

AUDIT REPORT

CAMERON PUBLIC WORKS AUTHORITY

JUNE 30, 2012

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CAMERON PUBLIC WORKS AUTHORITY
CAMERON, OKLAHOMA
JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cameron Public Works Authority
Cameron, Oklahoma

We have audited the accompanying financial statements of the Cameron Public Works Authority, as of and for the fiscal year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Cameron Public Works Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 audit provides a reasonable basis for our opinion.

As described in the Notes, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The Authority does not maintain accurate capital assets records. The amount by which this departure would affect the assets, net assets, and expenses of the Authority is not readily determinable.

In our opinion, except for the effects, if any, on the financial statements of improper capital asset recordkeeping described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Cameron Public Works Authority, Cameron, Oklahoma, as of June 30, 2012, and the changes in modified cash basis financial position thereof for the year then ended in conformity with the accounting basis described above.

In accordance with Government Auditing Standards, we have also issued our report dated January 30, 2013, on our consideration of the Cameron Public Works 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 the internal control over financial reporting or on compliance. That report is an integral part of an

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audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

Cameron Public Works Authority has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the Authority has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

January 30, 2013

CAMERON PUBLIC WORKS AUTHORITY
CAMERON, OKLAHOMA
STATEMENT OF NET ASSETS
-MODIFIED CASH BASIS-
JUNE 30, 2012

	2012	Memorandum Only 2011
<u>ASSETS</u>		
<u>Current Assets:</u>		
Water Operations & Maintenance Account	\$ 34,227	\$ 22,376
Water Savings	25,201	25,075
Sewer Operations & Maintenance Account	16,881	19,052
Sewer Projects	1,501	-
Total Current Assets	77,809	66,503
<u>Noncurrent Assets:</u>		
Restricted Sewer Reserve Account	62,781	62,468
Capital Assets, Net of Accumulated Depreciation	217,513	224,275
Total Noncurrent Assets	280,294	286,743
TOTAL ASSETS	\$ 358,103	\$ 353,246
<u>LIABILITIES & NET ASSETS</u>		
<u>Current Liabilities:</u>		
Refundable Customer Deposits	\$ 7,508	\$ 6,069
Current Portion of Long Term Debt	4,956	4,714
Total Current Liabilities	12,464	10,783
<u>Long-term Liabilities:</u>		
USDA Rural Development - 92-02	42,696	46,610
USDA Rural Development - 92-03	9,003	9,803
Community Resource Group Note Payable	129,779	129,779
Less: Current Portion of Long Term Debt	(4,956)	(4,714)
Total Long-term Liabilities	176,522	181,479
TOTAL LIABILITIES	188,986	192,262
<u>Net Assets:</u>		
Invested in capital assets, net of related debt	165,814	167,861
Restricted for debt service	62,781	62,468
Unrestricted	(59,478)	(69,346)
TOTAL NET ASSETS	169,117	160,984
TOTAL LIABILITIES & NET ASSETS	\$ 358,103	\$ 353,246

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

**CAMERON PUBLIC WORKS AUTHORITY
CAMERON, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS
-MODIFIED CASH BASIS-
FOR THE TWELVE MONTHS ENDED JUNE 30, 2012**

	<u>2012</u>	<u>Memorandum Only 2011</u>
<u>Operating Revenues:</u>		
Water Revenue	\$ 37,064	\$ 41,362
Sewer Revenue	51,332	42,259
Miscellaneous Income	6,363	4,217
Total Operating Revenue	94,759	87,838
<u>Operating Expenses:</u>		
Water Purchased	17,842	17,870
Labor, Repairs, and Maintenance	39,339	45,473
Collection Costs	-	-
Bookkeeping/Audit	10,156	9,584
Office Expense	391	272
Deposit Refunds	-	-
Water Testing	1,855	1,643
ORWA Insurance/Dues	2,591	1,748
Bank Charges	24	34
Licenses, Dues & Subscriptions	868	-
Telephone	1,224	1,146
Utilities	641	599
Miscellaneous Expenses	371	120
Depreciation	6,762	6,762
Total Operating Expenses	82,064	85,250
Net Operating Income (Loss)	12,695	2,588
<u>Non-Operating Income & (Expenses):</u>		
Interest Income	439	450
Interest Expense	(9,100)	(7,509)
Gain(Loss) on Sale of Assets	-	-
Net Income (Loss) Before Contributions	4,034	(4,471)
Capital Contributions	-	-
Change in Net Assets	4,034	(4,471)
Total Net Assets, Beginning of Year	160,984	165,559
Total Net Assets, Prior Year Adjustment	4,098	(104)
Total Net Assets, End of Year	\$ 169,117	\$ 160,984

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

CAMERON PUBLIC WORKS AUTHORITY
CAMERON, OKLAHOMA
STATEMENT OF CASH FLOWS
-MODIFIED CASH BASIS-
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	2012	Memorandum Only 2011
	<u>2012</u>	<u>2011</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 94,759	\$ 87,838
Payments to Suppliers for Goods & Services	(75,302)	(78,488)
Receipts of Customer Utility Deposits, Net of Refunds	1,338	2,380
Net Cash Provided (Used) by Operating Activities	<u>20,796</u>	<u>11,730</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	-	(144,629)
Loan Proceeds	-	129,779
Principal paid on Debt	(4,714)	(4,485)
Interest paid on Debt	(9,100)	(7,509)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(13,814)</u>	<u>(26,843)</u>
Net Cash Flows from Investing Activities:		
Capital Contributions - Memberships	-	-
Interest Income	439	450
Net Cash Provided (Used) by Investing Activities	<u>439</u>	<u>450</u>
Net Increase (Decrease) in Cash and Cash Equivalents	7,421	(14,663)
Cash & Cash Equivalents, Beginning of Year	128,972	143,635
Cash & Cash Equivalents, Prior Year Adjustment	4,198	-
Cash & Cash Equivalents, End of Year	<u>\$ 140,590</u>	<u>\$ 128,972</u>
<u>Reconciliation of operating income (loss) to net cash provided</u>		
<u>operating activities:</u>		
Operating Income (Loss)	\$ 12,695	\$ 2,588
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	6,762	6,762
(Increase)Decrease in Accounts Receivable-Trade	-	-
Increase(Decrease) in Accounts Payable	-	-
Increase(Decrease) in Refundable Customer Deposits	1,338	2,380
Net Cash Provided (Used) by Operating Activities	<u>\$ 20,796</u>	<u>\$ 11,730</u>

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

CAMERON PUBLIC WORKS AUTHORITY
CAMERON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except for using the modified cash basis of accounting, the accounting policies of Cameron Public Works Authority (CPWA) conform to generally accepted accounting principles as applicable to governmental units. The following significant policies were applied in the preparation of the accompanying financial statements:

A. Basis of Accounting

CPWA utilizes the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). Revenues, expenditures, and liabilities are recognized when received or paid.

The major sources of revenue are from the water and sewer systems. Other revenues are composed primarily of interest income and any other miscellaneous income.

B. Income Taxes

CPWA is a non-profit organization and is exempt from federal and state income taxes.

C. Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts, certificates of deposit, and open-ended mutual funds with a maturity of three months or less.

D. Accounts Receivable

As a result of the use of the cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

E. Inventories

The Authority records materials and supplies inventory as expenditures at the time the inventory is purchased; therefore, no inventory balances for materials and supplies not yet consumed are reported in the combined statement of assets, liabilities and fund balances.

F. Capital Assets

Capital assets have been combined and recorded at cost in the financial statements and are depreciated using the straight-line method over their useful life. The capitalization threshold has been set at \$1,000.00.

CAMERON PUBLIC WORKS AUTHORITY
CAMERON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

However, the Authority has not maintained records of the capital assets and has not recorded depreciation for the water system.

G. Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

H. Equity Classification

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

I. Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

- J. Total Column on Combined Statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operation, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation.

NOTE 2 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2012, the Authority held deposits of approximately \$140,590 at financial institutions. The Authority’s cash deposits, including interest-bearing certificates

CAMERON PUBLIC WORKS AUTHORITY
CAMERON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Investment Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Authority has no policy that limits its investment choices other than the limitation of state law as follows:

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

NOTE 3 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended June 30, 2012, was as follows:

CAMERON PUBLIC WORKS AUTHORITY
CAMERON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Water System	\$ 53,277	\$ -	\$ -	\$ 53,277
Sewer System	131,267	-	-	131,267
Sewer System Improvements	7,631	-	-	7,631
Office Equipment	1,778	-	-	1,778
Building Improvements	15,306	-	-	15,306
Other	131,779	-	-	131,779
Subtotal	341,039	-	-	341,039
Less: Accum. Depr.	(116,764)	(6,762)	-	(123,526)
Total Capital Assets (Net of Depreciation)	\$ 224,275	\$ (6,762)	\$ -	\$ 217,513

NOTE 4 - RESTRICTED ASSETS

The loan agreements with the United States Department of Agriculture Rural Development (USDA) requires the Authority to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installment (\$7,428), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval. As of June 30, 2012, the Authority was required to have at least \$7,428.00 set aside in the reserve account; as of that date the account balance for the reserve account was \$62,781, which complies with the covenants of the loan agreement.

