

AUDIT REPORT
TOWN OF KENEFIC, OKLAHOMA
JUNE 30, 2011



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TOWN OF KENEFIC, OKLAHOMA
JUNE 30, 2011

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TOWN OF KENEFIC, OKLAHOMA
JUNE 30, 2011

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>	25-26
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TOWN OF KENEFIC, OKLAHOMA
LIST OF COUNCIL MEMBERS
JUNE 30, 2011

TOWN COUNCIL

<u>NAME</u>	<u>POSITION</u>
Robert Brewer	Mayor
Mary Schoolcraft	Council Member
J.D. Hicks	Council Member

Unaudited

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Kenefic, Oklahoma

We 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 Kenefic, Oklahoma, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Town of Kenefic, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Kenefic, Oklahoma's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the Notes, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The Town records its business-type activities within the governmental funds, primarily the General Fund. Accounting principles generally accepted in the United States of America requires the Town to report, in a financial statement format, its business-type activities separate from its governmental activities. Although the Town now has separate accounts for the Sewer, Water Deposits, Water Wells and Reserve Account, funds are still being commingled in the General Fund Account.

In our opinion, except for the effects, if any, on the financial statements of the lack of segregation of its business-type activities described in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Town of Kenefic, Oklahoma, as of June 30, 2011, and the changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described above.

In accordance with Government Auditing Standards, we have also issued our report dated July 30, 2012, on our consideration of the Town of Kenefic, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain

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provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Town of Kenefic has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the Town has not presented the Management's Discussion and Analysis or Budgetary Comparison Information required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Kenefic's basic financial statements. The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Town. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion thereon.

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

July 30, 2012

TOWN OF KENEFIC, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2011

	Governmental Activities	Business-Type Activities	2011 Total
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash in Bank - Unrestricted	\$ 2,313	\$ 16	\$ 2,329
Cash in Bank - Restricted	-	14,822	14,822
Accounts Receivable, net of allowance	-	-	-
Total Current Assets	<u>2,313</u>	<u>14,839</u>	<u>17,152</u>
<u>Capital Assets:</u>			
Capital Assets, Net of Accum. Depr.	<u>34,576</u>	<u>841,891</u>	<u>876,467</u>
Total Capital Assets	<u>34,576</u>	<u>841,891</u>	<u>876,467</u>
TOTAL ASSETS	<u>\$ 36,889</u>	<u>\$ 856,730</u>	<u>\$ 893,619</u>
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Accounts Payable	\$ -	\$ -	\$ -
Payroll Taxes Payable	-	-	-
Customer Deposits	-	3,270	3,270
Notes Payable - Current Portion	-	2,965	2,965
Total Current Liabilities	<u>-</u>	<u>6,235</u>	<u>6,235</u>
<u>Long-Term Liabilities:</u>			
Notes Payable	-	135,342	135,342
Less: Current Maturities	-	(2,965)	(2,965)
Total Long-Term Liabilities	<u>-</u>	<u>132,377</u>	<u>132,377</u>
TOTAL LIABILITIES	<u>-</u>	<u>138,612</u>	<u>138,612</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	34,576	706,549	741,125
Restricted for:			
Debt Service	-	14,822	14,822
Other Purposes	-	-	-
Unrestricted	<u>2,313</u>	<u>(3,253)</u>	<u>(941)</u>
TOTAL NET ASSETS	<u>36,889</u>	<u>718,119</u>	<u>755,007</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 36,889</u>	<u>\$ 856,730</u>	<u>\$ 893,619</u>

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

TOWN OF KENEFIC, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General Government	\$ 31,973	\$ -	\$ -	\$ -	\$ (31,973)
Public Safety	-	-	-	-	-
Highways & Streets	-	-	-	-	-
Debt Service - Interest	-	-	-	-	-
Total Governmental Activities	31,973	-	-	-	(31,973)
Business-type activities:					
Water, Sewer & Sanitation	58,540	57,280	-	-	(1,260)
Total Business-type Activities	58,540	57,280	-	-	(1,260)
Total	\$ 90,514	\$ 57,280	\$ -	\$ -	\$ (33,234)

Changes in Net Assets:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (31,973)	\$ (1,260)	\$ (33,234)
General revenues:			
Taxes:			
Sales Tax	1,630	-	1,630
Use Tax	1,112	-	1,112
Cigar Tax	25	-	25
Intergovernmental:			
Alcoholic Beverage Tax	1,259	-	1,259
Gasoline Excise Tax	474	-	474
Motor Vehicle Tax	1,374	-	1,374
Miscellaneous Income	-	-	-
Interest Income	-	37	37
Transfers - Internal Activity	24,131	(24,131)	-
Total general revenues & transfers	30,004	(24,094)	5,910
Changes in net assets	(1,969)	(25,354)	(27,324)
Net assets - beginning	38,858	743,473	782,331
Net assets - prior year adjustment	-	-	-
Net assets - ending	\$ 36,889	\$ 718,119	\$ 755,007

