

Arcadia Public Works Authority
Arcadia, Oklahoma

Financial Statements

June 30, 2011, 2010, 2009, and 2008
(With Independent Auditors' Report Thereon)



**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Arcadia Public Works Authority
Arcadia, Oklahoma

We have audited the accompanying financial statements of the Arcadia Public Works Authority, Arcadia, Oklahoma (the "Authority"), a component unit of the Town of Arcadia, as of and for the years ended June 30, 2011, 2010, 2009, and 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in more detail in Note 2 to the financial statements, the Authority has a water system with capitalized costs of \$1,850,473, \$1,850,473, \$1,843,398, and \$1,740,183 as of June 30, 2011, 2010, 2009, and 2008, respectively, shown in the statements of net assets. The water system, while complete, is not functional due to revised Environmental Protection Agency (EPA) standards. As such, it is not being depreciated, as it has not been placed in service. In addition, since it is not functioning, there is a question as to its value being impaired. No determination of possible impairment has been made for the water system.

In our opinion, except for the possible impairment, if any, of the water system, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2011, 2010, 2009, and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Authority will continue as a going concern. As discussed in Note 3 to the financial statements, the Authority relies solely on funds from the Town of Arcadia in order to repay debt obligations and continue to function as needed. These conditions raise substantial doubt about the Authority's ability to continue as a going concern. Management's plans regarding the matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 our audits.

Management has omitted management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Authority's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Finley + Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
February 1, 2012

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

STATEMENTS OF NET ASSETS

<i>June 30,</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Assets				
Cash:				
Restricted	\$ 30,025	15,618	15,720	133,601
Unrestricted	<u>3,544</u>	<u>(2,140)</u>	<u>9,408</u>	<u>15,060</u>
Total current assets	<u>33,569</u>	<u>13,478</u>	<u>25,128</u>	<u>148,661</u>
Capital assets:				
Land	28,000	28,000	28,000	28,000
Water system	<u>1,850,473</u>	<u>1,850,473</u>	<u>1,843,398</u>	<u>1,740,183</u>
Total capital assets	<u>1,878,473</u>	<u>1,878,473</u>	<u>1,871,398</u>	<u>1,768,183</u>
Total assets	<u>\$ 1,912,042</u>	<u>1,891,951</u>	<u>1,896,526</u>	<u>1,916,844</u>
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	\$ 22,919	21,919	51,874	211,306
Interest payable	-	-	32,773	23,007
Current portion of long-term debt	11,090	10,638	8,532	-
Note payable (City of Arcadia)	<u>75,000</u>	<u>75,000</u>	-	-
Total current liabilities	<u>109,009</u>	<u>107,557</u>	<u>93,179</u>	<u>234,313</u>
Non-current liabilities:				
Non-current portion of long-term debt	<u>905,740</u>	<u>916,830</u>	<u>927,468</u>	<u>936,000</u>
Total non-current liabilities	<u>905,740</u>	<u>916,830</u>	<u>927,468</u>	<u>936,000</u>
Net assets:				
Invested in capital assets, net of related debt	961,643	951,005	935,398	832,183
Restricted	30,025	15,618	15,720	133,601
Unrestricted	<u>(94,375)</u>	<u>(99,059)</u>	<u>(75,239)</u>	<u>(219,253)</u>
Total net assets	<u>897,293</u>	<u>867,564</u>	<u>875,879</u>	<u>746,531</u>
Total liabilities and net assets	<u>\$ 1,912,042</u>	<u>1,891,951</u>	<u>1,896,526</u>	<u>1,916,844</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Operating revenues:				
Trash collection	\$ 10,015	10,014	8,999	10,610
Total operating revenues	<u>10,015</u>	<u>10,014</u>	<u>8,999</u>	<u>10,610</u>
Operating expenses:				
Trash service charge	8,915	9,182	9,610	9,162
Salaries	20,345	20,996	19,386	150
Supplies	-	-	1,569	-
Utilities	710	762	1,108	-
Professional fees and license	2,920	4,326	-	1,136
Engineering expense	3,893	80,504	12,177	-
Miscellaneous	337	166	881	370
Total operating expenses	<u>37,120</u>	<u>115,936</u>	<u>44,731</u>	<u>10,818</u>
Operating loss	<u>(27,105)</u>	<u>(105,922)</u>	<u>(35,732)</u>	<u>(208)</u>
Non-operating (expenses) revenues:				
USDA grant award	7,400	69,700	135,000	731,500
Miscellaneous income	68	6,435	80	31
Long-term debt—interest expense	<u>(38,634)</u>	<u>(32,528)</u>	<u>-</u>	<u>-</u>
Total non-operating (expenses) revenues, net	<u>(31,166)</u>	<u>43,607</u>	<u>135,080</u>	<u>731,531</u>
(Loss) income before transfers	<u>(58,271)</u>	<u>(62,315)</u>	<u>99,348</u>	<u>731,323</u>
Transfers from Town of Arcadia	<u>88,000</u>	<u>54,000</u>	<u>30,000</u>	<u>12,000</u>
Changes in net assets	29,729	(8,315)	129,348	743,323
Net assets, beginning of year	<u>867,564</u>	<u>875,879</u>	<u>746,531</u>	<u>3,208</u>
Net assets, end of year	<u>\$ 897,293</u>	<u>867,564</u>	<u>875,879</u>	<u>746,531</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

