



CITY OF NEWCASTLE, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

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

**THE CITY OF NEWCASTLE,
OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORTS**

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

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

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Newcastle, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Newcastle, 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 as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.B.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Basis of Accounting

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

Other Matters

Combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Newcastle, Oklahoma's basic financial statements. The combining and individual nonmajor fund financial statements—modified cash basis and the schedule of expenditures of federal awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements—modified cash basis and the schedule of expenditures of federal 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 combining and individual nonmajor fund financial statements—modified cash basis and the schedule of expenditures of federal awards, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Disclaimer on other supplementary information

The management's discussion and analysis and budgetary comparison schedules, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2017 on our consideration of the City of Newcastle, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Newcastle, Oklahoma's internal control over financial reporting and compliance.

HBC CPAs + Advisors

Oklahoma City, Oklahoma
March 13, 2017

CITY OF NEWCASTLE, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2016

The management of the City of Newcastle 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 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 \$1,095,800, and the assets of the City exceed its liabilities at June 30, 2016, by \$21,304,400 (net position). Of this amount, \$1,313,356 (unrestricted net position) is available to meet the government's ongoing needs.
- At June 30, 2016, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$2,175,790.
- At the end of fiscal year 2016 unassigned fund balance on a modified cash basis for the General Fund was \$342,561 or 5.9% of General Fund revenues.

ABOUT THE CITY

The City of Newcastle is an incorporated municipality with a population of approximately 9,200 located in McClain County in central Oklahoma. The City is a Council-Manager form of government that provides for three branches of government:

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

The City provides typical municipal services such as public safety, cemetery, streets and alley maintenance, parks and recreation, community development and certain utility services including water, wastewater and sanitation.

The City's Financial Reporting Entity

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

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

- **The City of Newcastle** – that operates the public safety, cemetery, streets and public works, health and welfare, culture and recreation, and administrative activities

- **The Newcastle Public Works Authority (NPWA)** – that operates the water, wastewater, and sanitation services of the City – blended as proprietary type enterprise funds – *considered part of the primary government presentation for reporting purposes*
- **The Newcastle Educational Facilities Authority (NEFA)** – public trust to provide financing to and the promotion of educational facilities within the City – blended as a governmental type special revenue fund – *considered part of the primary government presentation for reporting purposes*
- **The Newcastle Economic Development Authority (NEDA)** – public trust providing financing to businesses for the purpose of acquiring facilities for industrial or manufacturing, in or near the City, with the trustees appointed by the City Council – *reported as a discretely presented component unit*

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the primary government presented herein include all of the activities of the City of Newcastle (the “City”), the Newcastle Education Facilities Authority (the “NEFA”) and the Newcastle Public Works Authority (the “Authority”). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type, in addition to a separate presentation for the discretely presented component unit.

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

Reporting the City as a Whole

The Statement of Net Position and 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 year’s activities?” The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer 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 assets and liabilities resulting from cash transactions with selected modifications.

In the Statement of Net Position and the Statement of Activities, we divide the City’s primary government 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 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 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, through the Public Works 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 major proprietary type enterprise fund is the Newcastle Public Works Authority operations fund that accounts for the operation of the water, sewer, and sanitation activities. In addition, a Sewer Impact Enterprise Fund accounts for fees restricted for sewer infrastructure, and a Water Impact Enterprise Fund that accounts for fees restricted for water infrastructure.

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 25-45 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the City of Newcastle, federal and state award schedules and combining non-major fund financial statements.

CITY OF NEWCASTLE, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2016

THE CITY AS A WHOLE

For the year ended June 30, 2016, net position on a modified cash basis for the governmental and business-type activities increased \$1,095,800.

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

Net Position (Modified Cash Basis)
June 30, 2016

TABLE 1
NET POSITION (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2015			2015			2015		
	2016	(restated)	2016	(restated)	2016	(restated)			
Current assets	\$ 2,180	\$ 2,271	-4%	\$ 1,126	\$ 820	37%	\$ 3,306	\$ 3,091	7%
Capital assets, net	9,886	9,599	3%	12,588	12,864	-2%	22,474	22,463	0%
Total assets	12,066	11,870	2%	13,714	13,684	0%	25,780	25,554	1%
Current liabilities	4	2	100%	-	-	-	4	2	100%
Non-current liabilities	867	998	-13%	3,605	4,345	-17%	4,472	5,343	-16%
Total liabilities	871	1,000	-13%	3,605	4,345	-17%	4,476	5,345	-16%
Net position									
Net investment in capital assets	9,019	8,601	5%	9,150	8,454	8%	18,169	17,055	7%
Restricted	1,339	1,192	12%	483	351	38%	1,822	1,543	18%
Unrestricted	837	1,077	-22%	477	534	-11%	1,314	1,611	-18%
Total net position	\$ 11,195	\$ 10,870	3%	\$ 10,110	\$ 9,339	8%	\$ 21,305	\$ 20,209	5%

The largest portion of the City's net position reflects its net investment in capital assets. This year the net investment in capital assets amounted to \$18,168,861.

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

A portion of the City's net position, \$1,822,183, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$1,313,356, may be used to meet the government's ongoing needs.

CITY OF NEWCASTLE, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2016

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 (restated)		2016	2015 (restated)		2016	2015 (restated)	
Revenues									
Charges for service	\$ 531	\$ 523	2%	\$ 3,932	\$ 3,284	20%	\$ 4,463	\$ 3,807	17%
Operating grants and contributions	317	511	-38%	-	-	-	317	511	-38%
Capital grants and contributions	9	8	13%	-	-	-	9	8	13%
Taxes	6,224	5,980	4%	-	-	-	6,224	5,980	4%
Intergovernmental revenue	100	97	3%	-	-	-	100	97	3%
Investment income	16	19	-	4	8	-50%	20	27	-26%
Miscellaneous	103	50	106%	26	164	-84%	129	214	-40%
Total revenues	7,300	7,188	2%	3,962	3,456	15%	11,262	10,644	6%
Expenses									
General government	1,690	1,830	-8%	-	-	-	1,690	1,830	-8%
Public safety	3,566	3,463	3%	-	-	-	3,566	3,463	3%
Streets	1,127	1,165	-3%	-	-	-	1,127	1,165	-3%
Culture, parks and recreation	110	128	-14%	-	-	-	110	128	-14%
Cemetery	6	12	-50%	-	-	-	6	12	-50%
Interest on long-term debt	19	21	-10%	-	-	-	19	21	-10%
Water	-	-	-	2,866	2,476	16%	2,866	2,476	16%
Wastewater	-	-	-	344	403	-15%	344	403	-15%
Sanitation	-	-	-	437	409	7%	437	409	7%
Total expenses	6,518	6,619	-2%	3,647	3,288	11%	10,165	9,907	3%
Excess (deficiency) before transfers	782	569	37%	315	168	88%	1,097	737	49%
Transfers	(456)	(340)	34%	456	340	-34%	-	-	-
Change in net position	326	229	42%	771	508	52%	1,097	737	49%
Beginning net position, restated	10,869	10,641	2%	9,339	8,831	6%	20,208	19,472	4%
Ending net position	\$ 11,195	\$ 10,870	3%	\$ 10,110	\$ 9,339	8%	\$ 21,305	\$ 20,209	5%

Governmental Activities

The City's governmental activities had an increase in net position of \$325,566. The decrease in operating grants and contributions of 38% is primarily due to the OWRB grant received in the prior year. The increase of 106% of miscellaneous revenue is due to an increase in insurance reimbursements in the current year.

Business-type Activities

The business-type activities had an increase in net position of \$770,234. The decrease in miscellaneous revenue of 84% is due to reimbursements from fires and engineering fees received in the prior year.

