



**THE TOWN OF CHOUTEAU,
OKLAHOMA
ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORTS**

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Anne Marie Elfrink, MS, CPA

Certified Public Accountant

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Independent Auditor's Report

Honorable Mayor and Board of Trustees
Town of Chouteau, Oklahoma

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chouteau, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Chouteau, Oklahoma's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note 1, the Town of Chouteau, Oklahoma, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my 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 Town of Chouteau, Oklahoma, as of June 30, 2011, and the respective changes in financial position—modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note A.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8-12 and 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
October 7, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the Town of Chouteau (the "Town") is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the Town's financial condition and activities as of and for the year ended June 30, 2011. Management of the Town 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 Town 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 Town's total net assets decreased by \$165,170 and the assets of the Town exceeded its liabilities at June 30, 2011, by \$4,803,215 (net assets). Of this amount, \$1,912,145 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2011, the unassigned fund balance on a modified cash basis for the General Fund was \$281,785, or 31% of general fund revenues for the year.

ABOUT THE TOWN

The Town of Chouteau is a municipality with a population of approximately 2,100 located in Mayes County in northeast Oklahoma. The Town is governed by the Mayor and a five-member Board of Trustees and operates under Oklahoma state laws and Town ordinances.

The Town provides typical municipal services such as public safety, street and alley maintenance, and through its Utilities Authority, certain utility services including water, wastewater, sanitation, and natural gas.

The Town's Financial Reporting Entity

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

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

- **The Town of Chouteau** – an incorporated Town that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the Town – *reported as part of the primary government as "governmental" activities.*
- **The Chouteau Public Works Authority** – a public trust created pursuant to 60 O.S. § 176 to operate the natural gas, water, sewer, and sanitation services of the Town – *considered part of the primary government presentation for reporting purposes; reported as "business-type" activities.*

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the Town of Chouteau and the Chouteau Public Works Authority (the "CPWA"). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

The government-wide financial statements present the complete financial picture of the Town from the economic resources measurement focus using the modified cash basis of accounting. They present governmental 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 Town's operations in more detail than the government-wide statements by providing information about the Town's governmental funds.

Reporting the Town as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions to ask about the Town's finances is, "Has the Town's overall financial condition improved, declined or remained steady as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town 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 Town's sales tax base, the condition of the Town's roads, and quality of service to assess the overall financial health of the Town. 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 Town assets and liabilities resulting from cash transactions.

In the Statement of Net Assets and the Statement of Activities, we divide the Town into two kinds of activities: *Governmental activities* - Most of the Town'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 Town charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The Town's water, sewer, sanitation, and natural gas utilities are reported as business-type activities.

Reporting the Town's General Fund - Fund Financial Statements

Fund Financial Statements

The Town's two kinds of funds - *governmental and proprietary* - use different accounting approaches.

Governmental funds - All of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting and current financial resources measurement focus that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the Town'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 Town'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 Town, through the Utilities 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.

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 26-34 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents a Budgetary Comparison Schedule for the General Fund.

THE TOWN AS A WHOLE

For the year ended June 30, 2011, net assets on a modified cash basis for the governmental and business-type activities decreased \$165,170.

The following is a summary of net assets reported on a modified cash basis for the Town of Chouteau.

Net Assets (Modified Cash Basis)			
June 30, 2011			
	Governmental	Business-type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Beginning net assets*	\$ 2,377,683	\$ 2,590,702	\$ 4,968,385
Decrease	(144,807)	(20,363)	(165,170)
Ending net assets	<u>\$ 2,232,876</u>	<u>\$ 2,570,339</u>	<u>\$ 4,803,215</u>

The largest portion of the Town's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding.

	Governmental	Business-type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Assets:			
Current and other assets	\$ 595,701	\$ 1,827,495	\$ 2,423,196
Capital assets, net	1,792,728	4,818,117	6,610,845
Total assets	<u>2,388,429</u>	<u>6,645,612</u>	<u>9,034,041</u>
Liabilities:			
Long-term liabilities	112,577	4,050,273	4,162,850
Other liabilities	42,976	25,000	67,976
Total liabilities	<u>155,553</u>	<u>4,075,273</u>	<u>4,230,826</u>
Net assets:			
Invested in capital assets, net	1,640,377	838,117	2,478,494
Restricted	12,560	400,016	412,576
Unrestricted	579,939	1,332,206	1,912,145
Total net assets	<u>\$ 2,232,876</u>	<u>\$ 2,570,339</u>	<u>\$ 4,803,215</u>

Changes in Net Assets (Modified Cash Basis)			
Year Ended June 30, 2011			
	Governmental	Business-type	
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$ 303,900	\$ 1,269,396	\$ 1,573,296
Grants	65,104		65,104
General revenues:			
Sales and use tax	768,929		768,929

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Other taxes	83,946		83,946
Other general revenues	56,518	13,241	69,759
Total revenues	<u>1,278,397</u>	<u>1,282,637</u>	<u>2,561,034</u>
Program expenses:			
General government	209,000	-	209,000
Public safety	792,305	-	792,305
Highways and streets	55,449	-	55,449
Natural gas	-	241,988	241,988
Water	-	145,209	145,209
Sanitation	-	180,991	180,991
Depreciation	100,443	223,471	323,914
Other operating	-	777,348	777,348
Total expenses	<u>1,157,197</u>	<u>1,569,007</u>	<u>2,726,204</u>
Transfers	<u>(266,007)</u>	<u>266,007</u>	<u>-</u>
Increase/(decrease) net assets	<u>(144,807)</u>	<u>(20,363)</u>	<u>(165,170)</u>
Beginning net assets	<u>2,377,683</u>	<u>2,590,702</u>	<u>1,112,010</u>
Ending net assets	<u>\$ 2,232,876</u>	<u>\$ 2,570,339</u>	<u>\$ 4,803,215</u>

Governmental Activities

The decrease in net assets related to governmental activities of \$144,807 includes the effect of a transfer of equipment to the CPWA with a net book value of \$84,164. The remaining \$60,643 decrease is largely attributable to a decrease in municipal fines revenue somewhat offset by higher than expected sales tax revenue.