STATEMENTS OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Cash flows from operating activities:				
Receipts from customers	\$ 10,015	10,014	8,999	10,610
Payments to suppliers	(15,775)	(124,895)	(184,777)	200,638
Payments to employees	(20,345)	(20,996)	(19,386)	(150)
Net cash (used in) provided by operating activities	(26,105)	(135,877)	(195,164)	211,098
Cash flows from capital and related financing activities:				
Purchase of capital assets	-	(7,075)	(103,215)	(1,768,183)
Proceeds of loan	-	75,000	-	936,000
Repayment of loan	(10,638)	(8,532)	-	-
Proceeds of grant	7,400	69,700	135,000	731,500
Interest payments	(38,634)	(65,301)	9,766	23,007
Other income	52	6,389	-	-
Transfers from Town of Arcadia	88,000	54,000	30,000	12,000
Net cash provided by (used in) capital and related financing activities	46,180	124,181	71,551	(65,676)
Cash flows from investing activities:				
Interest received	16	46	80	31
Net cash provided by investing activities	16	46	80	31
Net increase (decrease) in cash and cash equivalents				
	20,091	(11,650)	(123,533)	145,453
Cash and cash equivalents at beginning of year	13,478	25,128	148,661	3,208
Cash and cash equivalents at end of year	\$ 33,569	13,478	25,128	148,661

(Continued)

See Independent Auditors' Report.
See accompanying notes to financial statements.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

STATEMENTS OF CASH FLOWS, CONTINUED

Increase (Decrease) in Cash and Cash Equivalents

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
Reconciliation of operating loss to net cash (used in) provided by operating activities:				
Operating loss	\$ (27,105)	(105,922)	(35,732)	(208)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:				
Net changes in accounts payable	<u>1,000</u>	<u>(29,955)</u>	<u>(159,432)</u>	<u>211,306</u>
Net cash (used in) provided by operating activities	<u>\$ (26,105)</u>	<u>(135,877)</u>	<u>(195,164)</u>	<u>211,098</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2011, 2010, 2009, and 2008

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Arcadia Public Works Authority, Arcadia, Oklahoma (the “Authority”), a component unit of the Town of Arcadia, is a Public Trust created on October 22, 1998, for the purpose of providing water and waste services to the citizens in the town of Arcadia.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers all bank deposits and cash on-hand as cash and cash equivalents. At June 30, 2011, 2010, 2009, and 2008, cash amounted to \$33,569, \$13,478, \$25,128, and \$148,661, respectively.

Basis of Accounting

The accounting and reporting policies of the Authority conform to accounting principles generally accepted in the United States for units of local government as promulgated by the Governmental Accounting Standards Board (GASB).

The Authority prepares its financial statements on the accrual basis of accounting. Under this method of accounting, revenue is recognized when earned or billed, and expenses are recognized when goods or services are received, whether paid or not.

Capital Assets

Capital assets are stated at cost. Depreciation is not currently applied due to capital assets not yet being placed in service. Land was purchased at fair value from a nonrelated party.

See Independent Auditors’ Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Long-Term Debt

In connection with the water and waste disposal systems for Rural Communities grant awarded by the United States Department of Agriculture (USDA) Rural Utilities Service, the Authority was required to obtain long-term debt to finance a portion of the project. The Authority obtained two loans from the USDA during August 2007: one for \$410,200 with an interest rate of 4.25%; and one for \$525,800 with an interest rate of 4.125%. The loans are to be repaid over a 40-year period and required interest-only payments for the first 2 years. The interest-only payments were advanced to the Authority from the grant funds. The Authority was required to maintain two reserve cash accounts in accordance with the loan agreement: a debt service account with funds equal to one annual payment; and a depreciation account for long-lived assets for unanticipated emergency maintenance and repairs.

