

**Financial Statements and Reports of
Independent Certified Public Accountant
Town of Ketchum, Oklahoma
June 30, 2013**

**Turner & Associates, PLC
Certified Public Accountants
P.O. Box 378
Vinita, OK 74301
(918) 256-6788**

**Town of Ketchum, Oklahoma
Town Officials
June 30, 2013**

Board of Trustees

Mayor	Joel Webb
Vice-Mayor	John Powell
Member	Shirley Skinner
Member	John Taylor

Clerk/Treasurer

Dickie Forbis

Town of Ketchum, Oklahoma
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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Town Council
Town of Ketchum, Oklahoma

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information the Town of Ketchum, Oklahoma as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Ketchum, Oklahoma, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-7 and 7-27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's

responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Ketchum's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2014 on our consideration of the Town of Ketchum's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Ketchum, Oklahoma's internal control over financial reporting and compliance.

A handwritten signature in cursive script, reading "David Clanin CPA".

David Clanin, CPA PLLC

Claremore, OK
January 30, 2014

**Town of Ketchum, Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2013**

Our discussion and analysis of the Town's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the Town's financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at June 30, 2013 by \$898,739, representing an increase in net assets of \$165,573 from the prior fiscal year.
- Total operating revenues were \$378,301 this fiscal year while operating expenses and other net expenses were \$212,728, resulting in the increase in net assets of \$165,573.
- The Town has \$413,278 (net of accumulated depreciation) invested in fixed assets as of June 30, 2013.

TOWN HIGHLIGHTS

- The volunteer fire department purchased new bunker gear, made improvements with the purchase of new fire house doors and paid off the lease on the Chevy truck for a total cost of \$25,716. They also purchased a 2002 tanker truck at a cost of \$69,350.

USING THIS ANNUAL REPORT

This annual report consists of two parts; Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The Financial Statements of the Town report information about the Town using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Balance Sheet includes all of the Town's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Town and assessing the liquidity and financial flexibility of the Town. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Town's operations over the past year and can be used to determine profitability, credit worthiness and whether the Town has successfully recovered all its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Town's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and noncapital financing activities and provides answers to such questions as "from where did cash come?," "for what was cash used?," and "what was the change in cash balance during the reporting period?"

Town of Ketchum
Management's Discussion and Analysis
For the Year Ended June 30, 2013

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

One of the most important questions asked about the Town's finances is "Is the Town, as a whole, better off or worse off as a result of the year's activities?" The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position report information about the Town's activities in a way that will help answer this question. These two statements report the net assets of the Town and changes in them. You can think of the Town's net position—the difference between assets and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation.

The Town's total Net Position increased from last year by \$165,573 or about 18.4%. Our analysis below focuses on the Town's net position (Table 1) and changes in net position (Table 2) during the year.

Table 1

	June 30, 2013	June 30, 2012
Current Assets	\$ 535,511	\$ 395,641
Fixed Assets	413,278	359,928
Total Assets	948,789	755,569
Liabilities	50,050	22,403
Invested in Capital Assets, Net of Related Debt	413,278	337,525
Net Position, Unrestricted	485,461	395,641
Total Net Position	\$ 898,739	\$ 733,166

The Town's net assets reflects its investment in capital assets (e.g., buildings, machinery and equipment) less any related debt used to acquire those assets still outstanding. The Town uses these capital assets to provide services to citizens and consumers; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Town of Ketchum
Management's Discussion and Analysis
For the Year Ended June 30, 2013**

The balance of unrestricted net assets may be used to meet the Town's ongoing obligations to citizens, customers and creditors. The Town's unrestricted net assets increased by \$89,820 or about 18.5% during the current year.

Changes in the Town's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Position for the year.

Table 2

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Total Operating Revenues	\$ 378,301	\$ 300,288
Operating Expenses	(268,103)	(165,733)
Depreciation Expense	(16,000)	(19,673)
Other Non Operating Revenues (Expenses)	71,375	825
Change in Net Position	<u>165,573</u>	<u>115,707</u>
Net Position, Beginning of Year	733,166	617,459
Net Position, End of Year	<u><u>\$ 898,739</u></u>	<u><u>\$ 733,166</u></u>

The Town's primary source of revenue is sales tax revenue which comprises most of the operating revenues. Operating revenues increased by \$78,013 (20.62%) from the prior year.

