

**Financial Statements and Reports of
Independent Certified Public Accountant
Town of Ketchum, Oklahoma
June 30, 2014**

**David Clanin CPA, PLLC
Certified Public Accountant
320 W. Will Rogers Blvd.
Claremore, OK 74017
(918) 283-2125**

**Town of Ketchum, Oklahoma
Town Officials
June 30, 2014**

Board of Trustees

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

Treasurer/Clerk

Dickie Forbis

Town of Ketchum, Oklahoma
Table of Contents

Independent Auditor's Report	1-2
Required Supplementary Information: Management's Discussion & Analysis	3-6
Basic Financial Statements:	
<i>Government-Wide Financial Statements</i>	
Statement of Net Position	7
Statement of Activities	8-9
<i>Fund Financial Statements</i>	
Balance Sheet - Governmental Funds	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	11
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities	12
Notes to the Financial Statements	13-24
Required Supplementary Information: Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Regulatory Basis - General Fund	25
Other Supplementary Information: Schedule of Expenditures of State Awards	26
Internal Control and Compliance:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27

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INDEPENDENT AUDITOR'S REPORT

To the 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 of Town of Ketchum, Oklahoma, as of and for the year ended June 30, 2014, 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 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, State of Oklahoma, as of June 30, 2014, 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 3-6 and 25 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 City of Ketchum, State of Oklahoma's basic financial statements. The other supplementary information, Schedule of State Awards, are presented for purposes of additional analysis and is not a required part of the basic financial statements..

The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2014, on our consideration of the Town of Ketchum, State of Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Town of Ketchum, State of Oklahoma's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "David Clavin CPA PLLC". The signature is written in a cursive, flowing style.

Claremore, OK
November 10, 2014

**Town of Ketchum, Oklahoma
Management's Discussion and Analysis
For the Year Ended June 30, 2014**

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, 2014. Please read it in conjunction with the Town's financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at June 30, 2014 by \$963,232, representing an increase in net position of \$89,968 from the prior fiscal year.
- Total operating revenues were \$345,348 this fiscal year while operating expenses and other net expenses were \$255,379, resulting in the increase in net position of \$89,968.
- The Town has \$399,574 (net of accumulated depreciation) invested in fixed assets as of June 30, 2014.

TOWN HIGHLIGHTS

- The volunteer fire department purchased new radios and pagers and made improvements with the purchase of a new sign for a total cost of \$7,175.

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, 2014**

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 position 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 position 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 \$89,968 or about 9.1%. 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, 2014	June 30, 2013
Current Assets	\$ 573,045	\$ 535,511
Restricted Assets	-	-
Fixed Assets	399,574	413,278
Other Assets	-	-
Total Assets	972,620	948,789
Liabilities	9,388	50,050
Net investment in Capital Assets	399,574	413,278
Net Position, Restricted	-	-
Net Position, Unrestricted	589,133	485,461
Total Net Position	\$ 988,707	\$ 898,739

The Town's net position 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, 2014**

The balance of unrestricted net position may be used to meet the Town's ongoing obligations to citizens, customers and creditors. The Town's unrestricted net position decreased by \$13,704 or about 3.4% 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

	June 30, 2014	June 30, 2013
Total Operating Revenues	\$ 345,348	\$ 378,301
Operating Expenses	(239,556)	(268,103)
Depreciation Expense	(17,454)	(16,000)
Other Non Operating Revenues (Expenses)	1,631	71,375
Change in Net Position	89,968	165,573
Net Position, Beginning of Year	898,739	733,166
Net Position, End of Year	<u>\$ 988,707</u>	<u>\$ 898,739</u>

The Town's primary source of revenue is sales tax revenue which comprises most of the operating revenues. Operating revenues decreased by \$32,953 (9.54%) from the prior year.

Total operating expenses decreased by \$28,547 (11.92%) over the past year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2014, the Town had \$399,574 (net of accumulated depreciation) invested in capital assets, including machinery and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$13,704 or 3.4%.

Debt

The Town does not have any long-term debt obligations outstanding as of June 30, 2014.

**Town of Ketchum
Management's Discussion and Analysis
For the Year Ended June 30, 2014**

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 2014/2015, 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 since the Town doesn't have any long-term debt obligations.