Income Taxes

The Authority is exempt from federal income tax. As such, no provision for income taxes has been made in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts of 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.

Concentration of Credit Risk

The Authority receives essentially all of its revenues from its members in and around the town of Arcadia, Oklahoma. If a significant amount of members were to leave the area, the Authority's revenue could decrease significantly.

Date of Management's Review of Subsequent Events

Management has evaluated subsequent events through February 1, 2012, the date which the financial statements were available to be issued.

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) WATER SYSTEM

The Authority received loan and grant funds from the USDA in order to complete the construction of a water system for the residents of Arcadia, Oklahoma. The funds were spent on supplies and labor utilized to construct the water system. Once construction was completed, it was determined that the water produced by the system did not meet required health standards to allow the residents of the town of Arcadia to utilize the water as expected. The funds were spent on allowable costs; however, the Authority is unable to operate the water system. Based on the fact that the water system is not in service, no depreciation has been applied to the balance.

As of June 30, 2011, the Authority was reviewing various available options in order to determine the best plan of action to bring the water system into compliance with required health standards and to provide water services through the system to the residents of Arcadia. At June 30, 2011, no determination has been made as to if the water system is impaired.

(3) GOING CONCERN

The Authority's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Authority relies solely on the funds provided by the Town of Arcadia to repay debt requirements and to operate. Due to the inability to operate the new water system, the Authority is unable to create significant revenues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Authority is reviewing all available options to increase revenue.

(4) CASH DEPOSITS

At June 30, the Authority had the following cash balances:

	Cash per <u>the Bank</u>	Cash per <u>the Authority</u>
2011	\$ 33,820	33,569
2010	15,053	13,478
2009	32,560	25,128
2008	148,847	148,661

Differences in amounts are due to outstanding checks.

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) CASH DEPOSITS, CONTINUED

During 2011, the Authority established the necessary cash reserve debt service payments and asset maintenance accounts required by the USDA loan agreements. At June 30, 2011, the reserve account balances were as follows:

Debt service payments account	\$	4,150
Asset maintenance account		<u>2,858</u>
	<u>\$</u>	<u>7,008</u>

At June 30, 2011, the Authority had no concentration of credit risk with a financial institution.

Included in restricted cash at June 30, 2011, 2010, 2009, and 2008, were grant funds drawn down to pay for outstanding payables. During 2008 and 2009, expenses were incurred for work that was completed by a general contractor, but the amount of payment was disputed through a lawsuit; thus the funds were still reflected as a payable.

(5) CAPITAL ASSETS

The Authority's investment in capital assets was as follows:

	Balance at June 30, <u>2010</u>	<u>Additions</u>	<u>Deletions</u>	Balance at June 30, <u>2011</u>
Land	\$ 28,000	-	-	28,000
Water system	<u>1,850,473</u>	<u>-</u>	<u>-</u>	<u>1,850,473</u>
Capital assets, net	<u>\$ 1,878,473</u>	<u>-</u>	<u>-</u>	<u>1,878,473</u>
	Balance at June 30, <u>2009</u>	<u>Additions</u>	<u>Deletions</u>	Balance at June 30, <u>2010</u>
Land	\$ 28,000	-	-	28,000
Water system	<u>1,843,398</u>	<u>7,075</u>	<u>-</u>	<u>1,850,473</u>
Capital assets, net	<u>\$ 1,871,398</u>	<u>7,075</u>	<u>-</u>	<u>1,878,473</u>

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) CAPITAL ASSETS, CONTINUED

	Balance at June 30, <u>2008</u>	<u>Additions</u>	<u>Deletions</u>	Balance at June 30, <u>2009</u>
Land	\$ 28,000	-	-	28,000
Water system	<u>1,740,183</u>	<u>103,215</u>	-	<u>1,843,398</u>
Capital assets, net	<u>\$ 1,768,183</u>	<u>103,215</u>	-	<u>1,871,398</u>

	Balance at June 30, <u>2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance at June 30, <u>2008</u>
Land	\$ -	28,000	-	28,000
Water system	<u>-</u>	<u>1,740,183</u>	-	<u>1,740,183</u>
Capital assets, net	<u>\$ -</u>	<u>1,768,183</u>	-	<u>1,768,183</u>

As discussed in Note 2, the Authority has not started depreciating due to the property not being placed into service.

Capitalized interest included in the water system balance at June 30 was as follows:

	Capitalized <u>Interest</u>	Cumulative <u>Total</u>
2010	\$ 6,555	66,936
2009	37,374	60,381
2008	23,007	23,007

(6) ACCOUNTS PAYABLE

Balances remaining in accounts payable at June 30, 2011, 2010, and 2009, included a \$21,919 payable to a general contractor for work already completed. The amount owed for the work completed was disputed, thus resulting in a lawsuit, which was still outstanding at June 30, 2011.

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) LONG-TERM DEBT

The Authority obtained two loans from the USDA to help with construction of a water system. The loans details are as follows:

USDA promissory note 91-05 dated August 24, 2007, with an original amount of \$525,800, due in monthly installments of \$2,288 beginning September 24, 2009, interest-only payments paid the first 2 years due August 24 of 2008 and 2009, final installment due August 24, 2047, at a fixed interest rate of 4.125%.

USDA promissory note 91-07 dated August 24, 2007, with an original amount \$410,200, due in monthly installments of \$1,818 beginning September 24, 2009, interest-only payments paid during the first 2 years due on August 24 of 2008 and 2009, final installment due August 24, 2047, at a fixed interest rate of 4.25%.

The following is a summary of the long-term debt as of December 31:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
USDA loan 91-05	\$ 514,897	520,946	525,800	525,800
USDA loan 91-07	<u>401,933</u>	<u>406,522</u>	<u>410,200</u>	<u>410,200</u>
Total	<u>916,830</u>	<u>927,468</u>	<u>936,000</u>	<u>936,000</u>
Less current maturities	<u>11,090</u>	<u>10,638</u>	<u>8,532</u>	<u>-</u>
Long-term debt, less current maturities	<u>\$ 905,740</u>	<u>916,830</u>	<u>927,468</u>	<u>936,000</u>

Changes in long-term debt were as follows:

	Balance at June 30, <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	Balance at June 30, <u>2011</u>
USDA loan 91-05	\$ 520,946	-	6,049	514,897
USDA loan 91-07	<u>406,522</u>	<u>-</u>	<u>4,589</u>	<u>401,933</u>
Total long-term debt	<u>\$ 927,468</u>	<u>-</u>	<u>10,638</u>	<u>916,830</u>

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) LONG-TERM DEBT, CONTINUED

	Balance at June 30, <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance at June 30, <u>2010</u>
USDA loan 91-05	\$ 525,800	-	4,854	520,946
USDA loan 91-07	<u>410,200</u>	<u>-</u>	<u>3,678</u>	<u>406,522</u>
Total long-term debt	<u>\$ 936,000</u>	<u>-</u>	<u>8,532</u>	<u>927,468</u>

	Balance at June 30, <u>2008</u>	<u>Additions</u>	<u>Reductions</u>	Balance at June 30, <u>2009</u>
USDA loan 91-05	\$ 525,800	-	-	525,800
USDA loan 91-07	<u>410,200</u>	<u>-</u>	<u>-</u>	<u>410,200</u>
Total long-term debt	<u>\$ 936,000</u>	<u>-</u>	<u>-</u>	<u>936,000</u>

	Balance at June 30, <u>2007</u>	<u>Additions</u>	<u>Reductions</u>	Balance at June 30, <u>2008</u>
USDA loan 91-05	\$ -	525,800	-	525,800
USDA loan 91-07	<u>-</u>	<u>410,200</u>	<u>-</u>	<u>410,200</u>
Total long-term debt	<u>\$ -</u>	<u>936,000</u>	<u>-</u>	<u>936,000</u>

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) LONG-TERM DEBT, CONTINUED

Long-term debt service requirements are as follows:

Year ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 8,532	32,528	41,060
2010	10,638	38,634	49,272
2011	11,090	38,182	49,272
2012	11,563	37,709	49,272
2013	12,056	37,216	49,272
2014	12,569	36,703	49,272
2015	13,105	36,167	49,272
2016	13,663	35,538	49,201
2017–2021	77,559	168,802	246,361
2022–2026	95,549	150,811	246,360
2027–2031	117,714	128,646	246,360
2032–2036	145,021	101,339	246,360
2037–2041	178,665	67,695	246,360
2042–2046	220,118	26,253	246,371
2047–2048	<u>8,158</u>	<u>43</u>	<u>8,201</u>
	<u>\$ 936,000</u>	<u>936,266</u>	<u>1,872,266</u>

