

AUDIT REPORT
TOWN OF MILLERTON, OKLAHOMA
JUNE 30, 2016



KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

TOWN OF MILLERTON, OKLAHOMA
JUNE 30, 2016

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TOWN OF MILLERTON, OKLAHOMA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2016

BOARD OF TRUSTEES

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
BUCK IRWIN	MAYOR	2019
RANDY COGBURN	TRUSTEE	2017
PAM REICH	TRUSTEE	2019
MICKY HALL	TRUSTEE	2019
DON MCCURRY	TRUSTEE	2017
LINDA ENDSLEY	CLERK/TREASURER	2019

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Millerton, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Millerton, Oklahoma, as of and for the fiscal 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 1. 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves 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 Town'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 Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of

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accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The Town has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the Governmental & Business-Type Activities is not readily determinable.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Town of Millerton, Oklahoma, as of June 30, 2016, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

The introductory and supplementary sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Town. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on such information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016, on our consideration of the Town of

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Millerton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Town of Millerton's internal control over financial reporting and compliance.

Basis of Accounting

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

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

December 7, 2016

TOWN OF MILLERTON, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	2016 Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$ 25,915	\$ 2,368	\$ 28,282
Restricted Cash & Cash Equivalents	-	6,217	6,217
Investments	-	10,155	10,155
Due from other governments	-	-	-
Capital assets:			
Land and construction-in-progress	15,386	11,677	27,063
Other capital assets, net of Accum. Depr.	78,942	858,970	937,912
TOTAL ASSETS	120,242	889,386	1,009,629
<u>LIABILITIES</u>			
Note Payable - Short-Term	-	-	-
Due to Depositors	-	6,200	6,200
Long-term liabilities:			
Due within one year	-	11,016	11,016
Due in more than one year	-	41,334	41,334
TOTAL LIABILITIES	-	58,550	58,550
<u>NET POSITION</u>			
Net investment in capital assets	94,328	818,297	912,625
Restricted for:			
Debt Service	-	10,155	10,155
Other Purposes	4,432	-	4,432
Unrestricted	21,482	2,384	23,866
TOTAL NET POSITION	\$ 120,242	\$ 830,836	\$ 951,078

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MILLERTON, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental activities:					
General Government	\$ 27,933	\$ -	\$ -	\$ 11,866	\$ (16,066)
Fire Department	13,224	-	4,290	-	(8,934)
Streets	5,155	-	-	-	(5,155)
Depreciation	17,420	-	-	-	(17,420)
Total Governmental Activities	63,732	-	4,290	11,866	(47,575)
Business-type activities:					
Sewer	75,654	39,124	-	-	(36,530)
Total Business-type Activities	75,654	39,124	-	-	(36,530)
Total	\$ 139,385	\$ 39,124	\$ 4,290	\$ 11,866	\$ (84,105)

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (47,575)	\$ (36,530)	\$ (84,105)
General revenues:			
Taxes:			
Sales Tax	24,771	-	24,771
Use Tax	1,417	-	1,417
Tobacco Tax	300	-	300
Franchise Tax	4,911	-	4,911
Intergovernmental:			
Alcoholic Beverage Tax	5,362	-	5,362
Gasoline Excise Tax	597	-	597
Motor Vehicle Tax	2,297	-	2,297
Interest and Investment Income	41	202	244
Other Revenues	5,097	-	5,097
Transfers - Internal Activity	(4,095)	4,095	-
Total general revenues & transfers	40,698	4,297	44,995
Changes in net position	(6,877)	(32,233)	(39,110)
Net position - beginning	127,120	863,069	990,189
Net position - prior year adjustment	-	-	-
Net position - ending	\$ 120,242	\$ 830,836	\$ 951,078

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF MILLERTON, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General Fund	Street & Alley Fund	Grant Fund	Total Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents - Unrestricted	\$ 8,616	\$ 4,432	\$ 12,866	\$ 25,915
Investments	-	-	-	-
Due from General Fund	-	-	-	-
Due from other governments	-	-	-	-
TOTAL ASSETS	\$ 8,616	\$ 4,432	\$ 12,866	\$ 25,915
<u>LIABILITIES & FUND EQUITY</u>				
LIABILITIES:				
Due to Other Governments	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	-	4,432	-	4,432
Committed	-	-	-	-
Assigned	-	-	12,866	12,866
Unassigned	8,616	-	-	8,616
TOTAL FUND BALANCES	8,616	4,432	12,866	25,915
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,616	\$ 4,432	\$ 12,866	