Business-type Activities

The decrease of \$20,363 for business-type activities is due to water and sewer rates being insufficient to fully cover the cost of providing these services, somewhat offset by the transfer from the town of equipment with a net book value of \$84,164.

A FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As the Town completed its 2011 fiscal year, Governmental Funds reported total fund balances of \$592,499. For the year ended June 30, 2011, the Governmental Funds' total fund balances decreased by \$26,541.

Budgetary Highlights

For the year ended June 30, 2011, the General Fund reported actual budgetary basis revenues under final budget of \$87,838 or a 5.7% unfavorable variance. General Fund actual expenditures were under final appropriations by \$85,959 or a 7.3% favorable variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2011, the Town had approximately \$6.6 million in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, building improvements, utility systems, infrastructure and equipment. Below are details regarding the Town's capital assets for the year ended June 30, 2011:

	Capital Assets		
	Governmental	Business-type	Total
	Activities	Activities	
Land	\$ 31,200	\$ 27,500	\$ 58,700
Building improvements	861,545	107,592	969,137
Equipment	1,441,251	333,098	1,774,349
Utility systems and equipment	-	7,252,610	7,252,610
Infrastructure	80,921	-	80,921
Totals	2,414,917	7,720,800	10,135,717
Less accumulated depreciation	(622,189)	(2,902,683)	(3,524,872)
Totals, net	\$ 1,792,728	\$ 4,818,117	\$ 6,610,845

This year's capital asset additions include the following:

- The purchase of a dump truck for \$11,165
- The purchase of a tractor for \$10,000

Debt Administration

In March, 2009, the town entered into a capital lease agreement with the Bank of Commerce to finance the purchase of a tanker truck for use by the Chouteau fire department. Mayes County agreed to finance the lease in its entirety from the proceeds of a special County sales tax, and makes monthly deposits on behalf of the Town. At June 30, 2011, the present value of future lease payments was \$142,130.

On November 1, 2006, the Chouteau Public Works Authority issued Utility System Revenue Bonds in the amount of \$4,020,000. At June 30, 2011, the outstanding balance on these bonds was \$3,980,000.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The Town has been awarded a Community Development Block Grant (CDBG) Rural Economic Action Plan (REAP) in the amount of \$49,370 to make improvements to its wastewater influent pump station.

Contacting the Town's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Clerk's office at P.O. Box 819, Chouteau, Oklahoma, 74337-0819 or telephone at 918-476-5902.

BASIC FINANCIAL STATEMENTS – STATEMENT OF NET ASSETS AND ACTIVITIES

Statement of Net Assets (Modified Cash Basis) – June 30, 2011

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 293,372	\$ 543,503	\$ 836,875
Investments	302,329	883,976	1,186,305
Total current assets	<u>595,701</u>	<u>1,427,479</u>	<u>2,023,180</u>
Non-current assets			
Restricted assets:			
Debt service funds	-	400,016	400,016
Capital assets, net of depreciation	1,792,728	4,818,117	6,610,845
Total non-current assets	<u>1,792,728</u>	<u>5,218,133</u>	<u>7,010,861</u>
Total assets	<u>\$ 2,388,429</u>	<u>\$ 6,645,612</u>	<u>\$ 9,034,041</u>
Liabilities:			
Current liabilities:			
Municipal bonds payable	\$ 3,202	\$ -	\$ 3,202
Leases payable, current portion	39,774	-	39,774
Bonds payable, current portion	-	25,000	25,000
Total current liabilities	<u>42,976</u>	<u>25,000</u>	<u>67,976</u>
Noncurrent liabilities			
Meter deposit liability	-	95,273	95,273
Leases payable, noncurrent	112,577	-	112,577
Bonds payable, noncurrent	-	3,955,000	3,955,000
Total noncurrent liabilities	<u>112,577</u>	<u>4,050,273</u>	<u>4,162,850</u>
Total liabilities	<u>155,553</u>	<u>4,075,273</u>	<u>4,230,826</u>
Net Assets:			
Invested in capital assets, net of related debt	1,640,377	838,117	2,478,494
Restricted for debt service	-	400,016	400,016
Restricted for legal constraints	12,560	-	12,560
Unrestricted	579,939	1,332,206	1,912,145
Total net assets	<u>\$ 2,232,876</u>	<u>\$ 2,570,339</u>	<u>\$ 4,803,215</u>

See accompanying notes to the basic financial statements.