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, 2014

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 543,526.18
Due from Other Governments	48,065.11
Due from PWA	2,284.45
Prepaid Insurance	4,644.94
Total Current Assets	598,520.68
Noncurrent Assets:	
Capital Assets:	
Property, Plant and Equipment, net	399,574.02
TOTAL ASSETS	998,094.70
LIABILITIES	
Current Liabilities:	
Accounts Payable	5,942.10
Accrued Vacation and Payroll	3,445.40
Total Current Liabilities	9,387.50
NET POSITION	
Net investment in Capital Assets	399,574.02
Restricted	-
Unrestricted	589,133.18
TOTAL NET POSITION	\$ 988,707.20

See accompanying notes to the financial statements and Independent Auditor's report.

Town of Ketchum, Oklahoma
Statement of Activities
For the Year Ended June 30, 2014

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	\$ 78,576.99	\$ 650.00	\$ -	\$ -	\$ (77,926.99)
Public Safety and Judiciary:					
City Attorney	5,242.31	-	-	-	(5,242.31)
Fire	53,021.55	47,264.99	4,473.98	-	(1,282.58)
Municipal Court	43,866.61	27,611.17	-	-	(16,255.44)
Emergency Management	356.00	-	-	-	(356.00)
Police	57,785.85	-	-	-	(57,785.85)
Total Public Safety and Judiciary	<u>160,272.32</u>	<u>74,876.16</u>	<u>4,473.98</u>	<u>-</u>	<u>(80,922.18)</u>
Transportation:					
Street and Alley	<u>18,161.11</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,161.11)</u>
Total Governmental Activities	<u><u>257,010.42</u></u>	<u><u>75,526.16</u></u>	<u><u>4,473.98</u></u>	<u><u>-</u></u>	<u><u>(177,010.28)</u></u>

(continued)

See accompanying notes to the financial statements and Independent Auditor's report.

Town of Ketchum, Oklahoma
Statement of Activities (continued)
For the Year Ended June 30, 2014

	<u>Governmental Activities</u>
Changes in Net Position:	
Net (Expense)/Revenue	\$ (177,010.28)
General Revenues:	
Taxes:	
Sales and Use Taxes	214,571.01
Franchise and Public Service Taxes	13,685.98
Hotel Tax	339.00
Motor Vehicle Collections	3,623.75
Alcoholic Beverage Tax	5,111.39
Gasoline Tax	790.42
Tobacco Tax	2,716.69
Investment Income	1,630.58
Donations	13,904.68
Miscellaneous Income	10,604.70
Total General Revenues and Transfers	<u>266,978.20</u>
Change in Net Position	89,967.92
Net Position, Beginning of Year	898,739.28
Net Position, End of Year	<u><u>\$ 988,707.20</u></u>

See accompanying notes to the financial statements and Independent Auditor's report.

Town of Ketchum, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2014

	General Fund	Capital Improvements Fund	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 518,994.01	\$ 24,532.17	\$ 543,526.18
Due from Other Governments	47,122.08	943.03	48,065.11
Due from PWA	2,284.45	-	2,284.45
Prepaid Insurance	4,644.94	-	4,644.94
TOTAL ASSETS	\$ 573,045.48	\$ 25,475.20	\$ 598,520.68
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 5,942.10	\$ -	\$ 5,942.10
Accrued Payroll and Vacation	3,445.40	-	3,445.40
Total Liabilities	9,387.50	-	9,387.50
Fund Balances:			
Committed to Capital Improvements	-	25,475.20	25,475.20
Cash Fund Balance, Unreserved	563,657.98	-	563,657.98
Total Fund Balances	563,657.98	25,475.20	589,133.18
TOTAL LIABILITIES AND FUND BALANCES	\$ 573,045.48	\$ 25,475.20	\$ 598,520.68
Reconciliation to the Statement of Net Position			
Total Governmental Funds Balance			\$ 589,133.18
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 \$ 521,950.37 and the accumulated depreciation is \$122,376.35 for a net book value of \$399,574.02.			
			399,574.02
Net Position of Governmental Activities			\$ 988,707.20

See accompanying notes to the financial statements and Independent Auditor's report.