Reconciliation to Statement of Net Position:

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

Capital assets used in governmental activities of \$345,999, net of accumulated depreciation of \$251,672, are not financial resources and, therefore, are not reported in the funds.	94,328
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Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	-
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Net Position of Governmental Activities	\$ 120,242
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See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MILLERTON, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	Street & Alley Fund	Grant Fund	Total Governmental Funds
REVENUES:				
Taxes:				
Sales Tax	\$ 24,771	\$ -	\$ -	\$ 24,771
Use Tax	1,417	-	-	1,417
Tobacco Tax	300	-	-	300
Franchise Tax	4,911	-	-	4,911
Intergovernmental:				
Alcoholic Beverage Tax	5,362	-	-	5,362
Gasoline Excise Tax	-	597	-	597
Motor Vehicle Tax	-	2,297	-	2,297
Grants	4,290	-	11,866	16,156
Fees and Other Revenues	-	-	-	-
Miscellaneous Income & Donations	5,091	5	-	5,097
Interest Revenue	33	9	-	41
TOTAL REVENUES	46,175	2,908	11,866	60,949
EXPENDITURES:				
Personal Services	9,715	-	-	9,715
Maintenance & Operations:				
General Government	18,218	5,155	-	23,373
Public Safety - Fire	13,224	-	-	13,224
Capital Outlay	-	-	-	-
Capital Outlay - Fire	-	-	-	-
Debt Service Principal	-	-	-	-
Debt Service Interest	-	-	-	-
TOTAL EXPENDITURES	41,156	5,155	-	46,311
EXCESS OF REVENUES OVER (UNDER)				
EXPENDITURES	5,019	(2,247)	11,866	14,638
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	4,095	-	4,095
Operating Transfers Out	(8,190)	-	-	(8,190)
Capital Debt Proceeds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(8,190)	4,095	-	(4,095)
NET CHANGES IN FUND BALANCES	(3,171)	1,848	11,866	10,543
FUND BALANCE - BEGINNING OF YEAR	11,787	2,585	1,000	15,372
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 8,616	\$ 4,432	\$ 12,866	25,915

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF MILLERTON, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds	\$	10,543
 Amounts reported for governmental activities in the Statement of Activities are different because:		
 Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:		
Capital debt obligation principal payments		-
 Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:		
Capital Debt Proceeds		-
 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		-
Depreciation expense		(17,420)
		(17,420)
Change in Net Position of Governmental Activities	\$	(6,877)
		(6,877)

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF MILLERTON, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2016**

	<u>Millerton Public Works Authority Enterprise Fund June 30, 2016</u>
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 2,368
Due from other governments	-
Total Current Assets	2,368
Noncurrent Assets:	
Restricted cash and cash equivalents	6,217
Investments	10,155
Land and construction-in-progress	11,677
Other capital assets, net of accumulated depreciation	858,970
Total Noncurrent Assets	887,019
TOTAL ASSETS	889,386
<u>LIABILITIES & FUND EQUITY</u>	
Current Liabilities:	
Note Payable - MCNB	-
Customer Deposits	6,200
Notes Payable - Current Portion	11,016
Total Current Liabilities	17,216
Noncurrent Liabilities:	
Notes Payable	52,350
Less: Notes Payable - Current Portion	(11,016)
Total Noncurrent Liabilities	41,334
TOTAL LIABILITIES	58,550
NET POSITION:	
Net investment in capital assets	818,297
Restricted for debt service & other purposes	10,155
Unrestricted	2,384
TOTAL NET POSITION	\$ 830,836