CITY OF NEWCASTLE, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2016

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2016 fiscal year, the governmental funds reported a combined fund balance of \$2,175,790. For the year ended June 30, 2016, the General Fund's total fund balance decreased by \$240,772 to \$836,531 or 14.4% of annual revenues.

Budgetary Highlights

For the year ended June 30, 2016, the City of Newcastle reported actual budgetary basis revenues over final estimates by \$909,098 or a 9.3% positive variance. Actual expenditures were under final appropriations by \$601,146 or a 5.3% positive variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2016, the City had approximately \$22.5 million invested in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and infrastructure. This represents a net increase of \$11,127 from the prior year.

Below are details regarding the change in the City's capital assets for the year ended June 30, 2016.¹

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	<u>2016</u>	<u>2015</u> <u>(restated)</u>	<u>2016</u>	<u>2015</u> <u>(restated)</u>	<u>2016</u>	<u>2015</u> <u>(restated)</u>
Land	\$ 641	\$ 637	\$ 222	\$ 222	\$ 863	\$ 859
Buildings	2,496	2,580	4,480	4,685	6,976	7,265
Imp. other than buildings	152	99	6	6	158	105
Machinery, furniture and equipment	787	815	839	967	1,626	1,782
Infrastructure	5,732	5,467	-	-	5,732	5,467
Utility property	-	-	6,699	5,555	6,699	5,555
Construction in progress	78	1	342	1,429	420	1,430
Totals	\$ 9,886	\$ 9,599	\$ 12,588	\$ 12,864	\$ 22,474	\$ 22,463

¹ For more detailed information on capital asset activity please refer to pages 33-34, Note 3. Capital Assets and Depreciation

CITY OF NEWCASTLE, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2016

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

- Paved roads - Cemetery roads, SE 5th and Fleenor Drive and roads in Eagle Lakes Addition \$76,642
- Highway 9 and Western waterline \$130,999
- Paving of SW 24th, SE 32nd and S May Ave \$243,016
- Continuation and completion of OWRB Green project \$133,717

Debt Administration

At year-end, the City had \$4,304,911 in long-term debt outstanding, reported on a modified cash basis, which represents an \$880,622 decrease from the prior year resulting from normal debt retirements.

TABLE 6
Long-Term Debt
(In Thousands)

	Governmental		Business-Type		Total		Total Percentage Change
	Activities		Activities				
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	
Notes payable	563	646	3,376	4,032	3,939	4,678	-15.8%
Capital leases	304	352	62	156	366	508	-28.0%
Totals	<u>\$ 867</u>	<u>\$ 998</u>	<u>\$ 3,438</u>	<u>\$ 4,188</u>	<u>\$ 4,305</u>	<u>\$ 5,186</u>	-17.0%

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

- The upcoming fiscal year ending June 30, 2017 is more conservative than the previous year.
- It is expected that this year needs to be addressed with a significant amount of caution regarding the impact of a new Walmart at 104th in Oklahoma City that will be impacting sales tax revenue. The possibility of a recovery in oil and gas sector may improve conditions to some extent, but timing will be the major factor that will impact revenue performance.
- The OWRB Green project is in the process of being finalized. The new well is currently stalled due to concerns regarding floodplain. The construction of a new Love's Travel Stop will impact tax revenues as well, though sales taxes are likely to be minimal in fiscal year 2017.

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 PO Box 179, Newcastle, Oklahoma 73065-0179 or telephone at 405-387-4427.

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

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

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

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

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Newcastle Economic Development Authority</u>
ASSETS				
Cash and cash equivalents	\$ 2,168,450	\$ 1,137,688	\$ 3,306,138	\$ 9,892
Internal Balances	11,500	(11,500)	-	-
Capital Assets:				
Land and construction in progress	719,703	564,277	1,283,980	-
Other capital assets, net of depreciation	9,166,130	12,023,682	21,189,812	-
Total Assets	<u>12,065,783</u>	<u>13,714,147</u>	<u>25,779,930</u>	<u>9,892</u>
LIABILITIES				
Due to other governments	3,625	-	3,625	-
Accrued interest payable	-	-	-	-
Due to depositors	-	-	-	-
Due to bondholders	535	-	535	-
Long-term liabilities:				
Due within one year	250,830	760,968	1,011,798	-
Due in more than one year	615,746	2,843,826	3,459,572	-
Total liabilities	<u>870,736</u>	<u>3,604,794</u>	<u>4,475,530</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	9,019,257	9,149,604	18,168,861	-
Restricted for:				
Capital projects	1,307,950	482,924	1,790,874	-
Cemetery	31,309	-	31,309	-
Unrestricted	836,531	476,825	1,313,356	9,892
Total net position	<u>\$ 11,195,047</u>	<u>\$ 10,109,353</u>	<u>\$ 21,304,400</u>	<u>\$ 9,892</u>

See accompanying notes to the basic financial statements.

CITY OF NEWCASTLE, 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

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Newcastle Economic Development Authority
Primary government								
Governmental Activities								
General Government	\$ 1,690,200	\$ 148,221	\$ 6,369	\$ -	\$ (1,535,610)	\$ -	\$ (1,535,610)	\$ -
Public Safety	3,566,184	301,413	95,957	8,546	(3,160,268)	-	(3,160,268)	-
Streets	1,127,068	-	214,318	-	(912,750)	-	(912,750)	-
Culture and Recreation	110,252	18,600	-	-	(91,652)	-	(91,652)	-
Cemetery	5,531	63,025	-	-	57,494	-	57,494	-
Interest on Long-term debt	19,185	-	-	-	(19,185)	-	(19,185)	-
Total governmental activities	<u>6,518,420</u>	<u>531,259</u>	<u>316,644</u>	<u>8,546</u>	<u>(5,661,971)</u>	<u>-</u>	<u>(5,661,971)</u>	<u>-</u>
Business-type activities:								
Water	2,866,121	3,024,347	-	-	-	158,226	158,226	-
Wastewater	343,911	270,498	-	-	-	(73,413)	(73,413)	-
Sanitation	437,236	636,913	-	-	-	199,677	199,677	-
Total business-type activities	<u>3,647,268</u>	<u>3,931,758</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>284,490</u>	<u>284,490</u>	<u>-</u>
Total primary government	<u>10,165,688</u>	<u>4,463,017</u>	<u>316,644</u>	<u>8,546</u>	<u>(5,661,971)</u>	<u>284,490</u>	<u>(5,377,481)</u>	<u>-</u>
Component Unit:								
Newcastle Economic Development	-	-	-	-	-	-	-	-
General revenues:								
Taxes:								
Sales and use taxes					\$ 5,892,585	\$ -	\$ 5,892,585	\$ -
Franchise taxes and public service taxes					303,656	-	303,656	-
Hotel/motel taxes					27,525	-	27,525	-
Intergovernmental revenue not restricted to specific programs					100,498	-	100,498	-
Investment income					16,305	3,638	19,943	15
Miscellaneous					103,351	25,723	129,074	-
Transfers					(456,383)	456,383	-	-
Total general revenues and transfers					<u>5,987,537</u>	<u>485,744</u>	<u>6,473,281</u>	<u>15</u>
Change in net position					325,566	770,234	1,095,800	15
Net position - beginning, restated					10,869,481	9,339,119	20,208,600	9,877
Net position - ending					<u>\$ 11,195,047</u>	<u>\$ 10,109,353</u>	<u>\$ 21,304,400</u>	<u>\$ 9,892</u>

See accompanying notes to the basic financial statements.