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) LONG TERM DEBT, CONTINUED

USDA Funds

The following table is a detailed listing of capital asset expenses related to the USDA funds for each year ending June 30:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
USDA project expenses:				
Construction:				
Bowen Construction #1— water mains	\$ -	-	56,475	807,253
Bowen Construction #2— storage tanks	-	-	-	348,655
Zia Construction Services— wells and pump station	-	-	-	337,964
Total construction	<u>-</u>	<u>-</u>	<u>56,475</u>	<u>1,493,872</u>
Engineering:				
Legacy Engineering costs	-	520	9,365	127,687
Total engineering	<u>-</u>	<u>520</u>	<u>9,365</u>	<u>127,687</u>
Other:				
Legal fees	-	-	-	32,998
Land and easements	-	-	-	28,000
Interest	-	6,555	37,375	23,006
Test wells	-	-	-	33,718
Environmental	-	-	-	28,902
Total other	<u>-</u>	<u>6,555</u>	<u>37,375</u>	<u>146,624</u>
Total USDA project expenses	<u>\$ -</u>	<u>7,075</u>	<u>103,215</u>	<u>1,768,183</u>

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) NOTE PAYABLE

The Authority obtained a note payable from the Town of Arcadia during July 2009. The note had a maximum principal balance of \$100,000 and was extended to be used for the initial planning and development phase of the sewer system. The note payable carries a 3.5% interest rate and was originally due in July 2010. The note payable was extended until November 2011. As of June 30, 2011 and 2010, the note payable balance was \$75,000.

(9) COMMITMENTS AND CONTINGENCIES

Lease

The Authority has entered into a 50-year lease agreement with the Town of Arcadia expiring on August 31, 2048, for revenue producing utility properties, system, and facilities. This includes all of the water production, storage, transportation, and distribution system and facilities, all tangible real property, as well as all of the sanitary sewage collection, transportation, processing and disposal system and facilities, including all tangible property. Any and all property and facilities purchased, constructed, and/or installed by the Authority becomes property of the Town of Arcadia. Consideration of the lease is the installation and construction of improvements.

During the years under audit, the lease has not been activated as the water project is not yet functional.

Legal

From time to time, the Authority is involved in litigation in the ordinary course of doing business. During 2009, a lawsuit was filed which alleged that the Authority owed two companies additional funds for work completed. The balance that the Authority believed was owed to both companies is shown in accounts payable at June 30, 2011, 2010, and 2009. Subsequent to June 30, 2011, the lawsuit was dismissed and the Authority reached an agreement with both companies. Additional drawdowns were obtained in order to make the necessary payments.

Federal Awards

The Authority's federal awards are subject to audit by the respective oversight bodies. Such audits could lead to requests for reimbursement for costs disallowed under the terms of the respective awards. Presently, the Authority has no such requests pending.

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Years Ended June 30, 2011, 2010, 2009, and 2008

No federal awards were expended during the year ended June 30, 2011. Expenditures for the years ended June 30, 2010, 2009, and 2008, were as follows:

<u>2010</u>			
<u>Federal Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Grant/ Loan #</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Agriculture —</i>			
<i>Rural Utilities Services:</i>			
Water and Waste Disposal Systems for Rural Communities	10.760	6	<u>\$ 7,075</u>

<u>2009</u>			
<u>Federal Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Grant/ Loan #</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Agriculture —</i>			
<i>Rural Utilities Services:</i>			
Water and Waste Disposal Systems for Rural Communities	10.760	6	<u>\$ 103,215</u>

<u>2008</u>			
<u>Federal Grantor/Program Title</u>	<u>Federal CFDA #</u>	<u>Grant/ Loan #</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Agriculture —</i>			
<i>Rural Utilities Services:</i>			
Water and Waste Disposal Systems for Rural Communities	10.760	6	\$ 332,383
Water and Waste Disposal Systems for Rural Communities	10.760	8	499,800
Water and Waste Disposal Systems for Rural Communities Loan		91-05	525,800
Water and Waste Disposal Systems for Rural Communities Loan		91-07	<u>410,200</u>
<i>Total U.S. Department of Agriculture— Rural Utilities Services</i>			<u>\$ 1,768,183</u>

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Years Ended June 30, 2011, 2010, 2009, and 2008

(1) BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes all federal grant activity of the Authority under programs of the federal government for the years ended June 30, 2011, 2010, 2009, and 2008. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position or changes in net assets of the Authority.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule is presented using the accrual basis of accounting. Costs are based on amounts allowed and incurred in accordance with the grant and loan documents and 7CFR 3015.205(b).

