



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

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

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Brenda Cunningham	Member
Cecil Lane	Member
David Morgan	Member
Randy Grossman	Member
Frank Klucevsek	PWA Member at Large
Roy Ogden	PWA Member at large

Management

Donna Smith	Treasurer/Town Clerk (statutory)
Cherry Dry	Town Office Clerk
Juanita Rabbit	Utility Office Clerk
Mike Reese	Chief of Police
Nancy Suda	Municipal Court Clerk
Ted Key	Fire Chief
John Crowson, Jr	Utility Superintendent

Town Hall

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the Board of Trustees
Town of Chouteau, Oklahoma

I 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 Town of Chouteau, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town'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 1B; 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

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Chouteau, Oklahoma, as of June 30, 2016, and the

respective changes in the modified cash basis financial position, thereof for the year then ended in accordance with the basis of accounting as described in Note 1B.

Basis of Accounting

I draw attention to Note 1B 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. My opinion is not modified with respect to that matter.

Other Matters

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Chouteau, Oklahoma's basic financial statements. The budgetary comparison information and combining fund information on page 28 through 30, which is the responsibility of management, is presented for purposes of additional analysis and is 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, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated October 19, 2016, on my consideration of the Town of Chouteau, Oklahoma's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Chouteau, Oklahoma's internal control over financial reporting and compliance.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
October 19, 2016

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BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 601,019	\$ 510,971	\$ 1,111,990
Investments	301,212	850,665	1,151,877
Total current assets	<u>902,231</u>	<u>1,361,636</u>	<u>2,263,867</u>
Non-current assets			
Restricted assets:			
Debt service funds	-	168,820	168,820
Capital assets, net of depreciation	1,595,141	4,091,123	5,686,264
Total non-current assets	<u>1,595,141</u>	<u>4,259,943</u>	<u>5,855,084</u>
Total assets	<u>2,497,372</u>	<u>5,621,579</u>	<u>8,118,951</u>
Deferred outflows			
Loss on debt refunding	-	112,094	112,094
Liabilities:			
Current liabilities:			
Municipal bonds payable	1,534	-	1,534
Leases payable, current portion	21,320	-	21,320
Bonds payable, current portion	-	60,000	60,000
Note payable, current portion	-	74,000	74,000
Total current liabilities	<u>22,854</u>	<u>134,000</u>	<u>156,854</u>
Noncurrent liabilities			
Meter deposit liability	-	100,051	100,051
Leases payable, noncurrent	53,244	-	53,244
Bonds payable, noncurrent	-	215,000	215,000
Note payable, noncurrent	-	3,204,000	3,204,000
Total noncurrent liabilities	<u>53,244</u>	<u>3,519,051</u>	<u>3,572,295</u>
Total liabilities	<u>76,098</u>	<u>3,653,051</u>	<u>3,729,149</u>
Net Position:			
Net investment in capital assets	1,520,577	650,217	2,170,794
Restricted for debt service	-	168,820	168,820
Restricted for legal constraints	109,167	-	109,167
Unrestricted	791,530	1,261,585	2,053,115
Total net position	<u>\$ 2,421,274</u>	<u>\$ 2,080,622</u>	<u>\$ 4,501,896</u>

See accompanying notes to the basic financial statements.

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

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Position</u>		
		<u>Charges for Services</u>	<u>Capital Grants</u>	<u>Operating Grants</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government:							
Governmental activities:							
General government	\$ 164,739	\$ 31,148	\$ -	\$ -	\$ (133,591)	\$ -	\$ (133,591)
Public safety	1,056,694	297,389	59,726	4,290	(695,289)	-	(695,289)
Parks and recreation	1,979	-	-	-	(1,979)	-	(1,979)
Streets	64,051	-	-	-	(64,051)	-	(64,051)
Senior citizens	1,697	1,000	-	-	(697)	-	(697)
Legal	18,639	-	-	-	(18,639)	-	(18,639)
Cemetery	5,672	13,150	-	-	7,478	-	7,478
Inspections	7,111	-	-	-	(7,111)	-	(7,111)
Total governmental activities	1,320,582	342,687	59,726	4,290	(913,879)	-	(913,879)
Business-type activities	1,415,549	1,126,855	-	-	-	(288,694)	(288,694)
Total primary government	\$ 2,736,131	\$ 1,469,542	\$ 59,726	\$ 4,290	\$ (913,879)	\$ (288,694)	\$ (1,202,573)
General revenues:							
Taxes:							
Sales and use					1,157,348	-	1,157,348
Franchise					45,151	-	45,151
Intergovernmental					47,932	-	47,932
Miscellaneous					28,576	-	28,576
Donations					24,955	-	24,955
Transfers - cash					(336,219)	336,219	-
Gain on disposal of assets					24,472	-	24,472
Investment income					2,370	3,764	6,134
Total general revenues					994,585	339,983	1,334,568
Change in net position					80,706	51,289	131,995
Net position - beginning					2,340,568	2,029,333	4,369,901
Net position - ending					\$ 2,421,274	\$ 2,080,622	\$ 4,501,896

