

TOWN OF KELLYVILLE, OKLAHOMA
ANNUAL FINANCIAL REPORT
JUNE 30, 2011

RALPH OSBORN
Certified Public Accountant
500 South Chestnut
Bristow, Oklahoma 74010

INDEPENDENT AUDITORS' REPORT

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

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 Kellyville, Oklahoma as of and for the year ended June 30, 2011, which collectively comprise Town of Kellyville, Oklahoma's basic financial statements. These financial statements are the responsibility of Town of Kellyville, Oklahoma's management. My responsibility is to express an opinion 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 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. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note A, Town of Kellyville, Oklahoma prepares its financial statements on a modified accrual basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified accrual basis of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Town of Kellyville, Oklahoma as of June 30, 2011, and the respective changes in financial position-modified accrual basis and cash flows where appropriate, thereof for the year ended, in conformity with the basis of accounting described in Note A.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated May 24, 2013, on my consideration of Town of Kellyville, Oklahoma's internal control over financial reporting and 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 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 accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Kellyville, Oklahoma's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
May 24, 2013

TOWN OF KELLYVILLE, OKLAHOMA
STATEMENT OF NET ASSETS
MODIFIED ACCRUAL BASIS
JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 8,751	\$ -	\$ 8,751
Taxes receivable	79,807	-	79,807
Accounts receivable	33,375	23,303	56,678
Prepaid	2,940	-	2,940
Total current assets	<u>124,873</u>	<u>23,303</u>	<u>148,176</u>
Restricted assets:			
Cash - construction	-	44,139	44,139
Cash - debt service	-	12,832	12,832
Cash - reserve	-	65,342	65,342
Cash - Webco Escrow	-	120,400	120,400
Total restricted assets	<u>-</u>	<u>242,713</u>	<u>242,713</u>
Non-current assets:			
Capital assets			
Land	24,700	-	24,700
Other capital assets net of Accumulated depreciation	<u>836,337</u>	<u>2,249,709</u>	<u>3,086,046</u>
Total non-current assets	<u>861,037</u>	<u>2,249,709</u>	<u>3,110,746</u>
Total assets	<u>985,910</u>	<u>2,515,725</u>	<u>3,501,635</u>
LIABILITIES			
Current liabilities:			
Cash overdraft	-	2,932	2,932
Accounts payable	18,501	1,610	20,111
Payroll liabilities	11,936	-	11,936
Compensated absences	2,870	-	2,870
Interest payable	-	27,705	27,705
Utility deposits	-	7,795	7,795
Notes payable	-	28,333	28,333
Capital lease obligation	19,580	-	19,580
Total current liabilities	<u>52,687</u>	<u>68,375</u>	<u>121,262</u>
Non-current liabilities:			
Notes payable	-	1,238,334	1,238,334
Capital lease obligation	-	-	-
Total non-current liabilities	<u>-</u>	<u>1,238,334</u>	<u>1,238,334</u>
Total liabilities	<u>52,887</u>	<u>1,306,709</u>	<u>1,359,596</u>
NET ASSETS			
Nonspendable	933,023	966,303	1,899,326
Restricted for debt service	-	78,174	78,174
Restricted for construction	-	44,139	44,139
Restricted for Webco Escrow	-	120,400	120,400
Unrestricted	-	-	-
Total net assets	<u>\$ 933,023</u>	<u>\$ 1,209,016</u>	<u>\$ 2,142,039</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, OKLAHOMA
STATEMENT OF ACTIVITIES
MODIFIED ACCRUAL BASIS
YEAR ENDED JUNE 30, 2011

Function/Programs	Expenses	Program Revenue			Net (Expenses) Revenue
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 135,842	\$ -	\$ 7,510	\$ 12,100	\$ (116,232)
Public safety	214,485	135,153	4,398	131,071	56,137
Street	62,984	-	8,271	-	(54,713)
Culture and education	38,537	-	4,409	-	(34,128)
Parks and recreation	98	-	-	-	(98)
Legal	12,274	-	-	-	(12,274)
Cemetery	20,954	9,100	-	-	(11,854)
Total governmental activities	485,174	144,253	24,588	143,171	(173,162)
Business-type activities					
Sanitation	55,167	72,101	-	-	16,934
Wastewater	183,622	99,397	-	234,990	150,765
Total business-type activities	238,789	171,498	-	234,990	167,699
Total primary government	\$ 723,963	\$ 315,751	\$ 24,588	\$ 378,161	\$ (5,463)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense) revenue	\$ (173,162)	\$ 167,699	\$ (5,463)
General revenues			
Taxes			
Sales/use tax	268,462	-	268,462
Franchise	37,369	-	37,369
Other	22,334	-	22,334
Interest	162	1,504	1,666
Transfers	(5,425)	5,425	-
Total general revenue and transfers	322,902	6,929	329,831
Change in net assets	149,740	174,628	324,368
Net assets - beginning	783,283	1,034,388	1,817,671
Net assets - ending	<u>\$ 933,023</u>	<u>\$ 1,209,016</u>	<u>\$ 2,142,039</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, OKLAHOMA
BALANCE SHEET - MODIFIED ACCRUAL BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2011

