

**Kendrick Municipal Authority  
Kendrick, Oklahoma**

**Financial Statements  
As Of and for the Year Ended June 30, 2012**

**(With Independent Auditors' Report Thereon)**

**Audited By**

**Bill Ford**

**Certified Public Accountant**

Kendrick Municipal Authority  
Kendrick, Oklahoma  
As Of June 30, 2012

TABLE OF CONTENTS

	<u>Page</u>
Table of Contents	
<u>Independent Auditor's Report</u>	1-2
<u>Financial Statements</u>	
Statement of Net Assets-Modified Cash Basis	3
Statement of Revenue, Expenses and Changes in Fund Net Assets-Modified Cash Basis	4
Statement of Cash Flows-Modified Cash Basis	5
<u>Notes to the Financial Statements</u>	6-10
<u>Internal Control and Compliance Report</u>	
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	11-12
<u>Supporting Schedules</u>	
Schedule of State and Federal Financial Assistance-Modified Cash Basis	13

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INDEPENDENT AUDITOR'S REPORT

TELEPHONE  
(405) 268-2406

Board of Trustees  
Kendrick Municipal Authority  
Kendrick, Oklahoma

I have audited the accompanying financial statements of the business-type activities of the Kendrick Municipal Authority, Kendrick, Oklahoma, as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the Kendrick Municipal Authority, Kendrick, Oklahoma's, basic financial statements as listed on 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 2. 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 financial statements that are free from material misstatement, whether due to error or fraud.

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

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

### **Basis for Qualified Opinion**

The beginning of the year net assets have not been audited and I was not engaged to audit the beginning of the year net assets as part of my audit of the Kendrick Municipal Authority's basic financial statements - modified cash basis. Kendrick Municipal Authority's beginning net assets are included in the Authority's financial statement - modified cash basis.

### **Qualified Opinion**

In my opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the business-type activities of the Kendrick Municipal Authority, Kendrick, Oklahoma, as of June 30, 2012, and the respective changes in financial position - modified cash basis and cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 2.

### **Basis of Accounting**

I draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated January 14, 2015, on my consideration of the Authority'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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of audits performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.



Bill Ford, C.P.A.

January 14, 2015

KENDRICK MUNICIPAL AUTHORITY  
KENDRICK, OKLAHOMA  
STATEMENT OF NET ASSETS-MODIFIED CASH BASIS  
JUNE 30, 2012

ASSETS

Current assets:

Cash and cash equivalents	\$ 29,165
Total current assets	<u>29,165</u>

Restricted assets:

Cash and cash equivalents	<u>16,096</u>
Total restricted assets	<u>16,096</u>

Non-current assets:

Capital assets:

Construction in progress	787,759
Land	15,000
Water system	1,211,611
Sewer system	692,133
Other capital assets	<u>14,673</u>
Total property, utility, and improvements	2,721,176
Less accumulated depreciation	<u>445,673</u>

Total non-current assets	<u>2,275,503</u>
Total assets	<u><u>\$2,320,764</u></u>

LIABILITIES

Current liabilities:

Payroll tax payable	796
Notes payable, current	<u>7,901</u>
Total current liabilities	<u>8,697</u>

Non-current liabilities:

Notes payable, non-current	512,707
Due to Town of Kendrick	<u>8,369</u>
Total non-current liabilities	<u>521,076</u>
Total liabilities	<u>529,773</u>

NET ASSETS

Non-spendable capital assets, net of related debt	1,746,526
Restricted for debt service	16,096
Unassigned	<u>28,369</u>
Total net assets	<u><u>\$1,790,991</u></u>

See accompanying notes to financial statements

KENDRICK MUNICIPAL AUTHORITY  
KENDRICK, OKLAHOMA  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET ASSETS-MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2012