Total operating expenses increased by \$102,370 (38.18%) over the past year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013, the Town had \$413,278 (net of accumulated depreciation) invested in capital assets, including machinery and equipment. This amount represents a net increase (including additions, deletions and depreciation) of \$53,350 or 12.9%.

Debt

The Town doesn't have any capital lease obligations outstanding as of June 30, 2013. The Town's total obligations decreased by \$18,377 during the fiscal year as a result of normal repayment of principal on outstanding debt.

**Town of Ketchum
Management's Discussion and Analysis
For the Year Ended June 30, 2013**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A product of an ongoing examination of how the Town does business, our budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

In considering the Town's budget for the fiscal year 2013/2014, the Board estimates that revenues and expenses in the coming year will approximate actual revenues and expenses for the past fiscal year. Therefore, net assets are expected to increase slightly as long term debt is reduced by regularly scheduled principal payments.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board of Directors at Town of Ketchum, P.O. Box 150, Ketchum, OK 74349.

Town of Ketchum, Oklahoma
Statement of Net Position
June 30, 2013

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 482,680.94
Due from Other Governments	46,516.96
Due from PWA	2,132.68
Prepaid Insurance	4,180.08
Total Current Assets	535,510.66
Noncurrent Assets:	
Capital Assets:	
Property, Plant and Equipment, net	413,278.44
Total Assets	948,789.10
LIABILITIES	
Current Liabilities:	
Accounts Payable	47,503.30
Accrued Vacation and Payroll	2,546.52
Total Current Liabilities	50,049.82
NET POSITION	
Invested in Capital Assets, Net of Related Debt	413,278.44
Restricted	-
Unrestricted	485,460.84
Total Net Position	\$ 898,739.28

See accompanying notes to the financial statements and accountant's compilation report.

Town of Ketchum, Oklahoma
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government:					
Maintenance and Operation	\$ 59,177.01	\$ 270.00	\$ -	\$ -	\$ (58,907.01)
Public Safety and Judiciary:					
City Attorney	4,840.85	-	-	-	(4,840.85)
Fire	46,360.73	44,782.85	6,384.35	-	4,806.47
Municipal Court	43,006.65	36,214.47	-	-	(6,792.18)
Emergency Management	400.00	-	151.00	-	(249.00)
Police	52,200.00	-	-	-	(52,200.00)
Total Public Safety and Judiciary	<u>146,808.23</u>	<u>80,997.32</u>	<u>6,535.35</u>	<u>-</u>	<u>(59,275.56)</u>
Transportation:					
Street and Alley	<u>9,088.28</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,088.28)</u>
Total Governmental Activities	<u><u>215,073.52</u></u>	<u><u>81,267.32</u></u>	<u><u>6,535.35</u></u>	<u><u>-</u></u>	<u><u>(127,270.85)</u></u>

(continued)

Town of Ketchum, Oklahoma
Statement of Activities (continued)
For the Year Ended June 30, 2013

	<u>Governmental Activities</u>
Changes in Net Position:	
Net (Expense)/Revenue	\$ <u>(127,270.85)</u>
General Revenues:	
Taxes:	
Sales and Use Taxes	246,012.08
Franchise and Public Service Taxes	14,898.98
Hotel Tax	708.00
Motor Vehicle Collections	3,131.50
Alcoholic Beverage Tax	5,549.27
Gasoline Tax	1,288.08
Tobacco Tax	2,931.38
Investment Income	2,345.84
Donations	13,525.17
Miscellaneous Income	2,453.97
Total General Revenues and Transfers	<u>292,844.27</u>
Change in Net Position	165,573.42
Net Position, Beginning of Year	<u>733,165.86</u>
Net Position, End of Year	<u><u>\$ 898,739.28</u></u>

See accompanying notes to the financial statements and accountant's compilation report.

Town of Ketchum, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2013

	General Fund	Capital Improvements Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 461,394.96	\$ 21,285.98	\$ 482,680.94
Due from Other Governments	46,516.96	-	46,516.96
Due from PWA	2,132.68	-	2,132.68
Prepaid Insurance	4,180.08	-	4,180.08
TOTAL ASSETS	\$ 514,224.68	\$ 21,285.98	\$ 535,510.66
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 47,503.30	\$ -	\$ 47,503.30
Accrued Payroll and Vacation	2,546.52	-	2,546.52
Total Liabilities	50,049.82	-	50,049.82
Fund Balances:			
Committed to Capital Improvements	-	21,285.98	21,285.98
Cash Fund Balance, Unreserved	464,174.86	-	464,174.86
Total Fund Balances	464,174.86	21,285.98	485,460.84
TOTAL LIABILITIES AND FUND BALANCES	\$ 514,224.68	\$ 21,285.98	\$ 535,510.66
 <u>Reconciliation to the Statement of Net Assets</u>			
Total Governmental Funds Balance			\$ 485,460.84
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is \$ 518,200.37 and the accumulated depreciation is \$104,921.93 for a net book value of \$413,278.44.			413,278.44
Net Assets of Governmental Activities			\$ 898,739.28

See accompanying notes to the financial statements and accountant's compilation report.