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Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets		
		Charges for Services	Capital Grants	Operating Grants	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
Finance	\$ 182,191	\$ 23,673	\$ -	\$ 7,689	\$ (150,829)	\$ -	\$ (150,829)
Public safety	863,532	265,800	57,095	320	(540,317)	-	(540,317)
Parks and recreation	5,445	-	-	-	(5,445)	-	(5,445)
Streets	63,942	-	-	-	(63,942)	-	(63,942)
Senior citizens	14,629	2,952	-	-	(11,677)	-	(11,677)
Legal	14,489	-	-	-	(14,489)	-	(14,489)
Cemetery	6,578	11,475	-	-	4,897	-	4,897
Inspection	6,391	-	-	-	(6,391)	-	(6,391)
Total governmental activities	1,157,197	303,900	57,095	8,009	(788,193)	-	(788,193)
Business-type activities	1,553,737	1,269,396	-	-	-	(284,341)	(284,341)
Total primary government	\$ 2,710,934	\$ 1,573,296	\$ 57,095	\$ 8,009	\$ (788,193)	\$ (284,341)	\$ (1,072,534)
General revenues:							
Taxes:							
Sales and use					768,929	-	768,929
Franchise					36,057	-	36,057
Other taxes					47,889	-	47,889
Miscellaneous					51,386	-	51,386
Transfers - cash					(181,843)	181,843	-
Transfers - equipment					(84,164)	84,164	-
Loss on disposal of assets					-	(15,270)	(15,270)
Interest					5,132	13,241	18,373
Total general revenues					643,386	263,978	907,364
Change in net assets					(144,807)	(20,363)	(165,170)
Net assets - beginning					2,377,683	2,590,702	4,968,385
Net assets - ending					\$2,232,876	\$ 2,570,339	\$ 4,803,215

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2011

	General Fund	Court Fund	Special Fire Fund	Street and Alley Fund	Other Governmental Funds	Total Governmental Funds
Assets:						
Cash and cash equivalents	\$ 92,409	\$ 16,887	\$ 19,330	\$ 70,941	\$ 93,805	\$ 293,372
Investments	276,334	-	-	-	25,995	302,329
Total assets	<u>\$ 368,743</u>	<u>\$ 16,887</u>	<u>\$ 19,330</u>	<u>\$ 70,941</u>	<u>\$ 119,800</u>	<u>\$ 595,701</u>
Liabilities and fund balances:						
Liabilities:						
Municipal bonds payable	\$ -	\$ 3,202	\$ -	\$ -	\$ -	\$ 3,202
Total liabilities	<u>-</u>	<u>3,202</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,202</u>
Fund Balance:						
Restricted	-	3,664	-	-	8,896	12,560
Unrestricted:						
Committed	-	-	17,000	70,941	60,886	148,827
Assigned	86,958	10,021	2,330	-	50,018	149,327
Unassigned	281,785	-	-	-	-	281,785
Total fund balances	<u>368,743</u>	<u>13,685</u>	<u>19,330</u>	<u>70,941</u>	<u>119,800</u>	<u>592,499</u>
Total liabilities and fund balances	<u>\$ 368,743</u>	<u>\$ 16,887</u>	<u>\$ 19,330</u>	<u>\$ 70,941</u>	<u>\$ 119,800</u>	<u>\$ 595,701</u>

See accompanying notes to the basic financial statements.

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2011

	General Fund	Court Fund	Special Fire Fund	Street and Alley Fund	Other Governmental Fund	Total Governmental Funds
Revenues:						
Sales/use tax	\$ 768,929	\$ -	\$ -	\$ -	\$ -	\$ 768,929
Franchise tax	4,355	-	-	31,703	-	36,058
Motel tax	-	-	1,966	-	2,059	10,072
Gasoline tax	6,047	-	-	5,520	-	5,520
Motor vehicle tax	457	-	-	13,814	-	14,271
Cigarette tax	10,425	-	-	-	-	10,425
Alcoholic beverage tax	13,648	-	-	-	-	13,648
Mayes County - fire tanker	32,322	-	-	-	-	32,322
Rents	14,163	-	-	-	1,850	16,013
Grants	-	-	18,936	-	-	18,936
Licenses and permits	2,929	-	-	-	-	2,929
Fire service	6,060	-	12,028	-	-	18,088
Fines and forfeitures	698	246,064	-	-	-	246,762
Cemetery sales	-	-	-	-	11,474	11,474
Donations	7,689	-	320	-	5,837	13,846
Library	-	-	-	-	-	-
Other	37,980	-	-	15,241	4,578	57,799
Interest	4,039	-	104	390	599	5,132
Total Revenues	<u>909,741</u>	<u>246,064</u>	<u>33,354</u>	<u>66,668</u>	<u>26,397</u>	<u>1,282,224</u>
Expenditures:						
Finance	165,285	-	-	-	-	165,285
Public safety	754,558	41,722	24,616	-	37,255	858,151
Parks and recreation	5,029	-	-	-	-	5,029
Streets	-	-	-	69,259	-	69,259
Senior citizens	-	-	-	-	4,551	4,551
Legal	14,489	-	-	-	-	14,489
Cemetery	-	-	-	-	3,767	3,767
Inspections	6,391	-	-	-	-	6,391
Total expenditures	<u>945,752</u>	<u>41,722</u>	<u>24,616</u>	<u>69,259</u>	<u>45,573</u>	<u>1,126,922</u>
Excess (deficiency) of revenues over expenditures	<u>(36,011)</u>	<u>204,342</u>	<u>8,738</u>	<u>(2,591)</u>	<u>(19,176)</u>	<u>155,302</u>
Other financing sources (uses):						
Transfer from other funds	163,032	-	-	-	31,656	194,688
Transfer to other funds	<u>(181,843)</u>	<u>(194,688)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(376,531)</u>
Net other financing sources (uses)	<u>(18,811)</u>	<u>(194,688)</u>	<u>-</u>	<u>-</u>	<u>31,656</u>	<u>(181,843)</u>
Net change in fund balance	(54,822)	9,654	8,738	(2,591)	12,480	(26,541)
Fund balance – beginning	423,565	4,031	10,592	73,532	107,320	619,040
Fund balance - ending	<u>\$ 368,743</u>	<u>\$ 13,685</u>	<u>\$ 19,330</u>	<u>\$ 70,941</u>	<u>\$ 119,800</u>	<u>\$ 592,499</u>

See accompanying notes to the basic financial statements.