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

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

**CITY OF NEWCASTLE, 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 Tax Fund</u>	<u>Newcastle Fire Dept. Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 829,191	\$ 1,307,950	\$ -	\$ 31,309	\$ 2,168,450
Due from other funds	11,500	-	-	-	11,500
Total assets	<u>840,691</u>	<u>1,307,950</u>	<u>-</u>	<u>31,309</u>	<u>2,179,950</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to bondholders	535	-	-	-	535
Payable to other governments	3,625	-	-	-	3,625
Total liabilities	<u>4,160</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,160</u>
Fund balances:					
Restricted	-	1,307,950	-	31,309	1,339,259
Assigned	493,970	-	-	-	493,970
Unassigned	342,561	-	-	-	342,561
Total fund balances	<u>836,531</u>	<u>1,307,950</u>	<u>-</u>	<u>31,309</u>	<u>2,175,790</u>
Total liabilities and fund balances	<u>\$ 840,691</u>	<u>\$ 1,307,950</u>	<u>\$ -</u>	<u>\$ 31,309</u>	<u>\$ 2,179,950</u>

See accompanying notes to the basic financial statements.

CITY OF NEWCASTLE, OKLAHOMA
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Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
(Modified Cash Basis) – Year Ended June 30, 2016

	<u>General Fund</u>	<u>Capital Improvement Tax Fund</u>	<u>Newcastle Fire Dept. Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 4,783,948	\$ 736,573	\$ 736,573	\$ -	\$ 6,257,094
Intergovernmental	425,688	-	-	-	425,688
Charges for services	139,627	-	-	7,453	147,080
Fines and forfeitures	267,705	-	-	-	267,705
Licenses and permits	120,093	-	-	-	120,093
Investment income	12,197	4,066	-	42	16,305
Miscellaneous	69,080	-	-	1	69,081
Total revenues	<u>5,818,338</u>	<u>740,639</u>	<u>736,573</u>	<u>7,496</u>	<u>7,303,046</u>
EXPENDITURES					
Current:					
General government	1,370,193	-	-	-	1,370,193
Police	1,765,798	-	-	-	1,765,798
Fire	1,454,305	-	-	-	1,454,305
Streets	866,943	-	-	-	866,943
Municipal court	74,765	-	-	-	74,765
Cemetery	3,882	-	-	-	3,882
Animal control	53,708	-	-	-	53,708
Parks and recreation	44,632	59,479	-	-	104,111
Planning and engineering	72,615	-	-	-	72,615
Vehicle maintenance	177,268	-	-	-	177,268
Sr. Citizens	-	15,424	-	-	15,424
Capital Outlay	371,447	433,293	-	-	804,740
Debt Service:					
Principal	183,169	70,178	-	-	253,347
Interest and other charges	19,185	21,949	-	-	41,134
Total Expenditures	<u>6,457,910</u>	<u>600,323</u>	<u>-</u>	<u>-</u>	<u>7,058,233</u>
Excess (deficiency) of revenues over expenditures	(639,572)	140,316	736,573	7,496	244,813
OTHER FINANCING SOURCES (USES)					
Loan proceeds	121,753	-	-	-	121,753
Transfers in	3,240,898	-	-	-	3,240,898
Transfers out	(2,963,851)	-	(736,573)	-	(3,700,424)
Total other financing sources and uses	<u>398,800</u>	<u>-</u>	<u>(736,573)</u>	<u>-</u>	<u>(337,773)</u>
Net change in fund balances	(240,772)	140,316	-	7,496	(92,960)
Fund balances - beginning	1,077,303	1,167,634	-	23,813	2,268,750
Fund balances - ending	<u>\$ 836,531</u>	<u>\$ 1,307,950</u>	<u>\$ -</u>	<u>\$ 31,309</u>	<u>\$ 2,175,790</u>

See accompanying notes to the basic financial statements.

**CITY OF NEWCASTLE, 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	\$	2,175,790
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.		
		9,885,833
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.		
		(866,576)
Net Position of Governmental Activities in the Statement of Net Position		11,195,047

Changes in Fund Balances – Changes in Net Position Reconciliation:

Net change in fund balances - total governmental funds:	\$	(92,960)
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		812,914
Depreciation expense		(522,959)
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain or loss on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold.		
Capital assets disposed		(3,025)
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:		
Capital lease principal payments		170,297
Note payable principal payment		83,052
Proceeds of long-term debt		(121,753)
Change in net position of governmental activities	\$	325,566

See accompanying notes to the basic financial statements.

**CITY OF NEWCASTLE, OKLAHOMA
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As of and for the Year Ended June 30, 2016**

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

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

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

	NPWA Operations Enterprise Fund	Other Enterprise Funds	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 468,707	\$ -	\$ 468,707
Restricted:			
Cash and cash equivalents	186,057	482,924	668,981
Due from other funds	-	24,999	24,999
Total current assets	<u>654,764</u>	<u>507,923</u>	<u>1,162,687</u>
Non-current assets:			
Capital Assets:			
Land and construction in progress	564,277	-	564,277
Other capital assets, net of accumulated depreciation	12,023,682	-	12,023,682
Total non-current assets	<u>12,587,959</u>	<u>-</u>	<u>12,587,959</u>
Total assets	<u>13,242,723</u>	<u>507,923</u>	<u>13,750,646</u>
LIABILITIES			
Current Liabilities:			
Due to other funds	11,500	24,999	36,499
Deposits subject to refund	33,292	-	33,292
Capital lease obligation	48,342	-	48,342
Notes payable	679,334	-	679,334
Total current liabilities	<u>772,468</u>	<u>24,999</u>	<u>797,467</u>
Non-current liabilities:			
Deposits subject to refund	133,167	-	133,167
Capital lease obligation	13,820	-	13,820
Notes payable	2,696,839	-	2,696,839
Total non-current liabilities	<u>2,843,826</u>	<u>-</u>	<u>2,843,826</u>
Total liabilities	<u>3,616,294</u>	<u>24,999</u>	<u>3,641,293</u>
NET POSITION			
Net investment in capital assets	9,149,604	-	9,149,604
Restricted for capital projects	-	482,924	482,924
Unrestricted	476,825	-	476,825
Total net position	<u>\$ 9,626,429</u>	<u>\$ 482,924</u>	<u>\$ 10,109,353</u>

See accompanying notes to the basic financial statements.

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

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

	NPWA Operations Enterprise Fund	Other Enterprise Funds	Total
REVENUES			
Water	\$ 2,761,698	\$ -	\$ 2,761,698
Wastewater	222,628	-	222,628
Sanitation	566,913	-	566,913
Fees, taps, and penalties	234,278	146,241	380,519
Total operating revenues	<u>3,785,517</u>	<u>146,241</u>	<u>3,931,758</u>
OPERATING EXPENSES			
Administration	181,220	-	181,220
Water	2,151,051	-	2,151,051
Wastewater	251,616	-	251,616
Sanitation	405,587	-	405,587
Depreciation	532,854	-	532,854
Total Operating Expenses	<u>3,522,328</u>	<u>-</u>	<u>3,522,328</u>
Operating income	263,189	146,241	409,430
NON-OPERATING REVENUES (EXPENSES)			
Investment income	3,110	528	3,638
Miscellaneous revenue	25,723	-	25,723
Interest expense	(124,940)	-	(124,940)
Total non-operating revenue (expenses)	<u>(96,107)</u>	<u>528</u>	<u>(95,579)</u>
Income before transfers	167,082	146,769	313,851
Transfers in	2,978,786	-	2,978,786
Transfers out	<u>(2,507,468)</u>	<u>(14,935)</u>	<u>(2,522,403)</u>
Change in net position	638,400	131,834	770,234
Total net position - beginning, restated	8,988,029	351,090	9,339,119
Total net position - ending	<u>\$ 9,626,429</u>	<u>\$ 482,924</u>	<u>\$ 10,109,353</u>

See accompanying notes to the basic financial statements.