<u>Operating Revenues</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Charges for services	\$ 69,306	\$ 12,581	\$ 81,887
Other	<u>11,828</u>	<u>981</u>	<u>12,809</u>
Total operating revenues	<u>81,134</u>	<u>13,562</u>	<u>94,696</u>
 <u>Operating Expenses</u>			
Purchased water	12,200	0	12,200
Postage	845	211	1,056
Payroll expense	22,265	5,566	27,831
Utilities	3,140	785	3,925
Administration	1,462	365	1,827
Advertising	155	0	155
Repairs and maintenance	10,891	5,508	16,399
Bank fees & returns	402	101	503
Office supplies	246	61	307
Insurance and bonds	2,518	630	3,148
Audit	1,600	400	2,000
Fees and permits	804	46	850
Lab Fees	1,501	0	1,501
Other	80	20	100
Refunds	249	0	249
Dues	48	12	60
Penalty	1,000	0	1,000
Depreciation	<u>31,953</u>	<u>13,843</u>	<u>45,796</u>
Total operating expenses	<u>91,359</u>	<u>27,548</u>	<u>118,907</u>
Operating income (loss)	<u>(10,225)</u>	<u>(13,986)</u>	<u>(24,211)</u>
 <u>Non-operating Revenue (Expenses)</u>			
Interest income	58	14	72
Interest on notes payable	<u>(7,980)</u>	<u>(1,759)</u>	<u>(9,739)</u>
Total non-operating revenue (expenses)	<u>(7,922)</u>	<u>(1,745)</u>	<u>(9,667)</u>
Income (loss) before contributions	(18,147)	(15,731)	(33,878)
Capital contributions, other	<u>456,585</u>	<u>0</u>	<u>456,585</u>
Change in net assets	438,438	(15,731)	422,707
Total net assets, beginning	<u>865,398</u>	<u>502,886</u>	<u>1,368,284</u>
 Total net assets, ending	<u>\$1,303,836</u>	<u>\$487,155</u>	<u>\$ 1,790,991</u>

See accompany notes to the financial statements

KENDRICK MUNICIPAL AUTHORITY  
KENDRICK, OKLAHOMA  
STATEMENTS OF CASH FLOWS-MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2012

<u>Cash Flows from Operating Activities</u>	
Cash received from members and others	\$ 94,696
Cash paid to suppliers and employees	<u>(72,315)</u>
Net cash provided (used) by operating activities	<u>22,381</u>
<u>Cash Flows from Capital and Related Financing Activities</u>	
Principal paid on notes payable	(3,533)
Advances on notes payable	306,120
Interest paid on notes payable	(9,739)
Capital contributions-grants	<u>456,585</u>
Net cash provided (used) by capital & related financing activities	<u>749,433</u>
<u>Cash Flows from Investing Activities</u>	
(Increase) decrease in restricted assets	(2,829)
Interest earned	72
(Acquisition) disposition of capital assets	<u>(777,759)</u>
Net cash provided (used) by investing activities	<u>(780,516)</u>
Net increase (decrease) in cash and cash equivalents	(8,702)
Cash and cash equivalents, beginning	<u>37,867</u>
Cash and cash equivalents, ending	<u>\$ 29,165</u>
<u>Reconciliation of operating income (loss) to net cash provided (need)</u>	
<u>by operating activities:</u>	
Operating income (loss)	\$ (24,211)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	45,796
Effect of increases and decreases in current assets and liabilities:	
Increase (decrease) in payroll taxes	<u>796</u>
Net cash provided (used) by operating activities	<u>\$ 22,381</u>

See accompanying notes to financial statements

KENDRICK MUNICIPAL AUTHORITY  
KENDRICK, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2012

1. ORGANIZATION

The Kendrick Municipal Authority (the "Authority") was formed as a public trust under the authority of and pursuant to the provisions of Title 60, Oklahoma Statutes 1991, Sections 176 to 180.4, and the Oklahoma Trust Act on February 1, 1994. The Declaration of Trust named the Town of Kendrick, Oklahoma, as the beneficiary of the trust. The purposes of the Authority are set forth in the Declarations of Trust. The specific purpose of the Authority was to construct and start operations of a new wastewater collection system, lift station, and new sewer lagoon system, for the benefit of the Town of Kendrick, Oklahoma. Construction of the sewer system was completed approximately at the end of October 1999. The first billing for sewer use (\$20 per household) was mailed at the first part of November with a November 15 due date. In April 2000 the Authority received approval for the construction of a \$1.2 million water distribution system. In November 2000 partial funding of \$350,000 was approved through a CDBG grant. Additional funding in the amount of a \$195,011 loan and a \$669,870 grant with Rural Development was received in May 2002. The first billing for water usage was mailed in May 2003. The water system was expanded during a prior fiscal year. Construction was completed for the expanded water system and first billings sent in August 2004. During the current fiscal year grants and loans were obtained to expand the water system.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting and reporting policies applied in the preparation of the accompanying financial statements for the year ended June 30, 2012, are as follows:

Government-Wide and Fund Financial Statements - The Authority is a special purpose governmental entity engaged only in business type activities. The Authority prepares financial statements required for enterprise funds.

Measurement Focus and Basis of Accounting - Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

In the financial statements business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current,



financial, or non-financial) associated with their activities are reported. Fund equity is classified as net assets.

#### **Basis of Accounting:**

In the financial statements, business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. If the Authority utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

**Fund Types and Major Funds** - The Authority reports all activity within a single fund. The Authority is a special purpose government entity engaged only in business type activities. The Authority prepares financial statements required for enterprise funds.

**Allocation of Expenses** - The Kendrick Municipal Authority does not separate all expenditures as to water or sewer system expenses. To meet Rural Utility Services requirements and as requested by Rural Utility Services these expenses were estimated by Kendrick Municipal Authority. Revenues, depreciation, interest and some other expenditures were segregated as to actual amounts. For the year ended June 30, 2012, all other expenditures were estimated by management as 80% water system expenses and 20% sewer system expenses.

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

**Compensated Absences** - Personal leave in varying amounts are granted by the Authority. The Authority does not record a liability for accrued compensated absences.

**Income Tax Status** - The Authority is a political instrumentality of the Town of Kendrick, Oklahoma, and therefore exempt from income taxes under the Internal Revenue Codes.

3. Cash and Cash Equivalents - Cash and cash equivalents are carried at cost which approximate market value. The carrying amount of deposits is separately displayed on the balance sheet. The entire bank balance was covered by federal depository insurance. Cash and cash equivalents include cash on hand, demand deposits, and time deposits with original maturity of ninety days or less. All balances were covered by federal deposit insurance. Therefore, the Authority's cash deposits and investments at June 30, 2012, were not exposed to Custodial Credit Risk, Investment Credit Risk, Investment Interest Rate Risk, or Concentration of Investment Credit Risk.

4. Reserve Account - The loan agreement with Rural Development stipulates that the Authority establish a reserve account for repairs and replacement of the system. An amount equal to ten (10%) percent of the monthly debt service payments shall be transferred monthly to the reserve account until the balance reaches an amount equal to the annual debt service payments. During a prior fiscal year the balance in the reserve account reached the amount of the annual debt payments for one of the loans with Rural Development. Therefore, only 10% of the monthly debt service of one of the Rural Development loans is transferred monthly to the reserve account.

During the year ended June 30, 2012, \$2,829 was deposited into the Authority's reserve account. The reserve account, including accumulated interest earned thereon, is shown as restricted cash on the statement of net assets. The balances of the reserve account as of June 30, 2012, was \$16,096.

5. Utility Property - The cost of the sewer and water system includes direct material, labor, and indirect costs such as engineering fees. Assets are recorded at historical cost except for donated assets which are recorded at fair market value at the time of donation. Assets are recorded to the following accounts:

Construction in Progress	\$ 787,759
Land	15,000
Utility, property, and improvements	1,903,744
Other capital assets	<u>14,673</u>
	<u>\$ 2,721,176</u>

2012

Rural Development note dated  
February 11, 1999, for \$45,600,  
4.5% interest, payable interest  
only of \$2,052 February 11, 2000  
and 2001, thereafter \$210 due  
March 11, 2001, and monthly  
thereafter for 40 years

\$ 38,681

Rural Development note dated  
May 1, 2002, for \$195,010,  
4.5% interest, payable interest  
only of \$8,734 May 1, 2003 and  
2004, thereafter \$896 due  
June 1, 2004, and monthly  
thereafter for 40 years