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund balances of governmental funds	\$ 592,499
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities of \$2,414,917, net of accumulated depreciation of \$622,189 are not financial resources and, therefore, are not reported in the funds.	1,792,728
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund financial statements.	(152,351)
Net assets of governmental activities	<u>\$ 2,232,876</u>
Net changes in fund balances - total governmental funds	\$ (26,541)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Capital asset purchases capitalized	87,139
Removal of net book value of assets that were sold or transferred	(137,062)
Depreciation expense	<u>(100,443)</u>
	<u>(150,366)</u>
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	32,100
Change in net assets of governmental activities	<u><u>\$(144,807)</u></u>

See accompanying notes to the basic financial statements.

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

Proprietary Funds Statement of Net Assets (Modified Cash Basis) – June 30, 2011

	<u>Chouteau Public Works Authority</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 543,503
Investments	883,976
Total current assets	<u>1,427,479</u>
Noncurrent assets:	
Restricted debt service funds	400,016
Capital assets, net of accumulated depreciation	4,818,117
Total noncurrent assets	<u>5,218,133</u>
Total assets	<u>\$ 6,645,612</u>
LIABILITIES	
Current liabilities:	
Bonds payable - current portion	\$ 25,000
Total current liabilities	<u>25,000</u>
Noncurrent liabilities:	
Meter deposit liability	95,273
Bonds payable - noncurrent portion	3,955,000
Total noncurrent Liabilities	<u>4,050,273</u>
Total liabilities	<u>4,075,273</u>
NET ASSETS	
Invested in capital assets, net of related debt	838,117
Restricted for debt service	400,016
Unrestricted	1,332,206
Total net assets	<u>\$ 2,570,339</u>

See accompanying notes to the basic financial statements.

**Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) –
Year Ended June 30, 2011**

	Chouteau Public Works Authority
Operating revenues:	
Charges for sales and services:	
Natural gas	\$ 496,679
Water	361,393
Sewer	183,911
Sanitation	185,353
Other	42,060
Total operating revenues	1,269,396
Operating expenses:	
Personal services	229,571
Payroll tax and benefits	82,586
Natural gas and transportation	241,988
Sales tax paid	63,096
Water purchases	145,209
Sanitation contractor	180,991
Professional fees	15,630
Insurance	17,228
Repairs and maintenance	64,933
Annual dues	1,018
License and permits	2,650
Training	950
Office	17,178
Other expense	18,210
Utilities and telephone	30,608
Depreciation	223,471
Total operating expenses	1,335,317
Operating loss	(65,921)
Nonoperating revenue (expense):	
Transfer from primary government	266,007
Loss on disposal of asset	(15,270)
Interest and fees expense	(218,420)
Investment income	13,241
Total nonoperating revenue (expense)	45,558
Change in net assets	(20,363)
Net assets – beginning	2,590,702
Net assets – ending	\$ 2,570,339

See accompanying notes to the basic financial statements.

Proprietary Funds Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2011

	Chouteau Public Works Authority
Cash flows from operating activities:	
Receipts from customers	\$ 1,221,486
Payments to suppliers	(799,689)
Payments to employees	(312,157)
Net cash provided by operating activities	109,640
Cash flows from noncapital financial activities:	
Transfers from other funds	181,843
Net cash flows from noncapital financial activities	181,843
Cash flows from capital and related financial activities:	
Purchases of capital assets	(22,619)
Proceeds from sale of assets	6,646
Investment income	3,733
Increase in bond sinking fund	(9,622)
Principal paid on capital debt	(15,000)
Interest paid on capital debt	(218,420)
Net cash provided by (used in) capital and related financing activities	(255,282)
Net increase (decrease) in cash and cash equivalents	36,201
Cash and equivalents - beginning of year	507,302
Cash and equivalents - end of year	\$ 543,503
Reconciliation to State of Net Assets:	
Operating income (loss)	(65,921)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Decrease in meter deposit liability	(47,910)
Depreciation expense	223,471
Net cash provided by operating activities	\$ 109,640
Noncash investing, capital and financing activities:	
Increase in fair value of investments	\$9,508

See accompanying notes to the basic financial statements.

FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

- **The Town of Chouteau** – operates the public safety, streets, parks and recreation, and administrative activities of the Town. The Town is governed under the statutory town Board of Trustees form of government.
- **The Chouteau Public Works Authority** – a trust that operates the natural gas, water, sewer, and sanitation services for the Town. The Town of Chouteau is the beneficiary of CPWA. The Authority is managed by a Board of Trustees made up of members of the Town Board of Trustees plus two other appointed members.

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

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

As required by state law, all debt obligations incurred by the above trust must be approved by two-thirds vote of the Town's Board of Trustees. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trust within the Town's financial reporting entity. The public trust does not issue separate annual financial statements.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net assets 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 inter-fund 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 Town's taxpayers. The Town has the following program revenues in each activity:

- General government: License and permits and operating grants
- Public safety: Fine revenue, fire runs, rural fire policies, and operating grants
- Streets and highways: Gas excise and commercial vehicle taxes, and operating and capital grants

- Cemetery: Internment fees and lot sales

For business-type activities, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Governmental Funds:

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

Major Funds.

- General Fund – accounts for all activities not accounted for in other special-purpose funds
- Court Fund - funded by collections from municipal court fines and forfeitures, constrained to a separate fund by action of the Town's Board of Trustees ("the Board"), a portion of which is restricted to the payment of fees collected on behalf of other governments, and the residual is transferred to the general and police training funds.
- Special Fire Fund - funded by contractual fire protection service fees and hotel-motel taxes that have been set aside by the Town's Board in addition to grants from other governments and/or organizations for purchase of capital assets used to support fire protection services.
- Street and Alley Fund - funded from various sources to include motor vehicle tax and State shared motor fuel tax restricted by State law as well as franchise and other grant funds constrained by action of the board for the purpose of construction, maintenance, and/or repair of streets and alleys.