CITY OF NEWCASTLE, OKLAHOMA
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Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2016

	NPWA		Total
	Operations Enterprise Fund	Other Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 3,785,517	\$ 146,241	\$ 3,931,758
Payments to suppliers	(1,966,030)	-	(1,966,030)
Payments to employees	(1,023,444)	-	(1,023,444)
Receipts/refunds of customer meter deposits	8,870	-	8,870
Change in due to/from	-	-	-
Miscellaneous receipts	25,723	-	25,723
Net cash provided by operating activities	830,636	146,241	976,877
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	2,978,786	-	2,978,786
Transfers to other funds	(2,507,468)	(14,935)	(2,522,403)
Net cash provided by (used in) noncapital financing activities	471,318	(14,935)	456,383
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(262,922)	-	(262,922)
Proceeds from sale of capital assets	5,869	-	5,869
Proceeds from debt	185,607	-	185,607
Principal paid on debt	(934,632)	-	(934,632)
Interest and fiscal agent fees paid on debt	(124,940)	-	(124,940)
Net cash provided by (used in) capital and related financing activities	(1,131,018)	-	(1,131,018)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	3,110	528	3,638
Net cash provided by investing activities	3,110	528	3,638
Net increase in cash and cash equivalents	174,046	131,834	305,880
Balances - beginning of year	480,718	351,090	831,808
Balances - end of year	\$ 654,764	\$ 482,924	\$ 1,137,688
Reconciliation to Statement of Net Position:			
Cash and cash equivalents	468,707	-	468,707
Restricted cash and cash equivalents - current	186,057	482,924	668,981
Total cash and cash equivalents, end of year	654,764	482,924	1,137,688
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 263,189	\$ 146,241	\$ 409,430
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	532,854	-	532,854
Miscellaneous revenue	25,723	-	25,723
Change in assets and liabilities:			
Due from other funds	-	-	-
Due to other funds	-	-	-
Deposits subject to refund	8,870	-	8,870
Net cash provided by operating activities	\$ 830,636	\$ 146,241	\$ 976,877

See accompanying notes to the basic financial statements.

**CITY OF NEWCASTLE, 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 the primary government and a discretely-presented component unit as follows:

- **The City of Newcastle** – that operates the public safety, cemetery, streets and public works, health and welfare, culture and recreation, and administrative activities, governed by the City Council
- **The Newcastle Public Works Authority (NPWA)** – that operates the water, wastewater, sanitation services of the City governed by the City Council members as trustees– blended as proprietary type enterprise funds – *considered part of the primary government presentation for reporting purposes*
- **The Newcastle Educational Facilities Authority (NEFA)** – public trust to provide financing to and the promotion of educational facilities within the City – blended as a governmental type special revenue fund – *considered part of the primary government presentation for reporting purposes*
- **The Newcastle Economic Development Authority (NEDA)** – provides financing to businesses for the purpose of acquiring facilities and industrial or manufacturing, in or near the City, with the trustees appointed by the City Council – *reported as a discretely presented component unit*

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Council 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 of financially accountable.

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

The component units (Authorities) have the City Council as their governing body (trustees) and/or the City is able to impose its will on the Authorities through required approval of all debt obligations issued by these entities.

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 with the NPWA and NEFA treated as blended component units, and the NEDA treated as a discretely presented component unit.

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: Inspection fees, licenses and permits and operating grants
- Public Safety: Animal impound fees, animal licenses, traffic fines and fees, fire run fees, and operating and capital grants
- Streets: Gas excise tax, commercial vehicle tax, operating grants
- Culture and recreation: Assessment fees
- Cemetery: Lot sales and internment

Governmental Funds:

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 Restricted Sales Tax Fund – accounts for the restricted sales tax levied for capital improvement purposes
- Fire Restricted Sales Tax Fund – accounts for the restricted sales tax levied for fire purposes

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

- Cemetery Care Fund – accounts for the State statute required 12.5 percent of cemetery revenues for cemetery capital improvements

The governmental funds are reported on a modified cash basis of accounting and a related 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 a modified economic resources measurement focus at the government-wide level.

Proprietary Funds:

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

Enterprise Fund:

Major Fund:

- Newcastle Public Works Authority Operations Fund – accounts for the operation of the water, wastewater, and sanitation activities

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

- NPWA Water Impact Fund – accounts for water connection fees collected for the purpose of water improvements
- NPWA Sewer Impact Fund – accounts for sewer connection fees collected for the purpose of wastewater improvements

The proprietary funds are reported on a modified cash basis, as defined above, and a related economic resources measurement focus. For purposes of the statement of revenues, expenses and changes in fund net position, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

C. Cash, Cash Equivalents, and Investments

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

D. Capital Assets and Depreciation

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 reported at actual or estimated historical cost. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 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.

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 10-25 years
- Improvements other than buildings 3-20 years
- Machinery, furniture and equipment 3-25 years
- Utility property and improvements 5-75 years
- Infrastructure 10-40 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 Balances:

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

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) 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, while the NEFA’s is made by resolution
- 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.

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 net position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net position* - All other net position that does not meet the definition of “restricted” or “*net investment in capital assets.*”

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

CITY OF NEWCASTLE, OKLAHOMA
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H. Internal and Interfund Balances and Transfers

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

I. Use of Estimates

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

2. Deposits and Investments

For the year ended June 30, 2016, the City recognized \$19,943 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:

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>
Deposits:			
Demand deposits			\$ 1,041,729
Time deposit - certificates of deposit			<u>2,266,398</u>
			<u>\$ 3,308,127</u>
Investments:			
NPWA - Federated Gov't Obligations Tax Managed Fund	N/A	AAAm	\$ 7,903
			<u>7,903</u>
Total deposits and investments			<u><u>\$ 3,316,030</u></u>
 Reconciliation to Statement of Net Position:			
Cash and cash equivalents			\$ 3,306,138
			<u>\$ 3,306,138</u>
 Component Unit:			
Cash and cash equivalents			\$ 9,892
			<u>\$ 9,892</u>
Total deposits and investments			<u><u>\$ 3,316,030</u></u>

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 had no funds exposed to custody credit risk.

Investment Interest Rate Risk

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

At June 30, 2016, the City's investments were limited to time deposits and government obligations that were not exposed to interest rate risk.

Investment Credit Risk

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

As of June 30, 2016, the City had no investments subject to credit risk.

Concentration of Investment Credit Risk

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

At June 30, 2016, the City had no concentration of credit risk as defined above.

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Restricted cash and Investments – The amounts reported as restricted assets on the proprietary fund statement of net position are comprised of amounts held by the Public Works Authority for utility deposits (refunded upon termination of service or applied to final bill), NPWA trustee account and water and wastewater connections fees restricted for water and wastewater improvements.