See accompanying notes to the basic financial statements.

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

	General Fund	Court Fund	Special Fire Fund	Street and Alley Fund	Other Governmental Funds	Total Governmental Funds
Assets:						
Cash and cash equivalents	\$ 377,233	\$ 16,024	\$ 31,234	\$ 99,694	\$ 76,834	\$ 601,019
Investments	282,193	-	-	-	19,019	301,212
Total assets	<u>\$ 659,426</u>	<u>\$ 16,024</u>	<u>\$ 31,234</u>	<u>\$ 99,694</u>	<u>\$ 95,853</u>	<u>\$ 902,231</u>
Liabilities and fund balances:						
Liabilities:						
Municipal bonds payable	\$ -	\$ 1,534	\$ -	\$ -	\$ -	\$ 1,534
Total liabilities	<u>-</u>	<u>1,534</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,534</u>
Fund Balance:						
Restricted						
Street and alley purpose	-	-	-	99,694	-	99,694
Cemetery purpose	-	-	-	-	9,473	9,473
Unrestricted:						
Committed - budgetary	-	-	13,785	-	3,160	16,945
Assigned - budgetary	163,959	16,080	-	-	-	180,039
Assigned - special purpose	-	-	17,449	-	83,220	100,669
Unassigned	495,467	(1,590)	-	-	-	493,877
Total fund balances	<u>659,426</u>	<u>14,490</u>	<u>31,234</u>	<u>99,694</u>	<u>95,853</u>	<u>900,697</u>
Total liabilities and fund balances	<u>\$ 659,426</u>	<u>\$ 16,024</u>	<u>\$ 31,234</u>	<u>\$ 99,694</u>	<u>\$ 95,853</u>	<u>\$ 902,231</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, 2016

	General Fund	Court Fund	Special Fire Fund	Street and Alley Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Sales/use tax	\$ 1,157,348	\$ -	\$ -	\$ -	\$ -	\$ 1,157,348
Franchise tax	1,913	-	-	32,092	-	34,005
Motel tax	432	-	1,943	-	8,771	11,146
Gasoline tax	-	-	-	3,926	-	3,926
Motor vehicle tax	-	-	-	15,229	-	15,229
Cigarette tax	12,926	-	-	-	-	12,926
Alcoholic beverage tax	15,852	-	-	-	-	15,852
Mayes County - fire	59,726	-	-	-	-	59,726
Rents	23,078	-	-	-	1,000	24,078
Grants	-	-	4,290	-	-	4,290
Licenses and permits	7,279	-	-	-	-	7,279
Fire service	33,150	-	12,015	-	-	45,165
Fines and forfeitures	-	251,838	-	-	-	251,838
Cemetery sales	-	-	-	-	13,150	13,150
Donations	230	-	24,725	-	5,056	30,011
Library	791	-	-	-	-	791
Other	60,280	-	-	16	6,477	66,773
Interest	1,856	39	93	206	177	2,371
Total Revenues	1,374,861	251,877	43,066	51,469	34,631	1,755,904
Expenditures:						
General government	152,324	-	-	-	-	152,324
Public safety	885,695	65,581	42,165	-	39,952	1,033,393
Parks and recreation	1,563	-	-	-	-	1,563
Streets	-	-	-	53,273	-	53,273
Senior citizens	-	-	-	-	1,697	1,697
Legal	18,640	-	-	-	-	18,640
Cemetery	-	-	-	-	14,907	14,907
Inspections	7,111	-	-	-	-	7,111
Total expenditures	1,065,333	65,581	42,165	53,273	56,556	1,282,908
Excess (deficiency) of revenues over expenditures	309,528	186,296	901	(1,804)	(21,925)	472,996
Other financing sources (uses):						
Transfer from other funds	160,822	-	-	-	27,722	188,544
Transfer to other funds	(336,219)	(188,544)	-	-	-	(524,763)
Net other financing sources (uses)	(175,397)	(188,544)	-	-	27,722	(336,219)
Net change in fund balance	134,131	(2,248)	901	(1,804)	5,797	136,777
Fund balance - beginning	525,295	16,738	30,333	101,498	90,056	763,920
Fund balance - ending	\$ 659,426	\$ 14,490	\$ 31,234	\$ 99,694	\$ 95,853	\$ 900,697

See accompanying notes to the basic financial statements.

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund balances of governmental funds **\$ 900,697**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities of \$2,568,170, net of accumulated depreciation of \$973,029 are not financial resources and, therefore, are not reported in the funds. 1,595,141

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund financial statements. (74,564)

Net assets of governmental activities **\$ 2,421,274**

Net changes in fund balances - total governmental funds **\$ 136,777**

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 purchased with cash	17,616
Book value of disposed assets	(18,219)
Depreciation expense	(97,433)
	<u>(98,036)</u>

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.
Principal payments on long term debt 41,965

Change in net position of governmental activities **\$ 80,706**

See accompanying notes to the basic financial statements.

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

	Chouteau Public Works Authority
Assets	
Current assets:	
Cash and cash equivalents	\$ 510,971
Investments	850,665
Total current assets	1,361,636
Noncurrent assets:	
Restricted debt service funds	168,820
Net investment in capital assets	4,091,123
Total noncurrent assets	4,259,943
Total assets	\$ 5,621,579
Deferred Outflows	
Loss on debt refunding	\$ 112,094
Liabilities	
Current liabilities:	
Bonds payable - current portion	\$ 60,000
Note payable - current portion	74,000
Total current liabilities	134,000
Noncurrent Liabilities:	
Meter deposit liability	100,051
Bonds payable - noncurrent portion	215,000
Note payable - noncurrent portion	3,204,000
Total noncurrent liabilities	3,519,051
Total liabilities	3,653,051
Net Position	
Net investment in capital assets	650,217
Restricted for debt service	168,820
Unrestricted	1,261,585
Total net position	\$ 2,080,622

See accompanying notes to the basic financial statements.

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

	Chouteau Public Works Authority
Operating revenues:	
Charges for sales and services:	
Natural gas	\$ 330,892
Water	364,319
Sewer	194,474
Sanitation	180,943
Other	56,227
Total operating revenues	1,126,855
Operating expenses:	
Personal services	425,539
Natural gas and transportation	117,763
Water purchases	195,637
Sanitation contractor	161,641
Professional fees	5,170
Insurance	21,101
Repairs and maintenance	92,466
License, permits and dues	3,683
Training	1,479
Office	18,681
Other expense	27,543
Utilities and telephone	32,844
Depreciation	211,417
Total operating expenses	1,314,964
Operating loss	(188,109)
Nonoperating revenue (expense):	
Transfer from primary government	336,219
Interest and fees expense	(95,117)
Loss on disposition of asset	-
Amortization of debt refunding deferred loss	(5,468)
Investment income	3,764
Total nonoperating revenue (expense)	239,398
Change in net position	51,289
Net position - beginning	2,029,333
Net position - ending	\$ 2,080,622

See accompanying notes to the basic financial statements.

