

AUDIT REPORT  
TOWN OF SUMMIT, OKLAHOMA  
JUNE 30, 2013



KERSHAW CPA & ASSOCIATES, PC

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

WEB: [KERSHAWCPA.COM](http://KERSHAWCPA.COM)  
E-MAIL: [REK@KERSHAWCPA.COM](mailto:REK@KERSHAWCPA.COM)

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

TOWN OF SUMMIT, OKLAHOMA  
JUNE 30, 2013

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	3-5
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
EXHIBIT A STATEMENT OF NET POSITION - MODIFIED CASH BASIS	6
EXHIBIT B STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	7
Fund Financial Statements:	
EXHIBIT C BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	8
EXHIBIT D STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	9-10
NOTES TO THE FINANCIAL STATEMENTS	11-20
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>	21-22
SCHEDULE OF FINDINGS	23

# KERSHAW CPA & ASSOCIATES, PC

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

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

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

---

## INDEPENDENT AUDITOR'S REPORT

To the Town Council  
Town of Summit, Oklahoma

### *Report on the Financial Statements*

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

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in

# KERSHAW CPA & ASSOCIATES, PC

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

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

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

---

order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

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

## *Basis for Qualified Opinion*

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

As described in the Notes, the combined financial statements referred to above do not include the financial activities of the Fire Department Fund which should be included as a special revenue fund, in order to conform to the modified cash basis of accounting. The effect of this omission on these modified cash basis financial statements is not reasonably determinable, but is considered sufficiently material.

## *Qualified Opinion*

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Town of Summit, Oklahoma, as of June 30, 2013, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

# KERSHAW CPA & ASSOCIATES, PC

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

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

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

---

## *Other Matters*

### *Other Reporting Required by Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2014, on our consideration of the Town of Summit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Town of Summit's internal control over financial reporting and compliance.

### *Basis of Accounting*

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

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC

October 15, 2014

**TOWN OF SUMMIT, OKLAHOMA  
STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
JUNE 30, 2013**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>2013 Total</u>
<b><u>ASSETS</u></b>			
<b><u>Current Assets:</u></b>			
Cash and cash equivalents	\$ 11,631	\$ -	\$ 11,631
Total Current Assets	<u>11,631</u>	<u>-</u>	<u>11,631</u>
<b><u>Capital Assets:</u></b>			
Land	-	-	-
Other Capital Assets, Net of Accum. Depr.	-	-	-
Total Capital Assets	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u><b>11,631</b></u>	<u><b>-</b></u>	<u><b>11,631</b></u>
<b><u>LIABILITIES</u></b>			
<b><u>Current Liabilities:</u></b>			
Current Portion of Long-Term Debt	-	-	-
Total Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>Long-Term Liabilities:</u></b>			
Notes Payable	-	-	-
Less: Current Portion of Long-Term Debt	-	-	-
Total Long-Term Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>-</b></u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	-	-	-
Restricted for:			
Debt Service	-	-	-
Other Purposes	-	-	-
Unrestricted	<u>11,631</u>	<u>-</u>	<u>11,631</u>
<b>TOTAL NET POSITION</b>	<u><b>\$ 11,631</b></u>	<u><b>\$ -</b></u>	<u><b>\$ 11,631</b></u>

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

TOWN OF SUMMIT, OKLAHOMA  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
General Government	\$ 31,318	\$ -	\$ -	\$ -	\$ (31,318)
Public Safety	-	-	-	-	-
Highways & Streets	-	-	-	-	-
Debt Service - Interest	-	-	-	-	-
<b>Total Governmental Activities</b>	<b>31,318</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(31,318)</b>
<b>Business-type activities:</b>					
Water, Sewer & Sanitation	-	-	-	-	-
<b>Total Business-type Activities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>\$ 31,318</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (31,318)</b>

## Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (31,318)	\$ -	\$ (31,318)
<b>General revenues:</b>			
<b>Taxes:</b>			
Franchise Tax	3,415	-	3,415
Sales Tax	4,199	-	4,199
Use Tax	1,381	-	1,381
Cigar Tax	53	-	53
<b>Intergovernmental:</b>			
Gasoline Excise Tax	258	-	258
Other Taxes	1,500	-	1,500
Rental Income	11,500	-	11,500
Miscellaneous Income	16,650	-	16,650
Interest Income	-	-	-
Transfers - Internal Activity	-	-	-
<b>Total general revenues &amp; transfers</b>	<b>38,955</b>	<b>-</b>	<b>38,955</b>
Changes in net position	7,638	-	7,638
Net position - beginning	3,993	-	3,993
Net position - prior year adjustment	-	-	-
<b>Net position - ending</b>	<b>\$ 11,631</b>	<b>\$ -</b>	<b>\$ 11,631</b>

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

**TOWN OF SUMMIT, OKLAHOMA  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2013**

	General Fund	Capital Improvement Fund	Other Governmental Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 11,528	\$ 103	\$ -	\$ 11,631
<b>TOTAL ASSETS</b>	<b>\$ 11,528</b>	<b>\$ 103</b>	<b>\$ -</b>	<b>\$ 11,631</b>
<b>LIABILITIES &amp; FUND EQUITY</b>				
<b>LIABILITIES:</b>				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES:</b>				
Nonspendable	-	-	-	-
Restricted	-	103	-	103
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	11,528	-	-	11,528
<b>TOTAL FUND BALANCES</b>	<b>11,528</b>	<b>103</b>	<b>-</b>	<b>11,631</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 11,528</b>	<b>\$ 103</b>	<b>\$ -</b>	<b>\$ 11,631</b>

**Reconciliation to Statement of Net Position:**

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

Capital assets used in governmental activities of \$0, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds.

-

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 Position of Governmental Activities**

**\$ 11,631**

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

**TOWN OF SUMMIT, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

	General Fund	Capital Improvement Fund	Other Governmental Fund	Total Governmental Funds
<b><u>REVENUES:</u></b>				
Taxes:				
Franchise Tax	\$ 3,415	\$ -	\$ -	\$ 3,415
Sales Tax	4,199	-	-	4,199
Use Tax	1,381	-	-	1,381
Cigar Tax	53	-	-	53
Intergovernmental:				
Gasoline Excise Tax	258	-	-	258
Oither Taxes	1,500	-	-	1,500
Grants	-	-	-	-
Rental Income	11,500	-	-	11,500
Miscellaneous Income	16,650	-	-	16,650
Interest Income	-	-	-	-
<b>TOTAL REVENUES</b>	<b>38,955</b>	<b>-</b>	<b>-</b>	<b>38,955</b>
<b><u>EXPENDITURES:</u></b>				
Current:				
General Government	31,318	-	-	31,318
Public Safety	-	-	-	-
Highways & Streets	-	-	-	-
Debt Service	-	-	-	-
Capital Outlay	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>31,318</b>	<b>-</b>	<b>-</b>	<b>31,318</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>7,638</b>	<b>-</b>	<b>-</b>	<b>7,638</b>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>				
Operating Transfers In	1,500	-	-	1,500
Operating Transfers Out	-	(1,500)	-	(1,500)
Capital Debt Proceeds	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,500</b>	<b>(1,500)</b>	<b>-</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>9,138</b>	<b>(1,500)</b>	<b>-</b>	<b>7,638</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>2,391</b>	<b>1,603</b>	<b>-</b>	<b>3,993</b>
<b>FUND BALANCE - PRIOR YEAR ADJUSTMENT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 11,528</b>	<b>\$ 103</b>	<b>\$ -</b>	<b>11,631</b>

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

**TOWN OF SUMMIT, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds	\$	7,638
--	----	-------

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

<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:</p> <p style="padding-left: 20px;">Capital debt obligation principal payments</p>		-
<p>Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:</p> <p style="padding-left: 20px;">Capital Debt Proceeds</p>		-
<p>Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:</p> <p style="padding-left: 20px;">Capital asset purchases capitalized</p> <p style="padding-left: 20px;">Depreciation expense</p>		-
		-
<b>Change in Net Position of Governmental Activities</b>	\$	<u><u>7,638</u></u>

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



TOWN OF SUMMIT, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

B. Basis of Presentation

Government-Wide Financial Statements

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

Fund Financial Statements

The 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.

