

TOWN OF CLAYTON, OKLAHOMA
ANNUAL FINANCIAL REPORT
JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Board of Trustees
Town of Clayton
Clayton, Oklahoma

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Clayton, Oklahoma as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Clayton, Oklahoma's basic financial statements.

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

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

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

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

Opinions

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

The Town of Clayton, Oklahoma has not presented Management's Discussion and Analysis or budgetary comparisons that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

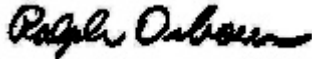
Other Information

My audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Town of Clayton, Oklahoma's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 27, 2017, on my consideration of Town of Clayton, Oklahoma's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the 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 Clayton, Oklahoma's internal control over financial reporting and compliance.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
March 27, 2017

TOWN OF CLAYTON, OKLAHOMA
STATEMENT OF NET POSITION
JUNE 30, 2016

| | Primary Government | | |
|--|----------------------------|--------------------------------|--------------|
| | Governmental Activities | Business Type Activities | Total |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 2,753 | \$ 159,885 | \$ 162,638 |
| Accounts receivable | 48,226 | 80,369 | 128,595 |
| Accrued interest receivable | - | 20 | 20 |
| Total current assets | 50,979 | 240,274 | 291,253 |
| Non-current assets: | | | |
| Restricted cash - Rural development | - | 10,818 | 10,818 |
| Restricted cash - Customer deposits | - | 32,582 | 32,582 |
| Restricted cash - Debt reserve | - | 21,617 | 21,617 |
| Investments | - | 15,777 | 15,777 |
| Restricted investments - Customer deposit | - | 13,800 | 13,800 |
| Capital assets, net | 133,488 | 3,942,075 | 4,075,563 |
| Total non-current assets | 133,488 | 4,036,669 | 4,170,157 |
| Total assets | 184,467 | 4,276,943 | 4,461,410 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | 8,301 | 15,886 | 24,187 |
| Payroll liabilities | 14,045 | 2,814 | 16,859 |
| Accrued interest payable | - | 11,905 | 11,905 |
| Lease purchase, current | 23,869 | - | 23,869 |
| Notes payable, current | - | 33,351 | 33,351 |
| Total current liabilities | 46,215 | 63,956 | 110,171 |
| Non-current liabilities: | | | |
| Customer deposits payable | - | 50,484 | 50,484 |
| Lease purchase, non-current | 28,907 | - | 28,907 |
| Notes payable, non-current | - | 1,677,230 | 1,677,230 |
| Total non-current liabilities | 28,907 | 1,727,714 | 1,756,621 |
| Total liabilities | 75,122 | 1,791,670 | 1,866,792 |
| NET POSITION | | | |
| Capital assets, net of related debt | 133,488 | 2,231,494 | 2,364,982 |
| Restricted for | | | |
| Debt service | - | 21,617 | 21,617 |
| Customer deposits | - | 46,382 | 46,382 |
| Unrestricted | (24,143) | 185,780 | 161,637 |
| Total net Position | \$ 109,345 | \$ 2,485,273 | \$ 2,594,618 |

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

| Function/Programs | Expenses | Program Revenue | | | (Expenses) Revenue |
|---------------------------------------|--------------------|----------------------------|--|--|-----------------------|
| | | Charges For Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental activities | | | | | |
| General government | \$ 499,231 | \$ - | \$ 33,222 | \$ - | \$ (466,009) |
| Public service | 4,989 | - | - | - | (4,989) |
| Public safety | 44,602 | - | 4,290 | - | (40,312) |
| Ambulance | 64,716 | - | - | - | (64,716) |
| Cemetery | 10,920 | - | - | - | (10,920) |
| Street and alley | 16,417 | - | 5,600 | - | (10,817) |
| Total governmental activities | 640,875 | - | 43,112 | - | (597,763) |
| Business-type activities | | | | | |
| Public Works | 516,104 | 290,053 | 298,498 | - | 72,447 |
| Total business-type activities | 516,104 | 290,053 | 298,498 | - | 72,447 |
| Total primary government | \$1,156,979 | \$ 290,053 | \$ 341,610 | \$ - | \$ (525,316) |

