This account was opened without formal approval of the City Council.

Disposition – This was not noted as a finding in the 2015-16 year.

15-2. Criteria – Good controls include proper monitoring of authorized vendors.

Condition – The City has not established a formal vetting process of new vendors.

Disposition – This was not noted as a finding in the 2015-16 year.

15-3. Criteria – Contractors on federal grant programs are to comply with the Davis Bacon Act.

Condition – During one pay period on the Safe Route to Schools grant one employee was paid below the prevailing wage rate for his work classification. This instance was not caught in the City's monitoring procedures.

Disposition – This was not noted as a finding in the 2015-16 year.

CITY OF BLANCHARD, OKLAHOMA
Corrective Action Plan
Year Ended June 30, 2016

Financial Statement Audit Findings and Corrective Action Plan:

16-1. Criteria – There should be established reconciliation procedures for police fines adjustments.

Condition – The City has not established a police fine adjustment reconciliation procedure. The adjustment population has not be clearly identified and monitored to prevent unauthorized adjustments from occurring and not being identified.

Planned corrective actions – Management plans to work with the software vendor to create a report that shows fine balances before and after adjustments are made in order to reconcile fine adjustments monthly.