Governmental Fund Types

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Capital Improvement Fund

The Capital Improvement Fund is used to account for and report financial resources restricted, committed, or assigned for capital outlays, including the acquisition or construction of specific capital facilities or other capital items.

Proprietary Fund Types

Enterprise Funds

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The Town currently does not have any Enterprise Funds.

TOWN OF SUMMIT, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

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

Basis of Accounting

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

TOWN OF SUMMIT, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

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

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

D. Budgetary Data

The Town is required to adopt an annual budget for all funds established by the governing body as required by O.S. 11 Section 17.207 through 17.210. The state statutes also require that the budget be adopted by resolution or per the town charter at the legal level of classification (fund, department, & object category) and that the budget be filed with the County Clerk and the State Auditor and Inspector.

E. Cash and Cash Equivalents

For the purposes of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

F. Capital Assets

The Town does not maintain records for capital assets.

G. Equity Classification

Net Position is classified and displayed in three components:

TOWN OF SUMMIT, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Fund Balance

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

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

TOWN OF SUMMIT, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2013

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Capital Improvement Fund	Grant Income Other Income

H. Revenues, expenditures and expenses

Property Tax

For the year ended June 30, 2013, 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.

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.

I. Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town management to make estimates and assumptions that affect certain reported

TOWN OF SUMMIT, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

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 District'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

The Town has no loan agreements which would require reserve accounts or budget preparation.

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, 2013, the Town held deposits of approximately \$11,631 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.

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.

TOWN OF SUMMIT, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2013

Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.

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

NOTE 4 - LONG-TERM DEBT

The Town has no long-term debt.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2013:

	Balance at June 30, 2012	Additions	Deductions	Balance at June 30, 2013
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Debt Service Requirements to Maturity

There are no debt service requirements.

NOTE 5 - FUND EQUITY

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

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

The Town does not have any restricted amounts.

TOWN OF SUMMIT, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

Governmental Fund Balances

Town of Summit, Oklahoma  
Disclosure of Fund Balances Reported on Balance Sheet  
For Fiscal Year Ending June 30, 2013

	General Fund	Capital Improvement Fund	Other Governmental Fund	Total Governmental Funds
FUND BALANCES:				
Restricted for:				
Capital Improvements	\$ -	\$ 103	\$ -	\$ 103
Unassigned	11,528	-	-	11,528
Total	\$11,528	\$ 103	\$ -	\$ 11,631

NOTE 6 - 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 modified cash basis of accounting.

NOTE 7 - PENSION PLAN

The Town does not maintain or contribute to any type of pension plan.

NOTE 8 - FIRE DEPARTMENT

Records for the Fire Department Fund were unavailable.

NOTE 9 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2013.

TOWN OF SUMMIT, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

NOTE 10 - RENTAL INCOME

The Muskogee County District Attorney conducted an investigation focused on expenditures from the county sales tax fund dedicated for the support of fire protection services. The primary focus was on payments of \$6,000 per year from the fund to the Town of Summit to rent a building that houses the town's fire department. The investigation determined that "It's not wrong to pay for a fire department out of the sales tax money, but the town (of Summit) owns the building, and it's already paid for, it's like taking money out of the right pocket and putting it in the left pocket."

# KERSHAW CPA & ASSOCIATES, PC

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

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

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

---

## 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 Board of Trustees  
Town of Summit, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Summit, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the Town of Summit, Oklahoma's basic financial statements, and have issued our report thereon dated October 15, 2014, which was qualified for the improper capital asset recordkeeping and the omission of the financial activities of the Fire Department Fund.

### Internal Control Over Financial Reporting

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

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

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

# KERSHAW CPA & ASSOCIATES, PC

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

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

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

---

to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Item 13-01.

## Compliance and Other Matters

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

## Town of Summit's Response to Findings

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

## Purpose of this Report

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

*Kershaw CPA & Associates, P.C.*

Kershaw CPA & Associates, PC

October 15, 2014

TOWN OF SUMMIT, OKLAHOMA  
SCHEDULE OF FINDINGS  
JUNE 30, 2013

INTERNAL CONTROL FINDINGS:

Item 13-01: 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 the Town Clerk and Fire Chief, 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 organization.