	<u>Current</u>
	<u>Cash and cash</u>
	<u>equivalents</u>
Utility deposits	\$ 166,459
Trustee account - NPWA	19,598
Water impact fees	271,006
Sewer impact fees	211,918
Total	\$ 668,981

3. Capital Assets and Depreciation

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

	Balance at July 1, 2015 (restated)	Additions	Disposals	Balance at June 30, 2016
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 636,664	\$ 4,640	\$ -	\$ 641,304
Construction in progress	1,479	78,400	1,480	78,399
Total capital assets not being depreciated	638,143	83,040	1,480	719,703
Other capital assets:				
Buildings	3,366,178	-	-	3,366,178
Improvements	112,830	63,721	-	176,551
Infrastructure	7,498,068	458,419	-	7,956,487
Machinery, furniture and equipment	4,151,990	208,864	43,842	4,317,012
Total other capital assets at historical cost	15,129,066	731,004	43,842	15,816,228
Less accumulated depreciation for:				
Buildings	786,300	84,327	-	870,627
Improvements	14,010	10,843	-	24,853
Infrastructure	2,030,906	193,398	-	2,224,304
Machinery, furniture and equipment	3,337,089	234,390	41,165	3,530,314
Total accumulated depreciation	6,168,305	522,958	41,165	6,650,098
Other capital assets, net	8,960,761	208,046	2,677	9,166,130
Governmental activities capital assets, net	\$ 9,598,904	\$ 291,086	\$ 4,157	\$ 9,885,833

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	Balance at July 1, 2015 (restated)	Additions	Disposals	Balance at June 30, 2016
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 221,853	\$ -	\$ -	\$ 221,853
Construction in progress	1,428,959	233,519	1,320,054	342,424
Total capital assets not being depreciated	<u>1,650,812</u>	<u>233,519</u>	<u>1,320,054</u>	<u>564,277</u>
Other capital assets:				
Buildings	8,353,680	-	-	8,353,680
Improvements	8,089	-	-	8,089
Machinery, furniture and equipment	2,034,176	24,778	7,078	2,051,876
Utility property	5,850,190	1,324,679	-	7,174,869
Total other capital assets at historical cost	<u>16,246,134</u>	<u>1,349,457</u>	<u>7,078</u>	<u>17,588,513</u>
Less accumulated depreciation for:				
Buildings	3,668,578	205,233	-	3,873,811
Improvements	2,291	270	-	2,561
Machinery, furniture and equipment	1,066,935	147,378	1,209	1,213,104
Utility Property Improvements	295,381	179,974	-	475,355
Total accumulated depreciation	<u>5,033,185</u>	<u>532,855</u>	<u>1,209</u>	<u>5,564,831</u>
Other capital assets, net	<u>11,212,949</u>	<u>816,602</u>	<u>5,869</u>	<u>12,023,682</u>
Business-type activities capital assets, net	<u>\$ 12,863,761</u>	<u>\$ 1,050,121</u>	<u>\$ 1,325,923</u>	<u>\$ 12,587,959</u>

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

Governmental Activities:

General government	\$ 59,672
Public safety	201,994
Highways and streets	234,259
Parks and recreation	27,033
	<u>\$ 522,958</u>

Business-Type Activities:

Water	\$ 422,280
Wastewater	72,661
Administration	37,914
	<u>\$ 532,855</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:

Type of Debt	Balance July 01, 2015	Additions	Deductions	Balance June 30, 2016	Due Within One Year
Governmental Activities:					
Notes payable	\$ 645,915	\$ -	\$ 83,053	\$ 562,862	\$ 87,450
Capital lease payable	352,257	121,753	170,296	303,714	163,380
Total Governmental Activities	<u>\$ 998,172</u>	<u>\$ 121,753</u>	<u>\$ 253,349</u>	<u>\$ 866,576</u>	<u>\$ 250,830</u>
Business-Type Activities:					
Notes Payable	\$ 4,031,806	\$ 185,607	\$ 841,241	\$ 3,376,172	\$ 679,334
Capital lease payable	155,554	-	93,390	62,164	48,342
Deposits, subject to refund	157,588	8,871	-	166,459	33,292
Total Business-Type Activities	<u>4,344,949</u>	<u>194,479</u>	<u>934,632</u>	<u>3,604,794</u>	<u>760,968</u>
Total Long-Term Debt	<u>\$ 5,343,121</u>	<u>\$ 316,232</u>	<u>\$ 1,187,980</u>	<u>\$ 4,471,370</u>	<u>\$ 1,011,798</u>

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Governmental activities long-term debt payable from taxes and other general revenues at June 30, 2016 include the following:

Notes payable:

\$178,000 note payable to First National Bank, payable in monthly installments of \$1,458, including principal and interest at 4.5%, with final payment due May 2022	\$	90,450
\$800,000 NPWA line of credit note payable to First National Bank, payable in monthly installments of \$7,677, including principal and interest at 4.45%, final payment due June 2022; repaid with restricted sales tax		472,412
Total Notes Payable	\$	<u>562,862</u>
Current portion	\$	87,450
Noncurrent portion		<u>475,412</u>
Total Notes Payable	\$	<u>562,862</u>

Capital leases payable:

\$49,100 capital lease agreement for the purchase of a 3 Dodge Chargers, payable to First National Bank in monthly installments of \$1,108, including principal and interest at 3.95%, with final payment due September 2017		16,142
\$76,155 capital lease agreement for the purchase of 2010 Dodge Charger, 2011 Chevrolet 3/4 ton pickup, and 2011 Chevrolet 1 ton truck, payable to First National Bank in monthly installments of \$1,683, including principal and interest at 2.85%, with final payment due November 2016.		6,453
\$38,050 capital lease agreement for the purchase of a 2011 Chevy Tahoe, payable to First National Bank of Chickasha in monthly installments of \$859, including principal and interest at 3.95%, with final payment due October 2017.		13,327
\$40,276 capital lease agreement for the purchase of an asphalt paver, payable to Caterpillar Financial in monthly installments of \$1,175, including principal and interest at 3.20%, with final payment due June 2017.		13,879
\$371,409 capital lease agreement for the purchase of a fire truck, payable to First National Bank of Chickasha in annual installments of \$61,887, including principal and interest at 4.0%, with final payment due October 2017.		116,860
\$67,920 capital lease agreement for purchase of a backhoe loader, payable to Caterpillar financing in monthly installments of \$1,981, including principal and interest at 3.20%, with final payment due February 2018.		38,605
\$33,637 capital lease agreement for purchase of radio equipment, payable to KS State Bank financing in monthly installments of \$1,024, including principal and interest at 6.05%, with final payment due May 2018.		22,187

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\$25,116 capital lease agreement for purchase of 2015 Chevy Truck, payable to First National Bank financing in monthly installments of \$728, including principal and interest at 2.80%, with final payment due July 2018. 17,641

\$18,000 capital lease agreement for purchase of 2013 Dodge Charger, payable to First National Bank financing in monthly installments of \$521, including principal and interest at 2.75%, with final payment due September 2018. 13,620

\$45,000 capital lease agreement for purchase of 2 police cars, payable to First National Bank financing in monthly installments of \$1,292, including principal and interest at 2.09%, with final payment due June 2019. 45,000

Total Capital Leases Payable	\$ 303,714
Current portion	\$ 163,380
Noncurrent portion	140,334
Total Capital Leases Payable	\$ 303,714

Business-type activities long-term debt payable from net revenues generated by the utility revenue and pledged sales tax include the following:

Notes payable:

\$95,000 note payable to First National Bank, payable in monthly installments of \$1,005, including principal and interest, at 4.5%, final payment due November 2016. The note is secured by pledged revenues from a one percent (1%) sales tax. 4,905

\$250,000 note payable to First National Bank, payable in monthly installments of \$2,646, including principal and interest at 4.5%, final payment due November 2016. This note is secured by pledged revenues from a one percent (1%) sales tax. 12,840

\$5,000,000 note payable to First National Bank, payable in interest-only installments of \$52,797 currently until finished drawing on note, principal and interest, at 3.90%, final payment due September 2021. 895,715

\$200,000 note payable to First National Bank, payable in monthly installments of \$1,901, including principal and interest at 4.50%, final payment due July 2020. This note is secured by pledged revenues from a one percent (1%) sales tax. 82,425

\$2,463,227 note payable to OWRB, payable in interest only installments currently until finished drawing on note, principal and interest at 2.55%, with final payment due September 2030. 910,210

\$1,389,455 note payable to OWRB, payable in interest only installments currently until finished drawing on note, principal and interest at 2.43%, with final payment due March 2034. 955,195

