

TOWN OF KELLYVILLE, OKLAHOMA

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

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 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 Kellyville, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Town of Kellyville's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation 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 statement 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 our audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. 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 judgement, 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.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Kellyville as of June 30, 2015, and the respective changes in financial position - modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note A.

Basis of Accounting

I draw attention to Note A of the financial statements, which 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. My opinion is not modified with respect to that matter.

Other Reporting Required by Governemnt Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated May 16, 2016, on my consideration of Town of Kellyville'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* in considering Town of Kellyville, Oklahoma's internal control over financial reporting and compliance.

Ralph Osborn

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
May 16, 2016

TOWN OF KELLYVILLE, OKLAHOMA
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2015

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 64,471	\$ 47,131	\$ 111,602
Total current assets	64,471	47,131	111,602
Restricted assets:			
Cash - debt service	-	16,155	16,155
Cash - reserve	-	65,369	65,369
Cash - Webco Escrow	-	28,157	28,157
Total restricted assets	-	109,681	109,681
Non-current assets:			
Capital assets			
Land	24,700	-	24,700
Other capital assets net of Accumulated depreciation	801,960	2,063,943	2,865,903
Total non-current assets	826,660	2,063,943	2,890,603
Total assets	891,131	2,220,755	3,111,886
LIABILITIES			
Current liabilities:			
Utility deposits	-	7,715	7,715
Capital lease obligation	-	10,975	10,975
Notes payable	-	40,000	40,000
Total current liabilities	-	58,690	58,690
Non-current liabilities:			
Capital lease obligation	18,736	49,798	68,534
Notes payable	-	1,076,667	1,076,667
Total non-current liabilities	18,736	1,126,465	1,145,201
Total liabilities	18,736	1,185,155	1,203,891
NET ASSETS			
Invested in capital assets, net related debt	807,924	886,503	1,694,427
Restricted for debt service	-	81,524	81,524
Restricted for Webco Escrow	-	28,157	28,157
Unrestricted	64,471	39,416	103,887
Total net assets	\$ 872,395	\$ 1,035,600	\$ 1,907,995

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

TOWN OF KELLYVILLE, OKLAHOMA
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2015

Function/Programs	<u>Expenses</u>	<u>Program Revenue</u>			<u>Net (Expenses) Revenue</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities					
General government	\$ 216,013	\$ 1,862	\$ 6,565	\$ -	\$ (207,586)
Public safety	214,520	68,496	4,484	15,991	(125,549)
Street	34,265	-	8,704	-	(25,561)
Culture and education	54,987	-	3,405	-	(51,582)
Parks and recreation	16,608	-	-	-	(16,608)
Legal	9,863	-	-	-	(9,863)
Cemetery	42,818	14,350	-	-	(28,468)
Total governmental activities	<u>589,074</u>	<u>84,708</u>	<u>23,158</u>	<u>15,991</u>	<u>(465,217)</u>
Business-type activities					
Sanitation	79,884	100,547	-	-	20,663
Wastewater	162,947	121,700	-	-	(41,247)
Total business-type activities	<u>242,831</u>	<u>222,247</u>	<u>-</u>	<u>-</u>	<u>(20,584)</u>
Total primary government	<u>\$ 831,905</u>	<u>\$ 306,955</u>	<u>\$ 23,158</u>	<u>\$ 15,991</u>	<u>\$ (485,801)</u>

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Changes in net assets:			
Net (expense) revenue	<u>\$ (465,217)</u>	<u>\$ (20,584)</u>	<u>\$ (485,801)</u>
General revenues			
Taxes			
Sales Tax	279,085	-	279,085
Use Tax	98,856	-	98,856
Franchise	40,824	-	40,824
Cigarette Tax	3,339	-	3,339
Gas Tax	2,178	-	2,178
Donations	1,562	-	1,562
Other	24,874	221	25,095
Interest	202	541	743
Transfers	19,509	(19,509)	-
Total general revenue and transfers	<u>470,429</u>	<u>(18,747)</u>	<u>451,682</u>
Change in net assets	5,212	(39,331)	(34,119)
Net assets - beginning	<u>867,183</u>	<u>1,074,931</u>	<u>1,942,114</u>
Net assets - ending	<u>\$ 872,395</u>	<u>\$ 1,035,600</u>	<u>\$ 1,907,995</u>

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

TOWN OF KELLYVILLE, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2015

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 64,471	\$ 64,471
TOTAL ASSETS	<u>\$ 64,471</u>	<u>\$ 64,471</u>
 LIABILITIES AND FUND BALANCES		
FUND BALANCES		
Nonspendable	64,471	64,471
Unassigned	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>64,471</u>	<u>64,471</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 64,471</u>	<u>\$ 64,471</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, 2015