Town of Ketchum, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2013

	General Fund	Capital Improvements Fund	Total Governmental Funds
Revenues:			
Taxes	\$ 270,100.51	\$ 4,418.78	\$ 274,519.29
Grants	6,535.35	-	6,535.35
Charges for Services	45,052.85	-	45,052.85
Fines and Forfeitures	36,214.47	-	36,214.47
Investment Income	2,226.44	119.40	2,345.84
Donations	13,525.17	-	13,525.17
Other Revenue	2,453.97	-	2,453.97
Total Revenues	<u>376,108.76</u>	<u>4,538.18</u>	<u>380,646.94</u>
Expenditures:			
General Government:			
Maintenance and Operation	56,644.01	-	56,644.01
Public Safety and Judiciary:			
City Attorney	4,840.85	-	4,840.85
Fire	120,620.89	-	120,620.89
Municipal Court	43,006.65	-	43,006.65
Police	52,200.00	-	52,200.00
Emergency Management	400.00	-	400.00
Transportation:			
Street and Alley	9,088.28	-	9,088.28
Total Expenditures	<u>286,800.68</u>	<u>-</u>	<u>286,800.68</u>
Net Change in Fund Balance	89,308.08	4,538.18	93,846.26
Fund Balance, Beginning of Year	374,866.78	16,747.80	391,614.58
Fund Balance, End of Year	<u>\$ 464,174.86</u>	<u>\$ 21,285.98</u>	<u>\$ 485,460.84</u>

See accompanying notes to the financial statements and accountant's compilation report.

Town of Ketchum, Oklahoma
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2013

Net Change in Fund Balances - Governmental Funds	\$ 93,846.26
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Amounts reported for governmental activities in the Statement of Activities are different because:

In the governmental funds, capital outlays are reported as expenditures while in the government-wide statement of activities, depreciation expense is reported to allocate those expenditures over the life of the assets.

Depreciation expense	(15,999.52)
Capital outlay expenditures capitalized	69,350.00

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the government-wide statements.

Capital lease obligation principal payments	<u>18,376.68</u>
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Change in Net Position of Governmental Activities	<u>\$ 165,573.42</u>
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Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2013

I. Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

The above related organizations are reported separately from the primary government and are not included in our report. These reports can be obtained by contacting the Ketchum Public Works Authority, 349 N. Main St., Ketchum, OK 74349 and the South Grand Lake Regional Airport Authority, 448500 E 330 Rd., Ketchum, OK 74349.

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the 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 nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Business-type activities, or related organizations, are reported separately from the primary government and are not included in our report.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues or expenditure/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2013

I. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Capital Improvements Fund

The Capital Improvement Fund accounts for locally received funds, primarily sales tax revenue, for the acquisition, construction or renovation of capital facilities, including land and equipment.

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The Enterprise Funds, or related organizations, are reported separately from the primary government and are not included in our report.

Major and Non-Major Funds

Major: General Fund

Non-Major: Capital Improvements Fund

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities, as reported separately, are presented using the economic resources measurement focus as defined in item b. below.

- a. All governmental funds utilize a “current financial resources” measurement focus. 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. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applied to them.

**Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2013**

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities, as reported separately, are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds (the Town has none) are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

D. Assets, Liabilities and Equity

Cash and Investments

For the presentation of the statement of net assets, cash includes all checking and savings accounts held by the Town.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales and use taxes and franchise taxes.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax and other intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available.

Capital Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether they are reported in the government-wide or fund financial statements.

**Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2013**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

The Town does not currently have a capital asset policy. Donated capital assets are reported at estimated fair market value at the date of donation.