Town of Ketchum, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2014

	General Fund	Capital Improvements Fund	Total Governmental Funds
Revenues:			
Taxes	\$ 236,723.43	\$ 4,114.81	\$ 240,838.24
Grants	4,473.98	-	4,473.98
Charges for Services	47,914.99	-	47,914.99
Fines and Forfeitures	27,611.17	-	27,611.17
Investment Income	1,556.17	74.41	1,630.58
Donations	13,904.68	-	13,904.68
Other Revenue	10,604.70	-	10,604.70
Total Revenues	<u>342,789.12</u>	<u>4,189.22</u>	<u>346,978.34</u>
Expenditures:			
General Government:			
Maintenance and Operation	76,043.99	-	76,043.99
Public Safety and Judiciary:			
City Attorney	5,242.31	-	5,242.31
Fire	41,850.13	-	41,850.13
Municipal Court	43,866.61	-	43,866.61
Police	57,785.85	-	57,785.85
Emergency Management	356.00	-	356.00
Transportation:			
Street and Alley	18,161.11	-	18,161.11
Total Expenditures	<u>243,306.00</u>	<u>-</u>	<u>243,306.00</u>
Net Change in Fund Balance	99,483.12	4,189.22	103,672.34
Fund Balance, Beginning of Year	464,174.86	21,285.98	485,460.84
Fund Balance, End of Year	<u>\$ 563,657.98</u>	<u>\$ 25,475.20</u>	<u>\$ 589,133.18</u>

See accompanying notes to the financial statements and Independent Auditor's 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, 2014

Net Change in Fund Balances - Governmental Funds	\$ 103,672.34
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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	(17,454.42)
Capital outlay expenditures capitalized	<u>3,750.00</u>

Change in Net Position of Governmental Activities	\$ <u><u>89,967.92</u></u>
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See accompanying notes to the financial statements and Independent Auditor's report.

**Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2014**

I. Summary of Significant Accounting Policies

The following notes to the financial statements are an integral part of the Town's financial statements.

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide Statement of Net Position and Statement of Activities, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Proprietary funds also apply the same principles. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

A. Reporting Entity

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

Primary Government: Town of Ketchum

Related Organizations: Ketchum Public Works Authority & South Grand Lake Municipal Airport

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity" and includes all component units. The Town had no component units.

Related Organization

A related organization is an entity for which the Government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the Government appoints a voting majority of the related organization's governing board.

Related Organizations

Related Organization	Brief Description/Inclusion Criteria	Reporting
Ketchum Public Works Authority	Created to finance, develop and operate the utility services activities. The current Town Council appoints the governing body (Trustees).	Enterprise Fund
South Grand Lake Municipal Airport	Created to finance, develop and operate the municipal airport activities. The current Town Council appoints the governing body (Trustees).	Enterprise Fund

Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2014

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 position 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, 2014

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 Position 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, 2014

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 Position 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 position, 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, 2014**

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 Position. 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 Town had no capital lease obligations for 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, 2014

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Equity Classifications

Net Position/Fund Balance

In the government-wide financial statement, net position represents the difference between assets and liabilities. Net investment 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 position is 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 placed on the use of resources for specific purposes 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, 2014**

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. 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.

Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2014

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.

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.

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, 2014, 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, 2014, 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

Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2014

II. Stewardship, Compliance and Accountability (continued)

D. Debt Restrictions and Covenants (continued)

Other Long-Term Debt (continued)

year revenue, without first obtaining voter approval. For the year ended June 30, 2014, the Town had not become indebted.

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, 2014.

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, 2014 none of the Town's deposits were 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, 2014, the amount Due from Other Governments was \$48,065.

C. Capital Assets

Capital asset activity for the year was as follows:

	Balance June 30, 2013	Additions	Disposals	Balance June 30, 2014
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	298,634.86	3,750.00	-	302,384.86
Vehicles	63,461.00	-	-	63,461.00
	<u>514,095.86</u>	<u>3,750.00</u>	<u>-</u>	<u>517,845.86</u>
Total	<u>518,200.37</u>	<u>3,750.00</u>	<u>-</u>	<u>521,950.37</u>
Accumulated Depreciation	(104,921.93)	(17,454.42)		(122,376.35)
Net Capital Assets	<u>\$ 413,278.44</u>	<u>\$ (13,704.42)</u>	<u>\$ -</u>	<u>\$ 399,574.02</u>

**Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2014**

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		14,921.42
Total Depreciation Expense	\$	17,454.42

D. Long-Term Debt

As of June 30, 2014, the Town did not have any governmental long-term debt.

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, 2014

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.

D. Subsequent Events

Management has evaluated subsequent events through November 10, 2014, which is the date the financial statements were available to be issued.

Town of Ketchum, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2014

IV. Other Information (continued)

E. Recent GASB Pronouncements

In June 2012, the GASB approved Statement No. 67, *Financial Reporting for Pension Plans* (Statement 67). This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. Statement 67 requires accounting and financial reporting for the activities of pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined pension plan, plan assets also are legally protected from creditors of the plan members.

The provisions of Statement 67 are effective for fiscal years beginning after June 15, 2013. The Government is currently evaluating the effects of this statement on its financial statements.

In June 2012, the GASB approved Statement No. 68, *Accounting and financial reporting for Pensions* (Statement 68). This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits.

Governmental employers participating in a cost-sharing plan will also be required to report a net pension liability, pension expense and pension-related assets and liabilities based on their proportionate share of the collective amounts for all governments in the plan. All governments participating in the defined benefit pension plan would also have the following in their not disclosures:

- Descriptions of the plan and benefits provided
- Significant assumptions employed in the measurement of the net pension liability
- Descriptions of benefit changes and changes in assumptions
- Assumptions related to the discount rate and impact on the total pension liability of a 1 percentage point increase and decrease in the discount rate
- Net pension assets and liabilities

The provisions of Statement 68 are effective for fiscal years beginning after June 15, 2014. The Government is currently evaluating the effects of this statement on its financial statements.

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, 2014

	Budgeted Amounts			Budget Variance	
	Original	Final	Actual	Original to Final	Final to Actual
Revenues:					
Taxes	\$ 236,412.04	\$ 236,412.04	\$ 236,723.43	\$ -	\$ 311.39
Grants	34,484.35	34,484.35	4,473.98	-	(30,010.37)
Permits	-	-	-	-	-
Rural Fire Runs	1,440.00	1,440.00	6,625.00	-	5,185.00
Donations	-	-	13,904.68	-	13,904.68
Fines	32,593.02	32,593.02	27,611.17	-	(4,981.85)
Fire Department Fees	38,969.97	38,969.97	40,639.99	-	1,670.02
Licenses	243.00	243.00	650.00	-	407.00
Investment Income	2,003.80	2,003.80	1,556.17	-	(447.63)
Reimbursements	1,474.70	1,474.70	2,078.70	-	604.00
Refunds	-	-	8,526.00	-	8,526.00
Miscellaneous	-	-	-	-	-
Intergovernmental	-	-	-	-	-
Total Revenues Collected	347,620.88	347,620.88	342,789.12	-	(4,831.76)
Expenditures:					
General Government	161,878.94	161,878.94	76,043.99	-	85,834.95
Town Attorney	10,000.00	10,000.00	5,242.31	-	4,757.69
Fire Department	45,000.00	45,000.00	34,675.13	-	10,324.87
Fire Capital Outlay	82,982.13	82,982.13	7,175.00	-	75,807.13
Emergency Management	10,000.00	10,000.00	356.00	-	9,644.00
Municipal Court	65,000.00	65,000.00	43,866.61	-	21,133.39
Police	60,000.00	60,000.00	57,785.85	-	2,214.15
Street and Alley	326,651.47	326,651.47	18,161.11	-	308,490.36
Intergovernmental	-	-	-	-	-
Total Expenditures Paid	761,512.54	761,512.54	243,306.00	-	518,206.54
Excess (Deficit)	(413,891.66)	(413,891.66)	99,483.12	-	513,374.78
Cash Fund Balance					
Beginning of Year	413,891.66	413,891.66	413,891.66	-	-
Cash Fund Balance	\$ -	\$ -	\$ 513,374.78	\$ -	\$ 513,374.78

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	47,122.08
Due from PWA	2,284.45
Prepaid Insurance	4,644.94
Cash difference between budget and audit	(3,768.27)

Cash Fund Balance - General Fund \$ 563,657.98

UNAUDITED

OTHER SUPPLEMENTARY INFORMATION

Town of Ketchum, Oklahoma
Schedule of Expenditures of State Awards
For the Year Ended June 30, 2014

<u>Grantor/Pass Through Grantor/Program Title</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Expenditures</u>
State of Oklahoma Programs:			
Passed through the Oklahoma Department of Agriculture			
Rural Fire Defense Grant	\$ 4,473.98	\$ 4,473.98	\$ 4,473.98

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 Ketchum, State of 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 Town of Ketchum, State of Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Ketchum, State of Oklahoma's basic financial statements, and have issued our report thereon dated November 10, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Ketchum, State of 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 Town of Ketchum, State of Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness Town of Ketchum, State of Oklahoma's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Ketchum, State of Oklahoma'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, Oklahoma
November 10, 2014