| Changes in net Position: | Primary Government | | |
|---|----------------------------|-----------------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total |
| Net (expense) revenue | \$ (597,763) | \$ 72,447 | \$ 202,403 |
| General revenues | | | |
| Taxes | | | |
| Sales tax | 359,222 | - | 359,222 |
| Franchise tax | 15,473 | - | 15,473 |
| Cigarette tax | 4,266 | - | 4,266 |
| Donations | 6,291 | - | 6,291 |
| Cemetery | 8,088 | - | 8,088 |
| Pilot tax | 1,118 | - | 1,118 |
| Interest | 8 | 105 | 113 |
| Charges for ambulance | 47,079 | - | 47,079 |
| Fines | 141,597 | - | 141,597 |
| Transfers, net | (80,817) | 80,817 | - |
| Payroll reimbursement | 1,344 | - | 1,344 |
| FEMA reimbursement | 7,197 | - | 7,197 |
| Gain on sale of asset | 1,200 | - | 1,200 |
| Other revenue | 5,369 | - | 5,369 |
| Total general revenue and transfer | 517,435 | 80,922 | 598,357 |
| Change in net Position | (80,328) | 153,369 | 73,041 |
| Net position - beginning | 189,673 | 2,331,904 | 2,521,577 |
| Net position - ending | <u>\$ 109,345</u> | <u>\$ 2,485,273</u> | <u>\$ 2,594,618</u> |

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

| | <u>General Fund</u> | <u>Total Governmental Fund</u> |
|--|-------------------------|--|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,753 | \$ 2,753 |
| Accounts receivable | <u>48,226</u> | <u>48,226</u> |
| TOTAL ASSETS | <u>\$ 50,979</u> | <u>\$ 50,979</u> |
| LIABILITIES AND FUND BALANCES | | |
| LIABILITIES | | |
| Accounts payable | \$ 8,301 | \$ 8,301 |
| Payroll liabilities | <u>14,045</u> | <u>14,045</u> |
| TOTAL LIABILITIES | <u>22,346</u> | <u>22,346</u> |
| FUND BALANCES | | |
| Unrestricted | <u>28,633</u> | <u>28,633</u> |
| TOTAL FUND BALANCES | <u>28,633</u> | <u>28,633</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 50,979</u> | |

Reconciliation of Balance Sheet - Governmental funds
with the Statement of Net Position:

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

Capital assets used in governmental activities
are not financial resources and therefore are
not reported as assets in governmental funds.

| | | |
|--------------------------|------------------|----------------|
| Capital assets | 569,463 | |
| Accumulated depreciation | <u>(435,975)</u> | <u>133,488</u> |

Certain long-term liabilities are not due and payable
from current financial resources and, therefore, are not
reported in the funds:

| | | |
|----------------------------------|--|-----------------|
| Capital lease obligation payable | | <u>(52,776)</u> |
|----------------------------------|--|-----------------|

| | | |
|--------------------|--|-------------------|
| Total net position | | <u>\$ 109,345</u> |
|--------------------|--|-------------------|

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

| | General Fund | Total Governmental Fund |
|--|----------------------|-------------------------------|
| Revenue | | |
| Sales tax | \$ 359,222 | \$ 359,222 |
| Franchise tax | 15,473 | 15,473 |
| Auto tax | 5,600 | 5,600 |
| Cigarette tax | 4,266 | 4,266 |
| Alcoholic tax | 33,222 | 33,222 |
| Charges for ambulance | 47,079 | 47,079 |
| Fines | 141,597 | 141,597 |
| Miscellaneous | 5,369 | 5,369 |
| Grants | 4,290 | 4,290 |
| Donations | 6,291 | 6,291 |
| Cemetery | 8,088 | 8,088 |
| Pilot tax | 1,118 | 1,118 |
| Interest | 8 | 8 |
| FEMA reimbursement | 7,197 | 7,197 |
| Gain on sale of asset | 1,200 | 1,200 |
| Payroll reimbursement | <u>1,344</u> | <u>1,344</u> |
| Total revenue | <u>641,364</u> | <u>641,364</u> |
| Expenditures | | |
| Current | | |
| General government | 456,809 | 456,809 |
| Public service | 4,989 | 4,989 |
| Public safety | 44,602 | 44,602 |
| Ambulance | 64,716 | 64,716 |
| Cemetery | 10,920 | 10,920 |
| Street and alley | <u>16,417</u> | <u>16,417</u> |
| Total expenditures | <u>598,453</u> | <u>598,453</u> |
| Excess (deficiency) of revenue over (under) expenditures | 42,911 | 42,911 |
| Other financing sources (uses) | | |
| Transfer to other funds | <u>(80,817)</u> | <u>(80,817)</u> |
| Net changes in fund balances | (37,906) | (37,906) |
| Fund balances, beginning | <u>66,539</u> | <u>66,539</u> |
| Fund balances, ending | <u>\$ 28,633</u> | <u>\$ 28,633</u> |

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2016

Net changes in fund balances - total governmental funds \$ (37,906)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those cost are shown in the combined statement of net assets and allocated over their estimated useful lives as annual depreciation in the statement of activities. This is the amount by which capital outlay exceeds depreciation outlay in the period.

| | | |
|----------------------|----------|-----------------|
| Depreciation expense | (58,384) | |
| Capital outlay | <u>-</u> | <u>(58,384)</u> |

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund. Long-term liabilities at year end consist of:

| | | |
|-------------------|--|---------------|
| Lease obligations | | <u>15,962</u> |
|-------------------|--|---------------|

| | | |
|------------------------|--|--------------------|
| Change in net position | | <u>\$ (80,328)</u> |
|------------------------|--|--------------------|

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2016

| | <u>Public Works</u> |
|---|---------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 159,885 |
| Accounts receivable | 80,369 |
| Accrued interest receivable | <u>20</u> |
| Total current assets | <u>240,274</u> |
| Non-current assets | |
| Restricted cash - Rural development | 10,818 |
| Restricted cash - Customer deposit | 32,582 |
| Restricted cash - Debt reserve | 21,617 |
| Investments | 15,777 |
| Restricted investments - Customer deposit | 13,800 |
| Capital assets, net | <u>3,942,075</u> |
| Total non-current assets | <u>4,036,669</u> |
| Total assets | <u>4,276,943</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts Payable | 15,886 |
| Payroll liabilities | 2,814 |
| Accrued interest payable | 11,905 |
| Note payable, current | <u>33,351</u> |
| Total current liabilities | <u>63,956</u> |
| Non-current liabilities: | |
| Customer deposits payable | 50,484 |
| Notes payable, non-current | <u>1,677,230</u> |
| Total non-current liabilities | <u>1,727,714</u> |
| Total liabilities | <u>1,791,670</u> |
| NET POSITION | |
| Capital assets, net of related debt | 2,231,494 |
| Restricted for: | |
| Debt service | 21,617 |
| Customer deposits | 24,618 |
| Unrestricted | <u>207,544</u> |
| Net position of business-type activities | <u>\$ 2,485,273</u> |

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

| | <u>Public Works</u> |
|---|---------------------|
| <u>OPERATING REVENUES</u> | |
| Water | \$ 174,947 |
| Wastewater | 64,375 |
| Sanitation | 37,201 |
| Water/sewer taps | 600 |
| Other revenues | 12,930 |
| Total operating revenues | <u>290,053</u> |
| <u>OPERATING EXPENSES</u> | |
| Salaries and wages | 64,364 |
| Water costs | 110,347 |
| Sanitation | 44,744 |
| Wastewater | 430 |
| Materials and supplies | 12,037 |
| Other services and charges | 18,676 |
| Insurance | 8,855 |
| Professional fees | 4,651 |
| Utilities and telephone | 4,263 |
| Depreciation | 209,026 |
| Total operating expenses | <u>477,393</u> |
| Operating income (loss) | <u>(187,340)</u> |
| <u>NON-OPERATING REVENUE (EXPENSES)</u> | |
| Grant revenue | 298,498 |
| Interest revenue | 105 |
| Interest on notes payable and fees | (35,637) |
| Grant reimbursement | (3,074) |
| Total non-operating revenue (expenses) | <u>259,892</u> |
| Income (loss) before transfer | <u>72,552</u> |
| Transfer from other funds | <u>80,817</u> |
| Total Transfers | <u>80,817</u> |
| Change in net position | 153,369 |
| Total net position, beginning | <u>2,331,904</u> |
| Total net position, ending | <u>\$ 2,485,273</u> |

The accompanying notes are an integral part of these financial statements.

TOWN OF CLAYTON, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2016

| | Public Works |
|---|-----------------|
| Cash flows from operating activities | |
| Cash received from customers | \$ 290,053 |
| Cash payments to employees | (64,364) |
| Cash payments to suppliers for goods and services | (223,242) |
| Net cash provided (used) by operating activities | 2,447 |
| Cash flows from capital and related financing activities | |
| Grant | 298,498 |
| Grant reimbursement | (3,074) |
| Acquisition of fixed assets | (364,771) |
| Interest paid on notes payable and fiscal fees | (35,637) |
| Principal paid on notes payable | (32,864) |
| Net cash used for capital and related financing activities | (137,848) |
| Cash flows from investing activities | |
| Transfer to investments | 2,936 |
| Interest revenue | 105 |
| Sales tax allocation - transfer | 80,817 |
| Net cash provided by investing activities | 83,858 |
| Net change in cash and investments | (51,543) |
| Cash and cash equivalents, beginning | 276,445 |
| Cash and cash equivalents, ending | \$ 224,902 |
| Reconciliation of operating income (loss) to net cash provided/(used) by operating activities: | |
| Operating income (loss) | \$ (187,340) |
| Adjustments to reconcile operating income to net cash provided/(used) by operating activities: | |
| Depreciation | 209,026 |
| Changes in assets and liabilities: | |
| (Increase)/decrease in accounts receivable | (24,165) |
| Increase/(decrease) in payroll liabilities | 230 |
| Increase/(decrease) in accrued interest payable | (451) |
| Increase/(decrease) in customer deposits | 5,147 |
| Net cash provided/(used) by operating activities | \$ 2,447 |

The accompanying notes are an integral part of these financial statements.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Clayton, Oklahoma, was incorporated under the provisions of the laws of the State of Oklahoma. The Town operates under a Board of Trustees form of government and provides the following services: general government, public safety, public works, parks and recreation. The basic financial statements include the departments, agencies, and other organizational units over which the Board of Trustees exercise oversight responsibility. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 and No. 39. Based on the criteria there are no component units to report. The definition of the financial reporting entity is primarily based on the concept of financial accountability. The financial reporting entity consists of the primary government (the Town), and activities for which the primary government is financially accountable, and the activities of Clayton Public Works. Financial accountability exists if a primary government appoints a voting majority of an organizations governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide a specific financial benefit to, or impose specific financial burdens on, the primary government. Based upon the application of these criteria, there are no other entities to include in the Town's financial statements.

Clayton Public Works Authority was created under the provisions of Title 60 Oklahoma Statutes Sections 176 to 180. The Authority is managed by a Board of Trustees made up of members of the Town Board of Trustees. The Authority operates sanitation and sewer services for the Town of Clayton. The Authority is reported as a proprietary fund.

The accounting policies of the Town conform to accounting principles generally accepted in the United States of America applicable to government units.

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the Town as a whole excluding fiduciary activities such as employee pension plans. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

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

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A functional program is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these programs uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements of the Town are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Town are prepared in accordance with generally accepted accounting principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Town's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to Town departments. Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of Town component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues, if any, are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 30 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

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

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements include revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charged to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed.