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

**TOWN OF KENEFIC, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2011**

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 2,313	\$ -	\$ 2,313
TOTAL ASSETS	\$ 2,313	\$ -	\$ 2,313
<u>LIABILITIES & FUND EQUITY</u>			
LIABILITIES:			
Accounts Payable	\$ -	\$ -	\$ -
Payroll Taxes Payable	-	-	-
TOTAL LIABILITIES	-	-	-
FUND BALANCES:			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	-	-
Assigned	-	-	-
Unassigned	2,313	-	2,313
TOTAL FUND BALANCES	2,313	-	2,313
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,313	\$ -	\$ 2,313

Reconciliation to Statement of Net Assets:

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

Capital assets used in governmental activities of \$54,492, net of accumulated depreciation of \$19,916, are not financial resources and, therefore, are not reported in the funds. 34,576

Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds. -

Net Assets of Governmental Activities \$ 36,889

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

TOWN OF KENEFIC, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES:</u>			
Taxes:			
Sales Tax	\$ 1,630	\$ -	\$ 1,630
Use Tax	1,112	-	1,112
Cigar Tax	25	-	25
Intergovernmental:			
Alcoholic Beverage Tax	1,259	-	1,259
Gasoline Excise Tax	474	-	474
Motor Vehicle Tax	1,374	-	1,374
Grants	-	-	-
Interest Income	-	-	-
TOTAL REVENUES	5,874	-	5,874
<u>EXPENDITURES:</u>			
Current:			
General Government:			
Personal Services	16,578	-	16,578
Maintenance & Operations	13,876	-	13,876
Debt Service	-	-	-
Capital Outlay	-	-	-
TOTAL EXPENDITURES	30,453	-	30,453
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(24,580)	-	(24,580)
<u>OTHER FINANCING SOURCES (USES):</u>			
Operating Transfers In	59,629	-	59,629
Operating Transfers Out	(35,499)	-	(35,499)
Capital Debt Proceeds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	24,131	-	24,131
NET CHANGES IN FUND BALANCES	(449)	-	(449)
FUND BALANCE - BEGINNING OF YEAR	2,763	-	2,763
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-
FUND BALANCE - END OF YEAR	\$ 2,313	\$ -	2,313

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

TOWN OF KENEFIC, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds \$ (449)

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

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:

 Capital debt obligation principal payments -

Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Assets:

 Capital Debt Proceeds -

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

 Capital asset purchases capitalized -

 Depreciation expense (1,520)

Change in Net Assets of Governmental Activities \$ (1,969)

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

TOWN OF KENEFIC, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2011

		Kenefic Public Utility Authority Enterprise Fund June 30, 2011
ASSETS:		
Current Assets:		
Cash in Bank - Unrestricted	\$	16
Cash in Bank - Restricted		14,822
Accounts Receivable		-
Total Current Assets		14,839
Noncurrent Assets:		
Capital assets, net of accumulated depreciation		841,891
Total Noncurrent Assets		841,891
TOTAL ASSETS	\$	856,730
LIABILITIES:		
Current Liabilities:		
Payroll Taxes Payable	\$	-
Customer Deposits		3,270
Notes Payable - Current Maturities		2,965
Total Current Liabilities		6,235
Noncurrent Liabilities:		
Notes Payable		135,342
Less: Current Maturities		(2,965)
Total Noncurrent Liabilities		132,377
TOTAL LIABILITIES		138,612
NET ASSETS:		
Invested in capital assets, net of related debt		706,549
Restricted for debt service		14,822
Unrestricted		(3,253)
TOTAL NET ASSETS		718,119
TOTAL LIABILITIES & NET ASSETS	\$	856,730

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

TOWN OF KENEFIC, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Kenefic Public Utility Authority Enterprise Fund June 30, 2011</u>
<u>OPERATING REVENUES:</u>	
Charges for Services:	
Water Revenue	\$ 57,280
Sewer Revenue	-
Miscellaneous Income	-
TOTAL OPERATING REVENUES	<u>57,280</u>
<u>OPERATING EXPENSES:</u>	
Personal Services	26
Maintenance & Operations	25,307
Depreciation	28,758
TOTAL OPERATING EXPENSES	<u>54,091</u>
NET OPERATING INCOME (LOSS)	<u>3,189</u>
NON-OPERATING REVENUES (EXPENSES)	
Grant Revenues	-
Grant Expenses	-
Interest Income	37
Interest Expense	(4,450)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(4,413)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(1,224)
Transfers in	35,499
Transfers out	(59,629)
CHANGE IN NET ASSETS	(25,354)
TOTAL NET ASSETS - BEGINNING	743,473
TOTAL NET ASSETS - PRIOR YEAR ADJUSTMENT	-
TOTAL NET ASSETS - ENDING	<u><u>\$ 718,119</u></u>