\$55,924 note payable to Chickasha Bank & Trust, payable in monthly installments of \$1,005, including principal and interest at 3.01%, final payment due February 2017. 7,841

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\$45,819 note payable to First National Bank, payable in monthly installments of \$834, including principal and interest at 3.50%, final payment due October 2016. This note is secured by pledged revenues from a one percent (1%) sales tax. 3,284

\$575,000 note payable to First National Bank, interest at 2.95%, final payment due March 2029. Payable in monthly installments of \$3,958. 503,757

Total Notes Payable	\$ 3,376,172
Current portion	\$ 679,334
Noncurrent portion	2,696,838
Total Notes Payable	\$ 3,376,172

Capital leases payable:

\$205,000 capital lease agreement for purchase of Okie Disposal Building, payable to First National Bank in monthly installments of \$1,919, including principal and interest at 4.5%, with final payment due July 2017. 23,876

\$82,000 capital lease agreement for the purchase of a two 2011 3/4 ton trucks and a 2013 International lime truck payable to First National Bank in monthly installments of \$1,813 including principal and interest at 2.85%, with final payment due November 2016. 6,949

\$37,500 capital lease agreement for the purchase of a sewer jetting unit, payable to First National Bank in monthly installments of \$679, including principal and interest at 3.25%, with final payment due August 2016. 1,335

\$52,786 capital lease agreement for the purchase of a mini excavator, payable to Caterpillar Financing in monthly installments of \$1,540, including principal and interest at 3.20%, with final payment due February 2018. 30,003

Total Capital Leases Payable	\$ 62,163
Current portion	\$ 48,342
Noncurrent portion	13,821
Total Capital Leases Payable	\$ 62,163

Customer Deposits:

Customer deposits reported as a liability within the Statement of Net Assets are comprised of utility customer deposits payable.

Total Refundable Grant Obligation	\$ 166,459
Current portion	33,292
Noncurrent portion	133,167
Total Refundable Grant Obligation	\$ 166,459

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

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>			
	Capital		Notes Payable	
	Leases Payable		Notes Payable	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	163,380	44,967	87,450	21,246
2018	122,765	10,283	91,562	17,133
2019	17,569	186	95,869	12,826
2020	-	-	100,373	8,322
2021	-	-	102,010	3,590
2022-2023	-	-	85,598	2,686
Totals	<u>\$ 303,714</u>	<u>\$ 55,436</u>	<u>\$ 562,862</u>	<u>\$ 65,803</u>

<u>Year Ending June 30,</u>	<u>Business Type Activities</u>			
	Capital		Notes Payable	
	Lease Obligations		Notes Payable	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	48,342	1,479	679,334	177,863
2018	13,821	155	673,501	152,906
2019	-	-	697,448	127,539
2020	-	-	722,246	101,291
2021	-	-	726,028	74,102
2022-2026	-	-	959,013	215,419
2027-2031	-	-	747,005	97,711
2032-2034	-	-	385,571	19,837
Totals	<u>\$ 62,163</u>	<u>\$ 1,634</u>	<u>\$ 5,590,146</u>	<u>\$ 966,668</u>

Less principal remaining to drawdown (2,213,974)
\$ 3,376,172

Component Unit – NEFA Conduit Debt:

In April 2010, the NEFA authorized the issuance of indebtedness of \$3,865,000, \$155,000, \$30,575,000, and \$165,000 for the purpose of providing funds for the I-1 school district, McClain County, Oklahoma (“Newcastle Public Schools”). The financing was used to construct, equip, repair and remodel school buildings, acquire school furniture, fixtures and equipment and acquiring and improving school sites. The terms of the revenue bonds agreement, dated on or about April 14, 2010, includes interest ranging from 4.224% to 5.895%. The bonds are secured by a lease on the subject property. These bonds do not constitute an indebtedness, general or special, or obligation, legal or moral, of the City of Newcastle or the State of Oklahoma, or any subdivision or agency thereof nor a personal obligation of the Trustees of the Authority nor a general obligation of the Authority, but is a limited and special obligation of the Authority payable solely from the revenues and receipts derived by the Authority with respect to the Ground Lease Agreement. As a result of the non-commitment determination, the Authority’s indebtedness and related receivables from the occupants are not recorded in the financial statements.

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Balance June 30, 2016

\$3,865,000 revenue bonds payable to Bancfirst, payable in semi-annual installments of \$17,936, with final payment due September 2022	\$3,555,000
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\$30,575,000 revenue bonds payable to Bancfirst, payable in annual installments of \$120,000 to \$4,920,000 due September 2022.	25,735,000
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Pledge of Future Revenues

Sales Tax and Utility Net Revenues Pledge - The City has pledged one cent (or 25%) of future sales tax revenues and revenues of the Authority (bank fees, charges, governmental charges, utility charges, and taxes) to repay the \$250,000 of the Revenue Note 2006 Series, \$95,000 Revenue Note Series 2006, and \$200,000 Revenue Note 2008 Series. Proceeds from the notes provided financing for capital assets. The notes are payable from pledged sales tax revenues and utility revenues of the NPWA and are payable through 2016, 2016 and 2020, respectively. The total principal and interest payable for the remainder of the life of these notes is \$111,568. Pledged sales taxes received in the current year were \$2,946,293 and pledged revenues from the Authority were \$3,785,517. Debt service payments of \$99,623 for the current fiscal year were 1.5% of pledged sales taxes, utility revenues and investment income of \$6,731,810.

5. Sales Tax Revenue

Sales tax revenue represents a 4 cent local tax on each dollar of taxable sales within the City, of which 1 cent is voter-restricted for debt service on NPWA debt, ½ cent is voter-restricted for fire improvements, and ½ cent is voter-restricted for capital improvements in accordance with a City ordinance. Three cents of the sales tax is received and recorded in the General Fund, ½ cent is recorded in the Fire Department Tax Fund, and ½ cent is recorded in the Capital Improvement Sales Tax Fund. One cent is transferred from the General Fund to the NPWA for debt service. The unused sales tax is then transferred back to the General Fund.

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. Internal and Interfund Balances and Transfers

Balances:

Interfund receivables and payables at June 30, 2016 were comprised of the following:

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<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
NPWA	General	\$ 11,500	Claims paid on behalf of others
Sewer Impact Fund	Water Impact Fund	24,999	Fees posted to wrong fund
Total		<u>\$ 36,499</u>	

Reconciliation to Fund Financial Statements:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 11,500	\$ -	\$ 11,500
Proprietary Funds	24,999	(36,499)	(11,500)
Total	<u>\$ 36,499</u>	<u>\$ (36,499)</u>	<u>\$ -</u>

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2016, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General Fund	NPWA	\$ 2,946,293	Sales and use tax transfer
General Fund	NPWA	17,558	Debt activity transfer
NPWA	General Fund	2,504,325	Operating transfer
Water Impact Fees	NPWA	14,935	Capital outlay transfer
Fire Restricted Sales Tax Fund	General Fund	736,573	Sales tax transfer for fire
Total		<u>\$ 6,219,684</u>	
Reconciliation to Fund Financial Statements:			
	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 3,240,898	\$ (3,700,424)	\$ (459,526)
Proprietary Funds	2,978,786	(2,522,403)	456,383
	<u>\$ 6,219,684</u>	<u>\$ (6,222,827)</u>	<u>\$ (3,143)</u>
Government wide Reconciliation:			
Capital Asset transfers			<u>3,143</u>
			<u>\$ -</u>

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8. Fund Equity

Fund balance classifications:

Governmental Funds:	General Fund	Capital Improvement Tax Fund	Other Governmental Fund	Total
Fund Balance:				
Restricted For:				
Capital projects	\$ -	\$ 1,307,950	\$ -	\$ 1,307,950
Cemetery capital	-	-	31,309	31,309
Sub-total Restricted	<u>-</u>	<u>1,307,950</u>	<u>31,309</u>	<u>1,339,259</u>
Assigned to:				
Future year's budget	<u>493,970</u>	<u>-</u>	<u>-</u>	<u>493,970</u>
Unassigned	<u>342,561</u>	<u>-</u>	<u>-</u>	<u>342,561</u>
Total Fund Balance	<u>\$ 836,531</u>	<u>\$ 1,307,950</u>	<u>\$ 31,309</u>	<u>\$ 2,175,790</u>

Enterprise Funds:

Retricted for Capital Projects	\$ 482,924
Total Enterprise fund Restrictions	<u>\$ 482,924</u>

Prior Period Adjustments:

Beginning net position was restated as of June 30, 2016 as follows:

	<u>NPWA</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Beginning net position, as previously reported	\$ 8,891,253	\$10,292,768	\$ 9,242,343
Restatement of accumulated depreciation	96,776	576,713	96,776
Beginning net position, restated	<u>\$8,988,029</u>	<u>\$10,869,481</u>	<u>\$ 9,339,119</u>

The restatement of accumulated depreciation is due to an error on the capital assets listing related to approximately 30 assets. These assets had the incorrect estimated life listed causing the accumulated depreciation to be calculated incorrectly.

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 by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. The City's risk is transferred to the risk entity pool except for claim deductible amounts. The risk pool

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maintains deposits for claims reserves and other purposes for the benefit of the City. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

10. Pension Plan Participation

The City of Newcastle 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 Newcastle Retirement and Savings Plan (the City Plan) – a defined contribution benefit plan
4. Oklahoma Municipal Retirement System Defined Contribution Plan (OMRF) - an agent multiple-employer defined contribution plan

OFPRS:

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

Funding Policy. The City is required by state law to contribute 14% of covered payroll per year for each fulltime firefighter. Employees contribute 9% of covered payroll. For volunteer firefighters, the City is required to contribute \$60 per year per volunteer, while there is no required contribution by the volunteer. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The OFPRS contributions are as follows:

Fiscal Year	Required Contribution	Amount Contributed
2014	\$ 107,225	\$ 107,225
2015	\$ 116,721	\$ 116,721
2016	\$ 139,187	\$ 139,187

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OPPRS:

Plan Summary Information. The City of Newcastle, 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 22-102, 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

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:

Fiscal Year	Required Contribution	Amount Contributed
2014	\$ 97,506	\$ 97,506
2015	\$ 108,733	\$ 108,733
2016	\$ 119,846	\$ 119,846

The City Plan:

The City of Newcastle maintains a defined contribution retirement/savings plan (the “City Plan”) which covers substantially all employees not covered by other retirement plans. The City Plan is an elective plan with participants vesting in the City’s contributions as follows:

Years of Service	Vested Percentage
Less than 1 Year	0%
1 year but less than 2 years	20%
2 years but less than 3 years	40%
3 years but less than 4 years	60%
4 years but less than 5 years	80%
5 years or more	100%

Plan members are not required to contribute a minimum amount to the plan and can contribute up to 100% of compensation, however, federal law limits employee contributions to a maximum amount of \$18,000 for 2016. The City contributes 5.0% of annual covered payroll if the employee contributes at least 3% of their compensation. The contribution requirements of the City are established and may be

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amended by the City Council. For fiscal year 2016, the City and NPWA contributed a total of \$88,751 to the plan, while employees contributed an aggregate of \$147,544.

OMRF Defined Contribution Plan:

For the year ending June 30, 2008, the City began providing a defined contribution plan and trust known as the City of Newcastle Plan and Trust (the “OMRF Plan”) in the form of The Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF) available only to the city manager. OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The plan is administered the City Council and plan assets are supervised by OMRF. The City Council determines the City’s contribution rate each year. City contributions begin vesting immediately. The authority to amend the provisions of the plan rests with the City Council.

Contribution Information

Fiscal Year	Required Contribution	Amount Contributed
2014	\$ 10,775	\$ 10,775
2015	\$ 11,201	\$ 11,201
2016	\$ 11,968	\$ 11,968

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, Oklahoma, 73105.

City of Newcastle Deferred Compensation Plan (457)

The City has provided effective July 1, 2010 a deferred compensation plan known as the City of Newcastle Deferred Compensation Plan (457) (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 does not contribute to this plan, only participating employees can make contributions. The authority to establish and amend the provisions of the Plan rests with the City Council.

Contribution Information

Fiscal Year	Required Contribution	Amount Contributed
2014	\$ 6,604	\$ 6,604
2015	\$ 4,940	\$ 4,940
2016	\$ 25,704	\$ 25,704

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 compensatory leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2016, is summarized as follows:

- General Fund – accrued compensated absences \$195,160
- NPWA – accrued compensated absences \$90,310

Litigation:

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City. These statutory provisions do not apply to the City's public trust Authorities. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Federal and State Award Programs:

The City of Newcastle participates in various federal or state grant/loan programs from year to year. In 2016, the City's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

Construction Commitments:

The NPWA had committed to construction for the OWRB Green Project. At year end, \$92,804 of the project was outstanding.

Economic Development Incentive:

The City has entered into an economic development incentive with a hotel developer. Under the agreement, the city has agreed to assist in defraying a portion of the developers cost up to \$200,000. The incentive shall include water and sewer line improvements up to \$147,000 and hotel tax rebates of \$53,000. The hotel tax rebates of \$53,000 was met and the City began collecting hotel tax in February of 2016. The City also has expended \$147,000 on water and sewer line extensions under the incentive program.

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SUPPLEMENTARY AND OTHER INFORMATION

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Budgetary Comparison Schedule (Purpose Based) – Year Ended June 30, 2016

CITY OF NEWCASTLE				
<u>SOURCES OF INCOME AND REVENUE</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET and ACTUAL VARIANCE</u>
Program revenue	\$ 1,555,875	\$ 1,359,166	\$ 1,584,635	\$ 225,469
Restricted general revenue	3,878,300	3,459,972	3,703,233	243,261
Unrestricted general revenue	1,843,500	1,843,500	2,016,244	172,744
Debt proceeds	165,000	88,116	88,116	-
Transfers in	2,533,828	2,973,274	3,240,898	267,624
Beginning Fund Balance	1,119,891	1,988,358	2,268,750	280,392
TOTALS - ALL SOURCES	<u>\$ 11,096,394</u>	<u>\$ 11,712,386</u>	<u>\$ 12,901,876</u>	<u>\$ 1,189,490</u>
USES OF INCOME AND REVENUE				
Streets	\$ 1,026,251	\$ 929,655	\$ 881,743	\$ 47,912
Vehicle maintenance	194,432	196,564	182,124	14,440
General government	1,462,931	1,508,659	1,508,241	418
Police	1,363,190	1,581,058	1,576,240	4,818
Fire	1,285,594	1,493,106	1,478,526	14,580
Planning and engineering	79,128	85,815	72,617	13,198
Animal control	55,385	56,096	53,710	2,386
Parks and recreation	195,000	245,594	129,458	116,136
Municipal court	70,851	77,924	74,767	3,157
Communications	419,418	444,716	405,539	39,177
Capital outlay	649,249	799,625	463,199	336,426
Debt service	316,104	215,098	206,600	8,498
Other financing sources - transfer out	3,116,000	3,682,866	3,682,866	-
TOTALS - CURRENT YEAR USES	<u>\$ 10,233,533</u>	<u>\$ 11,316,776</u>	<u>\$ 10,715,630</u>	<u>\$ 601,146</u>
Ending Fund Balance	<u>\$ 862,861</u>	<u>\$ 395,610</u>	<u>\$ 2,186,246</u>	<u>\$ 1,790,636</u>