FUND TYPES AND MAJOR FUNDS

The Town reports the following major governmental funds:

General Fund - The general fund reports as the primary fund of the Town. This fund is used to account for all financial resources not reported in other funds.

Proprietary Funds - The Town reports the following major enterprise funds:

Clayton Public Works Authority - The Authority provides certain utility services for the Town.

Budgetary Accounting and Control

Annually a legally adopted budget is prepared for the General Fund and other governmental funds and an operating budget forecast is prepared for the Public Works Authority Funds. The budgets are formally approved by the Board of Trustees before filing with the State of Oklahoma. Actual expenditures within the General Fund may not legally exceed the adopted budget appropriations at the object category level within the department of a fund.

Investments

The Town follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The Town considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investments reported in the financial statements consist of Certificates of Deposits.

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year end are reported as reservations of fund balances.

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary funds and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis. The Town has not maintained inventory records, however, the value of inventory on hand at June 30, 2016 is not believed to be material. The Town is working to update and maintain an inventory list.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaids are not reported in the government-wide and fund financial statements.

Capital Assets, Depreciation, and Amortization

The Town's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Town maintains infrastructure assets records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

| | |
|------------------------------------|--------|
| Buildings | 20-100 |
| Improvements, other than buildings | 20-100 |
| Infrastructure | 25-50 |
| Machinery and equipment | 3-25 |

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

Compensated Absences

It is the Towns policy to allow permanent and full-time employees to accumulate earned but unused vacation and sick pay benefits up to certain limits. These amounts are accrued, for which the employee is vested that would be paid upon termination are charged to expense and a corresponding liability is established when earned. The portion of the liability that is anticipated to be paid within the next fiscal year is reported as a current liability, while the remainder is reported as a long-term liability.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the Town will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Town, and are held by counterparty or the counterparty's trust department but not in the name of the Town. The Town's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2016, all of the Towns deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The Town had deposits at financial institutions with a carrying amount of approximately \$246,414 at June 30, 2016. The bank balance of the deposits at June 30, 2016 was approximately \$311,487.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Town did not have fixed income securities at June 30, 2016.

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Trustees monitor's the investment performance on an ongoing basis to limit the Town's interest rate risk. As of June 30, 2016, the Town's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - ACCOUNTS RECEIVABLE

The Authority records the total due on utility accounts owed the proprietary fund for services unpaid at June 30. No allowance for bad debt is recorded as all accounts are considered collectible.

The governmental funds have accrued sales tax, use tax, gasoline excise tax, and cigarette tax to be received in July and August. Franchise tax, alcoholic beverage tax, and motor vehicle excise tax are accrued for amounts to be received in July.

NOTE D - RESTRICTED CASH AND INVESTMENTS

The Clayton Public Works Authority has reported the following restricted cash and investments:

| | | |
|--|----|------------------|
| Restricted Cash - Customer deposits | \$ | 32,582 |
| Restricted Investments - Customer deposits | | 13,800 |
| Rural Development Reserve | | <u>21,617</u> |
| Total Restricted | | <u>\$ 67,999</u> |

NOTE E - CAPITAL LEASES

The City has entered into lease agreements as lessee for financing the acquisition of equipment. The lease agreements qualify as capital leases for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments. The lease contains a clause which gives the City the ability to terminate the lease agreement at the end of each fiscal year.

Capital lease transactions for the year ended June 30, 2016 are as follows:

| | <u>Payable at</u> <u>July 1, 2015</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance at</u> <u>June 30, 2016</u> |
|----------------------------|--|------------------|--------------------|---|
| First Government Lease Co. | \$ 10,687 | \$ - | \$ (1,613) | \$ 9,074 |
| Oklahoma State Bank | \$ 58,051 | \$ - | \$ (14,349) | \$ 43,702 |
| | <u>\$ 68,738</u> | <u>\$ -</u> | <u>\$ (15,962)</u> | <u>\$ 52,776</u> |