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MILLERTON, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Millerton Public Works Authority Enterprise Fund June 30, 2016
<u>OPERATING REVENUES:</u>	
Charges for services:	
Sewer Charges	\$ 38,624
Miscellaneous	500
TOTAL OPERATING REVENUES	39,124
<u>OPERATING EXPENSES:</u>	
Salaries & Related Expenses	13,373
Insurance	5,936
Office Expense	1,024
Professional Fees	3,250
Licenses, Fees & Testing	1,680
Utilities	3,156
Repairs & Maintenance	4,925
Sewer Billing Fees	-
Other Misc. Sewer	-
Depreciation	39,503
TOTAL OPERATING EXPENSES	72,847
NET OPERATING INCOME (LOSS)	(33,723)
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	202
Interest Expense	(2,807)
Grant Income - DOC	-
Grant Income - OWRB	-
TOTAL NON-OPERATING REVENUES (EXPENSES)	(2,604)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(36,328)
Transfers in	4,095
Transfers out	-
CHANGE IN NET POSITION	(32,233)
TOTAL NET POSITION - BEGINNING	863,069
TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT	-
TOTAL NET POSITION - ENDING	\$ 830,836

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF MILLERTON, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>June 30, 2016</u>
<u>Cash Flows from Operating Activities:</u>	
Receipts from Customers	\$ 39,124
Other Receipts	-
Payments to Suppliers & Laborers for Goods & Services	(33,344)
Other Operating Payments	-
Net Change in Customer Deposits	-
	<hr/>
Net Cash Provided (Used) by Operating Activities	5,780
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Transfers to other funds	-
Transfers from other funds	4,095
	<hr/>
Net Cash Provided (Used) by Non-Capital Financing Activities	4,095
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Capital grant received for construction of capital assets	(10,430)
Additions to Capital Assets	-
Proceeds from sale of Capital Assets	-
Loan Proceeds received	7,500
Principal paid on Notes Payable	(9,925)
Interest paid	(2,807)
	<hr/>
Net Cash Provided (Used) by Capital & Related Financing Activities	(15,662)
<u>Cash Flows from Investing Activities:</u>	
Change in Investments	4,000
Interest earned	202
	<hr/>
Net Cash Provided (Used) by Investing Activities	4,202
Net Increase (Decrease) in Cash and Cash Equivalents	(1,585)
Cash & Cash Equivalents, Beginning of Year	10,169
Cash & Cash Equivalents, Prior Year Adjustment	-
	<hr/>
Cash & Cash Equivalents, End of Year	<u>\$ 8,584</u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ (33,723)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	39,503
Increase(Decrease) in Customer Deposits	-
	<hr/>
Net Cash Provided (Used) by Operating Activities	<u>\$ 5,780</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. FINANCIAL REPORTING ENTITY

The Town's financial reporting entity is comprised of the following:

Primary Government:	Town of Millerton
Blended Component Units:	Millerton Public Works Authority (MPWA)

PRIMARY GOVERNMENT

The Town of Millerton, Oklahoma is a "Statutory Town Government" under Title 11 of the Oklahoma Statutes.

The Town provides the following services: Public safety streets and highways, sanitation, public improvements, and general administrative services. The Millerton Public Works Authority (Enterprise Fund) provides sewer services. The Millerton Public Works Authority is a public trust created under authority of Title 60 Oklahoma Statutes.

The Town's financial statements were prepared upon the standards established by GASB-34, which provides for two levels of financial statements: fund financial statements and government-wide financial statements.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit's governing body is the

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

same or substantially the same as the Town Council, and there is a financial benefit or burden relationship with the Town, or Town management has operational responsibility for the component unit; (b) the component unit provides services entirely or almost entirely to the Town; or (c) the component unit's debt is expected to be repaid entirely or almost entirely with resources of the Town. The blended component unit's funds are blended into those of the Town by appropriate fund type to constitute the primary government presentation. Based on the foregoing criteria, the financial statements of the following component units are blended into the accompanying financial statements: Millerton Public Works Authority. The Town board of trustees and PWA board of directors are the same.

B. BASIS OF PRESENTATION

The Town's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charges to external parties for goods or services.

Fund Financial Statements

The Town segregates transactions related to certain Town functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Town at this more detailed level. The focus of government and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column.

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Fund Accounting

The accounts of the Town are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are two categories of funds: governmental and proprietary.

Governmental Fund Types

Governmental Fund Types are used to account for the Town's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenue, and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting certain assets and their related revenue and certain liabilities and their related expenses are not recorded in these financial statements.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting.

The following are the Town's major governmental funds:

General Fund - The General Fund is used to account for all of the general revenues of the Town not specifically levied or collected for other Town funds, and for expenditures primarily related to the rendering of the general services to the Town.