(3) ALLOCATION OF EXPENSES

Based on the information received, the Authority applies expenses to USDA loans until fully dispensed. Once the loans are fully dispensed, expenses are applied to grants.

(4) REMAINING GRANT FUNDS

As of June 30, 2011, the Authority had approximately \$203,000 in grant funds remaining to be spent on allowable costs.

See Independent Auditors' Report.

**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**

Board of Trustees
Arcadia Public Works Authority
Arcadia, Oklahoma

We have audited the financial statements of the Arcadia Public Works Authority, Arcadia, Oklahoma (the "Authority"), a component unit of the Town of Arcadia, as of and for the years ended June 30, 2011, 2010, 2009, and 2008, and have issued our report thereon dated February 1, 2012. Our report includes explanatory paragraphs which note the exclusion of Management's Discussion and Analysis and budgetary comparison information, a report qualification for the possible impairment of the water system, and the going concern uncertainty related to the dependence of the Authority on the Town of Arcadia to service debt and operate. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 our audits, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as Finding 2008-1, that we consider to be significant deficiencies in internal control over financial reporting. 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.

(Continued)

**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, CONTINUED**

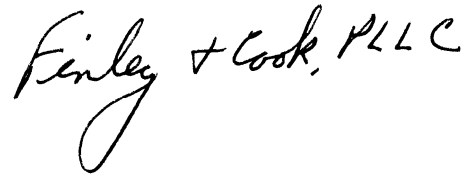
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we 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 our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 2008-2 and in the accompanying schedule of findings and responses as Findings NC-1 and NC-2.

We noted certain matters that we reported to management of the Authority in a separate letter dated February 1, 2012.

The Authority's responses to the findings identified in our audits are described in the accompanying schedule of findings and questioned costs and the accompanying schedule of findings and responses. We did not audit the Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, the Town Council, others within the Authority, and state and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Handwritten signature in cursive script that reads "Finley + Cook, PLLC".

Shawnee, Oklahoma
February 1, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
Arcadia Public Works Authority
Arcadia, Oklahoma

Compliance

We have audited the Arcadia Public Works Authority, Arcadia, Oklahoma's (the "Authority"), a component unit of the Town of Arcadia, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2008. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

As described in Findings 2008-4 in the accompanying schedule of findings and questioned costs, the Authority did not comply with requirements regarding completing an operational water distribution system that are applicable to its federal award program, Water and Waste Disposal Systems for Rural Communities, CFDA No. 10.760. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2008. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2008-5 and 2008-6.

(Continued)

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, CONTINUED**

Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2008-3 to be significant deficiencies.

(Continued)

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, CONTINUED**

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Trustees, the Town Council, others within the Authority, and state and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Finley + Cook, PLLC

Shawnee, Oklahoma
February 1, 2012

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2008

SECTION I—SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued:

Qualified

Internal control over financial reporting:

Material weakness(es) identified?

Yes None Noted

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes None Reported

Noncompliance material to financial statements noted?

Yes None Noted

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

Yes None Noted

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes None Reported

Type of auditors’ report issued on compliance for the major programs:

Qualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

Yes No

Identification of major programs:

<u>Federal CFDA#</u>	<u>Name of Federal Program</u>
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**

Auditee qualified as low-risk auditee?

Yes No

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2008

SECTION II—FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCIES

2008-1 Segregation of Duties

Criteria: Segregation of duties over custody, bookkeeping, and reconciliation is important to have adequate control over financial assets.

Condition: The Authority currently has a lack of segregation of duties in the procedures performed by the utility clerk. The utility clerk is responsible for all aspects of the utility billing procedures, from the creation of the bill to the collection of the payment.

Cause: The limited population of the city and limited resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Effect: Without proper segregation of duties, the risk that errors and fraud related to the billing and collection activities could occur and not be detected within a timely basis increases.

Recommendation: Efficient segregation of duties in a small city environment is often difficult; however, we feel that the governing body and city management should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible. Regarding utility clerk duties, such control could consist of accounts receivable reconciliation reviews, payment posting report reviews, and utility adjustment reviews.