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

TOWN OF KENEFIC, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>June 30, 2011</u>
<u>Net Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 57,280
Payments to Suppliers for Goods & Services	(25,307)
Payments to Employees & Laborers	(26)
Receipts of Customer Utility Deposits, Net of Refunds	700
Net Cash Provided (Used) by Operating Activities	<u>32,648</u>
<u>Net Cash Flows from Non-Capital Financing Activities:</u>	
Transfers to other funds	(59,629)
Transfers from other funds	35,499
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(24,131)</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>	
Capital grant received for removal & disposal of storage tank	-
Grant expenses for removal & disposal of storage tank	-
Additions to Capital Assets	(525)
Proceeds from sale of Capital Assets	-
Loan Proceeds received	-
Principal paid on Notes Payable	(2,870)
Interest paid	(4,450)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(7,845)</u>
Net Cash Flows from Investing Activities:	
Interest Income	37
Net Cash Provided (Used) by Investing Activities	<u>37</u>
Net Increase (Decrease) in Cash and Cash Equivalents	709
Cash & Cash Equivalents, Beginning of Year	14,130
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	<u>\$ 14,839</u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ 3,189
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	28,758
(Increase)Decrease in Accounts Receivable	-
Increase(Decrease) in Accounts Payable	-
Increase(Decrease) in Water Deposits	700
Net Cash Provided (Used) by Operating Activities	<u>\$ 32,648</u>

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

TOWN OF KENEFIC, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Town of Kenefic, Oklahoma is a statutory town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and highways, sanitation, water, public improvements, and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2011, the Town had only one component unit, the Kenefic Public Utility Authority.

B. Basis of Presentation-Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Town's funds are grouped into two governmental funds types, general funds and special revenue funds. Proprietary funds include enterprise funds. As of June 30, 2011, the Town had governmental funds of general fund and cemetery care. The proprietary funds consisted of the Kenefic Public Utility Authority.

Government-Wide Financial Statements

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

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by providing a separate set of self-balancing accounts which include its assets, liabilities, fund equity, cash receipts, cash disbursements, and certain accruals. The Town maintains a separate bank account for each fund. All bank accounts are at institutions, which are FDIC insured.

TOWN OF KENEFIC, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Governmental Fund Types

The General Fund is the general operating fund of the Town.

Proprietary Fund Types

The Utility Authority Enterprise Fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The costs (expenses, including depreciation) of providing services, such as sewer, on a continuing basis, are financed through user charges, paid by the general public. Proprietary fund types utilize the modified cash basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. All proprietary fund fixed assets are valued at estimated historical cost, or if contributed property, at its estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses: renewals and betterments are capitalized.

C. Total Columns (Memorandum Only) & Beginning Fund Balances

Total Columns on combined statements are captioned "Memorandum Only" to indicate that they are presented only to aid in financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

D. Basis of Accounting

The Town of Kenefic prepares its financial statements on the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The Governmental Fund types recognize revenues, expenditures, and liabilities when received or paid. Grant income is recognized when received.

E. Budget and Budgetary Procedures

In accordance with Oklahoma Statutes, Title 68, Section 3002, the Town Council formally adopts annual budgets which include substantially all funds. These annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code.

F. Cash and Cash Equivalents

The statement of cash flows for proprietary fund types explains the change in cash and cash equivalents during the fiscal period. For purposes of the statement of cash flows, cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their

TOWN OF KENEFIC, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

maturity that they present insignificant risk of changes in value because of changes in interest rates. Restricted cash consists of monies held in conjunction with the Kenefic Public Utility Authority's bond indenture requirements.

G. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are not recognized as the equivalent of expenditures; therefore, the reserve for encumbrances is reported as part of the fund balance on the balance sheet. However, it should be noted that the Town did not recognize any outstanding reserves as of June 30, 2011.

H. Accounts Receivable

As a result of the use of the cash basis of accounting, accounts receivable and other revenue related receivables are not required, but may be reported in the financial statements.