Special Revenue Funds - Special Revenue Funds are established to account for revenues derived from specific taxes or other earmarked revenues. The Street and Alley Fund is reported as a special revenue fund.

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Proprietary Fund Types - Proprietary Funds are used to account for operations that are financed and operated in manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Millerton Public Works Authority Enterprise Fund is a Proprietary Fund Type.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide State of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income, changes in net position (or cost recovery), net financial

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other 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 other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. FINANCIAL POSITION

Cash and Investments

Cash includes amounts in demand deposits (checking accounts, NOW accounts, and savings). All investments are stated at cost,

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

which approximates market, unless otherwise indicated. For financial statement purposes, certificates of deposits are classified as investments.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are not recognized as the equivalent of expenditures; therefore, the reserve for encumbrances is reported as part of the fund balance on the balance sheet. However, it should be noted that the Town did not recognize any outstanding reserves at June 30, 2016. All budget appropriations lapse at the end of the fiscal year.

Budget

In accordance with Oklahoma Statutes, Title 68, the Town Council formally adopts annual budgets, which include substantially all general funds. These annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code. All budgets are prepared on the same cash basis of accounting as the financial statements are prepared.

Capital Assets

The Town records all capital assets at cost. Assets acquired by the PWA (Enterprise Fund) are recorded in the PWA as assets at cost or if contributed property at the estimated fair market value at the time of contribution. Repairs and maintenance cost are recorded as expenses. Assets of governmental activities are reported in the Government-Wide financial statements are depreciated over lives of 5 to 50 years using the straight-line method. Assets recorded in the PWA are depreciated over their useful lives of 5 to 50 years using the straight-line method. The Enterprise Fund applies FASB No. 62 and capitalizes interest expense of borrowings related to construction project loans less the related interest earned on temporary interest bearing investment.

Complete detailed records of the cost of capital assets owned and still in service are not available. The amounts recorded as property, plant and equipment of the Enterprise Fund have been estimated. The amount of property, plant, and equipment of and

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

related depreciation, recorded as governmental activities has also been estimated.

Capitalization Policy

Purchases of capital items in excess of \$750.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Due to and Due from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Estimates

The preparation of financial statements in conformity with the modified cash basis used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determination of depreciation expense); accordingly, actual results could differ from those estimates.

Compensated Absences and Fringe Benefits

Governmental Generally Accepted Accounting Principles require the recording of an expenditure and the accrual of a liability for future vacation, sick pay, and other leave benefits for employee service already rendered, related to rights that vest, if the payment of compensation is probable and the amount of benefits can be reasonably estimated.

The Town's financial statements have been prepared on the modified cash basis and benefit cost (if any) are recognized when the benefits are paid. An accrued liability for benefits has not been recognized or reported in the financial statements.

Revenues, Expenditures and Expenses

Property Tax

For the year ended June 30, 2016, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

be levied to repay principal and interest on generally obligation bonded debt approved by voters and court-assessed judgments.

Expenditures/Expenses

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

Governmental Fund Types - By Character: Current
(further classified by activity)

Proprietary Fund Types - By Operating and Non-Operating

Governmental fund types report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

incurred for purposes for which both restricted and unrestricted net resources are available.

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Street & Alley Fund	Commercial Vehicle Tax Gasoline Excise Tax

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Grant Fund

Grant Income

Memorandum Only

The “Memorandum Only” captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the Town is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the Town’s internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

As described in Note 4, the Authority was in compliance with the reserve requirement of the GMAC (Berkadia) loan agreement.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the Town for this fiscal year.

Excess of Expenditures Over Appropriations

As indicated in Note 1, the Authority prepares an Estimate of Needs budget. The expenditures for the year did not exceed appropriations by more than the revenues exceeded budgeted revenues.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2016, the Town held deposits of approximately \$44,654 at financial institutions. The Town’s cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town’s name.

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. 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.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

Moneys held on deposit for water utility customers of \$6,127 and construction funds of \$0 are restricted and unavailable for general use by the Town or Public Works Authority. The Enterprise Fund has a certificate of deposit for \$10,155, which is restricted for debt service per loan agreements.