The range of estimated useful lives by type of asset is as follows:

Buildings	20-60 years
Improvements	20-60 years
Machinery and Equipment	3-20 years
Utility System	20-60 years
Infrastructure	20-60 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-Term Debt

The accounting treatment of long-term debt depends on whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources is reported as liabilities in the government-wide statements. The long-term debt consists of capitalized lease obligations. This lease was paid off in the current year.

Compensated Absences

The Town's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences (when material) is recorded as long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2013

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Equity Classifications

Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints places on the use of resources for specific purposed versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e, fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors, or laws and regulations of other governments; or by law through constitutional provision or enabling legislation.

Committed fund balance represents amounts that are usable only for specific purposes by formal action of the government's highest level of decision making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes by taking action similar to that which imposed the commitment. The Town's Board of Trustees is the highest level of decision making authority of the Town.

Assigned fund balance represents amounts that are *intended* to be used for specific purposes but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2013

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Resource Use Policy

It is in the Town's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the Town considers the restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the Town's policy that when an expenditure/expense is incurred for purposes for which committed, assigned or unassigned resources, including fund balances, are available, the Town considers committed, amounts to be spent first, followed by assigned amounts, and lastly, unassigned amounts.

E. Recent Accounting Pronouncements

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (GASB 61). GASB 61 modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that were previously required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also needs to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, GASB 61 clarifies the matter in which that determination should be made and the types of relationships that generally should be considered in making the determination.

GASB 61 amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantially the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility for the activities of the component unit.

The Town adopted GASB 61 on July 1, 2012, which did not have a significant impact on the Town's financial statements.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The objective of GASB 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The pronouncement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this statement were effective for financial statements for periods beginning after December 15, 2011. The Authority adopted GASB 63 effective July 1, 2012. The adoption of the statement required the Authority to adopt the term "net position" as required. In addition, as required by GASB 63, the Authority determined as of June 30, 2013, there were no items of deferred inflows or outflows of resources, as presently defined, to be reported.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify, as deferred

outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities and

**Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2013**

I. Summary of Significant Accounting Policies (continued)

E. Recent Accounting Pronouncements (continued)

recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this statement were effective for financial statements for periods beginning after December 15, 2012.

F. Revenues, Expenditures and Expenses

Sales Tax

The Town presently levies a sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors. The sales tax is recorded in the General Fund and Capital Improvement Fund. Sales taxes collected by the State in June and July (which represent sales for May and June) and received by the Town in July and August have been accrued and are included under the caption "Due from other governments."

Use Tax

The Town levies a use-tax on personal property purchased outside the Town limits but stored, used or consumed within the Town. The use tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission, which is one month after the tax is received from the vendors. The use taxes are allocated entirely to the General Fund. Use taxes collected by the State in June and July and received by the Town in July and August are included under the caption "Due from other governments."

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for governmental activities.

In the fund financial statements, expenditures are classified by character, such as Current (further classified by function), Debt Service, and Capital Outlay. In the fund financial statements, governmental funds report expenditures of financial resources.

Interfund Transfers

Permanent re-allocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

II. Stewardship, Compliance and Accountability

By its nature as a local government unit, the Town and its related organizations, which are reported separately, are subject to various federal, state and local laws and contractual regulations. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows.

Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2013

II. Stewardship, Compliance and Accountability (continued)

A. Budgetary Information

The Town adopts an annual budget for its General Fund. This budget is adopted in accordance with State Statutes. Comparisons of budget to actual are presented in the basic financial statements for the General Fund. The Statement of Revenues, Expenditures and Changes in Fund Balances-Actual and Budget for the General Fund presents the actual results of operations on a basis consistent with the Town's budgeted revenues and expenditures along with a reconciliation to a GAAP basis. The budgetary data presented in the Statement of Revenues, Expenditures and Changes in Fund Balance-Actual and Budget includes the original approved budget of the General Fund and subsequent revisions authorized by the Town's Council, the final approved budget.

B. Deposit and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee. As reflected in note III A., \$184,414 of the Town's deposits was exposed to custodial credit risk.

C. Revenue Restrictions

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Gasoline Excise Tax	Street and Alley Purposes
Commercial Vehicle Tax	Street and Alley Purposes

For the year ended June 30, 2013, the Town complied, in all material respects, with these revenue restrictions.

D. Debt Restrictions and Covenants

General Obligation Debt

Article 10, Sections 26 and 27 of the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10% of net assessed valuation. For the year ended June 30, 2013, the Town had no outstanding general obligation debt.