Questioned Costs: \$ 0

Management's Response: Arcadia has only one full-time staff person managing the day-to-day operations. An internal system is used to document and track funds that are received and spent by the Authority. Currently, the administrative assistant collects and receives incoming payments. She completes a transmittal form and submits it to the treasurer, along with the receipt book and payments. The treasurer verifies the payments, initials them in the receipt book, signs off on the transmittal form, and deposits the payments in the bank. Invoices are reviewed and approved for payment by the Authority's chairman. All checks are prepared and presented for signature by two officials, one being the Authority's chairman.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2008

SECTION II—FINANCIAL STATEMENT FINDINGS, CONTINUED

SIGNIFICANT NONCOMPLIANCE

2008-2 Water System Not in Operation

Criteria: The Authority received grant and loan funds from the United States Department of Agriculture (USDA) to build a water distribution system for the town of Arcadia. The distribution system has been completed, but is not in operation.

Condition: The overall goal was to complete a water distribution system to enhance the community lifestyle and provide water to the town's residents. The objective/goal is still not complete.

Cause: The Authority received loan and grant funds from the USDA in order to complete the construction of a water system for the residents of Arcadia, Oklahoma. The funds were spent on supplies and labor utilized to construct the water system. Once construction was completed, it was determined that the water produced by the system did not meet required health standards to allow the residents of the town of Arcadia to utilize the water as expected. The funds were spent on allowable costs; however, the Authority is unable to operate the water system.

Effect: While the monies were spent on allowable purposes, the overall goal to provide water services has not been met. This could result in questioned costs for the Authority.

Recommendation: The Authority should continue to work with state and federal officials to develop a plan to provide water to its residents.

Questioned Costs: \$ 0

Management's Response: The Authority is reviewing various available options in order to determine the best plan of action to bring the water system into compliance with required health standards and to provide water services through the system to the residents of Arcadia. The USDA is very much aware of the situation, and there has been no request for reimbursement.

ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2008

SECTION III—MAJOR FEDERAL AWARD
FINDINGS AND QUESTIONED COSTS

2008-3 Segregation of Duties

Federal Program Affected: CFDA No. 10.760, Water and Waste Disposal Systems for Rural Communities

Criteria: Segregation of duties over custody, bookkeeping, and reconciliation is important to have adequate control over financial assets.

Condition: The Authority currently has a lack of segregation of duties in the procedures performed by the utility clerk. The utility clerk is responsible for all aspects of the utility billing procedures, from the creation of the bill to the collection of the payment. In addition, limited personnel are involved in the operations of the grant.

Cause: The limited population of the city and limited resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Effect: Without proper segregation of duties, the risk that errors and fraud related to the billing and collection activities could occur and not be detected within a timely basis increases.

Recommendation: Efficient segregation of duties in a small city environment is often difficult; however, we feel that the governing body and city management should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible. Regarding utility clerk duties, such control could consist of accounts receivable reconciliation reviews, payment posting report reviews, and utility adjustment reviews. Operating procedures utilizing limited personnel for grant accounting should also be reviewed.

Questioned Costs: \$ 0

Management's Response: Arcadia has only one full-time staff person managing the day-to-day operations. An internal system is used to document and track funds that are received and spent by the Authority. Currently, the administrative assistant collects and receives incoming payments. She completes a transmittal form and submits it to the treasurer, along with the receipt book and payments. The treasurer verifies the payments, initials them in the receipt book, signs off on the transmittal form, and deposits the payments in the bank. Invoices are reviewed and approved for payment by the Authority's chairman. All checks are prepared and presented for signature by two officials, one being the Authority's chairman.

ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2008

SECTION III—MAJOR FEDERAL AWARD
FINDINGS AND QUESTIONED COSTS, CONTINUED

2008-4 Water System Not in Operation

Federal Program Affected: CFDA No. 10.760, Water and Waste Disposal Systems for Rural Communities

Criteria: The Authority received grant and loan funds from the United States Department of Agriculture (USDA) to build a water distribution system for the town of Arcadia. The distribution system has been completed, but is not in operation.

Condition: The overall goal was to complete a water distribution system to enhance the community lifestyle and provide water to the town's residents. The objective/goal is still not complete.

Cause: The Authority received loan and grant funds from the USDA in order to complete the construction of a water system for the residents of Arcadia, Oklahoma. The funds were spent on supplies and labor utilized to construct the water system. Once construction was completed, it was determined that the water produced by the system did not meet required health standards to allow the residents of the town of Arcadia to utilize the water as expected. The funds were spent on allowable costs; however, the Authority is unable to operate the water system.

Effect: While the monies were spent on allowable purposes, the overall goal to provide water services has not been met. This could result in questioned costs for the Authority.