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 - CAPITAL ASSETS

Governmental Activities

Governmental activities capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2016, was as follows:

	Balance 6/30/15	Additions	Deductions	Balance 6/30/16
Buildings	\$ 94,003	\$ -	\$ -	\$ 94,003
Land	15,386	-	-	15,386
Improvements	1,245	-	-	1,245
Office Assets	1,549	-	-	1,549
Other Property & Equip.	233,815	-	-	233,815
Subtotal	345,999	-	-	345,999
Less: Accum. Depreciation	(234,251)	(17,420)	-	(251,671)
Total Capital Assets (Net of Depreciation)	<u>\$ 111,748</u>	<u>\$(17,420)</u>	<u>\$ -</u>	<u>\$ 94,328</u>

Depreciation expense for the year ended June 30, 2016, aggregating \$17,420, has been computed on assets with a cost basis totaling \$345,999.

Business-Type Activities - Enterprise Fund (Public Works Authority)

Business-type activities capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2016, was as follows:

	Balance 6/30/15	Additions	Deductions	Balance 6/30/16
Land	\$ 11,677			\$ 11,677
Sewer System Property & Equipment	1,019,756	\$ -	\$ -	1,019,756
Improvements	671,069	10,430	-	681,499
Subtotal	1,702,502	10,430	-	1,712,932
Less: Accum. Depreciation	(802,781)	(39,503)	-	(842,284)
Total Capital Assets (Net of Depreciation)	<u>\$ 899,721</u>	<u>\$(29,073)</u>	<u>\$ -</u>	<u>\$870,648</u>

TOWN OF MILLERTON, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Depreciation expense for the year ended June 30, 2016, aggregating \$39,503, has been computed on assets with a cost basis totaling \$1,701,255.

NOTE 6 - LONG-TERM DEBT

ENTERPRISE FUND - MILLERTON PUBLIC WORKS AUTHORITY

The Millerton Public Works Authority is a component unit of the Town of Millerton. The Public Works Authority provides sewer service for the community.

The Millerton Public Works Authority is obligated to Berkadia Commercial Mortgage. (Formerly Capmark Finance, Inc. and GMAC Commercial Mortgage). This note carries a 5% annual percentage rate and requires monthly installment payments of \$811 per month with final payment due February 2022. The note is dated June 23, 1982 - original amount of \$165,000 and original maturity June 2022. Collateral for the note is the sewer revenue generated by the system and a mortgage on the sewer system.

The Millerton Public Works Authority has a note payable to McCurtain County National Bank. This note carries a 3.25% annual percentage rate and requires monthly installment payments of \$300 per month with final payment due August 2017. The note is dated August 15, 2015 with an original amount of \$7,500.00. Collateral for the note is the grinder pump for the west lift station that was purchased with the loan proceeds.

Changes in Long-Term Debt

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2016:

	Balance 7/1/2015	Additions	Deductions	Balance 6/30/2016
Note Payable - Berkadia	\$ 54,776	\$ -	\$ (7,151)	\$ 47,624
Note Payable - MCNB	\$ -	\$ 7,500	\$ (2,774)	\$ 4,726
	\$ 54,776	\$ 7,500	\$ (9,925)	\$ 52,350

Debt Service Requirements to Maturity

A summary of future maturities of principal and interest are as follows:

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Year Ending June 30,	Note Payable - Berkadia		Total
	Principal	Interest	
2017	\$ 7,518	\$ 2,214	\$ 9,732
2018	7,902	1,830	9,732
2019	8,307	1,425	9,732
2020	8,732	1,000	9,732
2021	9,178	554	9,732
2022	5,387	784	6,172
Total	<u>\$ 47,024</u>	<u>\$ 7,807</u>	<u>\$ 54,832</u>

Year Ending June 30,	Note Payable - MCNB		Total
	Principal	Interest	
2017	\$ 3,498	\$ 102	\$ 3,600
2018	1,228	6	1,233
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022-2026	-	-	-
Total	<u>\$ 4,726</u>	<u>\$ 108</u>	<u>\$ 4,833</u>

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The restricted net position includes assets related to Note 4 above.