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

	Chouteau Public Works Authority
Cash flows from operating activities:	
Receipts from customers	\$ 1,131,154
Payments to suppliers	(678,008)
Payments to employees	(425,539)
Net cash provided by operating activities	27,607
Cash flows from noncapital financing activities:	
Transfers from other funds	336,219
Net cash flows from noncapital financing activities	336,219
Cash flows from capital and related financing activities:	
Purchases of capital assets	(47,619)
Principal paid on capital debt	(137,000)
Increase in restricted debt service funds	(45,781)
Interest and fees paid on capital debt	(96,689)
Net cash used in capital and related financing activities	(327,089)
Cash flows from investing activities	
Investment and dividends	910
Proceeds from sale and maturity of investments	53,077
Purchases of investments	(53,071)
Net cash provided by investing activities	916
Net decrease in cash and cash equivalents	37,653
Cash and equivalents - beginning of year	473,318
Cash and equivalents - end of year	\$ 510,971
Reconciliation of operating income to net cash provided:	
Operating loss	(188,109)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in meter deposit liability	4,299
Depreciation expense	211,417
Net cash used in operating activities	\$ 27,607

See accompanying notes to the basic financial statements.

NOTES 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.

On April 14, 2014, the Town created the following entity which reports its activity in a separate financial report that may be found at www.sai.ok.gov, The Oklahoma State Auditor and Inspector's website:

- **The Chouteau Educational Facilities Authority** – a trust created to furnish the Town with services and facilities, promote local industrial development, and provide cultural and educational facilities. The Town of Chouteau is the beneficiary of CEFA. The Authority is managed by a Board of Trustees made up of the members of the Town Board of Trustees.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net position and activities is 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: Interment 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 interments, 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 interments, 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 Fund:

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 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.

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 position

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 position:

Net position is 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 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 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 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 Town recognized \$6,134 of investment income. At June 30, 2016, the primary government held the following deposits and investments:

<u>Type</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Carrying Value</u>
Demand deposits	\$ 601,019	\$ 559,896	\$ 1,160,915
Time deposits - certificates of deposit	301,212	850,665	1,151,877
Short term US Treasuries Money Market Fund	-	119,895	119,895
Total deposits	902,231	1,530,456	2,432,687

Reconciliation to the statement of net position:

Cash and cash equivalents	\$ 601,019	\$ 559,896	\$ 1,160,915
Investments	301,212	850,665	1,151,877
Restricted cash and cash equivalents	-	119,895	119,895
Total	\$ 902,231	\$ 1,530,456	\$ 2,432,687

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, 2016 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, 2016, 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, 2016, the Town did not hold any securities with credit ratings.

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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 Town (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 Town has no policy regarding concentration of credit risk.

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

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

3. Capital Assets and Depreciation

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

	Balance at <u>June 30, 2015</u>	<u>Additions</u>	<u>Disposals</u>	Balance at <u>June 30, 2016</u>
Governmental:				
Capital assets not being depreciated:				
Land	\$ 52,200	\$ -	\$ -	\$ 52,200
Capital assets being depreciated:				
Buildings	893,355	-	-	893,355
Infrastructure	159,248	-	-	159,248
Equipment	1,400,048	105,772	42,453	1,463,367
Total capital assets being depreciated	<u>2,452,651</u>	<u>105,772</u>	<u>42,453</u>	<u>2,515,970</u>
Less accumulated depreciation:				
Buildings	268,872	14,845	-	283,717
Infrastructure	47,704	10,778	-	58,482
Equipment	583,077	71,810	24,057	630,830
Total accumulated depreciation	<u>899,653</u>	<u>97,433</u>	<u>24,057</u>	<u>973,029</u>
Governmental, net capital assets	<u>\$ 1,605,198</u>	<u>\$ 8,339</u>	<u>\$ 18,396</u>	<u>\$ 1,595,141</u>
Business-type				
Capital assets not being depreciated:				
Land	\$ 27,500	\$ -	\$ -	\$ 27,500
Capital assets being depreciated:				
Buildings	112,432	4,589	-	117,021
Infrastructure	7,535,169	13,000	-	7,548,169
Equipment	349,625	30,030	9,990	369,665
Total capital assets being depreciated	<u>7,997,226</u>	<u>47,619</u>	<u>9,990</u>	<u>8,034,855</u>
Less accumulated depreciation				
Buildings	101,350	3,253	-	104,603
Infrastructure	3,458,881	185,433	-	3,644,314
Equipment	209,574	22,731	9,990	222,315
Total accumulated depreciation	<u>3,769,805</u>	<u>211,417</u>	<u>9,990</u>	<u>3,971,232</u>
Business-type, net capital assets	<u>\$ 4,254,921</u>	<u>\$ (163,798)</u>	<u>\$ -</u>	<u>\$ 4,091,123</u>