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

- Police Training - funded by transfers from the Municipal Court Fund and committed by the Board to funding the training of police officers and/or purchase of equipment for the police department.
- CDBG – accounts for CDBG grant activities
- Cemetery - funded by 87.5% of revenue from lot sales and internments, constrained to a separate fund by action of the Board, committed to maintenance and provision of services for the cemetery
- Cemetery Care - Funded by 12.5% of revenue from lot sales and internments, expenditures restricted by State law for cemetery capital improvements.
- Senior Citizens - Funded by fees for services provided at the Senior Citizen's center committed by action of the Board for sole expenditure to support the services provided.

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

Proprietary Funds:

The Town accounts for all proprietary activities through the Chouteau Public Works Authority fund. For purposes of the statement of revenues, expenses and changes in fund net assets, 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.

The general fund is legally required to adopt an annual budget or appropriations. A public trust is not required to adopt legal annual appropriations. While the Trust develops an annual budget, it is for financial management purposes and does not constitute legal appropriations.

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include all demand and savings accounts, and certificates of deposit with an original maturity of six months or less. Investments consist of long-term certificates of deposits and are reported at cost plus earned interest, if interest is not paid out, as of the last statement.

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 reported within the applicable functional category 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 \$2,500 is used to report capital assets.

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

•Buildings	5-60 years
•Improvements, other than buildings	2-50 years
•Machinery, furniture and equipment	3-40 years
•Utility property and improvements	5-50 years
•Infrastructure	2-50 years

E. Long-Term Debt

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

F. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid.

G. Fund Balances and Net Assets

Fund Balances:

Fund balances generally reported in the governmental funds financial statements are displayed in the following components:

- a. *Nonspendable* – amounts that cannot be spent due to form; for example, inventories and prepaid amounts
- b. *Restricted* – amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation.
- c. *Committed* – amounts constrained for a specific purpose by the Town’s Board of Trustees
- d. *Assigned* – residual amounts for any funds other than the general fund; in the general fund, amounts constrained by the Board for a specific purpose
- e. *Unassigned* – in the general fund, residual amounts not classified in another classification; for all other funds, only residual deficit amounts

It is the Town's policy to use restricted assets first when they are available for expenditure. When restricted assets are not available, unrestricted assets are used in the following order: committed, assigned, and then unassigned amounts.

Net Assets:

At June 30, 2011, there were no governmental fund balance reserves.

Net assets are displayed in three components:

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

H. Internal and Inter-fund Balances and Transfers

The Town's policy is to eliminate inter-fund transfers and balances in the statement of activities and net assets 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, 2011, the Town recognized \$18,373 of investment income. At June 30, 2011, the primary government held the following deposits and investments:

<u>Type</u>	<u>Governmental</u>	<u>Business-type</u>	<u>Carrying</u>
	<u>Activities</u>	<u>Activities</u>	<u>Value</u>
Demand deposits	\$ 293,372	\$ 93,805	\$ 387,177
Time deposits	302,329	883,976	1,186,305
Short term US Treasuries Money Market Fund	-	400,016	400,016
Total	<u>\$ 595,701</u>	<u>\$ 1,377,797</u>	<u>\$ 1,973,498</u>

Reconciliation to the statement of net assets:

Cash and cash equivalents	\$ 293,372	\$ 93,805	\$ 387,177
Investments	302,329	883,976	1,186,305
Restricted cash and cash equivalents	-	400,016	400,016
Total	<u>\$ 595,701</u>	<u>\$ 1,377,797</u>	<u>\$ 1,973,498</u>

Custodial 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 Town is governed by the State Public Deposit Act which requires that the Town obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of

the government, and if held by a counterparty or a counterparty's trust, department or agent, but not in the government's name.

The Town's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2010 all of the Town's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

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 Board of Trustees monitors the investment performance on an ongoing basis to limit the Town's interest rate risk. As of June 30, 2010, the Town's deposits consisted of demand deposits, certificates of deposit, and investments in a money market fund targeting short term US Treasuries. All of the Town's investments had a maturity date of 12 months or less.

Investment Credit Risk – The Town follows the Oklahoma state statutes 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 Town's public trusts.

As of June 30, 2011, the Town did not hold any securities with credit ratings.

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

Restricted Cash and Investments – The amounts reported as restricted assets on the statement of net assets are comprised of amounts restricted for debt service.

3. Capital Assets and Depreciation

For the year ended June 30, 2011, capital asset balances changed as follows:

	<u>Balance at July 1, 2010</u>	<u>Additions*</u>	<u>Disposals*</u>	<u>Balance at June 30, 2011</u>
Governmental:				
Capital assets not being depreciated:				
Land	\$ 31,200	\$ -	\$ -	\$ 31,200
Capital assets being depreciated:				
Buildings	861,545	-	-	861,545
Infrastructure	80,921	-	-	80,921
Equipment	1,662,477	87,140	308,366	1,441,251
Total capital assets being depreciated	2,604,943	87,140	308,366	2,383,717
Less accumulated depreciation:				
Buildings	188,587	14,482		203,069
Infrastructure	1,958	1,098		3,056
Equipment	502,505	84,863	171,304	416,064
Total accumulated depreciation	693,050	100,443	171,304	622,189
Governmental, net capital assets	<u>\$ 1,943,093</u>	<u>\$ (13,303)</u>	<u>\$ 137,062</u>	<u>\$ 1,792,728</u>
Business-type				
Capital assets not being depreciated:				
Land	\$ 27,500	\$ -	\$ -	\$ 27,500
Capital assets being depreciated:				