I. Inventories

The Town records materials and supplies inventory as expenditures at the time the inventory is purchased; therefore, no inventory balances for materials and supplies not yet consumed are reported in the combined statement of assets, liabilities and fund balances.

J. Property & Equipment

Property and equipment for the proprietary fund type are recorded at their historical cost; these assets are depreciated over the estimated useful life of the related asset.

Capitalization Policy

Purchases of capital items in excess of \$2,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

K. Equity Classification

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

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors,

TOWN OF KENEFIC, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

- contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Balance

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

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

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

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

The Town does not have any Special Revenue Funds.

L. Revenues, expenditures and expenses

Property Tax

For the year ended June 30, 2011, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

TOWN OF KENEFIC, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Expenditures/Expenses

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

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

Proprietary Fund Types - By Operating and Non-Operating

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

- M. In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:
1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the Town's overall financial position and results of operations. However, the Town has chosen not to present the required MD&A for the current year.
 - b. Financial statements prepared using full accrual accounting for all of the Town's activities, except for including the General capital assets or infrastructure (roads, bridges, etc.).
 2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The Town has elected to implement the general provisions of the Statement and report infrastructure acquired after July 1, 2003 as provided by GASB standards.

N. Risk Management

Significant losses are covered by commercial insurance for all Town operations.

O. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

TOWN OF KENEFIC, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

Finance-related Legal & Contractual Provisions

As required, the annual budget was prepared and filed with the State Auditor and Inspector's office.

Deficit Fund Balance or Retained Earnings

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

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2011, the Town held deposits of approximately \$17,152 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name. The Town of Kenefic is considered a separate entity from the Kenefic Public Utility Authority for FDIC deposit insurance.

Investment Interest Rate Risk

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

Investment Credit Risk

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

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.

TOWN OF KENEFIC, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

The loan agreements with the United States Department of Agriculture Rural Development (USDA) requires the Utility Authority to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installments (\$1,932 & \$5,388), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval. As of June 30, 2011, the Authority was required to have at least \$4,941.00 set aside in the reserve account; as of that date the account balance for the reserve account was \$5,446.91, which complies with the covenants of the loan agreements.

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

<u>Governmental Activities:</u>	Balance <u>7/1/10</u>	Additions	Deductions	Balance <u>6/30/11</u>
Street & Roadways	\$ 26,250	\$ -	\$ -	\$ 26,250
Office Buildings	24,012	-	-	24,012
Office Furniture & Equipment	4,229	-	-	4,229
Subtotal	54,491	-	-	54,491
Less: Accum. Depreciation	(18,395)	(1,520)	-	(19,915)
Total Capital Assets (Net of Depreciation)	<u>\$ 36,096</u>	<u>\$ (1,520)</u>	<u>\$ -</u>	<u>\$ 34,576</u>

As of June 30, 2011, the governmental funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available. Depreciation of \$1,520- for the governmental funds was recorded as follows: Street & Roadways - \$875, Office Building - \$600, and Office Equipment - \$45, all charged to general government.

TOWN OF KENEFIC, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

<u>Business-Type Activities:</u>	Balance			Balance 6/30/11
	7/1/10	Additions	Deductions	
Automotive Equipment	\$ 2,400	\$ -	\$ -	\$ 2,400
Machinery & Equipment	21,817	-	-	21,817
Water System & Equipment	383,113	-	-	383,113
Sewer System & Equipment	679,943	525	-	680,468
Subtotal	1,087,273	525	-	1,087,798
Less: Accum. Depreciation	(217,148)	(28,758)		(245,906)
Total Capital Assets (Net of Depreciation)	<u>\$ 870,125</u>	<u>\$ (28,233)</u>	<u>\$ -</u>	<u>\$ 841,892</u>

As of June 30, 2011, the Public Utility Authority had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight-line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available. Depreciation of \$28,758 for the Public Utility Authority was recorded as follows: Machinery & Equipment - \$2,182, Water System - \$9,577, and Sewer System - \$16,999.

NOTE 6 - LONG-TERM DEBT

Kenefic Public Utility Authority:

As of June 30, 2011, the Kenefic Public Utility Authority had a note outstanding with the USDA Rural Development. The loan was for an original amount of \$42,000.00. Collateral of the loan is the revenues generated by the sewer system. The loan carries a 3.25% interest rate with monthly payments of \$161.