Recommendation: The Authority should continue to work with state and federal officials to develop a plan to provide water to its residents.

Questioned Costs: \$ 0

Management's Response: The Authority is reviewing various available options in order to determine the best plan of action to bring the water system into compliance with required health standards and to provide water services through the system to the residents of Arcadia. The USDA is very much aware of the situation, and there has been no request for reimbursement.

ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2008

SECTION III—MAJOR FEDERAL AWARD
FINDINGS AND QUESTIONED COSTS, CONTINUED

2008-5 Required Reserve Accounts

Federal Program Affected: CFDA No. 10.760, Water and Waste Disposal Systems for Rural Communities

Criteria: The Authority is required to establish separate reserve cash accounts for debt and asset reserves, per the loan agreement.

Condition: The reserve accounts were not established until 2011.

Cause: The Authority was not aware of the requirement.

Effect: The Authority is not in compliance with the loan/grant agreement.

Recommendation: The Authority should have been aware of the loan requirements and should have established the accounts in a timely manner.

Questioned Costs: \$ 0

Management's Response: The necessary accounts were established during 2011 and will be maintained as required.

ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2008

SECTION III—MAJOR FEDERAL AWARD
FINDINGS AND QUESTIONED COSTS, CONTINUED

2008-6 Single Audit Report

**Federal Program Affected: CFDA No. 10.760, Water and Waste Disposal Systems
for Rural Communities**

Criteria: The Authority is required to have an audit conducted in accordance with OMB Circular A-133 for any years in which federal grant funds in excess of \$500,000 are expended. The audit report is to be completed and submitted within 9 months after the end of the fiscal year audited.

Condition: The Authority has not completed the A-133 audit.

Cause: The Authority was aware of the requirement, obtained an auditor, but the audit was never completed.

Effect: The Authority is not in compliance with the grant requirements.

Recommendation: The audit should be completed and submitted as soon as possible.

Questioned Costs: \$ 0

Management's Response: The intent of the Authority's management was to be in compliance with audit requirements. The Authority entered into an agreement with Kershaw CPA & Associates, Muskogee, Oklahoma, on August 21, 2007, to conduct an A-133 audit for the fiscal year ending June 30, 2008. The 2008 audit work was not conducted by the CPA firm. The Authority made repeated attempts to contact the CPA to get a status on the audit, to no avail. It became apparent that the contracted CPA firm would/or could not conduct the audit as agreed upon. The CPA firm terminated its contractual agreement with the Authority with a letter dated July 6, 2010, without conducting the audit. The Authority's management contacted other CPA firms at the beginning of 2010 to identify another auditor.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND RESPONSES

Years Ended June 30, 2011, 2010, and 2009

FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

NC-1: Yellow Book Report (This finding applies to the June 30, 2011, audit.)

As stated in the loan and grant approval conditions letter from the USDA, the Authority is required to remit an annual report to regulators within 90 days after the end of the fiscal year.

The Authority did not remit the required 2011 annual report to the proper regulators within 90 days after the end of the fiscal year.

Recommendation: We recommend that the required annual reports be submitted as directed.

Management's Response: We were unable to complete the annual report, as an audit report is a component of the required annual report. The USDA has waived the 90-day submission requirement until the audit report is completed.

NC-2: Yellow Book Report (This finding applies to the June 30, 2011, 2010, and 2009, audits.)

As stated in the loan and grant approval conditions letter from the USDA, the Authority is to have an audit conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS), the Yellow Book, for years in which less than \$500,000 of federal monies was expended. The audit should be remitted to the USDA within 150 days after the end of the fiscal year.

The Authority did not have the required audit performed or submitted to the proper officials in a timely manner.

Recommendation: The Authority should plan to have an audit done annually in order to comply with the requirements.

Management's Response: The intent of the Authority's management was to be in compliance with audit requirements. The Authority entered into an agreement with Kershaw CPA & Associates, Muskogee, Oklahoma, on August 21, 2007, to conduct an A-133 audit for the fiscal year ending June 30, 2008. The 2008 audit work was not conducted by the CPA firm. The Authority made repeated attempts to contact the CPA to get a status on the audit, to no avail. It became apparent that the contracted CPA firm would/or could not conduct the audit as agreed upon. The CPA firm terminated its contractual agreement with the Authority with a letter dated July 6, 2010, without conducting the audit. The Authority's management contacted other CPA firms at the beginning of 2010 to identify another auditor.