TOWN OF CHOUTEAU, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Buildings	107,592	-	-	107,592
Infrastructure	7,294,329	-	41,719	7,252,610
Equipment	227,914	106,783	1,599	333,098
Total capital assets being depreciated	<u>7,629,835</u>	<u>106,783</u>	<u>43,318</u>	<u>7,693,300</u>
Less accumulated depreciation				
Buildings	78,713	4,648	-	83,361
Infrastructure	2,532,427	186,458	19,803	2,699,082
Equipment	89,474	32,365	1,599	120,240
Total accumulated depreciation	<u>2,700,614</u>	<u>223,471</u>	<u>21,402</u>	<u>2,902,683</u>
Business-type, net capital assets	<u>\$ 4,956,721</u>	<u>\$ (116,688)</u>	<u>\$ 21,916</u>	<u>\$ 4,818,117</u>

*Includes equipment transferred from governmental to business-type with a total net book value of \$84,164.

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

Governmental activities:		Business-type activities:	
Finance	\$ 16,907	Gas	\$ 17,781
Public safety	71,227	Sewer	159,015
Streets and alleys	8,493	Water	17,037
Cemetery	3,400	General utility	29,639
Parks and recreation	416		
Total depreciation	<u>\$ 100,443</u>	Total depreciation	<u>\$ 223,471</u>

4. Lease Purchase Obligations

The Town has entered into lease purchase agreements as lessee for financing the acquisitions of equipment. The lease purchase agreements qualify as capital leases for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments.

The schedule of future minimum lease payments under the capital lease and the present value of the net minimum lease payments at June 30, 2010 is as follows:

Year ended	Governmental Activities		
	<u>June 30,</u>	<u>Police Cars</u>	<u>Tanker</u>
2011	\$ 7,452	\$ 32,585	\$ 40,037
2012	7,452	32,585	40,037
2013	3,147	32,585	35,732
2014		32,585	32,585
2015		32,585	32,585
2016		27,155	27,155
Total minimum lease payments	<u>18,051</u>	<u>190,080</u>	<u>208,131</u>
Less: Amount representing interest	<u>(1,083)</u>	<u>(22,598)</u>	<u>(23,681)</u>
Present value of minimum lease payments	<u>\$ 16,968</u>	<u>\$ 167,482</u>	<u>\$ 184,450</u>

5. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2011, the Town's long-term debt changed as follows:

Balance				Balance	Amount Due
<u>July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>		<u>June 30, 2011</u>	<u>Within One Year</u>

Business-type:

Utility system revenue bonds	\$ 3,995,000	-	15,000	3,980,000	25,000
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At June 30, 2011 the Town had the following debt outstanding, arising from cash transactions, to be repaid from business-type activities:

Utility System Revenue Bonds, Series 2006, dated November 1, 2006, in the amount of \$4,020,000 with interest rates of 4.0% to 5.5%, due in annual installments with final installment of \$660,000 due in November 2036. \$3,980,000

Payment Requirements to Maturity:

Year ended	Business-type activities	
June 30,	Principal	Interest
2012	25,000	215,502
2013	30,000	214,565
2014	35,000	213,259
2015	35,000	211,596
2016	55,000	210,409
2017 to 2021	370,000	1,008,422
2022 to 2026	570,000	896,301
2027 to 2031	885,000	722,114
2032 to 2036	1,315,000	442,614
2037	660,000	54,450
Total	3,980,000	4,189,232

6. Debt Service Coverage

The Utility System Revenue Bonds require the Authority to maintain a schedule of charges, fees, and rates sufficient to produce annual net revenues not less than 110% of the actual principal and interest requirements on the bonds after payment of all operating and maintenance expenses. The appropriation of sales tax by the Town of Chouteau to the Authority is included for the purpose of calculating net revenue.

Ratio of net revenue to debt service:	
Operating revenue	\$ 1,269,396
Sales tax appropriations	181,843
Operating expenses	(1,335,317)
Depreciation	223,471
Revenue available for debt service	\$ 339,393
Annual debt service	\$ 230,920
Coverage ratio	1.47 to 1

7. Risk Management

The Town and its public trust are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. These risks are managed by securing commercial insurance for all risks except workers' compensation. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years. The deductibles for each line of coverage are as follows:

General liability, including property	\$0 - \$5,000 per occurrence
Automobile liability	\$0

The Town participated in the Oklahoma Municipal Assurance Group's (OMAG) Workmen's Compensation Plan.

The OMAG Workers' Compensation Plan (the Plan) became effective October 1, 1984. The purpose of the Plan is to provide workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the plan year. A plan year normally begins at 12:01 am on July 1, in any year and ends at Midnight June 30, of the following calendar year. The Plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

The Town has entered into an agreement with the Plan to participate in the coverages and services that the Plan offers. The Town has the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, the Town is responsible for complying with all requirements of the Oklahoma Workers Compensation Act. The Town has a right to the return of any Loss Funds set aside for claims which have not been paid out in benefits.

The Town maintains Loss Fund balances with OMAG in respect to the Town's worker's compensation retention. CompSource Oklahoma provides coverage in excess of the Town's retention levels so each participant's liability for claim losses is limited to these retention levels. Failure of CompSource Oklahoma to honor its obligations could result in losses to the Plan. However, OMAG's evaluation of the financial condition of CompSource Oklahoma indicates that CompSource Oklahoma is presently financially sound and will be able to meet its contractual obligations.