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

Governmental activities:		Business-type activities:	
Finance	\$ 12,371	Gas	\$ 16,587
Public safety	69,732	Sewer	151,911
Streets and alleys	10,778	Water	23,003
Cemetery	4,136	General utility	19,916
Parks and recreation	416		
Total depreciation	<u>\$ 97,433</u>	Total depreciation	<u>\$ 211,417</u>

4. Long-Term Debt and Debt Service Requirements

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

	<u>Balance</u> <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Amount Due</u> <u>Within One Year</u>
Business-type:					
OWRB refunding SRF loan	3,360,000	-	82,000	3,278,000	74,000
Utility system revenue bonds	330,000	-	55,000	275,000	60,000
	<u>\$ 3,690,000</u>	<u>\$ -</u>	<u>\$ 137,000</u>	<u>\$ 3,553,000</u>	<u>\$ 134,000</u>
Governmental Activities:					
Bank of Commerce vehicle notes	<u>\$ 28,550</u>	<u>\$ 87,979</u>	<u>\$ 41,965</u>	<u>\$ 74,564</u>	<u>\$ -</u>

At June 30, 2016 the Town had the following debt outstanding, arising from cash transactions, to be repaid from governmental activities:

Note payable to Bank of Commerce, dated July 15, 2015, in the amount of \$48,713 with an interest rate of 3.75%, secured by 2 police vehicles. The remaining amount is scheduled to be paid in monthly installments of \$1,095 with a final payment due July 15, 2019	<u>\$ 38,190</u>
Note payable to Bank of Commerce, dated February 10, 2016, in the amount of \$39,266 with an interest rate of 3.75%, secured by a fire vehicle. The remaining amount is scheduled to be paid in monthly installments of \$886 with a final payment due February 10, 2020	<u>36,374</u>
Total to be repaid from governmental activities	<u>\$ 74,564</u>

At June 30, 2016 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%. The remaining un-refunded amount is scheduled to be paid in annual installments with a final payment of \$80,000 due November 1, 2019	<u>\$ 275,000</u>
OWRB Refunding Loan Series 2013 payable to the Oklahoma Water Resources Board as part of the Clean Water State Revolving Fund loan program (CWSRF), dated March 15, 2013, in the amount of \$3,513,000, due in semi-annual installments with a final Installment due September 15, 2036 in the amount of \$110,000. The note is secured by water, sewer, sanitation, and gas revenues, the proceeds of a one cent sales tax, and a mortgage on the water and sewer systems and is subordinate to the revenue bonds.	<u>3,278,000</u>
Total to be repaid from governmental activities	<u>\$3,553,000</u>

Payment Requirements to Maturity:

Year ended <u>June 30,</u>	Business-type activities		Governmental Activities	
	Principal	Interest	Principal	Interest
2017	\$ 134,000	\$ 89,267	\$ 21,320	\$ 2,449
2018	136,000	84,714	22,139	1,629
2019	149,000	79,762	22,991	779
2020	150,000	74,320	8,114	103
2021	112,000	68,278	-	-
2022 to 2026	819,000	289,209	-	-
2027 to 2031	917,000	190,020	-	-
2032 to 2036	1,026,000	78,897	-	-
2037	110,000	1,276	-	-
Total	<u>\$ 3,553,000</u>	<u>\$ 955,743</u>	<u>\$ 74,564</u>	<u>\$ 4,960</u>

5. 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. The OWRB refunding loan requires the Authority to maintain a debt coverage ratio of 125% utilizing the same calculation methodology described above.

Ratio of net revenue to debt service:	
Operating revenue	\$ 1,126,855
Sales tax appropriations	236,219
Operating expenses	(1,314,964)
Depreciation	211,417
Investment income	3,764
Revenue available for debt service	<u>\$ 263,291</u>
Annual debt service	<u>\$ 223,267</u>
Coverage ratio	1.18 to 1

6. 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. At June 30, 2016 OMAG reported an escrow balance related to the Worker's Compensation Plan of \$17,451 and a loss fund reserve of \$17,107.

7. 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 2016, the Town's annual required contribution was \$5,246 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	9% of covered payroll
Town's contribution rate	14% 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

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 6%. The Town's contributions are vested at the rate of 20% per year. Forfeited non-vested amounts reduce the employer's contributions. For the year ended June 30, 2016, the Town contributed \$8,618 which was equal to its required contribution.

Prior to July 1, 1993 Town employees participated in a Defined Benefit plan. At January 1, 2016, there were 2 retirees and no active employees covered by the plan. The actuarially determined present value of benefits at that time was \$15,017 and the funding deficiency was \$330, requiring the Town to make payments of \$82 per year for the next 5 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. Compensated Absences

Full time employees accrue vacation days per year as follows:

After first anniversary year	5 days
Calendar years 2-4	10 days
Calendar years 5-10	15 days
Calendar years 11-15	20 days
Calendar years 16-20	25 days
Calendar years 21+	30 days

Employees are not permitted to carry vacation accruals forward from one calendar year to the next, but are paid for any unforfeited and unused days upon termination. Full time employees also accrue paid sick leave at the rate of 5 days per year, not to exceed 60 days, and are paid for unused leave upon termination. The Town does not report a liability for compensated absences in its financial statement and the value of the accruals has not been calculated as of June 30, 2016.

8. Commitments and Contingencies

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.

9. Cooperative Agreements and In-Kind Services

Maintenance of Streets and Alleys:

The Town has 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.

10. Subsequent Events

Management evaluated events and transactions that occurred after the balance sheet date for potential recognition and disclosure through October 19, 2016, the date on which the financial statements were available to be issued, and has determined that no additional disclosures are necessary.

OTHER INFORMATION

Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2016 - UNAUDITED

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning budgetary fund balance	\$ 226,000	\$ 326,000	\$ 525,295	\$ 199,295
Resources (inflows)				
Taxes	938,030	938,030	1,159,261	221,231
Intergovernmental	26,800	26,800	29,210	2,410
Licenses and permits	6,300	6,300	7,279	979
Fire runs	26,000	26,000	33,150	7,150
Rents	3,300	3,300	23,078	19,778
Investment income	450	450	1,856	1,406
Donations	200	7,378	230	(7,148)
Miscellaneous	28,650	28,650	61,071	32,421
Transfer from court fund	170,800	170,800	160,822	(9,978)
Total resources (inflows)	<u>1,200,530</u>	<u>1,207,708</u>	<u>1,475,957</u>	<u>268,249</u>
Amounts available for appropriation	<u>1,426,530</u>	<u>1,533,708</u>	<u>2,001,252</u>	<u>467,544</u>
Charges to appropriations (outflows):				
General government	160,410	266,210	152,324	113,886
Public safety	794,385	840,076	825,969	14,107
Parks and recreation	13,700	13,700	1,563	12,137
Legal	17,000	19,000	18,640	360
Inspections	7,800	7,800	7,111	689
Transfers to CPWA	222,000	347,000	336,219	10,781
Total charges to appropriations	<u>1,215,295</u>	<u>1,493,786</u>	<u>1,341,826</u>	<u>151,960</u>
Ending budgetary fund balance	<u>\$ 211,235</u>	<u>\$ 39,922</u>	<u>\$ 659,426</u>	<u>\$ 619,504</u>

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.

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

	Police Training	CDBG	Cemetery	Cemetery Care	Senior Citizens	Total Nonmajor Funds
Assets:						
Cash and cash equivalents	\$ 38,451	\$ 1	\$ 24,401	\$ 9,473	\$ 4,508	\$ 76,834
Investments	-	-	19,019	-	-	19,019
Total assets	\$ 38,451	\$ 1	\$ 43,420	\$ 9,473	\$ 4,508	\$ 95,853
Fund Balance:						
Restricted	\$ -	\$ -	\$ -	\$ 9,473	\$ -	\$ 9,473
Unrestricted:						
Committed - budgetary	-	-	2,160	-	1,000	3,160
Assigned - special revenue	38,451	1	41,260	-	3,508	83,220
Total fund balance	\$ 38,451	\$ 1	\$ 43,420	\$ 9,473	\$ 4,508	\$ 95,853

