

CANTON PUBLIC WORKS AUTHORITY
CANTON, OKLAHOMA

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2011

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Honorable Board of Trustees
Canton Public Works Authority
Canton, Oklahoma 73724

INDEPENDENT AUDITOR'S REPORT

I have audited the accompanying financial statements of the Canton Public Works Authority, Canton, Oklahoma (Authority) as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the financial statements present only the Canton Public Works Authority, Canton, Oklahoma and do not purport to, and do not, present fairly the financial position of the Town of Canton (primary government), Canton, Oklahoma, as of June 30, 2011 and the changes in its financial position, or, where applicable, its cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, Canton Public Works Authority, Canton, Oklahoma 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 of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position –modified cash basis of the Canton Public Works Authority, Canton, Oklahoma, as of June 30, 2011 and the respective changes in financial position-modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 30, 2012, on my consideration of the Canton Public Works Authority's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The Canton Public Works Authority has not presented the Management, Discussion and Analysis required by the *Governmental Accounting Standards Board* (GASB) that the GASB has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Linda Woodruff
Certified Public Accountant

Watonga, Oklahoma
January 30, 2012

**CANTON PUBLIC WORKS AUTHORITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011**

ASSETS

CURRENT ASSETS

Cash	\$	60,095.01	
Meter Deposit CD		12,000.00	
Accounts Receivable		16,378.23	
Restricted Cash		<u>35,791.69</u>	
 TOTAL CURRENT ASSETS			 \$ 124,264.93

CAPITAL ASSETS

Property and Equipment		533,373.00	
Less Accumulated Depreciation		<u>(180,901.03)</u>	
TOTAL CAPITAL ASSETS			<u>352,471.97</u>

TOTAL ASSETS \$ 476,736.90

LIABILITIES

CURRENT LIABILITIES

Current Portion of Long Term Debt	\$	8,649.12	
Accrued Payroll Tax		475.41	
Interest Payable		298.11	
Meter Deposits		<u>10,317.50</u>	
 TOTAL CURRENT LIABILITIES			 19,740.14

LONG TERM LIABILITIES

Long Term Debt		168,983.34	
Current Portion of Long Term Debt		<u>(8,649.12)</u>	
TOTAL LONG TERM LIABILITIES			<u>160,334.22</u>

TOTAL LIABILITIES 180,074.36

NET ASSETS

INVESTED CAPITAL		183,488.63	
RESTRICTED		35,791.69	
UNRESTRICTED		<u>77,382.22</u>	
 TOTAL NET ASSETS			 \$ <u>296,662.54</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS.
SEE THE ACCOMPANYING INDEPENDENT AUDITORS' REPORT.

CANTON PUBLIC WORKS AUTHORITY
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

REVENUE		
Utilities	\$	260,884.79
NODA Income		12,800.00
Lake Income		<u>25,797.51</u>
TOTAL REVENUE	\$	299,482.30
OPERATING EXPENSES		
Maintenance & Operations	\$	104,986.92
Sewer & Refuse		79,188.36
NODA Expense		12,800.00
Personal Services		<u>63,713.08</u>
TOTAL EXPENSES		<u>260,688.36</u>
INCOME BEFORE NON-OPERATING REVENUES EXPENSES & TRANSFERS		38,793.94
NON-OPERATING REVENUES (EXPENSES)		
Depreciation		(13,132.02)
Interest & Dividends		665.76
Interest Expense		<u>(2,662.14)</u>
TOTAL OTHER NON-OPERATING REVENUES (EXPENSES)		<u>(15,128.40)</u>
INCOME (LOSS) BEFORE OPERATING TRANSFERS		23,665.54
TRANSFER IN (OUT)		
Operating		<u>.00</u>
CHANGE IN NET ASSETS		23,665.54
NET ASSETS AT BEGINNING OF YEAR		<u>272,997.00</u>
NET ASSETS AT END OF YEAR	\$	<u><u>296,662.54</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS.
SEE THE ACCOMPANYING INDEPENDENT AUDITORS' REPORT.

**CANTON PUBLIC WORKS AUTHORITY
STATEMENT OF CASH FLOW
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2011**

CASH FLOW FROM OPERATING ACTIVITIES	
Cash Received from Customers & Services Users	\$ 295,077.19
Cash Payments for Goods & Services	<u>(262,776.08)</u>
Net Cash Provided by Operating Activities	32,301.11
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES	
Operating Transfers In (Out) to Other Funds	<u>.00</u>
Net Cash Used in Noncapital and Financing Activities	.00
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Capital Assets	(24,107.00)
Principal Paid on Debt	<u>(19,733.36)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	(43,840.36)
CASH FLOW FROM INVESTING ACTIVITIES	
Interest on Investment	<u>665.76</u>
Net Cash Provided by Investing Activities	665.76
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	(10,873.49)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>118,760.19</u>
CASH AND EQUIVALENTS AT END OF YEAR	<u><u>\$ 107,886.70</u></u>
RECONCILIATION OF OPERATION INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Income (Loss)	22,999.78
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Depreciation	13,132.02
Changes in Assets & Liabilities	
(Increase) Decrease in Accounts Receivable	(4,405.11)
Increase (Decrease) in Interest Payable	(78.36)
Increase (Decrease) in Accrued Expenses	207.78
Increase (Decrease) in Meter Deposits	<u>445.00</u>
Total Adjustments	9,301.33
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 32,301.11</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE BASIC FINANCIAL STATEMENTS.
SEE THE ACCOMPANYING INDEPENDENT AUDITORS' REPORT.

CANTON PUBLIC WORKS AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policy of the Canton Public Works Authority is to prepare its financial statements on the modified cash basis; consequently, certain revenue and the related assets are recognized when received rather than when earned and certain expenses are recognized when paid rather than when the obligation is incurred.

The Authority was created by a Trust Indenture dated June 29, 1992, for the use and benefit of the Canton Public Works Authority, under the provisions of Title 60, Oklahoma Statutes 1981, Section 176 to 180, inclusive, the Oklahoma Trust Act and other applicable statutes of the State of Oklahoma. The primary purpose of the Authority is to operate public utilities for the Canton Public Works Authority. Due to its organization, the Authority is considered a component unit of the Town of Canton, but has chosen to present its financial statements separately. Other significant accounting policies followed are described to enhance the usefulness of the financial statements.

Fund Accounting

The accounts of the Authority are maintained in accordance with the principles of fund accounting. Each fund is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund balances, revenues and expenditures.

Basis of Accounting

Generally, the modified cash basis of accounting is followed by all funds. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

Property and Equipment

Depreciation of property and equipment is provided over the estimated useful lives of the respective assets and is recorded on a straight-line basis.

Cash and Time Certificates of Deposit

The Authority's investment policies are governed by Oklahoma Statutes. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of saving and loan associations, bank and trust companies; and saving accounts and savings certificates of saving and loan associations, and trust companies.

The cash resources of each fund are managed by the Treasurer. Each fund's cash and time certificates of deposit purchased are reported separately in the individual financial statements as cash or investments. Oklahoma Statutes require that municipal funds be either fully insured or collateralized by acceptable collateral valued at no more than market value. As of June 30, 2011, all cash and time deposits of the Authority are entirely insured or collateralized as required by Oklahoma Statutes.

NOTE 2 - DEPARTURES FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Authority's financial statements have been prepared on the modified cash basis of accounting with differs from generally accepted accounting principles. Significant differences are as follows:

The Authority maintains its accounts on the modified accrual basis of accounting under which revenues are recorded when they are both measureable and available, and expenditures are recorded when the liability is incurred, if measurable. Purchases of supplies are recorded as expenditures rather than assets to be expensed as used.

NOTE 3 – CASH

The Authority utilizes the services of the Authority Treasurer for cash and investments control and accountability. The treasurer is authorized to deposits funds in accounts that are either fully insured or collateralized by acceptable collateral valued at no more than market value. Permissible investments include direct obligations of the United States Government and its Agencies; certificates of deposit of saving and loan associations, and bank and trust companies; and savings accounts or saving certificates of savings and loan associations, and trust companies. Collateral is required for demand deposits and certificates of deposit for all accounts not covered by federal deposit insurance, cash and investments of the Authority were entirely insured or collateralized as required by Oklahoma Statutes.

For financial statements presentation and for purposes of the statement of cash flows the Authority's cash and cash equivalents are considered to be cash with a maturity date of three months or less.

NOTE 4 – PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

	Balance 6/30/2010	Additions	Retirements	Balance 6/30/2011
Depreciable Assets				
Water System	\$ 426,685.00	\$ -	\$ -	\$ 426,685.00
Lift Station	<u>82,581.00</u>	<u>24,107.00</u>	<u>-</u>	<u>106,688.00</u>
Total Depreciable Assets	509,266.00	24,107.00	-	533,373.00
Less Accumulated Depreciation				
Water System	\$ (159,321.00)	\$ (10,667.00)	\$ -	\$ (169,988.00)
Lift Station	<u>(8,448.00)</u>	<u>(2,465.00)</u>	<u>-</u>	<u>(10,913.00)</u>
Total Accumulated Assets	(167,769.00)	(13,132.00)	-	(180,901.00)
Net Depreciable Assets	<u>\$ 341,497.00</u>	<u>\$ 10,975.00</u>	<u>\$ -</u>	<u>\$ 352,472.00</u>

NOTE 5 – LONG-TERM OBLIGATION

Long-term debt consists of a note payable to Oklahoma Water Resources Board dated November 19, 1993, in the original principal sum of \$280,000. Outstanding principal on June 30, 2011, was \$168,983.34 with the last payment due on September 15, 2027. This notes bears interest at rate equal to the rate of interest on the Board's \$50,000,000 State Loan Program Revenue Bond, Series 1992. Monthly payments made to a Local Trustee Bank vary according to the rate of interest. The monthly payment range was \$1,021.68 to \$1,049.30 during the period from July 1, 2010, through June 30, 2011. An additional \$20,000 principal payment was made during the fiscal year.

The long-term debt is secured by a pledge of all revenues, gross income, assessments, licenses, franchises, ordinances, privileges, permits, contract rights, account receivable, general intangibles, equipment and inventory in connection with the utility system of the Authority and a mortgage on certain real estate and easements held by the Canton Public Works Authority comprising the utility systems.

Principal due on the long-term debt in each of the next five years and in five-year increments thereafter, as of June 30, 2011, are presented below.

2012	\$ 8,649
2013	8,871
2014	9,099
2015	6,332
2016	9,572
2017-2021	62,815
2021-2027	<u>63,645</u>
	<u>168,983</u>

NOTE 6 – INCOME TAXES

The Authority is a component unit of the Town of Canton, therefore, management believes it is exempt from income taxation under federal and states statutes.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Lease Obligations

According to the terms and conditions of a lease agreement with an original date of July 7, 1992, as amended October 21, 1993, the Authority shall lease the Town of Canton's water and sewer systems for a term of fifty years or to such date as all indebtedness of the Authority is retired or provision for its payment has been made, with right in the Authority to renew and extend the lease for a like term to the end that the leasehold estate may be pledged as security for additional indebtedness issued by the Authority. The Town of Canton further agreed that the Authority may pledge all or any part of the leasehold interest in the water system as security for any Bonds issued by the Authority.

Risk management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Authority maintains commercial insurance coverage covering a portion of those risks of loss. Management believes such coverage is sufficient to preclude significant uninsured losses to the Authority.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 30, 2012, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

January 30, 2012

Honorable Board of Trustees
Canton Public Works Authority
Canton, Oklahoma 73724

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

I have audited the accompanying financial statements – modified cash basis – of the business-type activities and the aggregate remaining fund information of the Canton Public Works Authority, Canton, Oklahoma, (Authority) as of and for the year ended June 30, 2011, which collectively comprises the Authority's basic financial statements and have issued my report thereon dated January 30, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Authority's internal control over financial reporting as a basis of designing my audit procedures for the purpose of expressing my opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, I have identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in normal course of performing their assigned function, 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 statement will not be prevented, or detected and corrected on a timely basis. I consider the deficiency describe in the accompanying schedule of findings and responses to be a material weakness (11-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contract 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

The Authority's response to the findings identified in my audit is described in the accompanying schedule of finds and responses. I did not audit the Authority's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specified parties.

Linda S. Woodruff CPA, P.C.

**CANTON PUBLIC WORKS AUTHORITY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

11-01. Internal Control

Condition: An adequate internal control structure does not exist because of the small size of the entity nor is there adequate segregation of duties.

Criteria: Internal controls should be in place that provide reasonable assurance that any one individual does not have control over several of the financial functions of the Authority.

Effect: Because of the inadequate segregation of duties, an opportunity exists for an employee to alter record keeping.

Recommendation: I recommend that the Authority strive to implement more segregation of duties where possible and utilize compensating procedures where applicable.

Response: The Authority concurs with the recommendation, although the cost to correct his condition might exceed the benefit.