

Town of Arcadia

Arcadia, Oklahoma

Financial Statements

(Prepared on the Modified Cash Basis)

June 30, 2012

(With Independent Auditors' Report Thereon)



**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Town of Arcadia
Arcadia, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the Town of Arcadia (the "Town") as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Town prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2012, and the respective changes in financial position—modified cash basis and cash flows—modified cash basis, where applicable, thereof for the years then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2014, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 audit.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The budgetary comparison information on page 22 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Finley + Cook, PLLC

Shawnee, Oklahoma
July 31, 2014

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

STATEMENT OF NET ASSETS—MODIFIED CASH BASIS

June 30, 2012

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 62,804	8,026	70,830
Internal balances	<u>75,000</u>	<u>(75,000)</u>	<u>-</u>
Total assets	<u>\$ 137,804</u>	<u>(66,974)</u>	<u>70,830</u>
Liabilities and Net Assets			
Due to other governments	\$ -	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Net assets:			
Restricted for:			
CLEET	956	-	956
Street and alley	3,599	-	3,599
Debt service	-	7,773	7,773
Unrestricted	<u>133,249</u>	<u>(74,747)</u>	<u>58,502</u>
Total net assets	<u>137,804</u>	<u>(66,974)</u>	<u>70,830</u>
Total liabilities and net assets	<u>\$ 137,804</u>	<u>(66,974)</u>	<u>70,830</u>

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

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

STATEMENT OF ACTIVITIES—MODIFIED CASH BASIS

Year Ended June 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue/Change in Net Assets</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	
Primary government:						
Governmental activities:						
General government	\$ (236,420)	3,714	-	(232,706)	-	(232,706)
Public safety	(40,608)	-	4,413	(36,195)	-	(36,195)
Street and alley	(5,086)	-	-	(5,086)	-	(5,086)
Community development	(12,393)	6,635	-	(5,758)	-	(5,758)
Total governmental activities	<u>(294,507)</u>	<u>10,349</u>	<u>4,413</u>	<u>(279,745)</u>	<u>-</u>	<u>(279,745)</u>
Business-type activities:						
Trash collection	(9,556)	9,947	-	-	391	391
Water	(134,898)	-	16,600	-	(118,298)	(118,298)
Total business-type activities	<u>(144,454)</u>	<u>9,947</u>	<u>16,600</u>	<u>-</u>	<u>(117,907)</u>	<u>(117,907)</u>
Total primary government	<u><u>\$(438,961)</u></u>	<u><u>20,296</u></u>	<u><u>21,013</u></u>	<u><u>(279,745)</u></u>	<u><u>(117,907)</u></u>	<u><u>(397,652)</u></u>
General revenues and transfers:						
Taxes:						
Sales and use taxes				336,833	-	336,833
Fines and forfeitures				69,301	-	69,301
Miscellaneous				11,103	38	11,141
Transfers				(93,325)	93,325	-
Total general revenues and transfers				<u>323,912</u>	<u>93,363</u>	<u>417,275</u>
Change in net assets				44,167	(24,544)	19,623
Net assets, beginning of year				<u>93,637</u>	<u>(42,430)</u>	<u>51,207</u>
Net assets, end of year				<u><u>\$ 137,804</u></u>	<u><u>(66,974)</u></u>	<u><u>70,830</u></u>

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

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

BALANCE SHEET—GOVERNMENTAL FUNDS—MODIFIED CASH BASIS

June 30, 2012

	General Fund	Street and Alley	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 59,205	3,599	62,804
Due from other funds	<u>75,000</u>	<u>-</u>	<u>75,000</u>
Total assets	<u>\$ 134,205</u>	<u>3,599</u>	<u>137,804</u>
Liabilities and Fund Balances			
Due to other funds	\$ -	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Restricted for:			
CLEET	956	-	956
Street and alley	-	3,599	3,599
Unassigned	<u>133,249</u>	<u>-</u>	<u>133,249</u>
Total fund balances	<u>134,205</u>	<u>3,599</u>	<u>137,804</u>
Total liabilities and fund balances	<u>\$ 134,205</u>	<u>3,599</u>	<u>137,804</u>

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

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES—
GOVERNMENTAL FUNDS—MODIFIED CASH BASIS**

Year Ended June 30, 2012

	General Fund	Street and Alley	Total Governmental Funds
Revenues:			
Taxes	\$ 334,539	2,294	336,833
Intergovernmental	4,413	-	4,413
Charges for services	6,635	-	6,635
Fines and forfeitures	69,301	-	69,301
Licenses and permits	3,715	-	3,715
Miscellaneous	11,095	7	11,102
Total revenues	<u>429,698</u>	<u>2,301</u>	<u>431,999</u>
Expenditures:			
Current:			
General government	235,173	-	235,173
Public safety	40,608	-	40,608
Street and alley	-	5,086	5,086
Community development	12,393	-	12,393
Capital outlay	1,247	-	1,247
Total expenditures	<u>289,421</u>	<u>5,086</u>	<u>294,507</u>
Excess (deficiency) of revenues over expenditures	<u>140,277</u>	<u>(2,785)</u>	<u>137,492</u>
Other financing sources (uses):			
Transfers in	18,387	-	18,387
Transfers out	(111,712)	-	(111,712)
Total other financing sources (uses)	<u>(93,325)</u>	<u>-</u>	<u>(93,325)</u>
Net changes in fund balances	46,952	(2,785)	44,167
Fund balances, beginning of year	<u>87,253</u>	<u>6,384</u>	<u>93,637</u>
Fund balances, end of year	<u>\$ 134,205</u>	<u>3,599</u>	<u>137,804</u>

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

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

STATEMENT OF NET ASSETS—PROPRIETARY FUND—MODIFIED CASH BASIS

June 30, 2012

	Town of Arcadia Public Works <u>Authority</u>
Assets	
Restricted cash	\$ 7,773
Unrestricted cash	<u>253</u>
Total assets	<u>\$ 8,026</u>
Liabilities and Net Assets	
Due to other funds	\$ 75,000
Total liabilities	<u>75,000</u>
Net assets:	
Restricted for debt service	7,773
Unrestricted	<u>(74,747)</u>
Total net assets	<u>(66,974)</u>
Total liabilities and net assets	<u>\$ 8,026</u>

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

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS—
PROPRIETARY FUND—MODIFIED CASH BASIS**

Year Ended June 30, 2012

	Town of Arcadia Public Works <u>Authority</u>
Operating revenues:	
Trash collection	\$ 9,947
Total operating revenues	<u>9,947</u>
Operating expenses:	
Trash service charge	9,556
Salaries	21,413
Equipment repair	6,566
Utilities	938
Professional fees and license	15,580
Engineering expense	425
Miscellaneous	<u>1,254</u>
Total operating expenses	<u>55,732</u>
Operating loss	<u>(45,785)</u>
Non-operating (expenses) revenues:	
USDA grant award	16,600
Miscellaneous income	38
Capital outlay	(39,450)
Long-term debt—interest expense	(38,182)
Long-term debt—principal paid	<u>(11,090)</u>
Total non-operating (expenses) revenues, net	<u>(72,084)</u>
Loss before transfers	<u>(117,869)</u>
Transfers from Town of Arcadia	<u>93,325</u>
Changes in net assets	(24,544)
Net assets, beginning of year	<u>(42,430)</u>
Net assets, end of year	<u>\$ (66,974)</u>

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

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

STATEMENT OF CASH FLOWS—PROPRIETARY FUND—MODIFIED CASH BASIS

Increase (Decrease) in Cash and Cash Equivalents

Year Ended June 30, 2012

	Town of Arcadia Public Works Authority
Cash flows from operating activities:	
Receipts from customers	\$ 9,947
Payments to suppliers	(35,319)
Payments to employees	(21,413)
Net cash used in operating activities	<u>(46,785)</u>
Cash flows from noncapital financing activities:	
Transfers from other funds	93,325
Transfers to other funds	<u>-</u>
Net provided by noncapital financing activities	<u>93,325</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	(39,450)
Proceeds of grant	16,600
Interest paid on debt	(38,181)
Principal paid on debt	(11,090)
Net cash used in capital and related financing activities	<u>(72,121)</u>
Cash flows from investing activities:	
Interest received	<u>38</u>
Net cash provided by investing activities	<u>38</u>
Net decrease in cash and cash equivalents	(25,543)
Cash and cash equivalents, beginning of year	<u>33,569</u>
Cash and cash equivalents, end of year	<u>\$ 8,026</u>

(Continued)

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

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

**STATEMENT OF CASH FLOWS—PROPRIETARY FUND—MODIFIED CASH BASIS,
CONTINUED**

Increase (Decrease) in Cash and Cash Equivalents

Year Ended June 30, 2012

Reconciliation to statements of net assets:

Cash and cash equivalents	\$ 253
Restricted cash and cash equivalents—current	<u>7,773</u>
Total cash and cash equivalents, end of year	<u><u>\$ 8,026</u></u>

**Reconciliation to operating loss to
net cash used in operating activities:**

Operating loss	\$ (45,785)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Net changes in accounts payable ⁽¹⁾	<u>(1,000)</u>
Net cash used in operating activities	<u><u>\$ (46,785)</u></u>

⁽¹⁾ Prior year financial statement of APWA was on an accrual basis of accounting.

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

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

In determining the financial reporting entity, the Town of Arcadia (the “Town”) complies with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14, “The Financial Reporting Entity,” that requires the primary government and all component units of which the primary government is financially accountable be included in the financial report. The Town’s financial reporting entity includes four separate legal entities reported as the primary government and component units.

- The Town of Arcadia—an incorporated town that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the Town—reported as part of the primary government.
- The Arcadia Public Works Authority (APWA) — public trust created on October 22, 1998, for the purpose of providing water and waste services to the citizens in the Town, with the Town Council members serving as the trustees—considered part of the primary government as a blended component unit for reporting purposes.

For the above public trust, the Town is the beneficiary of the trust and the Town Council either serves as the governing body of the trust or appoints the trustees. In addition, as required by state law, all debt obligations incurred by the trust must be approved by two-thirds vote of the Town Council. This is considered sufficient imposition of will to include the trust within the Town’s financial reporting entity. The public trust did issue separate annual financial statements as of and for the years ended June 30, 2011, 2010, 2009, and 2008.

Basis of Accounting and Presentation

Government-Wide Financial Statements

The statement of net assets and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles.

See Independent Auditors’ Report.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Accounting and Presentation, Continued

Government-Wide Financial Statements, Continued

These modifications include adjustments for the following balances arising from cash transactions:

- Cash-based interfund receivables and payables
- Other cash-based receivables/payables

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. In addition, property, equipment, and infrastructure assets are not recorded or depreciated, nor is debt reflected as a liability.

Program revenues within the statements of activities are derived directly from each activity or from parties outside the Town's taxpayers. The Town has the following program revenues in each activity:

- General government—license and permits, fines and fees, sales, alcohol and tobacco taxes
- Public safety—fine revenue and operating grants
- Street and alley—gas excise and commercial vehicle taxes
- Community development—permits and rental fees

See Independent Auditors' Report.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Accounting and Presentation, Continued

Governmental Funds

The Town's governmental funds are comprised of the following:

Major Funds:

- General Fund—accounts for all activities not accounted for in other special-purpose funds. For external financial statement reporting purposes, the CLEET fund which accounts for special revenues and expenditures for CLEET, is combined and reported with the General Fund.
- Street and Alley Fund—a special revenue fund that accounts for revenues constrained for special projects of the Town.

The governmental funds are reported on a modified cash basis of accounting. Only current financial assets and liabilities resulting from cash transactions are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period.

Proprietary Fund

The Town's proprietary fund is comprised of the following:

- Arcadia Public Works Authority (APWA)—accounts for the operation of the water and sanitation activities.

The proprietary fund is also reported on a modified cash basis, as defined above.

For purposes of the statements of revenues, expenses and changes in fund net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

Cash and Cash Equivalents

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of 3 months or less, and money market accounts.

See Independent Auditors' Report.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Capital Assets

Due to the use of the modified cash basis of accounting, capital assets and related depreciation are not reported in the financial statements.

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, APWA was required to obtain long-term debt to finance a portion of the project. APWA 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 APWA from the grant funds. APWA 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.

Due to the use of the modified cash basis of accounting, long-term debt obligations are not reported in the financial statements. However, the amount of long-term debt issued and outstanding at the end of the fiscal year is reported as a commitment in Note 7.

Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is not considered material due to the limited number of employees.

See Independent Auditors' Report.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Fund Balances and Net Assets

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is now further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- Nonspendable—includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- Restricted—consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- Committed—includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town’s highest level of decision-making authority. The Town’s highest level of decision-making authority is made by ordinance.
- Assigned—includes amounts that are constrained by the Town’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by Town Council action or management decision when the Town Council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
- Unassigned—represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

It is the Town’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The Town’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

See Independent Auditors’ Report.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fund Balances and Net Assets, Continued

Fund Statements, Continued

Net assets are displayed in two components:

- Restricted net assets—consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net assets—all other net assets that do not meet the definition of “restricted.”

It is the Town’s policy to first use restricted net assets prior to the use of unrestricted net assets when expenditures are incurred for purposes for which both restricted and unrestricted net assets are available.

Internal and Interfund Balances and Transfers

The Town’s policy is to eliminate interfund transfers and balances in the statements of activities and net assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

(2) DEPOSITS

At June 30, 2012, the primary government held the following deposits:

	<u>Type</u>	
Demand deposits		\$ <u>70,830</u>

See Independent Auditors’ Report.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(2) DEPOSITS, CONTINUED

Custodial Credit Risk

Exposure to custodial credit related to deposits exists when the Town holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the Town holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Town's name.

The Town's policy as it relates to custodial credit risk is to comply with state law and secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued interest thereon. Acceptable collateral is defined in state statutes and includes U.S. Treasury securities and direct debt obligations of municipalities, counties, and school districts in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee. At June 30, 2012, the Town was not under-collateralized at any financial institution.

Restricted Cash and Investments

The amounts reported as restricted assets on the statements of net assets are comprised of amounts restricted for Town projects, public safety, debt service payments, and asset maintenance purposes. The restricted assets as of June 30, 2012, were as follows:

Cash and Cash Equivalents

CLEET	\$	956
Street and alley		3,599
Debt service payment account		2,030
Asset maintenance account		<u>5,743</u>
	\$	<u><u>12,328</u></u>

(3) SALES TAX REVENUE

Sales tax revenue represents a four cent local tax on each dollar of taxable sales within the Town, in accordance with Ordinance 89-1504. Sales tax revenue is recorded in the General Fund for general operations.

See Independent Auditors' Report.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) PROPERTY TAX LEVY

The Town presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the Town.

(5) INTERNAL AND INTERFUND BALANCES AND TRANSFERS

Interfund balances at June 30, 2012, were as follows:

<u>Due From</u>	<u>Due To</u>	<u>2012</u>	<u>Nature of Business</u>
APWA	General Fund	<u>\$ 75,000</u>	Loan for operations
Reconciliation to			
<u>Fund Financial Statements</u>	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental funds	\$ -	(75,000)	(75,000)
Proprietary funds	<u>75,000</u>	<u>-</u>	<u>75,000</u>
	<u>\$ 75,000</u>	<u>(75,000)</u>	<u>-</u>

Transfers between funds and legal entities are comprised of the following:

<u>Transfer From</u>	<u>Transfer To</u>	<u>2012</u>	<u>Purpose of Transfer</u>
General Fund	APWA	<u>\$ 93,325</u>	Debt service
Reconciliation to			
<u>Fund Financial Statements</u>	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental funds	\$ -	(93,325)	(93,325)
Proprietary funds	<u>93,325</u>	<u>-</u>	<u>93,325</u>
	<u>\$ 93,325</u>	<u>(93,325)</u>	<u>-</u>

See Independent Auditors' Report.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) RISK MANAGEMENT

The Town and its public trust are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. These risks are managed by securing commercial insurance for all risks. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses. There were not any claims against the Town as of June 30, 2012.

(7) COMMITMENTS AND CONTINGENCIES

Long-Term Debt

The APWA 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 June 30, 2012:

USDA loan 91-05	\$	508,594
USDA loan 91-07		<u>397,146</u>
Total		<u>905,740</u>
Less current maturities		<u>11,563</u>
Long-term debt, less current maturities	\$	<u><u>894,177</u></u>

See Independent Auditors' Report.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) COMMITMENTS AND CONTINGENCIES, CONTINUED

Long-Term Debt, Continued

Changes in long-term debt were as follows:

	Balance at June 30, <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	Balance at June 30, <u>2012</u>
USDA loan 91-05	\$ 514,897	-	6,303	508,594
USDA loan 91-07	<u>401,933</u>	<u>-</u>	<u>4,787</u>	<u>397,146</u>
Total long-term debt	<u>\$ 916,830</u>	<u>-</u>	<u>11,090</u>	<u>905,740</u>

Long-term debt service requirements are as follows:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 11,563	37,709	49,272
2014	12,056	37,216	49,272
2015	12,569	36,703	49,272
2016	13,105	36,167	49,272
2017	13,663	35,538	49,201
2018	14,245	35,308	49,553
2019–2023	80,863	165,497	246,360
2024–2028	99,620	146,740	246,360
2029–2033	122,729	123,631	246,360
2034–2038	151,201	95,159	246,360
2039–2043	186,279	60,081	246,360
2044–2048	<u>187,847</u>	<u>17,160</u>	<u>205,007</u>
	<u>\$ 905,740</u>	<u>826,909</u>	<u>1,732,649</u>

See Independent Auditors' Report.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) COMMITMENTS AND CONTINGENCIES, CONTINUED

Litigation

The Town is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a 3-year period by a Town "Sinking Fund" for the payment of any court assessed judgment rendered against the Town. These statutory provisions do not apply to the Town's public trust authorities. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the Town and the state statute relating to judgments, the Town feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Town.

Federal and State Award Programs

The Town participates in various federal or state grant/loan programs from year to year. In 2012, the Town's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to 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.

Water System

The APWA 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.

As of June 30, 2012, the APWA 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, 2012, no determination has been made as to if the water system is impaired

See Independent Auditors' Report.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

BUDGETARY COMPARISON SCHEDULE—GENERAL FUND—MODIFIED CASH BASIS

Year Ended June 30, 2012

	General Fund			Variance with Final Budget Positive (Negative)
	<u>Budgeted Amounts</u>		Actual Amounts	
	Original	Final		
Beginning budgetary fund balance:	\$ -	-	87,253	87,253
Resources (inflows):				
Taxes	267,050	267,050	334,539	67,489
Intergovernmental	5,100	5,100	4,413	(687)
Charges for services	4,040	4,040	6,635	2,595
Fines and forfeitures	60,000	60,000	69,301	9,301
Licenses and permits	2,450	2,450	3,715	1,265
Miscellaneous	1,750	1,750	11,095	9,345
Total resources (inflows)	<u>340,390</u>	<u>340,390</u>	<u>429,698</u>	<u>89,308</u>
Amounts available for appropriation	<u>340,390</u>	<u>340,390</u>	<u>516,951</u>	<u>176,561</u>
Charges to appropriations (outflows):				
General government	229,890	229,890	235,173	(5,283)
Public safety	33,500	33,500	40,608	(7,108)
Community development	5,000	5,000	12,393	(7,393)
Capital outlay	-	-	1,247	(1,247)
Transfers out	72,000	72,000	93,325	(21,325)
Total charges to appropriations (outflows)	<u>340,390</u>	<u>340,390</u>	<u>382,746</u>	<u>(42,356)</u>
Ending budgetary fund balance	<u>\$ -</u>	<u>-</u>	<u>134,205</u>	<u>134,205</u>

FOOTNOTES TO BUDGETARY COMPARISON SCHEDULE:

1. The budgetary comparison schedule is reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require Town Mayor's approval, while supplemental appropriations require Town Council approval.



**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 Users of the Town of Arcadia, Oklahoma, Annual Financial Report

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the Town of Arcadia, Oklahoma (the “Town”) as of and for the year ended June 30, 2012, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated July 31, 2014. Our report includes a paragraph which notes that the financial statements were prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Our report also includes a paragraph which disclaims an opinion on budgetary comparison information—modified cash basis. We conducted our audit 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

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control over financial reporting.

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 and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

(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**

Internal Control Over Financial Reporting, Continued

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. We consider the deficiency described in the accompanying schedule of findings and responses as Finding 2012-1 to be a material weakness.

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 the deficiencies described in the accompanying schedule of findings and responses as Findings 2012-2 through 2012-5 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 responses as Findings 2012-6 through 2012-11.

We noted certain matters that we reported to management of the Town in a separate letter dated July 31, 2014.

The Town'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 Town'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 Town, 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
July 31, 2014

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2012

MATERIAL WEAKNESS

2012-1 Property Records

Criteria: Property records, showing capital assets and infrastructure of the Town, should be maintained, reviewed and reconciled on a periodic basis.

Condition: The Town does not have any property records.

Cause: The limited population of the town and limited resources result in the inability to provide sufficient staffing to fully execute duties.

Effect: Without property records, the Town cannot properly track, maintain, or protect capital assets.

Recommendation: We recommend property records be created for the Town.

Management's Response: Management's Response: While we have an inventory of items owned starting in 2003, it is not current and may not reflect actual purchase cost. However, using this list, we will develop a listing to be used for financial statements.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2012

SIGNIFICANT DEFICIENCIES

2012-2 Segregation of Duties

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

Condition: The Town 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 town 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 town environment is often difficult; however, we feel that the governing body and town 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.

Management's Response: Arcadia presently 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 Town. 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 Town's chairman. All checks are prepared and presented for signature by two officials, one being the Town's chairman.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2012

SIGNIFICANT DEFICIENCIES, CONTINUED

2012-3 Revenue Recognition

Criteria: Total fines and fees and court fees should be reconciled and agreed to financial records on a periodic basis.

Condition: Reconciliations for the fines, fees and court fees from the receipt book to the financials are not performed.

Cause: The limited population of the town and limited resources result in the inability to provide sufficient staffing to fully execute duties.

Effect: Without a reconciliation, the risk that errors and fraud related to fines and fees activities could occur and not be detected within a timely basis increases.

Recommendation: We recommend fines fees and court fee revenues be reconciled and reviewed in order to ensure proper revenue recognition.

Management's Response: We concur and are in the process of implementing the recommendation.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2012

SIGNIFICANT DEFICIENCIES, CONTINUED

2012-4 Transfers Between Funds

Criteria: Transfer amounts between funds should agree to the transfer shown per the other fund.

Condition: Reconciliations for the transfers are not performed.

Cause: The limited population of the town and limited resources result in the inability to provide sufficient staffing to fully execute duties.

Effect: Without a reconciliation, the risk that errors and fraud related to transfers between funds could occur and not be detected within a timely basis increases.

Recommendation: We recommend reconciliation be performed and reviewed in order to ensure transfers are properly recorded between funds.

Management's Response: We agree with the comment and will implement the recommendation.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2012

SIGNIFICANT DEFICIENCIES, CONTINUED

2012-5 Receipt of CLEET Monies

Criteria: Portion of ticket to be used for CLEET activities.

Condition: Amounts deposited into CLEET fund could not be recalculated as being proper nor could the amount be agreed to ticket information as there is not a list of total tickets written and multiple payments can be paid for one ticket.

Cause: The limited population of the town and limited resources result in the inability to provide sufficient staffing to fully execute duties.

Effect: Without a listing of tickets written, the risk that CLEET monies are not properly transferred to be used for CLEET activities increases.

Recommendation: We recommend a listing of tickets be maintained and reviewed in order to ensure CLEET funds are properly transferred and recorded.

Management's Response: There is a listing being maintained, and we will start to reconcile to the CLEET form.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2012

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

2012-6 Water System Not in Operation

Criteria: The Town 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 Town 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 Town 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 Town.

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

Management's Response: The Town 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.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2012

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

2012-7 Required Reserve Accounts

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

Criteria: The APWA 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 APWA was not aware of the requirement.

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

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

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

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2012

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

2012-8 USDA Annual Report

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

Condition: The Town did not remit the required 2012 annual report to the proper regulators within 90 days after the end of the fiscal year.

Cause: The Town was unable to complete the annual report, as an audit report is a component of the required annual report.

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

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.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2012

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

2012-9 Yellow Book Report

Criteria: As stated in the loan and grant approval conditions letter from the USDA, the Town 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.

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

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

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

Management's Response: The audit was not completed on time; however, the Town had engaged the auditor and as soon as the audit could be scheduled and completed, it was. The completed audit report will be submitted as soon as possible.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2012

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

2012-10 Budgetary Compliance

Auditor's Findings: For the year ended June 30, 2012, the Town was not in compliance with the Municipal Budget Act of 1979 due to the fact that expenditures exceeded appropriations at the legal level of control for the General Fund as follows:

<u>Fund</u>	<u>Department</u>	<u>Expenditures Exceeding Appropriations</u>
General Fund	General government	\$ 5,283
General Fund	Public safety	7,108
General Fund	Community development	7,393
General Fund	Capital outlay	1,247
General Fund	Transfers out	21,325

Auditor's Recommendation: Procedures should be in place to monitor and avoid such items.

Management's Response: We will monitor and do a budget modification as and if needed.

**TOWN OF ARCADIA
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND RESPONSES, CONTINUED

Year Ended June 30, 2012

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

2012-11 Deficit Unrestricted Fund Balance

Auditors' Findings: At June 30, 2012, the fund balance for the APWA fund of the Town had a deficit balance of \$66,974. This appears to be a violation of the fund balance requirements prescribed by Title 11, Section 17-211 of the Oklahoma Statutes.

Auditors' Recommendation: Management may want to consider approving a transfer of monies to alleviate this situation.

Management's Response: The reason for the deficit fund balance is due to the \$75,000 payable to the Town by the Authority. The deficit will be eliminated when the Authority receives additional funds from the USDA to repay the debt.