Other Long-Term Debt

Except as noted in the following paragraph, as required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. For the year ended June 30, 2013, the Town had not become indebted.

Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2013

II. Stewardship, Compliance and Accountability (continued)

E. Fund Equity Restrictions

Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The Town complied with this statute in all material respects for the year ended June 30, 2013.

III. Detailed Notes on Transaction Classes/Accounts

A. Cash and Investments

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's cash deposits are maintained in financial institutions. As of June 30, 2013 \$184,414 of Town's deposits was exposed to custodial credit risk.

B. Due from Other Governments

Accounts Receivable of the governmental activities consists of franchise tax, occupation tax, sales and use tax, motor vehicle collections and gasoline tax, and alcoholic beverage tax. As of June 30, 2013, the amount Due from Other Governments was \$46,517.

C. Capital Assets

Capital asset activity for the year was as follows:

	Balance June 30, 2012	Additions	Disposals	Balance June 30, 2013
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 4,104.51	\$ -	\$ -	\$ 4,104.51
Depreciable assets:				
Buildings/Improvements	152,000.00	-	-	152,000.00
Machinery and Equipment	265,284.90	69,350.00	36,000.04	298,634.86
Vehicles	63,461.00	-	-	63,461.00
	<u>480,745.90</u>	<u>69,350.00</u>	<u>36,000.04</u>	<u>514,095.86</u>
Total	<u>484,850.41</u>	<u>69,350.00</u>	<u>36,000.04</u>	<u>518,200.37</u>
Accumulated Depreciation	(124,922.45)	(15,999.52)	(36,000.04)	(104,921.93)
Net Capital Assets	<u>\$ 359,927.96</u>	<u>\$ 53,350.48</u>	<u>\$ -</u>	<u>\$ 413,278.44</u>

**Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2013**

III. Detailed Notes on Transaction Classes/Accounts (continued)

C. Capital Assets (continued)

Depreciation expense was charged to governmental activities as follows:

General Government	\$	2,533.00
Public Safety and Judiciary		
Fire		13,466.52
Total Depreciation Expense	\$	15,999.52

D. Long-Term Debt

As of June 30, 2013, the governmental long-term debt of the financial reporting entity consisted of the following:

The Town executed a lease to purchase a 2010 Chevy Silverado on April 28, 2010. The amount of the lease is \$50,010 with interest accruing at a fixed rate of 5.00% and payable in monthly installments of \$1,304.91, maturing November 20, 2013. A payment of \$18,376.71 was made to payoff this lease in the current year.

IV. Other Information

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The Town purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The Town is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that Town, 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.

As a member of the Plan, the Town is required to pay fees set by the Plan according to an established payment schedule. The Town is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. A Loss Fund has been established from the proceeds of fees paid by the Town. The State Insurance Fund provides coverage in excess of the Loss Fund so the Town's liability for claim loss is limited to the balance of that fund. However, failure of the State Insurance Fund to honor its obligations could result in losses to the Plan.

Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2013

IV. Other Information (continued)

B. Employee Retirement System and Plan

Description of Plan

The Town participates in the Oklahoma Public Employees Retirement Plan (the "Plan") administered by the Board of Trustees of the Oklahoma Public Employees Retirement System. The Plan is a multiple employer cost-sharing public employees retirement plan which is a defined benefit pension plan covering substantially all state employees except employees covered by six other plans sponsored by the State. It also covers employees of participating county and local agencies. Agencies and/or participants not included in the Plan are as follows: teachers, municipal police, municipal firefighters, judicial, wildlife, and state law enforcement. The supervisory authority for the management and operation of the Plan is the Board, which acts as a fiduciary for investment of the funds and the application of Plan interpretations.

The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 74 Sections 901 through 932 of the Oklahoma Statutes establishes benefit provisions and may be amended only through legislative action. The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Oklahoma Public Employees Retirement System, P.O. Box 53007, Oklahoma City, OK 73152-3007 or by calling (405) 858-6737 (or toll-free 1-800-733-9008).

Firemen's Pension Plan

All full-time or volunteer firefighters hired before age 45 are covered by a statewide cost-sharing multi-employer defined benefit adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS). Under this plan, fire department personnel contribute 8% of base salary and the Town contributes an additional 13% (\$60 for volunteer firemen). The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Firefighters Pension and Retirement System, 4545 North Lincoln Blvd., Suite 265, Oklahoma Town, OK 73105-3414, or by calling 1-800-525-7461.