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

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

| Year Ending June 30 | Truck | Police Cars | Total |
|---------------------------------------|-----------------|------------------|------------------|
| 2017 | \$ 3,264 | \$ 20,605 | \$ 23,869 |
| 2018 | 3,264 | 20,605 | 23,869 |
| 2019 | 3,264 | 4,489 | 7,753 |
| 2020 | <u>2,440</u> | <u>-</u> | <u>2,440</u> |
| Total minimum lease payment | 12,232 | 45,699 | 57,931 |
| Less: Amount representing interest | <u>3,158</u> | <u>1,997</u> | <u>5,155</u> |
| Total | <u>\$ 9,074</u> | <u>\$ 43,702</u> | <u>\$ 52,776</u> |

NOTE E - NOTES PAYABLE PROPRIETARY FUND

The following is a summary of the long-term debt transactions of the City for the year ended June 30, 2016:

| | Balance at July 1, 2015 | Retirements/ Additions | Balance at June 30, 2016 |
|-------------------|----------------------------|---------------------------|-----------------------------|
| Rural Development | \$ 1,614,417 | \$ (30,482) | \$ 1,583,935 |
| Rural Development | 129,028 | (2,382) | 126,646 |
| Total | <u>\$ 1,743,445</u> | <u>\$ (32,864)</u> | <u>\$ 1,710,581</u> |

A brief description of the outstanding notes payable at June 30, 2016 is set forth below:

| <u>Outstanding</u> | <u>Amount</u> |
|---|--------------------|
| Rural Development loan dated October 13, 2009, original loan amount of \$1,697,000, interest rate 1.875%, payable in monthly installments of \$5,041. | 1,583,935 |
| Rural Development loan dated March 31, 1999, original loan amount of \$150,000, interest rate 4.75%, payable in monthly installments of \$705. | <u>126,646</u> |
| Total | <u>\$1,710,581</u> |

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

The annual principal payments due over the next five years and thereafter are as follows. Actual debt service requirements will vary depending on the variable interest rate in effect at the time of payment.

| Year ending June 30 | Rural Development | | Total |
|---------------------|---------------------|-------------------|---------------------|
| | Principal | Interest | |
| 2017 | \$ 33,351 | \$ 35,601 | \$ 68,952 |
| 2018 | 33,956 | 34,996 | 68,952 |
| 2019 | 34,677 | 34,275 | 68,952 |
| 2020 | 35,414 | 33,538 | 68,952 |
| 2021 | 36,169 | 32,783 | 68,952 |
| 2022-2026 | 192,841 | 151,919 | 344,760 |
| 2027-2031 | 214,730 | 130,030 | 344,760 |
| 2032-2036 | 239,568 | 105,192 | 344,760 |
| 2037-2041 | 267,845 | 76,915 | 344,760 |
| 2042-2046 | 263,967 | 47,658 | 311,625 |
| 2047-2051 | 280,132 | 22,328 | 302,460 |
| 2052-2053 | 77,931 | 3,813 | 81,744 |
| Total | <u>\$ 1,710,581</u> | <u>\$ 709,048</u> | <u>\$ 2,419,629</u> |

The Authority incurred interest of \$35,637 on long-term debt during the year.

NOTE G - CAPITAL ASSETS

The following table provides a summary of changes in capital assets:

| | CAPITAL ASSETS, DEPRECIATED | | | | Capital Assets Not Depreciated Land |
|---------------------------------|-----------------------------|--|-------------------------------------|---------------------|-------------------------------------|
| | Buildings | Infrastructure & Improvements Other Than Buildings | Furniture, Machinery, And Equipment | Totals | |
| PRIMARY GOVERNMENT | | | | | |
| Governmental activities | | | | | |
| Balance, June 30, 2015 | \$ - | \$ - | \$ 569,463 | \$ 569,463 | \$ - |
| Increases | - | - | - | - | - |
| Decreases | - | - | - | - | - |
| Balance, June 30, 2016 | - | - | 569,463 | 569,463 | - |
| Accum. Deprec. | | | | | |
| Balance, June 30, 2015 | - | - | 377,591 | 377,591 | - |
| Increase | - | - | 58,384 | 58,384 | - |
| Decreases | - | - | - | - | - |
| Balance, June 30, 2016 | - | - | 435,975 | 435,975 | - |
| Governmental activities | | | | | |
| Capital Assets, Net | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 133,488</u> | <u>\$ 133,488</u> | <u>\$ -</u> |
| Business-type activities | | | | | |
| Balance, June 30, 2015 | \$ 10,150 | \$ 3,327,350 | \$ 2,634,637 | \$ 5,972,137 | \$ 256,894 |
| Increases | - | 364,771 | - | 364,771 | - |
| Decreases | - | - | - | - | - |
| Balance, June 30, 2016 | <u>10,150</u> | <u>3,692,121</u> | <u>2,634,637</u> | <u>6,336,908</u> | <u>256,894</u> |
| Accum. Deprec. | | | | | |
| Balance, June 30, 2015 | 6,770 | 87,594 | 2,348,337 | 2,442,701 | - |
| Increase | 677 | 83,184 | 125,165 | 209,026 | - |
| Decreases | - | - | - | - | - |
| Balance, June 30, 2016 | <u>7,447</u> | <u>170,778</u> | <u>2,473,502</u> | <u>2,651,727</u> | - |
| Business-type Activities | | | | | |
| Capital Assets, Net | <u>\$ 2,703</u> | <u>\$ 3,521,343</u> | <u>\$ 161,135</u> | <u>\$ 3,685,181</u> | <u>\$ 256,894</u> |
| PRIMARY GOVERNMENT | | | | | |
| Capital Assets, Net | <u>\$ 2,703</u> | <u>\$ 3,521,343</u> | <u>\$ 294,623</u> | <u>\$ 3,818,669</u> | <u>\$ 256,894</u> |

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

DEPRECIATION EXPENSE

Depreciation expense was charged to functions of the primary government as follows:

| | | | |
|-----------------------|-----------|--------------------------|------------|
| GOVERNMENT ACTIVITIES | | BUSINESS-TYPE ACTIVITIES | |
| General government | \$ 58,384 | Utilities | \$ 209,026 |

NOTE H - PENSION OBLIGATIONS

Oklahoma Firefighter's Pension and Retirement System

The Town participates in this statewide, cost-sharing, multiple-employer benefit plan on behalf of firefighters. The system is administered by an agency of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

| | <u>Oklahoma Firefighter's Pension And Retirement System</u> |
|--|---|
| Eligibility to Participate | All full-time or voluntary Firefighters of a participating Municipality hired before age 45 |
| Authority establishing contribution obligation and benefit provisions | State Statute |
| Plan members' contribution rate | 8% of covered payroll |
| Town's contribution rate | 13% of covered payroll/\$60 per volunteer |
| Period required to vest | 10 years |
| Benefits and eligibility for distribution (full time) | 20 years credited service, 2 ½% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; If vested, at or after age 50, or after 10 but before 20 years of Credited service, with reduced benefits |
| Benefits and eligibility for distribution (Volunteer) | 20 years credited service equal to \$5.46 per month per year of service With a maximum of 30 Years considered |
| Deferred retirement option | Yes, 20 years credited service with Continued service for 30 or more years |
| Provisions for: | |
| Cost of living adjustments (normal retirement) | Yes, if vested by 5/83 |
| Death (duty, non-duty, post-retirement) | Yes |
| Disability | Yes |
| Cost of living allowances | Yes |

Contributions required by State Statute:

| <u>Fiscal Year</u> | <u>Required Contribution</u> | <u>Percentage Contributed</u> |
|------------------------|----------------------------------|-----------------------------------|
| 2016 | \$ 780 | 100% |
| 2015 | \$ 780 | 100% |
| 2014 | \$ 840 | 100% |

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

NOTE I - 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; and natural disasters. The Town carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J - FEDERAL AND STATE GRANTS

In the normal course of operations, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE K - SUBSEQUENT EVENTS

The Town has evaluated subsequent events and contingencies through March 27, 2017, the date which financial statements were available. The Town believes there are not any items to disclose.

