

TOWN OF CANUTE  
ANNUAL FINANCIAL STATEMENTS  
AND ACCOMPANYING  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED  
JUNE 30, 2014

David O. Tate  
Certified Public Accountant  
Mangum, Oklahoma 73554

Town of Canute  
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June 30, 2014

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Town of Canute

List of Principal Officials

Town Council and Trustees of the Canute Public Works Authority

Phillip D. (David) Root, Mayor

Kem Kilhofer, Trustee

Jan Kamphaus, Trustee

Russ Smith, Trustee

Charles M. (Chuck) Maddox, Trustee

City Manager

Dan Price

Town Treasurer/Town Clerk

Mary Beth Thomas

***David O. Tate***

Certified Public Accountant  
112 North Oklahoma, Suite A  
Mangum, Oklahoma 73554

Independent Auditor's Report

The members of the governing body  
of the Town of Canute, Oklahoma

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Canute, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the town's basic financial statements as listed in the table of contents.

**Management 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 of America; 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.

**Auditor's responsibility**

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. Those standards require that I 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

**Opinions**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the remaining aggregate fund information of the Town of Canute, Oklahoma, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

## **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 of America 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. My opinion on the basic financial statements is not affected by this missing information.

### **Other reporting required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated September 26, 2011 on my consideration of the Town of Canute, Oklahoma's internal control over financial reporting and on 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 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 Town of Canute, Oklahoma's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "David O. Tate". The signature is written in dark ink on a light-colored background.

Certified Public Accountant  
September 26, 2014

Town of Canute  
Statement of Net Position  
June 30, 2014

	Primary Government		
	Governmental activities	Business-type activities	Total
<b>Assets</b>			
Cash and cash equivalents-unrestricted	465,804	326,137	791,941
Cash and cash equivalents-restricted		20,377	20,377
Investments	19,507	294,051	313,558
Revenue receivable	26,116	28,759	54,875
<b>Capital assets (Note 1)</b>			
Property and equipment, net of accumulated depreciation	10,590	830,443	841,033
<b>Total assets</b>	<b>522,017</b>	<b>1,499,767</b>	<b>2,021,784</b>
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable	14,562	8,387	22,949
<b>Notes payable:</b>			
Due in one year		25,830	25,830
<b>Total current liabilities</b>	<b>14,562</b>	<b>34,217</b>	<b>48,779</b>
<b>Long-term liabilities (Note 3)</b>			
<b>Notes payable</b>			
Due in more than one year		322,708	322,708
Refundable deposits		12,160	12,160
<b>Total long term liabilities</b>	<b>-</b>	<b>334,868</b>	<b>334,868</b>
<b>Total liabilities</b>	<b>14,562</b>	<b>369,085</b>	<b>383,647</b>
<b>Net position</b>			
Net investment in capital assets	10,590	481,905	492,495
<b>Restricted for:</b>			
Debt service			-
Other purposes	-	20,377	20,377
Unrestricted	496,865	628,400	1,125,265
<b>Total net position</b>	<b>507,455</b>	<b>1,130,682</b>	<b>1,638,137</b>
<b>Total liabilities and net position</b>	<b>522,017</b>	<b>1,499,767</b>	<b>2,021,784</b>

See the accompanying notes to the basic financial statements



Town of Canute  
Balance Sheet  
Governmental Funds  
June 30, 2014

	General fund	Capital improvement fund	Other governmental funds	Total
<b>Assets</b>				
Cash and cash equivalents	206,649	187,992	71,163	465,804
Investments	19,507			19,507
Revenue receivable	25,782		334	26,116
<b>Total assets</b>	<b>251,938</b>	<b>187,992</b>	<b>71,497</b>	<b>511,427</b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	14,562			14,562
<b>Total liabilities</b>	<b>14,562</b>	<b>-</b>	<b>-</b>	<b>14,562</b>
<b>Fund balances:</b>				
Unreserved	237,376	187,992	71,497	496,865
<b>Total fund balance</b>	<b>237,376</b>	<b>187,992</b>	<b>71,497</b>	<b>496,865</b>
<b>Total liabilities and fund balance</b>	<b>251,938</b>	<b>187,992</b>	<b>71,497</b>	
<b>Reconciliation to Statement of Net Position:</b>				
Capital assets, net of accumulated depreciation, are not financial resources and, therefore are not reported in the funds				10,590
<b>Net position of governmental activities</b>				<b>507,455</b>
See the accompanying notes to the basic financial statements				