NOTE 5 - LONG-TERM DEBT

The Cameron Public Works Authority is indebted to the Farmers Home Administration (USDA Rural Development) in the amount of \$56,413.05. These notes have a payment of \$619.00 per month with an interest rate of 5.0%. The PWA has complied with their loan agreement and cash reserves were maintained. The Reserve Savings Account is adequate to cover debt service for one year.

The Authority has a loan dated July 14, 2010 to Community Resource Group, Inc. in the amount of \$144,120.00. The loan is for a period of two years with interest at 4.9%. As of June 30, 2012, loan proceeds of 129,779.45 have been received and interest only payments are being made.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
FHA Loan 92-02 (USDA)	\$ 46,610	\$ -	\$ (3,914)	\$ 42,696
FHA Loan 92-03(USDA)	9,803	-	(800)	9,003
Community Resource Group, Inc.	129,779	-	-	129,779
Total Long-Term Debt	\$ 186,193	\$ -	\$ (4,714)	\$ 181,478

CAMERON PUBLIC WORKS AUTHORITY
CAMERON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2012, are as follows:

Year Ending June 30,	Notes Payable - RD 92-02		Total
	Principal	Interest	
2013	\$ 4,115	\$ 2,041	\$ 6,156
2014	4,325	1,831	6,156
2015	4,547	1,609	6,156
2016	4,779	1,377	6,156
2017	5,024	1,132	6,156
2018-2021	19,907	1,850	21,757
Total	<u>\$ 42,696</u>	<u>\$ 9,841</u>	<u>\$ 52,537</u>

Year Ending June 30,	Notes Payable - RD 92-03		Total
	Principal	Interest	
2013	\$ 841	\$ 431	\$ 1,272
2014	884	388	1,272
2015	929	343	1,272
2016	977	295	1,272
2017	1,027	245	1,272
2018-2021	4,346	1,700	6,046
Total	<u>\$ 9,003</u>	<u>\$ 3,403</u>	<u>\$ 12,406</u>

NOTE 6 - FUND EQUITY

As described in Note 2 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

Restricted assets are described in Note 4 above.

NOTE 7 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at June 30, 2012, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the Authority participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to

CAMERON PUBLIC WORKS AUTHORITY
CAMERON, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 8 - FINANCIAL REPORTING

Prior to the fiscal year ending June 30, 2009, the Cameron PWA reported its Sewer and Water Departments in separate reports. For the fiscal year ending June 30, 2009 and carrying forward, all activity of the Authority has been combined into one report.

NOTE 9 - PRIOR YEAR ADJUSTMENT

Prior year adjustments were made to remove old outstanding checks in the amount of \$4,197.91 from the records and to adjust prior year refundable deposits by \$100.00.

NOTE 10 - SUBSEQUENT EVENTS

The Authority did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2012.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Cameron Public Works Authority
Cameron, Oklahoma

We have audited the financial statements of the Cameron Public Works Authority, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, as of June 30, 2012 and have issued our report thereon dated January 30, 2013, which was qualified for the effect on the basic financial statements of the improper recordkeeping of capital assets. The Cameron Public Works Authority has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the Authority did not present the required MD&A. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

Management of Cameron PWA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Cameron Public Works 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 Cameron Public Works Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Cameron Public Works 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

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any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 12-01. 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.

Compliance and Other Matters

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

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors of the Cameron Public Works Authority and the Oklahoma State Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

January 30, 2013

CAMERON PUBLIC WORKS AUTHORITY
CAMERON, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2012

Item 12-01: Refundable Customer Deposits

Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The Authority does not keep a ledger or any other documentation regarding the balance of customer deposits.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's Statement of Net Assets could be incorrect with respect to the deposit account.

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits.

Response: The Authority has been made aware of the problem and will take steps to correct the situation.