C. Contingent Liabilities

The governing board of the Town is not aware of any pending or threatened legal actions against it. However, any such actions would probably be covered by insurance.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

**Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2013**

IV. Other Information (continued)

D. Subsequent Events

Management has evaluated subsequent events through January 28, 2014, which is the date the financial statements were available to be issued.

E. Correction of an Error

During the current year, it was determined that capital assets net of depreciation were overstated by \$24,364.63. This was due to the disposal of multiple assets in prior years. To correct this error, the beginning net assets for the government wide financial statements of \$757,530.49, as originally reported on July 1, 2012 has been decreased to \$733,165.86.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Ketchum, Oklahoma
Combined Statement of Revenues Collected, Expenditures Paid and
Changes in Fund Balances - Budget and Actual -
Regulatory Basis - General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts			Budget Variance	
	Original	Final	Actual	Original to Final	Final to Actual
Revenues:					
Taxes	\$ 170,625.17	\$ 170,625.17	\$ 262,343.12	\$ -	\$ 91,717.95
Grants	33,582.67	33,582.67	6,535.35	-	(27,047.32)
Permits	27.00	27.00	-	-	(27.00)
Rural Fire Runs	39,378.08	39,378.08	43,299.97	-	3,921.89
Donations	-	-	13,525.17	-	13,525.17
Fines	27,821.13	27,821.13	36,214.47	-	8,393.34
Fire Department Fees	2,750.00	2,750.00	1,600.00	-	(1,150.00)
Licenses	63.00	63.00	270.00	-	207.00
Investment Income	1,844.09	1,844.09	2,226.44	-	382.35
Reimbursements	1,663.54	1,663.54	1,638.55	-	(24.99)
Refunds	-	-	815.42	-	815.42
Miscellaneous	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Total Revenues Collected	277,754.68	277,754.68	368,468.49	-	90,713.81
Expenditures:					
General Government	201,653.03	128,653.03	54,868.32	(73,000.00)	73,784.71
Town Attorney	10,000.00	10,000.00	4,840.85	-	5,159.15
Fire Department	42,000.00	42,000.00	25,554.69	-	16,445.31
Fire Capital Outlay	29,093.05	102,093.05	52,716.20	73,000.00	49,376.85
Emergency Management	10,000.00	10,000.00	400.00	-	9,600.00
Municipal Court	50,000.00	50,000.00	44,896.65	-	5,103.35
Police	60,000.00	60,000.00	52,200.00	-	7,800.00
Street and Alley	201,869.24	201,869.24	9,088.28	-	192,780.96
Intergovernmental	-	-	-	-	-
Total Expenditures Paid	604,615.32	604,615.32	244,564.99	-	360,050.33
Excess (Deficit)	(326,860.64)	(326,860.64)	123,903.50	-	450,764.14
Cash Fund Balance					
Beginning of Year	326,860.64	326,860.64	326,860.64	-	-
Cash Fund Balance					
End of Year	\$ -	\$ -	\$ 450,764.14	\$ -	\$ 450,764.14

Amounts reported for general fund cash fund balance in the Balance Sheet of Governmental Funds is different because this schedule is prepared on a regulatory basis of accounting. The differences are attributable to:

Due from other governments	46,516.96
Due from PWA	2,132.68
Prepaid Insurance	4,180.08
Cash difference between budget and audit	(39,419.00)

Cash Fund Balance - General Fund \$ 464,174.86

UNAUDITED

OTHER SUPPLEMENTARY INFORMATION

Town of Ketchum, Oklahoma
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Federal Expenditures</u>
U.S. Department of Homeland Security				
Passed through the Oklahoma Department of Emergency Management				
Civil Defense Grant	97.046	<u>151.00</u>	<u>151.00</u>	<u>151.00</u>

Note A - This schedule was prepared on the accrual basis of accounting. The information in this schedule is presented in Accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Town of Ketchum, Oklahoma
Schedule of Expenditures of State Awards
For the Year Ended June 30, 2013

<u>Name of Agency or Grant</u>	<u>Expenditures</u>
NE Oklahoma Electric Coop	\$ 1,900.00
Department of Agriculture	4,484.35
Total State Financial Assistance	<u>\$ 6,384.35</u>

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

Honorable Mayor and Town Council
Town of Ketchum, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Ketchum, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Ketchum, Oklahoma's basic financial statements, and have issued our report thereon dated January 30, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Claremore, OK
January 30, 2014