Town of Canute						
Statement of Revenues, Expenditures and Changes in Fund Balance-						
Governmental Funds						
For the twelve months ended June 30, 2014						
			General	Capital	Other	
			fund	improvement	governmental	Total
				fund	funds	
Revenues:						
Taxes			215,833		5,153	220,986
Charges for services			2,230		2,983	5,213
Investment income			1,140	1,089	400	2,629
Contributions			3,000		20,934	23,934
Intergovernmental					31,820	31,820
Insurance proceeds						-
Sales of surplus property					800	800
Other			4,427		529	4,956
Total revenues			226,630	1,089	62,619	290,338
Expenditures:						
General government						
Personal services			76,847			76,847
Maintenance/operation			147,333			147,333
Capital outlay			57,228			57,228
Total expenditures			281,408	-	-	281,408
Excess (deficiency) of revenues over expenc			(54,778)	1,089	62,619	8,929
Other financing sources (uses):						
Transfers in				42,100	135	42,235
Transfers out			(42,100)			(42,100)
Total other financing sources (uses)			(42,100)	42,100	135	135
Net change in fund balances			(96,878)	43,189	62,754	9,064
Fund balances, July 1, 2013						-
Fund balances, June 30, 2014			(96,878)	43,189	62,754	
Net change in fund balances-total governmental funds						9,064
Reconciliation to the Statement of Activities						
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these items is allocated over their estimated useful lives and reported as depreciation expense						
Capital outlays						57,228
Depreciation expense						(3,530)
Change in Net Position of Governmental Activities						62,762
See the accompanying notes to the basic financial statements						

Town of Canute  
Statement of Net Position  
Proprietary Fund  
June 30, 2014

	Public Works Authority Enterprise Fund
<b>Assets</b>	
<b>Current assets</b>	
Cash and cash equivalents	326,137
Investments	294,051
Restricted cash and cash equivalents	20,377
Accounts receivable	28,759
<b>Total current assets</b>	<b>669,324</b>
<b>Noncurrent assets</b>	
Property and equipment net of accumulated depreciation	830,443
<b>Total noncurrent assets</b>	<b>830,443</b>
<b>Total assets</b>	<b>1,499,767</b>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Accounts payable	8,387
Notes payable, current portion	25,830
<b>Total current liabilities</b>	<b>34,217</b>
<b>Noncurrent liabilities</b>	
Refundable deposits	12,160
Notes payable, long-term portion	322,708
<b>Total noncurrent liabilities</b>	<b>334,868</b>
<b>Total liabilities</b>	<b>369,085</b>
<b>Net Position</b>	
Net investment in capital assets	481,905
Restricted	
Debt service	
Other	20,377
Unrestricted	628,400
<b>Total net position</b>	<b>1,130,682</b>
<b>Total liabilities and net position</b>	<b>1,499,767</b>

Town of Canute					
Statement of Revenues and Expenditures and Changes in Net Position					
Proprietary Fund					
For the twelve months ended June 30, 2014					
					Public
					Works
					Authority
					Enterprise
					Fund
Operating revenues:					
Utility services					281,026
Other					112
Gross revenue from operations					281,138
Operating expenses:					
Repairs/maintenance					166,502
Depreciation					41,500
Salaries/wages/fringe benefits					43,236
Utilities					4,443
Other					-
Total operating expenses					255,681
Operating income (loss)					25,457
Non-operating revenues (expenses):					
Intergovernmental grants					13,753
Investment income					3,990
Interest expense					(16,895)
Total non-operating revenues (expenses)					848
Total operating income (loss) and non-operating revenues (expenses)					26,305
Other financing sources (uses):					
Operating transfers in					
Operating transfers out					
Total other financing sources (uses)					-
Change in net position					26,305
Net position, July 1, 2013					1,104,377
Net position, June 30, 2014					1,130,682
See the accompanying notes to the basic financial statements					

Town of Canute  
Statement of Cash Flows  
Proprietary Fund  
For the twelve months ended June 30, 2014

	Public Works Authority Enterprise Fund
Cash flows from operating activities	
Receipts from customers	276,693
Payments to suppliers	(165,016)
Payments to employees	(43,236)
Receipts (refunds) of customer utility deposits	5
Net cash provided by (used in) operating activities	<u>68,446</u>
Cash flows from capital and related financing activities	
Transfers in	
Grants received	13,753
Principal paid on capital debt	(36,502)
Interest paid on capital debt	(16,895)
Net cash provided by (used in) capital and related financing activities	<u>(39,644)</u>
Cash flows from investing activities:	
Interest earned	3,990
Net cash flows provided by (used in) investing activities	<u>3,990</u>
Net increase (decrease) in cash and cash equivalents	32,792
Balance, July 1, 2013	<u>607,773</u>
Balance, June 30, 2014	<u>640,565</u>
See the accompanying notes to the basic financial statements	



Town of Canute  
Notes to the Basic Financial Statements  
June 30, 2014

1. **Summary of significant accounting policies**

A. Organization

The Town of Canute, Oklahoma is incorporated under the provisions of the laws of the State of Oklahoma. The Town operates under the statutory town board of trustees' form of government. The Town provides for the public safety (police and fire protection), street maintenance, utilities (sanitation, water, and sewer services), culture, recreation, public improvements, and general administrative services.