As of June 30, 2011, the Kenefic Public Utility Authority had a second note outstanding with the USDA Rural Development. The loan was for an original amount of \$117,200.00. Collateral of the loan is the revenues generated by the sewer system. The loan carries a 3.25% interest rate with monthly payments of \$449.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
Note Payable USDA RD #1	\$ 36,454.82	\$ -	\$ (758.41)	\$ 35,696.41
Note Payable USDA RD #2	\$ 101,757.58	\$ -	\$ (2,112.03)	\$ 99,645.55
Total Long-Term Debt	<u>\$ 138,212.40</u>	<u>\$ -</u>	<u>\$ (2,870.44)</u>	<u>\$ 135,341.96</u>

TOWN OF KENEFIC, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2011, are as follows:

USDA RD #1

Year Ending June 30,	Principal	Interest	Total
2012	\$ 783	\$ 1,149	\$ 1,932
2013	809	1,123	1,932
2014	836	1,096	1,932
2015	864	1,068	1,932
2016	892	1,040	1,932
2017-2021	4,922	4,738	9,660
2022-2026	5,789	3,871	9,660
2027-2031	6,809	2,851	9,660
2032-2036	8,009	1,651	9,660
2037-2040	5,984	332	6,315
Total	<u>\$ 35,696</u>	<u>\$ 18,919</u>	<u>\$ 54,615</u>

USDA RD #2

Year Ending June 30,	Principal	Interest	Total
2012	\$ 2,182	\$ 3,206	\$ 5,388
2013	2,254	3,134	5,388
2014	2,328	3,060	5,388
2015	2,405	2,983	5,388
2016	2,484	2,904	5,388
2017-2021	13,706	13,234	26,940
2022-2026	16,121	10,819	26,940
2027-2031	18,962	7,978	26,940
2032-2036	22,302	4,638	26,940
2037-2040	16,902	948	17,850
Total	<u>\$ 99,646</u>	<u>\$ 52,904</u>	<u>\$ 152,550</u>

NOTE 7 - FUND EQUITY

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

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

The Town's restricted net assets are described in Note 4 above.

TOWN OF KENEFIC, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

Fund Balances

Town of Kenefic
Disclosure of Fund Balances Reported on Balance Sheet
For Fiscal Year Ending June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>FUND BALANCES:</u>			
Assigned	\$ -	\$ -	\$ -
Unassigned	2,313	-	2,313
Total	\$ 2,313	\$ -	\$ 2,313

NOTE 8 - COMMITMENTS & CONTINGENCIES

Litigation

The Town currently has no pending litigation.

Federally Assisted Programs

In the normal course of operations, the Town participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Compensated Absences - Compensated absences have not been determined because the Town prepares its financial statements on the cash basis of accounting. According to generally accepted accounting principles the liability for compensated absences should be accrued.

NOTE 9 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through July 30, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2011.

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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 Kenefic, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the Town of Kenefic, State of Oklahoma, as of June 30, 2011, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles and which collectively comprise the Town's basic financial statements and have issued our report thereon dated July 30, 2012 which was qualified for the effect on the basic financial statements of the lack of segregation of its business-type activities. The Town of Kenefic has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the Town did not present the required MD&A. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Kenefic's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Kenefic's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Kenefic's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that I consider to be material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over

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financial reporting. Those deficiencies are listed as Items 11-01 and 11-02. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Kenefic's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is included in the Schedule of Findings as Item 11-03. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

Town of Kenefic's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit Town of Kenefic's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of trustees, others within the entity, USDA Rural Development and the Oklahoma State Auditor and Inspector's office and is not intended to be and should not be used by anyone other than these specified parties.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

July 30, 2012

TOWN OF KENEFIC, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2011

Internal Control Findings:

Item 11-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the Town.

Item 11-02: Meter Deposits

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

Condition: The Meter Deposit Control Account has not been accurately posted with all transactions during the year.

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

Recommendation: All deposit refunds and final bills should be accurately posted to reconcile the account at yearend. A Meter Deposit Ledger should be maintained so that an accurate liability amount can be reported. The Authority should also maintain a reserved bank account to be used for refunding meter deposits.

Response: The Authority is aware of the situation.

TOWN OF KENEFIC, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2011

COMPLIANCE FINDINGS:

Item 11-03: Payroll Reporting and Compliance

Criteria: The Town is required to withhold one half social security tax and applicable federal and state income tax from gross wages and timely remit such funds to the United States Treasury, the Oklahoma Tax Commission and the OESC. Reporting payroll activity on IRS forms 941, Oklahoma forms OW-8, OES-3 is required at various periods during the year, monthly, quarterly or annually.

Condition: Payroll taxes for the current year were not calculated correctly.

Cause/Effect: The miscalculations have left the Town subject to additional tax liability, penalties, and interest charges by the taxing agencies.

Recommendation: The Town needs to get in compliance with the federal and state payroll tax requirements.

Response: The Town was able to have the payroll taxes recalculated and corrected.