Total fund balance \$ 64,471

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	1,446,412	
Accumulated depreciation	<u>(644,452)</u>	826,660

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>(18,736)</u>
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Total net assets	<u>\$ 872,395</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 CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	Total Governmental Funds
Revenue		
Sales tax	\$ 279,085	\$ 279,085
Use tax	98,856	98,856
Franchise tax	40,824	40,824
Gasoline and auto tax	10,882	10,882
Alcoholic beverage tax	6,565	6,565
Cigarette tax	3,339	3,339
Fire revenue	26,150	26,150
Cemetery services	5,550	5,550
Cemetery lot sales	8,800	8,800
License and permits	1,862	1,862
Intergovernmental	23,880	23,880
Fines and forfeits	42,346	42,346
Donations	1,562	1,562
Insurance proceeds	22,555	22,555
Other	2,319	2,319
Interest	202	202
Total revenue	<u>574,777</u>	<u>574,777</u>
Expenditures		
Current		
General government	229,160	229,160
Public safety	204,596	204,596
Street	31,834	31,834
Culture and education	48,330	48,330
Legal	9,863	9,863
Cemetery	42,818	42,818
Parks and recreation	16,608	16,608
Total expenditures	<u>583,209</u>	<u>583,209</u>
Excess (deficiency) of revenue over expenditures	<u>(8,432)</u>	<u>(8,432)</u>
Other financing sources (uses)		
Transfer in (out)	19,509	19,509
Total other financing sources (uses)	<u>19,509</u>	<u>19,509</u>
Net change in fund balance	11,077	11,077
Fund balances, beginning	<u>53,394</u>	<u>53,394</u>
Fund balances, ending	<u>\$ 64,471</u>	<u>\$ 64,471</u>

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

TOWN OF KELLYVILLE, OKLAHOMA
STATEMENT OF FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2015

	<u>Public Works</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 47,131
Total current assets	<u>47,131</u>
Restricted assets:	
Cash-debt service	16,155
Cash-reserve	65,369
Cash-Webco escrow	<u>28,157</u>
Total restricted assets	<u>109,681</u>
Non-current assets	
Capital assets:	
Capital assets, net of accumulated depreciation	<u>2,063,943</u>
Total non-current assets	<u>2,063,943</u>
Total assets	<u>2,220,755</u>
LIABILITIES	
Current liabilities:	
Utility deposits	7,715
Lease obligation payable	10,975
Notes payable	<u>40,000</u>
Total current liabilities	<u>58,690</u>
Non-current liabilities:	
Lease obligation payable	49,798
Notes payable	<u>1,076,667</u>
Total non-current liabilities	<u>1,126,465</u>
Total liabilities	<u>1,185,155</u>
NET ASSETS	
Invested in capital assets, net relate debt	886,503
Restricted for debt service	81,524
Restricted for Webco escrow	28,157
Unrestricted	<u>39,416</u>
Net assets of business-type activities	<u>\$ 1,035,600</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 CASH BASIS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Public Works
<u>OPERATING REVENUES</u>	
Charges for services:	
Wastewater charges	\$ 111,427
Sanitation charges	100,547
Penalty	7,273
Sewer tap	3,000
Other	221
Total operating revenues	222,468
<u>OPERATING EXPENSES</u>	
Sanitation contractor	79,884
Maintenance and supplies	5,406
Lab fees	11,700
Repair and Maintenance	18,477
Permits	906
Office	4,611
Other	873
Utilities	11,036
Depreciation	64,507
Total operating expenses	197,400
Operating income (loss)	25,068
<u>NON-OPERATING REVENUE (EXPENSES)</u>	
Investment income	541
Interest and fees on notes payable	(45,431)
Total non-operating revenue (expenses)	(44,890)
Income before transfers	(19,822)
Transfer in (out)	(19,509)
Change in net assets	(39,331)
Total net assets, beginning	1,074,931
Total net assets, ending	\$ 1,035,600