The town, for financial purposes, includes all the funds and account groups relevant to the operation of the Town of Canute. The accompanying financial statements present the Town's primary government and component units, if any, over which the town exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the town. The financial statements presented do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Town of Canute.

Due to restrictions of the state constitution relating to the issuance of municipal debt, public trusts are created to finance town services with revenue bonds or other non-general obligation financial and provide for multi-year contracting. Financing services provided by these public trusts are solely for the benefit of the town. Public trusts created to provide financing services are blended into the town's primary government as an integral part of town operations although retaining separate legal identity. Component units that do not meet the criteria for blending are reported separately.

The Canute Public Works Authority was created under the provisions of Oklahoma statutes by a declaration of the trust. The town has beneficial interest and the trustees of the town serve as trustees of the authority. Town employees carry on the activities of the authority. The authority provides water, sewer, and trash removal services to the citizens of Canute. Accounts of the authority are recorded in business-type activities.

B. Basis of presentation

Government-wide financial statements

The government-wide financial statements include the statement of net position and statement of activities. These statements report financial information for the town as a whole. The statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. Individual funds are not displayed by the statements.

Town of Canute  
Notes to the Basic Financial Statements  
June 30, 2014

1. **Summary of significant accounting policies (continued)**

B. Basis of presentation (continued)

Government-wide financial statements (continued)

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services with usage fees, fines, and forfeitures, and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or utility services.

Fund financial statements

Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized in three major categories: governmental, proprietary, and fiduciary.

Measurement focus and basis of accounting

The financial statements of the Town are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued or before November 30, 1989, unless they conflict with Governmental Accounting Standards Board pronouncements. The Town's reporting entity does not apply Financial Accounting Standards Board pronouncements or Accounting Principles Board opinions issued after November 30, 1989.

The government-wide statements report using the economic resources measurements focus and the accrual basis of accounting. Proprietary and fiduciary fund financial statements and financial statements of the Town's component units also report using the sale focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Town of Canute  
Notes to the Basic Financial Statements  
June 30, 2014

1. **Summary of significant accounting policies (continued)**

B. Basis of presentation (continued)

Measurement focus and basis of accounting (continued)

Governmental fund financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considered revenues to be available if they are collected within sixty (60) days of the end of the fiscal year. Expenses are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes, intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in the proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of provided goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Restricted assets

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed. Restricted assets and liabilities current in nature are reported with current assets and current liabilities in the financial statements.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reporting amounts and disclosures, accordingly, actual results could differ from those estimates.

Interfund balances

Generally, outstanding balances between funds reported and due to/due from other funds include outstanding charges by one fund to another for services or goods or miscellaneous receivables/payables between funds. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year and are described as due to/due from other funds.

Date of management's review

Subsequent events were evaluated through September 26, 2014, which is the date the financial statements were available to be issued.

Town of Canute  
Notes to the Basic Financial Statements  
June 30, 2014

1. **Summary of significant accounting policies**

C. Fund types and major funds

General fund

The General Fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all except those legally or administratively required to be accounted for in another fund.

Special revenue funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for specified purposes. The reporting entity includes the following special revenue funds:

Street and alley fund-Accounts for commercial vehicle tax and gasoline excise tax legally restricted for street and alley repairs and maintenance.

Fire-Accounts for the operations, including grants, of the Town's fire department.

Park Improvement Fund-Accounts for the investments and operations of the Town's Park Improvement Fund.

Grant Fund-Accounts for the receipt and use of grant funds.

Capital Construction-Accounts for 1% of sales tax to be used for any capital project or matching funds approved by the governing body.

Canute Public Work Authority-Accounts for the activities of the Authority in providing water, sewer, and solid waste services to the public.

D. Budgets and Budgetary Accounting

Budget policy and practice

The Town Clerk submits an annual budget to the governing body in accordance with the Town charter and the Oklahoma Municipal Budget Act. The budget is presented to the governing body for review and public hearings are held to address priorities and the allocation of resources. In June of each year, the governing body adopts the annual fiscal year budgets for Town operating funds. Budget amendments or supplements may be made during the year when unexpected modifications are required in estimated revenues and appropriations. Budget amendments are recommended by the Town Clerk and must be approved by the governing body. Public trusts submit budgets and other planning documents to their respective governing bodies. Other funds budgeted on a project-length basis are also subjected to the governing body's review and approval process.