6. Employee Retirement Plan Participation

Oklahoma Firefighter's Pension and Retirement System

The Town participates in a statewide, cost-sharing, multiple-employer benefit plan on behalf of firefighters. The system is administered by an agency of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. For 2011, the Town's annual required contribution was \$10,129 for the OFPRS plan which was equal to the Town's actual contribution. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

Eligibility to participate	All full-time or voluntary firefighters of a participating municipality hired before age 45
Authority establishing contribution obligations and benefit provisions	State Statute
Plan members' contribution rate	8% of covered payroll
Town's contribution rate	13% of covered payroll/\$60 per volunteer
Period required to vest	10 years
Benefits and eligibility for distribution (full time employee)	20 years credited service, 2 ½% of final average salary multiplied by the years of credited service with a maximum of 30 years considered. If vested, at or after age 50, or after 10 but before 20 years of credited service with reduced benefits
Benefits and eligibility for distribution (volunteer)	20 years credited service equal to \$5.46 per month per year of service with a maximum of 30 years considered
Deferred retirement option	Yes, 20 years credited service with continued service for 30 or more years
Provisions for:	
Cost of living adjustments (normal retirement)	Yes, if vested by May, 1983
Death (duty, non-duty, post retirement)	Yes
Disability	Yes

Cost of living allowances	Yes
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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

Oklahoma Municipal Retirement Fund

The Town participates in a Defined Contribution Program through the Oklahoma Municipal Retirement Fund (OMRF) for active employees. The Program provides a savings vehicle for individual employees where funds are credited to participant accounts and then pooled for investment through OMRF. All gains and/or losses are credited directly to each participant. Upon retirement, termination, disability or death, the vested portion of the participant's account is paid to the participant or beneficiary. The benefit payable is based on the accumulation of employee and employer contributions, forfeitures and interest earnings.

Eligible employees are required to contribute 3% of earnings and the Town contributes 2.65%. The Town's contributions are vested at the rate of 20% per year. Forfeited non-vested amounts reduce the employer's contributions.

Prior to July 1, 1993 Town employees participated in a Defined Benefit plan. At January 1, 2011, there were 2 retirees and no active employees covered by the plan. The actuarially determined present value of benefits at that time was \$17,401 and the funding deficiency was \$390, requiring the Town to make payments of \$61 per year for the next 9 years in order to fully amortize the funding deficiency. The actuarial assessment was determined using a 7.5% interest rate, UP-94 mortality (projected), and assumed no cost of living adjustments.

7. Commitments and Contingencies

Compensated Absences:

As a result of the Town's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and sick leave) earned but unpaid at year-end are not reflected in the basic financial statements.

Litigation:

From time to time, the Town and its public trust may be parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations; however the town's legal counsel advises that at report date there were no pending issues. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a sinking fund for the payment of any court assessed judgment rendered against the Town. (This provision is not available to public trusts.) The Town also carries insurance that provides some degree of protection for litigation and legal proceedings.

Federal and State Award Programs:

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

8. Cooperative Agreements and In-Kind Services

Maintenance of Streets and Alleys:

On May 9, 2011, the Town entered into an agreement with the Mayes County Board of Commissioners (County) regarding the repair and maintenance of streets and alleys. In the agreement, the County will supply special heavy equipment and operators for the routine maintenance of streets and alleys and the town will furnish minor patchwork, materials, traffic controls, and flagmen. The financial statements do not include any amounts related to the services provided by the County.

REQUIRED SUPPLEMENTAL INFORMATION

Budgetary Comparison Statements (Modified Cash Basis) – Year Ended June 30, 2011 - UNAUDITED

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	<u>Original</u>	<u>Final</u>	<u>Amounts*</u>	Final Budget <u>Positive (Negative)</u>
Beginning budgetary fund balance	\$ 482,289	\$ 482,289	\$ 423,565	\$ (58,724)
Resources (inflows)				
Taxes	743,399	743,399	784,166	40,767
Intergovernmental	14,375	14,375	13,648	(727)
Fines and forfeitures	255,382	255,382	163,032	(92,350)
Licenses and permits	5,200	5,200	5,337	137
Reimbursements	20,950	20,950	29,248	8,298
Fire runs	7,429	7,429	6,060	(1,369)
Rents	15,677	15,677	13,788	(1,889)
Investment income	3,875	3,875	2,994	(881)
Donations	-	-	7,689	7,689
Miscellaneous	3,278	3,278	14,489	11,211
Total resources (inflows)	<u>1,069,565</u>	<u>1,069,565</u>	<u>1,040,451</u>	<u>(29,114)</u>
Amounts available for appropriation	<u>1,551,854</u>	<u>1,551,854</u>	<u>1,464,016</u>	<u>(87,838)</u>
Charges to appropriations (outflows):				
Personal services	693,773	703,773	680,516	23,257
Materials and supplies	56,135	59,135	51,310	7,825
Other services	150,318	163,418	140,828	22,590
Capital outlay	23,250	54,906	40,776	14,130
Transfer to CPWA	200,000	200,000	181,843	18,157
Total charges to appropriations	<u>1,123,476</u>	<u>1,181,232</u>	<u>1,095,273</u>	<u>85,959</u>
Ending budgetary fund balance	<u>\$ 428,378</u>	<u>\$ 370,622</u>	<u>\$ 368,743</u>	<u>\$ (1,879)</u>

*Payments made on behalf of the Town by Mayes County are not budgeted

Footnotes to Budgetary Comparison Schedule:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfer appropriations require the Mayor's approval and supplemental appropriations require the Board of Trustee's approval.