TOWN OF MILLERTON, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

Governmental Fund Balances

Town of Millerton
 Disclosure of Fund Balances Reported on Balance Sheet
 For Fiscal Year Ending June 30, 2016

	General Fund	Street & Alley Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES:				
Restricted for:				
Road Maintenance	-	4,432	-	4,432
Assigned to:				
Grant Fund	-	-	12,866	12,866
Unassigned	8,616	-	-	8,616
Total	\$ 8,616	\$ 4,432	\$ 12,866	\$ 25,915

NOTE 8 - RISK MANAGEMENT

Significant losses are covered by commercial insurance for all major government programs and areas.

The types of insurance coverage carried by the Town are listed below:

Type of Coverage	Provided By	Comments
Public Officials Liab.	Commercial Ins.	
Commercial Property	Commercial Ins.	Coinsurance = 80%
General Liability	Commercial Ins.	General Aggregate limit - \$2,000,000 Personal injury limit - \$1,000,000 Each occurrence limit - \$1,000,000 Fire damage limit - \$100,000
Fire Dept. Vehicles	Oklahoma Risk Mgmt Div.	
Workers Compensation	Oklahoma State Ins. Fund	

NOTE 9 - EMPLOYEE PENSION AND OTHER BENEFIT PLANS

The Town of Millerton does not provide employee pension or other benefit plans.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

GRANT PROGRAMS

The Town participates in certain federal and state grant programs as available; currently the town is not participating in any ongoing programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. The amount of expenditures that may be disallowed by the granting agency cannot be determined at this time, although it is believed by the Town that the amount, if any, would not be significant.

LITIGATION

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

Accordingly, the Town believes that such claims should be recorded in the year in which taxes are assessed for payment on the claim, only to the extent of such tax revenue that is actually provided. This method is preferable to the conflicting rule for treatment of loss contingencies as set out in Statement of Financial Accounting Standards No.5 (issued by the Financial Accounting Standards Board) wherein contingencies should be recorded in full in the year in which it is probable that a liability has been created if the amount of loss can be reasonably estimated.

NOTE 11 - LEASE OF REAL ESTATE

On October 18, 2006, the Town entered into a lease agreement, with First Option to Purchase Real Estate, with Charles and Joyce McGehee. The McGehees are the owners of the following described McCurtain County, Oklahoma real estate: the west 727 feet of the east 1057 feet of Lot 1, Section 5, Township 07 south, Range 22 east Millerton, McCurtain County, Oklahoma containing 22 acres more or less and a parcel of land in Section 32, Township 06 south, Range 22 east beginning at the SE corner of the SE/4 of said Section, thence west 1057 feet thence, north 1550 feet to the south right of way line of the SL&SF railroad, thence SE along said right of way a distance of 1212 feet, thence south 957 feet to the point of beginning containing 30.48 acres more or less in Millerton, McCurtain County, Oklahoma. The lease is for a term of 20 years. Compensation for the lease is for the Town to provide approximately 1,300 linear feet of five strand barbed wire cross fence on said property with one 16 foot metal gate. The Town will install an above ground sprinkler system and protective equipment, for the discharge of water from its sewer lagoons located in the near vicinity of this real estate.

TOWN OF MILLERTON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 12 - INTERFUND TRANSACTIONS

Interfund operating transfers for the year ended June 30, 2016, were as follows:

OPERATING TRANSFERS:	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
GENERAL:		
Street & Alley Fund	\$ -	\$ 4,094.80
Grant Fund	-	-
Millerton Public Works Authority	-	4,094.80
Total General Fund	<u>\$ -</u>	<u>\$ 8,189.60</u>
SPECIAL REVENUE FUNDS:		
Street & Alley Fund:		
General Fund	\$ 4,094.80	\$ -
Millerton Public Works Authority	-	-
Grant Fund:		
General Fund	-	-
Total Special Revenue Funds	<u>\$ 4,094.80</u>	<u>\$ -</u>
ENTERPRISE FUNDS		
Millerton Public Works Authority:		
General Fund	\$ 4,094.80	\$ -
Street & Alley Fund	\$ -	\$ -
Total Enterprise Funds	<u>\$ 4,094.80</u>	<u>\$ -</u>
	<u>\$ 8,189.60</u>	<u>\$ 8,189.60</u>

NOTE 13 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through December 7, 2016, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2016.