Town of Canute  
Notes to the Basic Financial Statements  
June 30, 2014

1. **Summary of significant accounting policies (continued)**

D. Budgets and Budgetary Accounting (continued)

Budgetary control

Each fund's appropriated budget is approved on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and object class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. This legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the governing body. Within these control levels, management may transfer appropriations without governing body approval. Revisions to the budget were made throughout the year.

E. Assets, Liabilities, and Equity

Cash and investments

For the purposes of the combined balance sheet and the statement of cash flows, "cash and cash equivalents" includes all demand deposits, savings accounts and certificates-of-deposit or short-term investments (including restricted assets) with an original maturity of three (3) months or less. Deposits are stated at cost.

Investments are reported at fair value which is determined using market prices. Short-term investments are reported at cost, which approximates fair value.

Allowance for Uncollectible Accounts

Significant receivables include sales and use tax receivables and amounts due from customers primarily for utility services. These receivables are due within one year. The Town has established an allowance for uncollectible accounts based on management's prior experience using past due amounts more than 60 to 90 days old. For the current year, there is no allowance for uncollectible accounts as management does not believe there are significant losses to be realized.

Property, Plant, and Equipment

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, property, plant, and equipment are accounted for as capital assets. All property, plant, and equipment is valued at historical cost or estimated historical cost, if actual is unavailable, except for donated property, plant, and equipment, which are recorded at their estimated value at the date of donation. The cost of normal maintenance and repairs that do not add to the asset value or materially extend the useful lives are not capitalized.

Town of Canute  
Notes to the Basic Financial Statements  
June 30, 2014

1. **Summary of significant accounting policies**

E. Assets, Liabilities, and Equity (continued)

Property, Plant, and Equipment (continued)

Depreciation of all exhaustible property, plant, and equipment, is recorded as an allocated expense in the Statement of Activities. Proprietary fund and similar component units property, plant, and equipment, are recorded in the respective funds or component units and depreciated using the straight-line method. When proprietary fund property, plant, and equipment, are disposed of, the cost and applicable accumulated depreciation is removed from the respective accounts and the resulting gain or loss is recorded in operations. Estimated useful lives, in years, for depreciable property, plant, and equipment are as follows:

Buildings	25-50 years
Other improvements	2-50 years
Machinery, furniture, and equipment	5-50 years
Infrastructure	25-50 years

In the fund financial statements, property, plant, and equipment used in governmental fund operations are accounted for as capital outlay expenditures of the government upon acquisition. Property, plant, and equipment, used in proprietary fund operations are accounted for the same as in the government-wide statements.

Long-Term Debt

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as a liability.

Equity Classifications

Governmental fund balances

The Governmental Accounting Standards Board has issued Statement Number 54, "Fund Balance Reporting and Government Fund Type Definitions". This statement defines the difference types of fund balances that a government entity must use for financial reporting purposes.

Statement Number 54 requires the fund balance to be properly reported within one of the fund categories that follow:

**Nonspendable**-Fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

**Restricted**-This fund balance category includes amounts that may be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

**Committed**-The fund balance classification includes amount that may be used only for the specific purposes determined by a formal action of the governing body, the Town's highest level decision-making authority.

Town of Canute  
Notes to the Basic Financial Statements  
June 30, 2014

1. **Summary of significant accounting policies (continued)**

E. Assets, Liabilities, and Equity (continued)

Equity Classifications (continued)

Governmental fund balances (continued)

Assigned-This fund balance classification is intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed.

Unassigned-This fund balance classification is the residual classification for the government's general fund and includes all spendable amounts not contained in other classifications.

Net Position

Both proprietary fund financial statements and government-wide financial statements report net position. Amounts invested in capital assets, net of related debt and legally restricted amounts are separated from unrestricted net assets.

Invested in capital assets, net of related debt.

The amount restricted consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets

Amounts reported as restricted consist of net assets with restraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

F. Revenues, Expenditures, and Expenses

Sales tax

The Town levied a 4% sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the town in the month following receipt by the Oklahoma Tax Commission. The sales tax received is recorded as sales tax revenue within the general fund.

Charges for services

Program revenues reported with governmental activities include charges for services such as permits and fees, park fees, and fines and forfeitures. Business-type activity charges for services include all operating income of proprietary funds.