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, 2015

	<u>Public Works</u>
Cash flows from operating activities	
Cash received from customers	\$ 222,363
Cash payments to suppliers for goods and services	<u>(132,893)</u>
Net cash provided (used) by operating activities	<u>89,470</u>
Cash flows from non-capital financing activities	
Transfer from other funds	<u>(19,509)</u>
Net cash provided by non-capital financing activities	<u>(19,509)</u>
Cash flows from capital and related financing activities	
Principal paid on notes payable	(35,000)
Interest paid on notes payable and fiscal fees	<u>(45,431)</u>
Net cash used for capital and related financing activities	<u>(80,431)</u>
Cash flows from investing activities	
Interest revenue	<u>541</u>
Net cash provided by investing activities	<u>541</u>
Net increase/(decrease) in cash and cash equivalents	(9,929)
Cash and cash equivalents, beginning	<u>166,741</u>
Cash and cash equivalents, ending	<u>\$ 156,812</u>
Reconciliation of operating income	
(Loss) to net cash provided by	
(Used) by operating activities	
Operating income (loss)	\$ 25,068
Adjustments to reconcile operating income	
to net cash used by operating activities:	
Depreciation	64,507
Increase/(decrease) in meter deposits	<u>(105)</u>
Net cash provided by operating activities	<u>\$ 89,470</u>

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

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015

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 the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and which is a change from the prior year. 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 ABP opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurement focus and the cash 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 cash basis of accounting. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows.

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, 2015

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, 2015

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, 2015 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. Under the modified cash basis of accounting, prepaids are not reported. The expense is included in the period the liability is paid.

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. Under the modified cash basis of accounting, no accruals are recorded for compensated absences.

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, 2015

Use of Estimates

The preparation of financial statements in conformity with the modified cash 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, 2015, all of the Towns deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The Town had deposits at financial institutions with a carrying amount of approximately \$221,283 at June 30, 2015. The bank balance of the deposits at June 30, 2015 was approximately \$230,978.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Town did not have fixed income securities at June 30, 2015.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Trustees monitor's the investment performance on an ongoing basis to limit the Town's interest rate risk. As of June 30, 2015, 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:

Debt service	\$ 16,155
Reserve	65,369
Webco escrow	<u>28,157</u>
Total	<u>\$ 109,681</u>

The debt service and reserve funds are held by a trustee bank in conjunction with the note payable listed in Note E. The debt service money is limited to use in retiring note principle and paying note interest.

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015 was \$28,157.

NOTE D - CAPITAL ASSETS

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

	<u>CAPITAL ASSETS, DEPRECIATED</u>				<u>Capital Assets Not Depreciated Land</u>
	<u>Buildings</u>	<u>Infrastructure & Improvements Other Than Buildings</u>	<u>Furniture, Machinery, And Equipment</u>	<u>Totals</u>	
PRIMARY GOVERNMENT					
Governmental activities					
Balance, June 30, 2014	\$ 708,196	\$ 13,650	\$ 703,985	\$ 1,425,831	\$ 24,700
Increases	20,581	-	-	20,581	-
Decreases	-	-	-	-	-
Balance, June 30, 2015	<u>728,777</u>	<u>13,650</u>	<u>703,985</u>	<u>1,446,412</u>	<u>24,700</u>
Accumulated Depreciation					
Balance, June 30, 2014	206,807	13,650	380,685	601,142	
Increase	12,240	-	31,070	43,310	
Decreases	-	-	-	-	
Balance, June 30, 2015	<u>219,047</u>	<u>13,650</u>	<u>411,755</u>	<u>644,452</u>	
Governmental activities Capital Assets, Net	<u>\$ 509,730</u>	<u>\$ -</u>	<u>\$ 292,230</u>	<u>\$ 801,960</u>	<u>\$ 24,700</u>
Business-type activities					
Balance, June 30, 2014	\$ -	\$ 2,957,215	\$ 51,147	\$ 3,008,362	\$ -
Increases	-	-	60,773	60,773	-
Decreases	-	-	-	-	-
Balance, June 30, 2015	<u>-</u>	<u>2,957,215</u>	<u>111,920</u>	<u>3,069,135</u>	<u>-</u>
Accumulated Depreciation					
Balance, June 30, 2014	-	904,625	36,060	940,685	
Increase	-	60,533	3,974	64,507	
Decreases	-	-	-	-	
Balance, June 30, 2015	<u>-</u>	<u>965,158</u>	<u>40,034</u>	<u>1,005,192</u>	
Business-type Activities Capital Assets, Net	<u>\$ -</u>	<u>\$ 1,992,057</u>	<u>\$ 71,886</u>	<u>\$ 2,063,943</u>	<u>\$ -</u>
PRIMARY GOVERNMENT Capital Assets, Net	<u>\$ 509,730</u>	<u>\$ 1,992,057</u>	<u>\$ 364,116</u>	<u>\$ 2,865,903</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	\$ 7,434	Wastewater	\$ 64,507
Public Safety	26,788		
Street	2,431		
Culture and education	6,657		

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015 was \$845,000.