175,808

Rural Development note dated  
October 27, 2011, for \$285,000,  
3.0% interest, payable interest  
only on October 27, 2012,  
thereafter \$1,035 due November  
27, 2012, and monthly thereafter  
for 40 years

285,000

Rural Development note dated  
October 27, 2011, for \$175,000,  
3.0% interest, payable interest  
only on October 27, 2012,  
thereafter \$636 due November  
27, 2012, and monthly thereafter  
for 40 years. Funds advanced  
through June 30, 2012

21,119

Subtotal

\$520,608

Due to the Town of Kendrick, amount  
advanced to Authority, \$17,619, various  
dates in August, 2007, due and payable  
beginning July 1, 2009, 0% interest, at  
\$250 monthly until paid

8,369

Total Notes Payable

\$528,977

Subtotal	<u>\$520,608</u>
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Due to the Town of Kendrick, amount advanced to Authority, \$17,619, various dates in August, 2007, due and payable beginning July 1, 2009, 0% interest, at \$250 monthly until paid

<u>8,369</u>
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Total Notes Payable	<u>\$528,977</u>
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Annual payments of the above outstanding debt over the next five years and thereafter are as follows:

Years Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 7,901	18,739	26,640
2014	13,332	22,992	36,324
2015	13,707	22,617	36,324
2016	13,464	22,229	35,693
2017	11,498	21,826	33,324
Thereafter	<u>469,075</u>	<u>381,494</u>	<u>850,569</u>
Total	<u>\$528,977</u>	<u>\$489,897</u>	<u>\$1,018,874</u>

7. Commitments and Contingencies - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claim, including amounts already collected, may constitute a liability. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Authority expects there not be any.

8. Risk Management - The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, employees' health and life, and natural disasters. The Authority manages these various risks of loss through the purchase of commercial insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Authority.

9. Subsequent Events - Subsequent events have been evaluated through January 14, 2015, which is the date the financial statements were available to be issued..

WILLIAM A. FORD  
CERTIFIED PUBLIC ACCOUNTANT  
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REPORT ON COMPLIANCE AND 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

TELEPHONE  
(405) 268-2405

Board of Trustees  
Kendrick Municipal Authority  
Kendrick, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, the financial statements-modified cash basis of the business-type activities of Kendrick Municipal Authority, Kendrick, Oklahoma, as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively compromise Kendrick Municipal Authority, Kendrick, Oklahoma's basic financial statements and have issued my report thereon dated January 14, 2015. The financial statements were prepared on a modified cash basis of accounting, a comprehensive basis of accounting other than accounting principles generally accepted in the United States and is not intended to be presented in conformity with United States generally accepted accounting principles.

**Internal Control Over Financial Reporting**

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

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

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 material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority'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*. However, I noted certain matters that I have reported to the Board of Trustees in a separate statement.

### **Purpose of this Report**

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



Bill Ford, C.P.A.

January 14, 2015

KENDRICK MUNICIPAL AUTHORITY  
KENDRICK, OKLAHOMA  
SCHEDULE OF STATE AND FEDERAL FINANCIAL ASSISTANCE-MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Approved Program	Beginning Balance at 7-1-11	Receipts Or Revenue Recognized	Total Expend.	Ending Balance at 6-30-12
<u>U.S. Department of Housing</u>						
Oklahoma Department of Commerce	14.288	\$ 327,585	\$ 0	\$ 301,585	\$301,585	\$26,000
Total Department of Housing		\$ 327,585	\$ 0	\$ 301,585	\$301,585	\$26,000
<u>Oklahoma Water Resources</u>						
REAP Grant		\$ 55,000	\$ 0	\$ 55,000	\$ 55,000	\$ 0
Emergency Grant	FAPO8003OR FAP080007G	100,000	0	100,000	100,000	0
Total Oklahoma Water Resources		\$ 155,000	\$ 0	\$ 155,000	\$ 155,000	\$ 0
Total Federal & State Assistance		\$ 482,585	\$ 0	\$ 456,585	\$ 456,585	\$26,000

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS