

Arcadia Public Works Authority
Arcadia, Oklahoma

Financial Statements

June 30, 2019
(With Independent Auditors' Report Thereon)



ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Arcadia Public Works Authority
Arcadia, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Arcadia Public Works Authority, Arcadia, Oklahoma (the "Authority"), a component unit of the Town of Arcadia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic 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 accounting principles generally accepted in the United States; this includes 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.

Auditors' Responsibility

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 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 auditors' 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 auditors consider 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 opinion.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Basis for Qualified Opinion

As discussed in more detail in Note 2 to the financial statements, the Authority has a water system with capitalized costs of \$1,916,289, as of June 30, 2019, shown in the statement of net position. The water system, while complete, is not functional due to revised Environmental Protection Agency (EPA) standards. As such, it is not being depreciated, as it has not been placed in service. In addition, since it is not functioning, there is a question as to its value being impaired. No determination of possible impairment has been made for the water system.

Qualified Opinion

In our opinion, except for possible impairment, if any, of the water system, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States.

Emphasis of Matters

Reporting Entity

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

Substantial Doubt About the Authority's Ability to Continue as a Going Concern

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

Other Matters

Required Supplementary Information

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

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Matters, Continued

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Authority's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 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.

Finley + Cook, PLLC

Shawnee, Oklahoma
March 19, 2020

ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA

STATEMENT OF NET POSITION

June 30, 2019

Assets

Current assets:

Cash:

Unrestricted \$ 107,937

Restricted 185,490

Accounts receivable 72,095

Total current assets 365,522

Capital assets:

Land 96,103

Water system 1,916,289

Construction in progress—sewer system 3,491,066

Total capital assets 5,503,458

Total assets \$ 5,868,980

Liabilities and Net Position

Current liabilities:

Accounts payable \$ 50,005

Interest payable 22,090

Current portion of long-term debt 105,519

Total current liabilities 177,614

Non-current liabilities:

Non-current portion of long-term debt 1,862,031

Total liabilities 2,039,645

Net position:

Net investment in capital assets 3,610,908

Restricted for debt service 185,490

Unrestricted 32,937

Total net position 3,829,335

Total liabilities and net position \$ 5,868,980

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

ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA

STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION

Year Ended June 30, 2019

| | |
|------------------------------------|----------------------------|
| Operating revenues: | |
| Trash collection | \$ 12,513 |
| Total operating revenues | <u>12,513</u> |
| Operating expenses: | |
| Trash service charge | 11,177 |
| Engineering | 6,567 |
| Salaries | 17,890 |
| Utilities | 1,266 |
| Supplies | 629 |
| Miscellaneous | <u>1,294</u> |
| Total operating expenses | <u>38,823</u> |
| Operating loss | <u>(26,310)</u> |
| Non-operating revenues (expenses): | |
| USDA grant proceeds | 2,296,528 |
| Interest income | 78 |
| Long-term debt—interest expense | <u>(34,420)</u> |
| Total non-operating revenues, net | <u>2,262,186</u> |
| Income before transfers | <u>2,235,876</u> |
| Transfers from the Town of Arcadia | <u>90,000</u> |
| Change in net position | 2,325,876 |
| Net position, beginning of year | <u>1,503,459</u> |
| Net position, end of year | <u><u>\$ 3,829,335</u></u> |

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

ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA

STATEMENT OF CASH FLOWS

Increase (Decrease) in Cash and Cash Equivalents

Year Ended June 30, 2019

Cash flows from operating activities:

| | |
|---------------------------------------|-----------|
| Receipts from customers | \$ 12,513 |
| Payments to suppliers | (20,933) |
| Payments to employees | (17,890) |
| Net cash used in operating activities | (26,310) |

Cash flows from noncapital financing activities:

| | |
|--|--------|
| Transfers from the Town of Arcadia | 90,000 |
| Net cash provided by noncapital financing activities | 90,000 |

Cash flows from capital and related financing activities:

| | |
|---|-------------|
| Cash payments for capital assets | (2,207,165) |
| Repayment of loan | (14,988) |
| Proceeds of capital grant | 2,342,939 |
| Interest payments on capital debt | (49,964) |
| Net cash provided by capital and related financing activities | 70,822 |

Cash flows from investing activities:

| | |
|---|----|
| Interest received | 78 |
| Net cash provided by investing activities | 78 |

Net increase in cash and cash equivalents 134,590

Cash and cash equivalents, beginning of year 158,837

Cash and cash equivalents, end of year \$ 293,427

(Continued)

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

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

STATEMENT OF CASH FLOWS, CONTINUED

Increase (Decrease) in Cash and Cash Equivalents

Year Ended June 30, 2019

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

| | |
|---|--------------------|
| Operating loss | \$ (26,310) |
| Adjustments to reconcile operating loss to net cash used in operating activities | <u>-</u> |
| Net cash used in operating activities | <u>\$ (26,310)</u> |

**Reconciliation of cash balances to
statement of net position:**

| | |
|--|-------------------|
| Unrestricted cash and cash equivalents | \$ 107,937 |
| Restricted cash and cash equivalents | <u>185,490</u> |
| Total cash and cash equivalents | <u>\$ 293,427</u> |

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

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2019

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Basis of Accounting

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

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

For purposes of the statement of revenues, expenses, and changes in net position, 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

For purposes of the statement of cash flows, the Authority considers all bank deposits and cash on-hand as cash and cash equivalents.

Capital Assets

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

Accounts Receivable

Accounts receivable at June 30, 2019, consisted of grant revenues due from the United States Department of Agriculture (USDA). Management considers the accounts receivable to be fully collectible, and therefore no allowance has been provided for in the accompanying financial statements.

See Independent Auditors’ Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Long-Term Debt

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

In connection with the Sewer System Improvement Project grants awarded by the USDA Rural Utilities Service, the Authority was required to obtain long-term debt to finance a portion of the project. The Authority obtained two additional loans from the USDA during August 2017: one for \$258,000 with an interest rate of 3.25%; and one for \$821,000 with an interest rate of 2.00%. The loans are to be repaid over a 40-year period and require interest-only payments for the first 2 years. The interest-only payments are to be advanced from the grant funds.

Net Position

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

1. *Net investment in capital assets*—consists of capital assets, net of any accumulated depreciation and reduced by the outstanding balance of any notes or other borrowings attributable to those assets.
2. *Restricted net position*—consists of net position with constraints placed on the use either by external groups, laws, or enabling legislation.
3. *Unrestricted net position*—all other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

It is the Authority’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

See Independent Auditors’ Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Income Taxes

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management's Review of Subsequent Events

The Authority's management has evaluated subsequent events through March 19, 2020, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

(2) WATER SYSTEM

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

As of June 30, 2019, the Authority was reviewing various available options in order to determine the best plan of action to bring the water system into compliance with required health standards and to provide water services through the system to the residents of Arcadia. At June 30, 2019, no determination had been made as to if the water system is impaired.

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) GOING CONCERN

The Authority's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Authority relies solely on the funds provided by the Town of Arcadia to repay debt requirements and to operate. As discussed in Note 2, due to the inability to operate the water system, the Authority is unable to create significant revenues. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Authority is reviewing all available options to increase revenue.

(4) DEPOSITS

At June 30, 2019, the Authority held the following deposits:

| <u>Type</u> | |
|-----------------|-------------------|
| Demand deposits | <u>\$ 293,427</u> |

Custodial Credit Risk

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

The Authority'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 Authority must have a written collateral agreement approved by the board of directors or loan committee. At June 30, 2019, the Authority was not under-collateralized at any financial institution.

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) DEPOSITS, CONTINUED

Restricted Cash and Cash Equivalents

The amounts reported as restricted net position on the statement of net position are comprised of amounts restricted for Authority projects, public safety, debt service payments, and asset maintenance purposes. The restricted assets as of June 30, 2019, were as follows:

| | | |
|--|----|----------------|
| Debt service payment account (required by USDA) | \$ | 36,917 |
| Asset maintenance account (required by USDA) | | 28,406 |
| USDA grant funds account | | <u>120,167</u> |
| | \$ | <u>185,490</u> |

(5) CAPITAL ASSETS

The Authority's capital assets activity for the year ended June 30, 2019, was as follows:

| | Balance at June 30, <u>2018</u> | <u>Additions</u> | <u>Deletions</u> | Balance at June 30, <u>2019</u> |
|--|---------------------------------------|------------------|------------------|---------------------------------------|
| Land | \$ 96,103 | - | - | 96,103 |
| Water system | 1,850,473 | 65,816 | - | 1,916,289 |
| Construction in progress— sewer system | <u>1,380,584</u> | <u>2,110,482</u> | <u>-</u> | <u>3,491,066</u> |
| Capital assets | <u>\$ 3,327,160</u> | <u>2,176,298</u> | <u>-</u> | <u>5,503,458</u> |

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

Capitalized interest included in the construction in progress—sewer system balance at June 30, 2019, was as follows:

| Capitalized <u>Interest</u> | Cumulative <u>Total</u> |
|--------------------------------|----------------------------|
| <u>\$ 24,805</u> | <u>37,634</u> |

See Independent Auditors' Report.

ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) LONG-TERM DEBT

The Authority obtained four loans from the USDA to help with construction of a water and sewer 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%.
- USDA promissory note 92-03 dated August 25, 2017, with an original amount of \$258,000, due in monthly installments of \$989, beginning September 25, 2019, interest-only payments paid for the first 2 years due August 25 of 2018 and 2019, final installment due August 25, 2057, at a fixed rate of 3.25%.
- USDA promissory note 92-09 dated August 25, 2017, with an original amount of \$821,000, due in monthly installments of \$2,578, beginning September 25, 2019, interest-only payments paid for the first 2 years due August 25 of 2018 and 2019, final installment due August 25, 2057, at a fixed rate of 2.00%.

The following is a summary of the long-term debt as of June 30, 2019:

| | |
|---|--------------------------|
| USDA promissory note 91-05 | \$ 456,394 |
| USDA promissory note 91-07 | 357,292 |
| USDA promissory note 92-03 | 257,954 |
| USDA promissory note 92-09 | 820,910 |
| | <hr/> 1,892,550 |
| Less current maturities | <hr/> 30,519 |
| Long-term debt, less current maturities | <hr/> <hr/> \$ 1,862,031 |

See Independent Auditors' Report.

ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) LONG-TERM DEBT, CONTINUED

Changes in long-term debt for the year ended June 30, 2019, were as follows:

| | Balance at June 30, <u>2018</u> | <u>Additions</u> | <u>Reductions</u> | Balance at June 30, <u>2019</u> |
|----------------------------|---------------------------------------|------------------|-------------------|---------------------------------------|
| USDA promissory note 91-05 | \$ 464,803 | - | 8,409 | 456,394 |
| USDA promissory note 91-07 | 363,735 | - | 6,443 | 357,292 |
| USDA promissory note 92-03 | 258,000 | - | 46 | 257,954 |
| USDA promissory note 92-09 | <u>821,000</u> | <u>-</u> | <u>90</u> | <u>820,910</u> |
| | <u>\$ 1,907,538</u> | <u>-</u> | <u>14,988</u> | <u>1,892,550</u> |

Long-term debt annual debt service requirements as of June 30, 2019, are as follows:

| Year Ending <u>June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------|---------------------|------------------|------------------|
| 2020 | \$ 30,519 | 54,332 | 84,851 |
| 2021 | 34,559 | 57,517 | 92,076 |
| 2022 | 35,665 | 56,411 | 92,076 |
| 2023 | 36,810 | 55,266 | 92,076 |
| 2024 | 37,995 | 54,081 | 92,076 |
| 2025–2029 | 209,299 | 251,081 | 460,380 |
| 2030–2034 | 246,026 | 214,354 | 460,380 |
| 2035–2039 | 289,946 | 170,434 | 460,380 |
| 2040–2044 | 342,572 | 117,808 | 460,380 |
| 2045–2049 | 312,170 | 57,878 | 370,048 |
| 2050–2054 | 186,942 | 27,078 | 214,020 |
| 2055–2058 | <u>130,047</u> | <u>5,473</u> | <u>135,520</u> |
| | <u>\$ 1,892,550</u> | <u>1,121,713</u> | <u>3,014,263</u> |

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) LONG-TERM DEBT, CONTINUED

The following table details the expenditures made with the USDA funds for year ended June 30, 2019, that are included in construction in progress:

| | |
|---|---------------------|
| USDA project expenses: | |
| Construction: | |
| Jordan Contractors—lift station and 6' force mains | \$ 1,937,073 |
| Total construction | <u>1,937,073</u> |
| Engineering: | |
| SMC Consulting Engineering costs | <u>57,505</u> |
| Total engineering | <u>57,505</u> |
| Other: | |
| Legal fees | 16,762 |
| Interest | 24,805 |
| Inspection | 70,450 |
| Surveying | <u>3,887</u> |
| Total other | <u>115,904</u> |
| Total USDA project expenses | <u>\$ 2,110,482</u> |

(7) NOTE PAYABLE

The Authority obtained a note payable from the Town of Arcadia during July 2009. The note had a maximum principal balance of \$100,000 and was extended to be used for the initial planning and development phase of the sewer system. The note payable carries a 3.5% interest rate and was originally due in July 2010. The due date was extended until July 2020. As of June 30, 2019, the note payable balance was \$75,000. There were no principal payments made on the note payable during the year ended June 30, 2019.

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) COMMITMENTS AND CONTINGENCIES

Lease

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

During the year ended June 30, 2019, the lease had not been activated as the water system was not yet functional.

Litigation

The Authority is involved in legal proceedings in the normal course of operations, none of which, in the opinion of management, will have a material effect on the net position or the change in net position of the Authority.

Federal Awards

The Authority's federal awards are subject to audit by the respective oversight bodies. Such audits could lead to requests for reimbursement for costs disallowed under the terms of the respective awards. As of June 30, 2019, the Authority had no such requests pending.

See Independent Auditors' Report.

ARCADIA PUBLIC WORKS AUTHORITY
SUPPLEMENTARY INFORMATION

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

| <u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Passed Through to Subrecipients</u> | <u>Total Federal Expenditures</u> |
|--|------------------------------------|--|---|
| U.S. Department of Agriculture: | | | |
| <i>Rural Utilities Services:</i> | | | |
| Water and Waste Disposal Systems for Rural Communities | 10.760 | \$ - | <u>2,176,434</u> |
| Total expenditures of federal awards | | <u>\$ -</u> | <u>2,176,434</u> |

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2019

(1) BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Authority under programs of the federal government for the year ended June 30, 2019. The information in the Schedule is presented in accordance with the requirements of the *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Authority, it is not intended to, and does not, present the net position, changes in net position, or cash flows of the Authority.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) INDIRECT COST RATE

The Authority does not have an approved indirect cost rate and chose not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

See Independent Auditors' Report.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED

(4) FEDERALLY FUNDED LOANS

Outstanding federally funded program loans had the following balances during the year ended June 30, 2019:

| <u>Federal CFDA Number</u> | <u>Program Title</u> | <u>Beginning Balance</u> | <u>New Loans</u> | <u>Loan Repayments</u> | <u>Ending Balance</u> |
|------------------------------------|---|------------------------------|----------------------|----------------------------|---------------------------|
| 10.760* | Water and Waste Disposal Systems for Rural Communities | \$464,803 | - | 8,409 | 456,394 |
| 10.760* | Water and Waste Disposal Systems for Rural Communities | 363,735 | - | 6,443 | 357,292 |
| 10.760 | Water and Waste Disposal Systems for Rural Communities | 258,000 | - | 46 | 257,954 |
| 10.760 | Water and Waste Disposal Systems for Rural Communities | 821,000 | - | 90 | 820,910 |

*Loan is not subject to continuing compliance requirements.

See Independent Auditors' Report.

ARCADIA PUBLIC WORKS AUTHORITY
REPORTS AND SCHEDULES REQUIRED BY
***GOVERNMENT AUDITING STANDARDS* AND**
THE UNIFORM GUIDANCE



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

Board of Trustees
Arcadia Public Works Authority
Arcadia, Oklahoma

We have audited, in accordance with the 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, the financial statements of the Arcadia Public Works Authority, Arcadia, Oklahoma (the "Authority"), a component unit of the Town of Arcadia, as of and for the 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 March 19, 2020. Our report includes explanatory paragraphs which emphasize the fact that the financial statements include only that portion of the Town of Arcadia that is attributable to transactions of the Authority, note the exclusion of Management's Discussion and Analysis and budgetary comparison information, a report qualification for the possible impairment of the water system, and the going concern uncertainty related to the dependence of the Authority on the Town of Arcadia to service debt and operate.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion 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.

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 did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Findings 2019-001 and 2019-002.

The Authority's Responses to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
March 19, 2020



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees
Arcadia Public Works Authority
Arcadia, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Arcadia Public Works Authority, Arcadia, Oklahoma (the "Authority"), a component unit of the Town of Arcadia, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2019. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

(Continued)

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE, CONTINUED**

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Finley + Cook, PLLC

Shawnee, Oklahoma
March 19, 2020

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2019

SECTION I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Modified

Internal control over financial reporting:

Material weakness(es) identified?

☐ Yes ☒ No

Significant deficiency(ies) identified?

☐ Yes ☒ None Reported

Noncompliance material to financial statements noted?

☒ Yes ☐ No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

☐ Yes ☒ No

Significant deficiency(ies) identified?

☐ Yes ☒ None Reported

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

Unmodified

Any audit findings disclosed that are required to be reported in
accordance with section 2 CFR 200.516(a) of the Uniform Guidance?

☐ Yes ☒ No

Identification of major federal programs:

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

Dollar threshold used to distinguish between type A and type B programs: **\$750,000**

Auditee qualified as low-risk auditee?