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, 2015 was \$271,667.

The following is a summary of bonds and notes payable transactions for the year ended June 30, 2015.

	<u>Payable at July 1, 2014</u>	<u>Addition/ Retirements</u>	<u>Balance at June 30, 2015</u>
2007 Revenue Bond Payable	\$ 860,000	\$ (15,000)	\$ 845,000
Ok Department of Commerce	<u>291,667</u>	<u>(20,000)</u>	<u>271,667</u>
Total	<u>\$ 1,151,667</u>	<u>\$ (35,000)</u>	<u>\$ 1,116,667</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>
2016	\$ 40,000	\$ 45,075	\$ 85,075
2017	40,000	44,125	84,125
2018	40,000	43,175	83,175
2019	40,000	42,225	82,225
2020	40,000	41,275	81,275
2021-2025	230,000	187,875	417,875
2026-2030	236,667	148,550	385,217
2031-2035	220,000	97,765	317,765
2036-2038	<u>230,000</u>	<u>28,355</u>	<u>258,355</u>
Total	<u>\$1,116,667</u>	<u>\$ 678,420</u>	<u>\$1,795,087</u>

The Authority paid interest and fees in the amount of \$45,431 on its outstanding note during the fiscal year.

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE F - DEBT SERVICE COVERAGE

The revenue bond indenture requires the Authority maintain a schedule of rates and charges for services rendered through the Systems which will provide annually a sum equal to not less than one and on-fourth (1.25) times the average annual amount required to be paid in cash for the fiscal year of the Authority into the Sinking Fund for the bonds and any indebtedness secured equally with the Bonds in cash, after paying or providing for the payment of and all costs and expenses of operation and maintenance of the Systems. The ratio for the current year is calculated as follows:

Operating income	\$ 25,068
Depreciation	64,507
Net revenue	<u>\$ 89,575</u>
Average annual amount to be paid	<u>\$ 66,236</u>
Ratio	<u>1.35 to 1</u>

The Town was in compliance.

NOTE G - CAPITAL LEASES

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

Capital lease transactions for the year ended June 30, 2015 are as follows:

	Payable at July 1, 2014	Additions	Retirements	Balance at June 30, 2015
Police Cars	\$ 35,600	\$ -	\$ (16,864)	\$ 18,736
PWA Backhoe	-	60,773	-	60,773
	<u>\$ 35,600</u>	<u>\$ 60,773</u>	<u>\$ (16,864)</u>	<u>\$ 79,509</u>

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

Year Ending June 30	Police Cars	PWA Backhoe	Total
2016	\$ -	\$ 12,515	\$ 12,515
2017	9,762	12,515	22,277
2018	9,762	12,515	22,277
2019	-	12,515	12,515
2020	-	12,515	12,515
	<u>19,524</u>	<u>62,575</u>	<u>82,099</u>
Total minimum lease payment			
Less: Amount representing interest	<u>788</u>	<u>1,802</u>	<u>2,590</u>
Total	<u>\$ 18,736</u>	<u>\$ 60,773</u>	<u>\$ 79,509</u>

TOWN OF KELLYVILLE, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2015

NOTE H - 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 ½% Of final average salary multiplied By the years of credited service with A maximum of 30 years considered; If vested, at or after age 50, or After 10 but before 20 years of Credited service, with reduced benefits
Benefits and eligibility for distribution (Volunteer)	20 years credited service equal to \$5.46 per month per year of service With a maximum of 30 Years considered
Deferred retirement option	Yes, 20 years credited service with Continued service for 30 or more years
Provisions for:	
Cost of living adjustments (normal retirement)	Yes, if vested by 5/83
Death (duty, non-duty, post-retirement)	Yes
Disability	Yes
Cost of living allowances	Yes

Contributions required by State Statute:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2015	\$ 900	100%
2014	900	100%
2013	1,620	100%

TOWN OF KELLYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE I - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE J - FEDERAL AND STATE GRANTS

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

NOTE K - SUBSEQUENT EVENTS

Management has evaluated subsequent events and contingencies through May 16, 2016, the date which financial statements were available. The Town believes there are no events requiring disclosure.

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, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Kellyville, Oklahoma, modified cash basis, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Town of Kellyville's basic financial statements and have issued my report thereon dated May 16, 2016.

Internal Control Over Financial Reporting

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

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal controls that we consider to be significant deficiencies.

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

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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The general fund actual expenses exceeded the respective approved expenditure budget. The town failed to approve a supplemental budget for the additional expenditures when they had sufficient revenue to do so.

Purpose of the Report

The purpose of this report is 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
May 16, 2016