TOWN OF MILLERTON, OKLAHOMA
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
Beginning Budgetary Fund Balance:	\$ 11,787	\$ 11,787	\$ 11,787	\$ -
<u>Resources (Inflows):</u>				
Taxes:				
Sales Tax	22,950	22,950	24,771	1,821
Use Tax	1,024	1,024	1,417	393
Tobacco Tax	264	264	300	36
Franchise Tax	5,384	5,384	4,911	(473)
Intergovernmental:				
Alcoholic Beverage Tax	4,894	4,894	5,362	468
Gasoline Excise Tax	-	-	-	-
Motor Vehicle Tax	-	-	-	-
Grants	4,036	4,036	4,290	254
Fees and Other Revenues	-	-	-	-
Miscellaneous Income & Donations	1,720	1,720	5,091	3,371
Interest Income	41	41	33	(9)
Capital Debt Proceeds	-	-	-	-
Transfers In	-	-	-	-
Amounts available for appropriation	<u>52,101</u>	<u>52,101</u>	<u>57,962</u>	<u>5,861</u>
<u>Charges to Appropriations (Outflows):</u>				
Personal Services	11,100	11,100	9,715	1,385
Maintenance & Operations	30,200	30,200	31,441	(1,241)
Capital Outlay	750	750	-	750
Debt Service	-	-	-	-
Transfers	10,051	10,051	8,190	1,861
Total Charges to Appropriations	<u>52,101</u>	<u>52,101</u>	<u>49,346</u>	<u>2,755</u>
Prior Year Adjustments to Fund Balance	-	-	-	-
Ending Budgetary Fund Balance	<u>-</u>	<u>-</u>	<u>8,616</u>	<u>8,616</u>

TOWN OF MILLERTON, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2016

The Town's annual operating budget represents appropriations as authorized by the Board of Trustees and County Excise Board in accordance with the provisions of Title 68 of the Oklahoma Statutes. The Town's budget is limited by law to 90% of the amount of revenue collected in the prior year plus unreserved fund balance. In addition, revisions may be made to the budget throughout the year as authorized by the Board of Trustees and County Excise Board. The legal level of control of the budget is the expenditures category within a department. The expenditure categories required by the applicable State Statutes are:

1. Personal Services;
2. Maintenance and Operations; and
3. Capital Outlay

The budget is prepared on the same modified cash basis of accounting as applied to the basic financial statements. Revenues and expenses are reported when they result from cash transactions.

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

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

To the Town Council
Town of Millerton, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, 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 Millerton, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the Town of Millerton, Oklahoma's basic financial statements, and have issued our report thereon dated December 7, 2016, which was qualified for the improper capital asset recordkeeping.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE
MUSKOGEE, OKLAHOMA 74401
PHONE (918) 684-1040
FAX (918) 684-1041

WEB: KERSHAWCPA.COM
E-MAIL: REK@KERSHAWCPA.COM

607 NORTH 1ST STREET
PONCA CITY, OKLAHOMA 74601
PHONE (580) 762-1040
FAX (580) 762-1047

to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Items 16-01 and 16-02.

Compliance and Other Matters

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

Town of Millerton's Response to Findings

Town of Millerton's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of Millerton's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Kershaw CPA & Associates, P.C.
Kershaw CPA & Associates, PC

December 7, 2016

TOWN OF MILLERTON, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2016

Item 16-01 - Segregation of Duties

Criteria - The segregation of duties is important to have adequate control over financial assets.

Condition - The Town of Millerton has the same employees performing work normally segregated between two or more employees, including receiving funds and posting those funds to the town's books. This is a repeat condition from the prior years.

Cause - The Town of Millerton's small size limits the amount of staffing needed to properly segregate the clerk and treasurer functions.

Effect - The lack of segregation of duties could increase the risk that misstatements material to the financial statements could occur and not be detected within a timely manner.

Recommendation - The lack of segregation of duties is a common deficiency in Town's the size of Millerton. The governing body should be aware of the increased risk and develop policies and procedures to reduce the effect of the internal control deficiency.

Response - The board continues to be actively involved in the operations of the Town.

Item 16-02: Refundable Customer Deposits

Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The Authority keeps a ledger documenting the balance of customer deposits, however, the balance in the ledger does not reconcile to the liability account and the bank account does not have a sufficient balance to cover the reported balance of the liability.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits.

Response: The Authority is aware of the problem.