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

	Police Training	CDBG	Cemetery	Cemetery Care	Senior Citizens	Total Nonmajor Funds
Revenues:						
Cemetery sales	\$ -	\$ -	\$ 11,506	\$ 1,644	\$ -	\$ 13,150
Motel tax	8,771	-	-	-	-	8,771
Donations	-	-	5,056	-	-	5,056
Rents	-	-	-	-	1,000	1,000
Other	6,477	-	-	-	-	6,477
Interest	78	-	99	-	-	177
Total Revenues	<u>15,326</u>	<u>-</u>	<u>16,661</u>	<u>1,644</u>	<u>1,000</u>	<u>34,631</u>
Expenditures:						
Public safety	39,952	-	-	-	-	39,952
Senior citizens	-	-	-	-	1,697	1,697
Cemetery	-	-	14,863	44	-	14,907
Total expenditures	<u>39,952</u>	<u>-</u>	<u>14,863</u>	<u>44</u>	<u>1,697</u>	<u>56,556</u>
Excess of revenues over expenditures	(24,626)	-	1,798	1,600	(697)	(21,925)
Other financing sources:						
Transfer from other funds	27,722	-	-	-	-	27,722
Net change in fund balance	<u>3,096</u>	<u>-</u>	<u>1,798</u>	<u>1,600</u>	<u>(697)</u>	<u>5,797</u>
Fund balance - beginning	35,355	1	41,622	7,873	5,205	90,056
Fund balance - ending	<u>\$ 38,451</u>	<u>\$ 1</u>	<u>\$ 43,420</u>	<u>\$ 9,473</u>	<u>\$ 4,508</u>	<u>\$ 95,853</u>

**INDEPENDENT AUDITOR'S REPORT ON CONTROL AND
COMPLIANCE**

Anne Marie Elfrink, MS, CPA

Member AICPA, OSCP, GFOA

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 modified cash basis 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, 2016, which collectively comprise the Town of Chouteau's basic financial statements and have issued my report thereon dated October 19, 2016. As discussed in Note 1B, the Town 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. 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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. During my audit I identified a deficiency in internal control that I consider to be a material weakness as follows in the schedule of finding and management responses as 2016-01. Given the limitation discussed above, other material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of finding and management response as item 2016-01.

Purpose of This Report

The purpose of this report is solely to describe the scope of my 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.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
October 19, 2016

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”*. Consideration of items listed should be made in conjunction with that report.

2016-01 – Debt Service Coverage Ratio

CONDITION: The Chouteau Public Works Authority (CPWA) failed to maintain a sufficient schedule of charges, fees, and rates to produce net revenues in compliance with its debt covenants. This is continued from the prior year, however an improvement is noted from 97% coverage in the fiscal year ended June 30, 2015 to a 118% coverage in the current fiscal year. An additional \$15,795 of net revenue was needed to meet the minimum coverage of 125%, which could have been accomplished by an increase in revenue and/or a decrease in expense.

CRITERIA: The Oklahoma Water Resources Board (OWRB) refunding loan requires the Chouteau Public Works Authority (CPWA) to maintain a schedule of charges, fees, and rates sufficient to produce net revenues not less than 125% of the actual principal and interest requirements on its debt after payment of all operating and maintenance expenses excluding depreciation.

CAUSE OF CONDITION: Although the CPWA did initiate an increase in water and gas rates in the current year, the rates were insufficient to meet the requirements. In addition, a significant water leak was undetected for billing month of July 2015. The water supplier noted a spike when the July bill was printed and notified the Town. The bill appeared to be as much as \$17,000 higher (when compared to adjacent months) than it would have been had the leak not occurred.

POTENTIAL EFFECT OF CONDITION: The CPWA could be in violation of its debt covenants.

RECOMMENDATION: Projections for natural gas sales and rates will need to be monitored more closely during the year. The CPWA Board may need to consider a change in the rate structure and/or an increase in one or more rates to assure that the CPWA meets its debt covenant requirements. The CPWA should log daily master meter reads to assist in identifying spikes in usage prior to a significant loss occurring.

RESPONSE: The CPWA management is aware of this issue and will monitor activity more closely in the coming year.