☐ Yes ☒ No

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2019

SECTION II—FINANCIAL STATEMENT FINDINGS

2019-001 Water System Not in Operation

Criteria: From 2008 to 2010, the Authority received grant and loan funds from the United States Department of Agriculture (USDA) to build a water distribution system for the Town of Arcadia. The distribution system has been completed, but is not in operation.

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

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

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

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

Responsible Officials and Planned Corrective Action: See attached Corrective Action Plan.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2019

SECTION II—FINANCIAL STATEMENT FINDINGS, CONTINUED

2019-002 Required Reserve Accounts

Criteria: The Authority is required to establish separate reserve cash accounts for debt and asset reserves, per the 2007 loan agreement.

Condition: The reserve accounts were not established until 2011 and, as a result, the current balances in the accounts are not at the required levels.

Cause: The Authority was not aware of the requirement until 2011.

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

Recommendation: The Authority should continue the monthly payments agreed upon with the USDA until the reserves are fully funded.

Responsible Officials and Planned Corrective Action: See attached Corrective Action Plan.

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

2019 CORRECTIVE ACTION PLAN

Year Ended June 30, 2019

Name of auditee: **Arcadia Public Works Authority**

Name of audit firm: **Finley & Cook, PLLC**

Period covered by the audit: **Award Year 2018-2019**

CAP prepared by: **James H. Woodard, Mayor and Chairman of the Board of Trustees,
(405) 396-2899**

A. Current Findings on the Schedule of Findings, Questioned Costs, and Recommendations

1. Finding 2019-001:

Noncompliance material to financial statements—Water System Not in Operation

a. Comments on the Finding and Each Recommendation

The Authority now has potable water in accordance with DEQ standards through a contract with the City of Edmond. Edmond installed a water line from Edmond to Arcadia and hooked it into Arcadia's pump station and the Authority is now purchasing water from the City of Edmond. The Authority is currently providing water services through the system to the residents of Arcadia. USDA is very much aware of the situation, and there has been no request for reimbursement.

2. Finding 2019-002:

Noncompliance material to financial statements—Required Reserve Accounts

a. Comments on the Finding and Each Recommendation

The necessary accounts were established during 2011 and will be maintained as required.

ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA

2019 CORRECTIVE ACTION PLAN, CONTINUED

Year Ended June 30, 2019

**B. Status of Corrective Actions on Findings Reported in
the Prior Audit Schedule of Findings, Questioned Costs, and Recommendations**

1. Finding 2018-001:

Noncompliance material to financial statements—Water System Not in Operation

a. Comments on the Finding and Each Recommendation

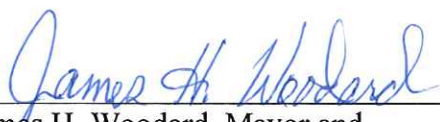
The Authority is reviewing various available options in order to determine the best plan of action to bring the water system into compliance with required health standards and to provide water services through the system to the residents of Arcadia. The USDA is very much aware of the situation, and there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

2. Finding 2018-002:

Noncompliance material to financial statements—Required Reserve Accounts

a. Comments on the Finding and Each Recommendation

The necessary accounts were established during 2011 and will be maintained as required.



James H. Woodard, Mayor and
Chairman of the Board of Trustees

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended June 30, 2019

SECTION II—FINANCIAL STATEMENT FINDINGS

2018-001 Water System Not in Operation

Criteria: From 2008 to 2010, the Authority received grant and loan funds from the United States Department of Agriculture (USDA) to build a water distribution system for the Town of Arcadia. The distribution system has been completed, but is not in operation.

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

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

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

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

Responsible Officials and Planned Corrective Action: See attached Corrective Action Plan.

Follow-Up: This is a repeat finding in the June 30, 2019, audit.

**ARCADIA PUBLIC WORKS AUTHORITY
ARCADIA, OKLAHOMA**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, CONTINUED

Year Ended June 30, 2019

SECTION II—FINANCIAL STATEMENT FINDINGS, CONTINUED

2018-002 Required Reserve Accounts

Criteria: The Authority is required to establish separate reserve cash accounts for debt and asset reserves, per the 2007 loan agreement.

Condition: The reserve accounts were not established until 2011 and, as a result, the current balances in the accounts are not at the required levels.

Cause: The Authority was not aware of the requirement until 2011.

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

Recommendation: The Authority should continue the monthly payments agreed upon with the USDA until the reserves are fully funded.

Responsible Officials and Planned Corrective Action: See attached Corrective Action Plan.

Follow-Up: This is a repeat finding in the June 30, 2019, audit.