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**Reconciliation of Budgetary Comparison Schedule (Purposed Based) to the Governmental Fund
Financial Statements – Year Ended June 30, 2016**

	Per Statement of Revenues, Expenditures, and Changes in Fund Balance	To Clear Payroll Clearing and Account Payable Accounts	To Reclassify Reimburse- ments	To Adjust CLEET Payable	To Reclassify Debt Payments	To Reclassify Capital Outlay	Unrecorded Debt Proceeds	Void Returned Check	To Correct Court Bonds	Per Budgetary Comparison Schedule
Resources (Inflows):										
Total Revenues	\$ 7,303,046	\$ -	\$ -	\$ 1,908	\$ -	\$ -	\$ -	\$ (933)	\$ 91	\$ 7,304,112
Loan Proceeds	121,753	-	-	-	-	-	(33,637)	-	-	88,116
Transfers In	3,240,898	-	-	-	-	-	-	-	-	3,240,898
Beginning Fund Balance	2,268,750	-	-	-	-	-	-	-	-	2,268,750
Total Revenues and Other Financing Sources	12,934,447	-	-	1,908	-	-	(33,637)	(933)	91	12,901,876
Charges to Appropriations (Outflows):										
Total Expenditures	5,959,012	(9,390)	-	-	-	117,347	(33,637)	-	-	6,033,332
Capital outlay	804,740	-	-	-	-	(117,347)	-	-	-	687,393
Debt service	294,481	-	-	-	17,558	-	-	-	-	312,039
Transfers Out	3,700,424	-	-	-	(17,558)	-	-	-	-	3,682,866
Total Expenditures and Other Financing Uses	10,758,657	(9,390)	-	-	-	-	(33,637)	-	-	10,715,630
Ending Fund Balance	\$ 2,175,790	\$ 9,390	\$ -	\$ 1,908	\$ -	\$ -	\$ -	\$ (933)	\$ 91	\$ 2,186,246

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedule is reported on the same modified cash basis as governmental funds within the basic financial statements, and the format is purposed based budgeting. 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 reappropriate the lapsed encumbrances in the subsequent year budget. The difference of results between the governmental fund financial statements to the purpose based budget is explained in the reconciliation following the budgetary comparison schedule.

2. The legal level of appropriation control is at the purpose level within the City budget. Transfers of appropriation within a fund require Mayor's approval, while supplemental appropriations require City Council approval.

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Combining Balance Sheet – Non-Major Governmental Funds (Modified Cash Basis) – June 30, 2016

	Cemetery Care Fund
ASSETS	
Cash and cash equivalents	\$ 31,309
Total assets	31,309
 LIABILITIES AND FUND BALANCES	
Total liabilities	-
Fund balances:	
Restricted	31,309
Total fund balances	31,309
Total liabilities and fund balances	\$ 31,309

Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds (Modified Cash Basis) – Year Ended June 30, 2016

	Cemetery Care Fund
REVENUES	
Charges for services	7,453
Investment earnings	42
Miscellaneous	1
Total revenues	7,496
 EXPENDITURES	
Total Expenditures	-
Excess (deficiency) of revenues over expenditures	7,496
 OTHER FINANCING SOURCES (USES)	
Total other financing sources and uses	-
Net change in fund balances	7,496
Fund balances - beginning	23,813
Fund balances - ending	\$ 31,309

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Combining Statement of Net Position – Non-Major Enterprise Funds (Modified Cash Basis) – June 30, 2016

	<u>NPWA Sewer Impact Fees</u>	<u>NPWA Water Impact Fees</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ -	\$ -	\$ -
Restricted:			
Cash and cash equivalents	211,918	271,006	482,924
Due from other funds	-	24,999	24,999
Total current assets	<u>211,918</u>	<u>296,005</u>	<u>507,923</u>
Total assets	<u>211,918</u>	<u>296,005</u>	<u>507,923</u>
LIABILITIES			
Current Liabilities:			
Due to other funds	<u>24,999</u>	-	<u>24,999</u>
Total current liabilities	<u>24,999</u>	-	<u>24,999</u>
Total liabilities	<u>24,999</u>	-	<u>24,999</u>
NET POSITION			
Restricted for capital projects	<u>186,919</u>	<u>296,005</u>	<u>482,924</u>
Total net position	<u>\$ 186,919</u>	<u>\$ 296,005</u>	<u>\$ 482,924</u>

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Combining Statement of Revenues, Expenses and Changes in Net Position – Non-Major Enterprise Funds (Modified Cash Basis) – Year Ended June 30, 2016

	<u>NPWA Sewer Impact Fees</u>	<u>NPWA Water Impact Fees</u>	<u>Total</u>
REVENUES			
Fees, taps and penalties	\$ 34,600	\$ 111,641	\$ 146,241
Total operating revenues	<u>34,600</u>	<u>111,641</u>	<u>146,241</u>
OPERATING EXPENSES			
Total Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>
Operating income	34,600	111,641	146,241
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	254	274	528
Total non-operating revenue (expenses)	<u>254</u>	<u>274</u>	<u>528</u>
Income before transfers	34,854	111,915	146,769
Transfers in	-	-	-
Transfers out	<u>-</u>	<u>(14,935)</u>	<u>(14,935)</u>
Change in net position	34,854	96,980	131,834
Total net position - beginning	152,065	199,025	351,090
Total net position - ending	<u>\$ 186,919</u>	<u>\$ 296,005</u>	<u>\$ 482,924</u>

**CITY OF NEWCASTLE, OKLAHOMA
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Schedule of Expenditures of Federal Awards (Modified Cash Basis) – Year Ended June 30, 2016

**SCHEDULE OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

Federal/State Grantor/Pass Through Agency Grantor/Program Title	CFDA #	Project or Award Number	Award Amount	Awards Expended
FEDERAL AWARDS:				
U.S. DEPARTMENT OF JUSTICE:				
Passed through OK District Attorneys Council:				
Justice Assistance Grant	16.738	JAG-LLE 2015 A3L Newcastle CI-00041	\$ 8,546	\$ 8,546
Total U.S. Department of Justice			<u>\$ 8,546</u>	<u>\$ 8,546</u>
DEPARTMENT OF HOMELAND SECURITY:				
Federal Emergency Management Agency:				
Disaster Grants - Public Assistance	97.036	FEMA-4222-DR-OK PW-01128	\$ 8,987	\$ 8,987
Disaster Grants - Public Assistance	97.036	FEMA-4222-DR-OK PW-00249	20,870	20,870
Disaster Grants - Public Assistance	97.036	FEMA-4222-DR-OK PW-01017	21,296	21,295
Disaster Grants - Public Assistance	97.036	FEMA-4222-DR-OK PW-01052	78,039	78,039
Disaster Grants - Public Assistance	97.036	FEMA-4222-DR-OK PW-01085	1,343	1,343
Total Oklahoma Civil Emergency Management			<u>\$ 130,535</u>	<u>\$ 130,534</u>
Passed through Oklahoma Homeland Security:				
Homeland Security Grant	97.073	CERT 680.504 (2014)	<u>6,272</u>	<u>6,180</u>
Total Homeland Security			<u>\$ 136,807</u>	<u>\$ 136,714</u>
TOTAL FEDERAL AWARDS			<u>\$ 145,353</u>	<u>\$ 145,260</u>



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

To the City Council
City of Newcastle, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newcastle, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City of Newcastle, Oklahoma's basic modified cash basis financial statements, and have issued our report thereon dated March 13, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

HBC CPAs & Advisors

Oklahoma City, Oklahoma
March 13, 2017