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

I 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Clayton, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town of Clayton, Oklahoma's basic financial statements, and have issued my report thereon dated March 27, 2017 which did not include Management's Discussion and Analysis or budgetary comparison schedules.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Town of Clayton, 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Clayton, Oklahoma's internal control. Accordingly, I do not express an opinion of the effectiveness of Town of Clayton, Oklahoma's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned cost, we identified certain deficiencies in internal control that we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses, reference number 2016-1, 2016-2, 2016-3, 2016-4 and 2016-5.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies, reference number 2016-1, 2016-2, 2016-3, 2016-4 and 2016-5.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Clayton, Oklahoma's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 2016-1, 2016-2, 2016-3, 2016-4 and 2016-5.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion of 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.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
March 27, 2017

TOWN OF CLAYTON, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

2016-1 - Purchase orders

Condition: The Town did not maintain purchase orders for the Public Works expenditures and some for the Town.

Criteria: The Town and Public Works are required to maintain proper purchase orders.

Cause: Purchase orders should be used and approved by the board before the expenditures occur.

Effect: Using proper purchase orders will be part of internal control process and has the board approval on the types, quantities, and agreed prices for purchasing.

Recommendation: The Town should maintain purchase orders for the Town and Public Works.

2016-2 - Town and Public Works minutes

Condition: The Town of Clayton and Clayton Public Works Authority are separate legal entities. Town and Public Works Authority meetings were held together instead of being held separately. In some meetings, the Town approved Public Works items in the Town meeting instead of in the Public Works portion of the meeting.

Criteria: The Town and Authority are required to conduct meetings in accordance with the Oklahoma Open Meetings Act.

Cause: The Town may have violated the Oklahoma Open Meetings Act by failing to vote on items in the correct meeting.

Recommendation: The Town should hold the Town and Public Works meetings separately to ensure they are voting on Public Works items in the Public Works meeting.

2016-3 - Collateral Pledge

Condition: The Town had deposits exceeding FDIC Insurance at one bank.

Criteria: The Town is required to obtain a collateral pledge to cover the excess funds above the FDIC Insurance.

Cause: The bank failed to pledge securities to cover the amount over FDIC Insurance.

Recommendation: The Town should obtain a collateral pledge to cover excess funds.

2016-4 - Reconciliations

Condition: The Town is not using bank reconciliations properly. The balance in the bank reconciliations are not matched with the balance reported in the General Ledger.

Criteria: The Town should properly perform and utilize bank reconciliations each month.

Cause: The Town has old outstanding items that do not clear the bank and are voided at a later date to clear the transactions.

TOWN OF CLAYTON, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2016

Effect: The outstanding is likely due to double entries from transferring between accounts and to dummy accounts. These outstanding checks and deposits on the reconciliations are making the accounts appear overstated or understated.

Recommendation: The Town should properly use and maintain the reconciliations each month to ensure that they are correct and have a clear understanding of what the bank account balance is. This is a part of good internal control for the Town to monitor the account balances and transactions.

2016-5 - Overstating of revenues and expenditures

Condition: The Town uses dummy accounts to show revenues and expenses for each fund. The Town also runs transfers between accounts through revenue and expense. The Town also will put water expenses into water revenue which understates both water revenue and water expense.

Criteria: The Town should not run transfers between accounts through revenue and expense accounts and should use classes or sub expense and revenue accounts. The Town should show revenues and expenses separately.

Cause: The transfers between bank accounts and to dummy accounts are double entered to show the income/expense into the bank account and the revenue/expense account, but then adjusted to move the money to a different bank account or dummy account and ran through revenue/expense again.

Effect: The double entries to transfer money between bank accounts and Dummy accounts causes an overstatement in revenues and expenses.

Recommendation: The Town should consider more training with the accounting software.