Town of Canute  
Notes to the Basic Financial Statements  
June 30, 2014

1. **Summary of significant accounting policies (continued)**

F. Revenues, Expenditures, and Expenses (continued)

Grants and contributions

Governmental grants and contributions primarily consist of grants from federal and state agencies. The nature of the grant determines if it is reported as operating or capital program revenues.

Business-type activity grants and contributions include donations from others as well as grants from federal and state agencies.

Interfund transfers

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. Recurring transfers for operational purposes are classified as "operating transfers", while non-recurring transfers of equity are reported as "residual equity transfers".

2. **Stewardship, compliance, and accountability**

By its nature as a local governmental unit, the Town and its component unit are subject to various federal, state, and local laws and contractual regulations. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows:

A. Deficit fund net assets/fund balance

Deficits resulting from accrual reporting do not constitute violations of Oklahoma Statutes. The Town reported no deficit fund net assets or fund balances for the fiscal year.

B. Budget requirements

For the year ended June 30, 2014, the Town did not materially overspend in any department-level category.

C. Revenue restrictions

The Town has various restrictions placed over certain revenue sources from state, local, or administrative requirements. The primary restricted revenue sources include gasoline excise and commercial vehicle taxes restricted for street and alley maintenance and operations.

Town of Canute  
Notes to the Basic Financial Statements  
June 30, 2014

3. Detail notes on transaction classes/accounts

A. Cash and investments

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned or the Town will not be able to recover collateral securities in the possession of an outside party. The Town's deposits are secured by collateral valued at market value or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC) or alternatively, secured by a letter of credit from an agency of the federal government. Deposited funds may be invested in certificates-of-deposit in institutions with an established record of fiscal health and service.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an instrument. Investments held for longer periods are subject to increased of adverse interest rate changes.

Investments

The Town invests primarily in certificates-of-deposit.

Restricted assets

Restricted assets consist of the following:

	Cash and cash equivalents
Park improvement	20,776
Fire department	34,414
Capital improvement	187,994
<b>Total</b>	<b>243,184</b>

Town of Canute  
Notes to the Basic Financial Statements  
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3. Detail notes on transaction classes/accounts (continued)

B. Long-Term Debt.

Notes payable

The long-term debt of the business-type activities is payable to Rural Development of the United States Department of Agriculture and is as follows:

Note number	Original amount	Interest rate	Term in years	Maturity	Unpaid principal balance
91-01	92,000	5.00%	40	11/2015	3,588
91-02	300,000	5.00%	40	04/2019	63,886
91-03	145,300	5.25%	40	10/2033	103,027
91-04	214,400	2.75%	40	03/2040	178,038
Total					<u>348,539</u>

The annual debt service requirements to maturity for each of the next five (5) years and for each five (5) year period following is:

	Interest	Principal	Total
2015	16,357	25,830	42,187
2016	15,173	23,371	38,544
2017	13,988	24,556	38,544
2018	12,742	25,709	38,451
2019	11,849	9,019	20,868
2020-2024	52,033	52,307	104,340
2025-2029	37,623	66,717	104,340
2030-2034	20,364	64,109	84,473
2035-2039	7,591	52,889	60,480
2040-2044	1,652	4,031	5,683
Total	<u>189,372</u>	<u>348,538</u>	<u>537,910</u>

4. Retirement Plans.

The Town does not participate in any pension systems.

Town of Canute  
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5. Commitments and Contingencies.

A. Litigation

The Town is often party to legal proceedings, which normally occur in the course of governmental operations. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three year period by a Town sinking fund for the payment of any court assessed judgment against the Town.

B. Grant program involvement

In the normal course of operations, the Town participates in various federal and/or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or lending agency, the purpose of which is to ensure compliance with the conditions of the grant or loan. Any liability or reimbursement, which may arise as a result of these audits, cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

***David O. Tate***

Certified Public Accountant  
112 North Oklahoma, Suite A  
Mangum, Oklahoma 73554

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

The members of the governing body  
of the Town of Canute, Oklahoma

I 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Town of Canute, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Canute, Oklahoma's basic financial statements, and have issued my report thereon dated September 26, 2014.

**Internal control over financial reporting**

In planning and performing my audit of the financial statements, I considered the Town of Canute, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Canute, Oklahoma's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town of Canute, Oklahoma'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.

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

**Compliance and other matters**

As part of obtaining reasonable assurance about whether the Town of Canute, Oklahoma's financial statements are free from material misstatement, I 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 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 *Government Auditing Standards*.

**Purpose of this report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

A handwritten signature in black ink that reads "David O. Tate". The signature is written in a cursive style with a large initial 'D' and 'T'.

Certified Public Accountant  
September 26, 2014