SUPPLEMENTAL INFORMATION

TOWN OF CHOUTEAU, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Combining Balance Sheet (Modified Cash Basis) – Non-major Governmental Funds – June 30, 2011

	<u>Police Training</u>	<u>CDBG</u>	<u>Cemetery</u>	<u>Cemetery Care</u>	<u>Senior Citizens</u>	<u>Total Nonmajor Funds</u>
Assets:						
Cash and cash equivalents	\$ 53,795	\$ 1	\$ 18,312	\$ 8,896	\$ 12,801	\$ 93,805
Investments	-	-	25,995	-	-	25,995
	<u>\$ 53,795</u>	<u>\$ 1</u>	<u>\$ 44,307</u>	<u>\$ 8,896</u>	<u>\$ 12,801</u>	<u>\$ 119,800</u>
Fund Balance:						
Restricted	\$ -	\$ -	\$ -	\$ 8,896	\$ -	\$ 8,896
Unrestricted:						
Committed	40,885	1	15,000		5,000	60,886
Assigned	12,910	-	29,307		7,801	50,018
Unassigned	-	-	-	-	-	-
Total fund balance	<u>\$ 53,795</u>	<u>\$ 1</u>	<u>\$ 44,307</u>	<u>\$ 8,896</u>	<u>\$ 12,801</u>	<u>\$ 119,800</u>

The notes to the financial statements are an integral part of this statement

Combining Statement of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis) – Non-major Governmental Funds – Year ended June 30, 2011

	<u>Police Training</u>	<u>CDBG</u>	<u>Cemetery</u>	<u>Cemetery Care</u>	<u>Senior Citizens</u>	<u>Total Nonmajor Funds</u>
Revenues:						
Cemetery sales	\$ -	\$ -	\$ 10,040	\$ 1,434	\$ -	\$ 11,474
Motel tax	2,059	-	-	-	-	2,059
Grants	-	-	-	-	-	-
Donations	5,837	-	-	-	-	5,837
Rents	-	-	-	-	1,850	1,850
Other	3,402	-	74	-	1,102	4,578
Interest	246	-	353	-	-	599
Total Revenues	<u>11,544</u>	<u>-</u>	<u>10,467</u>	<u>1,434</u>	<u>2,952</u>	<u>26,397</u>
Expenditures:						
Public safety	37,255	-	-	-	-	37,255
Senior citizens	-	-	-	-	4,551	4,551
Cemetery	-	-	3,767	-	-	3,767
Total expenditures	<u>37,255</u>	<u>-</u>	<u>3,767</u>	<u>-</u>	<u>4,551</u>	<u>45,573</u>
Excess of revenues over expenditures	(25,711)	-	6,700	1,434	(1,599)	(19,176)
Other financing sources (uses):						
Transfer from other funds	31,656	-	-	-	-	31,656
Transfer to other funds	-	-	-	-	-	-
Net other financing sources (uses)	<u>31,656</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,656</u>
Net change in fund balance	5,945	-	6,700	1,434	(1,599)	12,480
Fund balance - beginning	47,850	1	37,607	7,461	14,401	107,320
Fund balance - ending	<u>\$ 53,795</u>	<u>\$ 1</u>	<u>\$ 44,307</u>	<u>\$ 8,895</u>	<u>\$ 12,802</u>	<u>\$ 119,800</u>

The notes to the financial statements are an integral part of this statement

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

Anne Marie Elfrink, MS, CPA

Certified Public Accountant

3119 E 87th Street
Tulsa, Oklahoma 74137

918-361-2133
Fax: 918-512-4280

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

Honorable Mayor and Board of Trustees
Town of Chouteau, Oklahoma

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chouteau, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town of Chouteau's basic financial statements and have issued my report thereon dated October 7, 2011. As discussed in Note 1, the Town of Chouteau, Oklahoma prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town of Chouteau, Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Chouteau, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Chouteau, Oklahoma's internal control over financial reporting.

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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Chouteau, Oklahoma's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such

an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of finding and response as item 2011-01.

I noted certain matters that I reported to management of Town of Chouteau, Oklahoma, in a separate letter dated October 7, 2011.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
October 7, 2011

SCHEDULE OF FINDING AND RESPONSE

This schedule is presented as an addendum to accompany the “*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*” for the year ended June 30, 2011 dated October 7, 2011. Consideration of the item listed should be made in conjunction with that report.

Finding 2011-01

Criteria - Title 11, Chapter 1, Article 17, Section 17-207 of the Oklahoma State Statutes requires that any monies received or expended by a municipality must be accounted for by fund and account. Each municipality shall adopt an appropriation for the general fund and for all other funds established by the governing body.

Condition – The Town did not adopt a budget for the Court Fund for the fiscal year ended June 30, 2011. Although the residual amount is transferred from the Court Fund to the General Fund and the transfer is included in the General Fund budget, the expenditures directly from the Court Fund are not from funds appropriated by the governing body.

Effect – The expenditures do not receive the oversight and review of the governing board that is required of municipalities in the State.

Recommendation- The Town adopt a budget for the Court Fund for fiscal year 2012 to reflect all activity. All Court expenditures should follow the same procedures for authorization, encumbrance, and review that other Town funds follow.

Management response - Management of the Town will recommend to the Board that the Court Fund be accounted for on the same system as the Town’s general ledger. A budget amendment for the General Fund will be presented to the Board that incorporates all actual and anticipated revenue and expense for the Municipal Court activity for fiscal year 2012. All expenditures from the Court Fund in fiscal 2012 to date will be presented to the Board for post-fact review and approval. All future expenditures will follow the same authorization, encumbrance, and review procedures as followed by other Town funds.