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 8,751	\$ 8,751
Taxes receivable	79,807	79,807
Fire accounts receivable	33,375	33,375
Prepaid	<u>2,940</u>	<u>2,940</u>
TOTAL ASSETS	<u>\$ 124,873</u>	<u>\$ 124,873</u>
 LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	\$ 18,501	18,501
Payroll liabilities	11,936	11,936
Compensated absences	<u>2,870</u>	<u>2,870</u>
TOTAL LIABILITIES	<u>33,307</u>	<u>33,307</u>
 FUND BALANCES		
Nonspendable	91,566	91,566
Unassigned	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>91,566</u>	<u>91,566</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 124,873</u>	 <u>\$ 124,873</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, OKLAHOMA
 RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
 WITH THE STATEMENT OF NET ASSETS
 YEAR ENDED JUNE 30, 2011

Total fund balance \$ 91,566

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

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

Land	24,700	
Capital assets	1,293,036	
Accumulated depreciation	<u>(456,699)</u>	861,037

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 obligation	<u>(19,580)</u>
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Total net assets	<u>\$ 933,023</u>
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The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - MODIFIED ACCRUAL BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>General Funds</u>	<u>Total Governmental Funds</u>
Revenue		
Sales/use tax	\$ 268,462	\$ 268,462
Franchise tax	37,369	37,369
Gasoline and auto tax	8,271	8,271
Alcoholic beverage tax	4,721	4,721
Cigarette tax	2,789	2,789
Fire revenue	51,100	51,100
Cemetery services	3,600	3,600
Cemetery lot sales	5,500	5,500
License and permits	990	990
Intergovernmental	151,978	151,978
Fines and forfeits	84,053	84,053
Donations	993	993
Other	20,351	20,351
Interest	<u>162</u>	<u>162</u>
Total revenue	<u>640,339</u>	<u>640,339</u>
Expenditures		
Current		
General government	131,472	131,472
Public safety	318,658	318,658
Street	57,049	57,049
Culture and education	31,136	31,136
Legal	12,274	12,274
Cemetery	19,865	19,865
Parks and recreation	98	98
Total expenditures	<u>570,552</u>	<u>570,552</u>
Excess (deficiency) of revenue over expenditures	<u>69,787</u>	<u>69,787</u>
Other financing sources (uses)		
Transfer out	<u>(5,425)</u>	<u>(5,425)</u>
Total other financing sources (uses)	<u>(5,425)</u>	<u>(5,425)</u>
Net change in fund balance	64,362	64,362
Fund balances, beginning	<u>27,204</u>	<u>27,204</u>
Fund balances, ending	<u>\$ 91,566</u>	<u>\$ 91,566</u>

The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, 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, 2011

Net changes in fund balances - total governmental funds \$ 64,362

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 costs 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.

Loss on disposed asset	(23,625)	
Depreciation expense	(50,575)	
Capital outlay	141,103	66,903

The proceeds of debt issuance provides current financial **resources to governmental funds**, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bonds and lease obligation **principal is an expenditure** in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not **affect the statement of activity**. This is the amount by which debt proceeds exceeds debt payments.

Debt proceeds	-	
Debt payments	18,475	18,475

Change in net assets \$ 149,740

The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, OKLAHOMA
STATEMENT OF FUND NET ASSETS - MODIFIED ACCRUAL BASIS
PROPRIETARY FUNDS
JUNE 30, 2011

	<u>Public Works</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ -
Accounts receivable	<u>23,303</u>
Total current assets	<u>23,303</u>
Restricted assets:	
Cash-construction	44,139
Cash-debt service	12,832
Cash-reserve	65,342
Cash-Webco escrow	<u>120,400</u>
Total restricted assets	<u>242,713</u>
Non-current assets	
Capital assets:	
Capital assets, net of accumulated depreciation	<u>2,249,709</u>
Total non-current assets	<u>2,249,709</u>
Total assets	<u>2,515,725</u>
LIABILITIES	
Current liabilities:	
Cash overdraft	2,932
Accounts payable	1,610
Interest payable	27,705
Utility deposits	7,795
Notes payable	<u>28,333</u>
Total current liabilities	<u>68,375</u>
Non-current liabilities:	
Notes payable	<u>1,236,334</u>
Total non-current liabilities	<u>1,236,334</u>
Total liabilities	<u>1,304,709</u>
NET ASSETS	
Nonspendable	966,303
Restricted for debt service	78,174
Restricted for construction	44,139
Restricted for Webco escrow	120,400
Unassigned	<u>-</u>
Net assets of business-type activities	<u>\$ 1,209,016</u>

The accompanying notes are an integral part of this financial statement.

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

	Public Works
<u>OPERATING REVENUES</u>	
Charges for services:	
Wastewater charges	\$ 92,681
Sanitation charges	72,101
Taps	1,500
Penalty	5,216
Other	-
Total operating revenues	171,498
<u>OPERATING EXPENSES</u>	
Personal services	32,642
Sanitation contractor	55,167
Maintenance and supplies	12,661
Lab fees	11,075
Permits	428
Bad debt	2,453
Professional fees	5,015
Office	3,808
Other	246
Utilities	4,397
Depreciation	62,027
Total operating expenses	189,919
Operating income (loss)	(18,421)
<u>NON-OPERATING REVENUE (EXPENSES)</u>	
Grant income	99,990
From Webco to escrow	135,000
Investment income	1,504
Interest and fees on notes payable	(48,870)
Total non-operating revenue (expenses)	187,624
Income before transfers	169,203
Transfer from other funds	5,425
Change in net assets	174,628
Total net assets, beginning	1,034,388
Total net assets, ending	\$ 1,209,016

The accompanying notes are an integral part of this financial statement.

TOWN OF KELLYVILLE, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Public Works</u>
Cash flows from operating activities	
Cash received from customers	\$ 170,424
Cash payments to employees	(32,642)
Cash payments to suppliers for goods and services	(95,250)
Net cash provided (used) by operating activities	<u>42,532</u>
Cash flows from non-capital financing activities	
Transfer from other funds	<u>5,425</u>
Net cash provided by non-capital financing activities	<u>5,425</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	(123,789)
Grant	99,990
From Webco to escrow	135,000
Principal paid on notes payable	(28,333)
Interest paid on notes payable and fiscal fees	(49,281)
Net cash used for capital and related financing activities	<u>33,587</u>
Cash flows from investing activities	
Interest revenue	<u>1,504</u>
Net cash provided by investing activities	<u>1,504</u>
Net decrease in cash and cash equivalents	83,048
Cash and cash equivalents, beginning	<u>156,733</u>
Cash and cash equivalents, ending	<u>\$ 239,781</u>
Reconciliation of operating income	
(Loss) to net cash provided by	
(Used) by operating activities	
Operating income (loss)	\$ (18,421)
Adjustments to reconcile operating income	
to net cash used by operating activities:	
Depreciation	62,027
Changes in assets and liabilities:	
Increase in receivable	(109)
Decrease in payable	-
Increase in utility deposits	(965)
Net cash provided by operating activities	<u>\$ 42,532</u>

The accompanying notes are an integral part of this financial statement.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Kellyville, 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 the Kellyville Public Works Authority (the Authority) is the only component unit. 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 the Authority. 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 financial statements.

Kellyville Public Works Authority was created under the provisions of Title 60, Sections 176 to 180, Oklahoma Statutes. 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 Kellyville.

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets 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.

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 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.

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

Fund Financial Statements

Fund financial statements of the Town are provided for governmental and proprietary 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 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 60 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.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income, and user fees. 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 charges 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.

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

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:

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

Budgetary Accounting and Control

The Mayor submits an annual budget to the Board of Trustees in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Board of Trustees for review, and public hearings are held to address priorities and allocation of resources. In June, the Board of Trustees adopts the annual fiscal year budgets for the Town operating funds. Once approved, the Board of Trustees may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Public trusts submit budgets and other planning documents to their respective governing bodies.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by sources. Expenditures are budgeted by department and class as follows: Personal services, other services and charges, supplies, capital outlay, transfers, and debt service. Budget revisions at this level are subject to final review by the Board of Trustees. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without Board approval.

The budgets for the governmental funds and proprietary fund operations are prepared on the cash basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be paid. The budget and actual financial statements are reported on this basis. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

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.

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.

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

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, 2011 is not believed to be material.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaids are similarly reported in 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 or at estimated historical cost for those items not previously reported 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 Town generally capitalizes assets with cost of \$2,500 or more as purchase and construction outlay occur. 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	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture , machinery, and equipment	3-30
Utility system	5-60

Compensated Absences

Full-time, permanent employees are granted personal leave in varying amounts to specified maximums depending on tenure with the Town. The estimated liabilities include required salary-related payments. Compensated absences are reported as accrued in the government-wide, proprietary, fiduciary, and component unit financial statements. Governmental funds report only matured absences payable to currently terminating employees and are included in wages and benefits payable.

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.

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

Use of Estimates

The preparation of financial statements in conformity with the modified accrual basis 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, 2011, all of the Town's 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 \$248,532 at June 30, 2011. The bank balance of the deposits at June 30, 2011 was approximately \$261,569.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Town did not have fixed income securities at June 30, 2011.

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 monitors the investment performance on an ongoing basis to limit the Town's interest rate risk. As of June 30, 2011, the Town's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

Note C - RESTRICTED CASH

The Authority has reported the following as restricted cash:

Construction	\$ 44,139
Debt service	12,832
Reserve	65,342
Webco escrow	<u>120,400</u>
Total	<u>\$ 242,713</u>

These funds are held by a trustee bank in conjunction with the note payable listed in Note E. Construction money can be used by submitting a claim for sewer construction to the trustee bank which will issue payment for the claim. The Authority is also holding grant funds which are also restricted for construction purposes. The debt service money is limited to use in retiring note principle and paying note interest.

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
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Webco Industries, Inc., a local business, has donated funds to the Authority in the amount of \$135,000. These funds were required to be placed in an escrow account which earns interest and is to be distributed into the Authority's operating fund at a rate of \$2,000 per month until fully distributed. The balance of the escrow funds at June 30, 2011 was \$120,400

Note D - CAPITAL ASSETS

Changes in capital assets.

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

	<u>CAPITAL ASSETS, DEPRECIATED</u>				Capital Assets Not Depreciated <u>Land</u>
	<u>Buildings</u>	Infrastructure & Improvements Other Than Buildings	Furniture, Machinery, And Equipment	<u>Totals</u>	
PRIMARY GOVERNMENT					
Governmental activities					
Balance, June 30, 2010	\$ 708,121	\$ 13,650	\$ 461,662	\$ 1,183,433	\$ 24,700
Increases	-	-	141,103	141,103	-
Decreases	-	-	(31,500)	(31,500)	-
Balance, June 30, 2011	<u>708,121</u>	<u>13,650</u>	<u>571,265</u>	<u>1,293,036</u>	<u>24,700</u>
Accumulated Depreciation					
Balance, June 30, 2010	163,525	8,190	242,284	413,999	
Increase	11,996	2,730	35,849	50,575	
Decreases	-	-	(7,875)	(7,875)	
Balance, June 30, 2011	<u>175,521</u>	<u>10,920</u>	<u>270,258</u>	<u>456,699</u>	
Governmental activities Capital Assets, Net					
	<u>\$ 532,600</u>	<u>\$ 2,730</u>	<u>\$ 301,007</u>	<u>\$ 836,337</u>	<u>\$ 24,700</u>
Business-type activities					
Balance, June 30, 2010	\$ -	\$ 2,833,426	\$ 46,147	\$ 2,879,573	\$ -
Increases	-	123,789	-	123,789	-
Decreases	-	-	-	-	-
Balance, June 30, 2011	<u>-</u>	<u>2,957,215</u>	<u>46,147</u>	<u>3,003,362</u>	<u>-</u>
Accumulated Depreciation					
Balance, June 30, 2010	-	662,453	29,173	691,626	
Increase	-	60,573	1,454	62,027	
Decreases	-	-	-	-	
Balance, June 30, 2011	<u>-</u>	<u>723,026</u>	<u>30,627</u>	<u>753,653</u>	
Business-type Activities Capital Assets, Net					
	<u>\$ -</u>	<u>\$ 2,234,189</u>	<u>\$ 15,520</u>	<u>\$ 2,249,709</u>	<u>\$ -</u>
PRIMARY GOVERNMENT					
Capital Assets, Net	<u>\$ 532,600</u>	<u>\$ 2,236,919</u>	<u>\$ 316,527</u>	<u>\$ 3,086,046</u>	<u>\$ 24,700</u>

DEPRECIATION EXPENSE

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

GOVERNMENT ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
General Government	\$ 4,370	Wastewater	\$ 62,027
Public Safety	31,780		
Street	5,935		
Culture and education	7,401		
Cemetery	1,089		

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Note E - PROPRIETARY FUND BONDS AND NOTES PAYABLE

On December 30, 2007, the Authority issued revenue bonds in the amount of \$950,000 for the purpose of providing advanced refunding of the 2003 Revenue Bonds and construction costs related to waste water system improvements. The 2007 Revenue Bonds are secured by a pledge of the gross revenues derived from the Authority's operation of the Utility system, all rights, titles and interest of the Authority in and to the Utility system, and all funds and accounts created by the bond indenture. Interest on the 2007 Revenue Bonds is payable semiannually on June 1 and December 1. The bond redemption occurs annually and began on December 1, 2008, continuing for thirty years. The balance of the bond at June 30, 2011 was \$905,000.

During fiscal year 2008, the Authority entered into a zero percent note payable through the Oklahoma Department of Commerce for the amount of \$400,000 payable in monthly payments of \$1,667 beginning in March of 2009. The balance of this note at June 30, 2011 was \$361,667.

The following is a summary of bonds and notes payable transactions for the year ended June 30, 2011.

	<u>Payable at July 1, 2010</u>	<u>Addition/ Retirements</u>	<u>Balance at June 30, 2011</u>
2007 Revenue Bond Payable	\$ 920,000	\$ (15,000)	\$ 905,000
Ok Department of Commerce	<u>375,000</u>	<u>(13,333)</u>	<u>361,667</u>
Total	<u>\$ 1,295,000</u>	<u>\$ (28,333)</u>	<u>\$ 1,266,667</u>

Principal and interest payments to retire the bond and note are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011	\$ 35,000	\$ 47,925	\$ 82,925
2012	35,000	47,213	82,213
2013	35,000	46,500	81,500
2014	35,000	45,788	80,788
2015	40,000	45,075	85,075
2016-2020	205,000	211,125	416,125
2021-2025	235,000	180,725	415,725
2026-2030	236,667	139,475	376,142
2031-2035	230,000	85,855	315,855
2036-2037	<u>180,000</u>	<u>14,165</u>	<u>194,165</u>
Total	<u>\$1,266,667</u>	<u>\$ 863,846</u>	<u>\$2,130,513</u>

The Authority paid interest in the amount of \$48,281 on its outstanding note during the fiscal year.

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 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

Note F - CAPITAL LEASE OBLIGATION

The Town has entered into lease purchase agreements for the purpose of obtaining equipment. The lease agreements qualify as capital leases for accounting purposes since title transfers at the end of the lease and it has been recorded at the present value of the future minimum lease payments. The leases contain a clause which gives the Town the ability to terminate the lease agreement at the end of each fiscal year.

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:

	Fire Equip	Police Equip	TOTAL
Year ended June 30, 2012	\$ 9,499	\$ 10,929	\$ 20,428
Total minimum lease payments	9,499	10,929	20,428
Less: Amount representing interest	<u>397</u>	<u>451</u>	<u>848</u>
Present value of future minimum lease payments	<u>\$ 9,102</u>	<u>\$ 10,478</u>	<u>\$ 19,580</u>

Note G- PENSION OBLIGATIONS

The Town participates in one pension plan.

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 obligations 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 1/4% 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

TOWN OF KELLYVILLE, OKLAHOMA
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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>
2011	\$ 660	100%
2010	960	100%

Note H - 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 I - 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.

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 Kellyville
Kellyville, Oklahoma

I have audited the accompanying financial statements-modified accrual basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Kellyville, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town of Kellyville, Oklahoma's basic financial statements, and have issued my report thereon dated May 24, 2013 which did not include Management's Discussion and Analysis or budgetary comparison. 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Town of Kellyville, Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures 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 Kellyville, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Town of Kellyville, Oklahoma'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 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.

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Kellyville, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Ralph Osborn".

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
May 24, 2013