

**INDEPENDENT
ACCOUNTANT'S AUDIT REPORT**

**ELMORE CITY
PUBLIC WORKS AUTHORITY**

JUNE 30, 2019

BY



Elmore City Public Works Authority
Elmore City, Oklahoma
For the Fiscal Year Ended June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Elmore City Public Works Authority
Elmore City, Oklahoma

We have audited the accompanying modified cash basis financial statements of the Elmore City Public Works Authority of the City of Elmore City, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Elmore City Public Works Authority of the City of Elmore City, Oklahoma, as of June 30, 2019, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Elmore City Public Works Authority and do not purport to, and do not present fairly the financial position of the City of Elmore City, Oklahoma, as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2020, 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* in considering the Authority’s internal control over financial reporting and compliance.



FURRH & ASSOCIATES, PC

Lawton, Oklahoma

August 1, 2020

Elmore City Public Works Authority

Elmore City, Oklahoma

Statement of Net Position

(Modified Cash Basis)

For Year Ended June 30, 2019

ASSETS

Current Assets

Cash and Cash Equivalents	\$	265,319	
Restricted Cash and Cash Equivalents		<u>22,250</u>	
Total Current Assets	\$		287,569

Fixed Assets

Water and Sewer System		2,819,452	
Accumulated Depreciation		<u>(961,681)</u>	
Net Fixed Assets			<u>1,857,771</u>
Total Assets	\$		<u><u>2,145,340</u></u>

LIABILITIES AND NET POSITION

Current Liabilities

Due from Other Funds	\$	110	
Accrued Interest Payable		<u>857</u>	
Total Current Liabilities	\$		967

Long-Term Liabilities

Refundable Meter Deposits		16,193	
Notes Payable		<u>1,481,112</u>	
Total Long Term Liabilities			<u>1,497,305</u>
Total Liabilities			1,498,272

Net Position

Invested in Capital Assets, Net of Related Debt		375,802	
Restricted for Debt Service		6,057	
Unrestricted		<u>265,209</u>	
Total Net Position			<u>647,068</u>
Total Liabilities and Net Position	\$		<u><u>2,145,340</u></u>

Please see accompanying notes to financial statements.

Elmore City Public Works Authority
Elmore City, Oklahoma
Statement of Revenue, Expenses, and Changes in Net Position
(Modified Cash Basis)
Year Ended June 30, 2019

Operating Revenue

Water Revenue	\$ 256,187	
Sewer Revenue	114,674	
Sanitation Revenue	91,640	
Miscellaneous Revenue	13,927	
Total Operating Revenue	\$ 476,428	

Operating Expense

Salaries and Benefits	141,232	
Maintenance and Operations	118,552	
Sanitation Services	67,542	
Depreciation	29,681	
Total Operating Expense	357,007	

Net Operating Income / (Loss) 119,421

Nonoperating Revenue (Expense)

Gain or Loss on Sale of Surplus Assets	2,300	
Interest Expense	(7,740)	
Total Nonoperating Revenue (Expense)	(5,440)	

Income / (Loss) before Transfers 113,981

Transfers

Transfers In	213	
Transfers Out	(213)	
Total Transfers In / (Out)	0	

Change in Net Position 113,981

Net Position, June 30, 2018 533,087

Net Position, June 30, 2019 \$ 647,068

Please see accompanying notes to financial statements.

Elmore City Public Works Authority

Elmore City, Oklahoma

Statement of Cash Flows

(Modified Cash Basis)

Year Ended June 30, 2019

Cash Flows from Operating Activities

Cash Received from Customers	\$ 476,428	
Cash Paid for Salaries and Related Costs	(141,232)	
Cash Paid to Suppliers	<u>(186,094)</u>	
Net Cash Provided by Operating Activities		\$ 149,102

Cash Flows from Investing Activities

Increase in Meter Deposits	8,264	
Increase in Fixed Assets	(1,489,152)	
Sale of Surplus Assets	<u>2,300</u>	
Net Cash Provided by Investing Activities		(1,478,588)

Cash Flows from Capital Financing Activities

Loan Proceeds	1,481,112	
Interest Expense	<u>(6,883)</u>	
Net Cash Used by Capital Financing Activities		<u>1,474,229</u>

Net Increase in Cash and Cash Equivalents 144,743

Cash and Cash Equivalents, June 30, 2018 142,826

Cash and Cash Equivalents, June 30, 2019 \$ 287,569

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Net Operating Income / (Loss)		\$ 119,421
Adjustments:		
Depreciation	<u>\$ 29,681</u>	
Total Adjustments		<u>29,681</u>
Net Cash Provided by Operating Activities		<u><u>\$ 149,102</u></u>

Please see accompanying notes to financial statements.

Elmore City Public Works Authority

Elmore City, Oklahoma

Notes to Financial Statements

Year Ended June 30, 2019

Note 1 – Summary of Significant Accounting Policies

These financial statements are presented on a modified cash basis of accounting. This modified cash basis of accounting differs from generally accepted accounting principles in the United States of America. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board pronouncements. The modified cash basis of accounting is an acceptable method of accounting under budgetary laws of the State of Oklahoma.

Reporting Entity

The Elmore City Public Works Authority was created pursuant to a Trust Indenture as authorized by Title 60, Oklahoma Statutes 1984, section 176-180.3, inclusive and the Oklahoma Trust Act. The governing body of the Authority is the Board of Trustees comprised of five elected members. The Authority is a component unit of its beneficiary, the Town of Elmore City. Elmore City Public Works Authority is a propriety fund that accounts for activities related to the provision of water and sewer services to businesses and residents. It operates the water and sewer treatment plants, water distribution system, sewer collections systems, and pump stations.

Basis of Accounting

Proprietary funds are accounted for using the cash basis of accounting modified as follows:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long term debt is recorded when incurred.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Elmore City Public Works Authority are charges to customers for sales and services. Operating expenses for enterprises funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as *nonoperating* revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The Authority is not legally required to adopt a budget for the general fund. Therefore, budget comparison information is not included in the Authority's financial statements.

Elmore City Public Works Authority

Elmore City, Oklahoma

Notes to Financial Statements

Year Ended June 30, 2019

Assets, Liabilities, and Net Position

Deposits and investments

For purposes of the statement of cash flows, the Authority considers short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents. Public trusts created under Oklahoma Statutes Title 60 are not subject to investment limitations and are primarily governed by any restrictions in their trust or note indenture.

Restricted assets

Resources required to be set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable loan covenants.

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., water and sewer systems). Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives.

Water and Sewer System	25 years
Machinery and Equipment	10 years
Vehicles	5 years

Long term obligations

Long term debt and other long-term obligations are reported as liabilities in the statement of net position.

Net position

Net position is divided into three components:

- *Invested in Capital Assets, net of related debt* – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- *Restricted Net Asset* – consists of net assets that are restricted by creditors through debt covenants.
- *Unrestricted Net Assets* – all other net assets are reported in this category.

Elmore City Public Works Authority
Elmore City, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2019

Note 2 – Deposits, Investments, and Collateral

Deposit Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned. The Authority policy regarding custodial credit risk requires collateral for all deposits in excess of Federal Deposit Insurance. At June 30, 2019, the bank balance was \$287,569. This entire amount was insured and collateralized.

Cash and cash equivalents include the following accounts:

Public Works Authority - Checking	\$	265,319
Meter Deposits Checking		22,250 *
Total Cash in Bank	\$	<u>287,569</u>

* Restricted

Note 3 – Fixed Assets

Current year changes to fixed assets were as follows:

	Balance 06/30/2018	Additions	Disposals	Balance 06/30/2019
Plant Property & Equipment	\$ 1,330,300	\$ 1,489,152	\$ 0	\$ 2,819,452
Accumulated Depreciation	<u>(932,000)</u>	(29,681)	0	<u>(961,681)</u>
Net Fixed Assets	<u>\$ 398,300</u>			<u>\$ 1,857,771</u>

Total depreciation expense for the current year was \$29,681, which was charged against current operations.

Note 4 – Insurance Against Loss Contingencies

The Authority maintains the following insurance coverage for protection against possible loss contingencies:

- Workers Compensation & Employers Liability
- Commercial Property & Equipment Breakdown
- Comprehensive Auto Liability

Elmore City Public Works Authority
Elmore City, Oklahoma
Notes to Financial Statements
Year Ended June 30, 2019

Automobile Physical Damage
Building and Contents Physical Damage
Employee Bonds

The Authority is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

Note 5 – Supplemental Disclosure of Cash Flow Information

Interest expense paid by the Authority for the year ended June 30, 2019 was \$7,740, which was charged to current operations.

Note 6 – Debt

The Authority has an outstanding loan with Banc First. As of June 30, 2019, the outstanding principal was \$1,481,112.

This loan will be refinanced upon completion of the project with the USDA.

Note 7 – Subsequent Events

Subsequent events were evaluated through November 22, 2019, which is the date the financial statements were available to be issued.



**INDEPENDENT AUDITOR'S 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
Elmore City Public Works Authority
Elmore City, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Elmore City Public Works Authority, Elmore City, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 1, 2020.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified the following deficiencies: 2019-3 and 2019-4.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we identified deficiencies in internal control that we consider to be material weaknesses. 2019-1, 2019-2, and 2019-5.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Furrh & Associates, PC

FURRH & ASSOCIATES, PC

Lawton, Oklahoma

August 1, 2020

Elmore City Public Works Authority
Elmore City, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2019

Reportable Conditions of Internal Control, Compliance and Other Matters

2019-1 Employee Utility Accounts

Condition – The Utility Clerk did not cut off utility services when employees were delinquent in payment nor did they charge appropriate fees.

Effect –The town did not receive all fees that it earned.

Cause – Management was unfamiliar with the duties of the Utility Clerk.

Recommendation – Management should periodically review employee utility accounts for proper payment.

Management response – Management concurs. Starting December 1, 2018, employees water bills are now charged a late fee and disconnected if not paid before end of month.

2019-2 Lack of Internal Controls

Condition – Random water adjustments to utility accounts were performed without approval or documentation.

Effect – The town was at risk of misappropriation of funds.

Cause – Lack of oversight on the part of Management.

Recommendation – Management should require documentation and management approval before utility accounts can be adjusted.

Management response – Management concurs. Effective November 1, 2018, proposed utility adjustments are made by the Utility Billing Clerk and the Treasurer reviews them and post adjustments to the Utility Billing program.

2019-3 Employee Uniform Allowance

Condition – Employees are not required to turn in receipts for money spent on uniforms.

Effect – The Town is not in compliance with IRS regulations regarding accountable plans for uniform allowance (IRC Section 162).

Cause – Lack of Uniform Allowance Policy.

Elmore City Public Works Authority
Elmore City, Oklahoma
Schedule of Findings and Responses
Year Ended June 30, 2019

Recommendation – We recommend that management create a written policy to address the accountability of their uniform allowance policy.

Management response – Management concurs. As of March 2, 2021, these expenses are now paid to the employee after they have provided the receipts for the purchase of uniforms.

2019-4 Petty Cash Reconciliation

Condition – Petty Cash has not been reconciled for the past two years.

Effect – Cash may be misappropriated.

Cause – Lack of oversight by Management.

Recommendation – We recommend that management create a written policy or procedure to ensure that petty cash is reconciled monthly.

Management response – Management concurs. Petty cash is reconciled daily. The only petty cash is what the Utility Clerk has in her change fund.

2019-5 Credit Card Reconciliation

Condition – The Credit Card account has not been reconciled for the past two years.

Effect – In appropriate charges may have been overlooked.

Cause – Lack of oversight by Management.

Recommendation – We recommend that management create a written policy or procedure to ensure that all credit card accounts are reconciled monthly.

Management response – Management concurs. The credit card bank account was reconciled and account was closed 10/09/2019. Currently credit card receipts go directly to the appropriate funds and reconciled monthly.