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AUDIT REPORT
HANNA PUBLIC WORKS AUTHORITY
JUNE 30, 2011

KERSHAW CPA & ASSOCIATES, PC

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HANNA PUBLIC WORKS AUTHORITY
HANNA, OKLAHOMA
JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hanna Public Works Authority
Hanna, Oklahoma

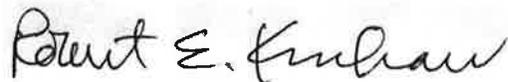
I was engaged to audit the accompanying financial statements of the Hanna Public Works Authority, as of and for the fiscal year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Hanna Public Works Authority's management.

Substantially all of the Company's books of original entry; the general and subsidiary ledgers; related accounting manuals; records such as work sheets and spreadsheets supporting cost allocations, computations, and reconciliations; as well as substantially all corroborating evidence in support of the financial statements cannot be located. The records that remain are not sufficient to permit the application of auditing procedures that would be adequate for me to express an opinion on the accompanying financial statements.

Since the Hanna PWA was not able to provide evidence or corroborating evidence in support of the accompanying financial statements and I was not able to apply other auditing procedures to satisfy myself as to whether the financial statements are presented in accordance with generally accepted accounting principles, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on these financial statements.

In accordance with Government Auditing Standards, I have also issued my report dated December 20, 2011, on my consideration of the Hanna Public Works Authority'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 our 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 compliance with Government Auditing Standards and should be considered in assessing the results of my audit.

Hanna Public Works Authority has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the Authority has not presented the Management's 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 part of, the basic financial statements.



Robert E. Kershaw, Certified Public Accountant

December 20, 2011

HANNA PUBLIC WORKS AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2011

	2011
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and Cash Equivalents	\$ 5,221
Cash and Cash Equivalents - Restricted	2,919
Accounts Receivable, Net of Allowance for Doubtful	6,060
Total Current Assets	14,200
<u>Noncurrent Assets:</u>	
<u>Capital Assets:</u>	
Tolbert Mountain Project	112,510
Water System	251,434
Sewer Project	522,820
Equipment	15,200
Less: Accumulated Depreciation	(256,401)
Total Noncurrent Assets	645,563
TOTAL ASSETS	\$ 659,763
<u>LIABILITIES & NET ASSETS</u>	
<u>Current Liabilities:</u>	
Accrued Interest	\$ 99
Accounts Payable	10,425
Current Portion of Long Term Debt	4,424
Total Current Liabilities	14,947
<u>Long-term Liabilities:</u>	
L-T Mortgage Payable (USDA #1)	50,381
L-T Mortgage Payable (USDA #2)	18,185
L-T Mortgage Payable (USDA #3)	10,303
Customer Deposits	7,193
Less: Current Portion of Long Term Debt	(4,424)
Total Long-term Liabilities	81,638
TOTAL LIABILITIES	96,585
<u>Net Assets:</u>	
Invested in capital assets, net of related debt	563,925
Restricted for debt service	2,919
Unrestricted	(3,666)
TOTAL NET ASSETS	563,178
TOTAL LIABILITIES & NET ASSETS	\$ 659,763

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**HANNA PUBLIC WORKS AUTHORITY
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS
FOR THE TWELVE MONTHS ENDED JUNE 30, 2011**

	2011
<u>Operating Revenues:</u>	
Water and Trash Revenues	\$ 72,986
Miscellaneous Revenues	-
Total Operating Revenue	72,986
<u>Operating Expenses:</u>	
Labor	8,357
Utilities (Including Water, Gas & Electric)	7,689
Telephone	1,260
Trash Service	25,042
Repairs & Maintenance	11,879
Office Supplies & Expense	1,200
Insurance & Bond	1,920
Mileage	737
Professional Fees	-
Miscellaneous	4,123
Depreciation	-
Total Operating Expenses	62,207
Net Operating Income (Loss)	10,778
<u>Non-Operating Income & (Expenses):</u>	
Interest Income	-
Interest Expense	(3,784)
Town of Hanna Sales Tax	-
Net Income (Loss) Before Contributions	6,994
Change in Net Assets	6,994
Total Net Assets, Beginning of Year	556,184
Total Net Assets, Prior Year Adjustment	-
Total Net Assets, End of Year	\$ 563,178

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**HANNA PUBLIC WORKS AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	2011
<u>Net Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 72,986
Payments to Suppliers for Goods & Services	(62,221)
Receipts of Customer Utility Deposits, Net of Refunds	-
Net Cash Provided (Used) by Operating Activities	10,765
<u>Net Cash Flows from Capital & Related Financing Activities:</u>	
Additions to Capital Assets	-
Town of Hanna Sales Tax	-
Proceeds from sale of Capital Assets	-
Principal paid on Debt	(4,220)
Interest paid on Debt	(3,784)
Net Cash Provided (Used) by Capital & Related Financing Activities	(8,004)
<u>Net Cash Flows from Investing Activities:</u>	
Capital Contributions - Grants	-
Interest Income	-
Net Cash Provided (Used) by Investing Activities	-
Net Increase (Decrease) in Cash and Cash Equivalents	2,761
Cash & Cash Equivalents, Beginning of Year	5,380
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	\$ 8,140
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>	
Operating Income (Loss)	\$ 10,778
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	-
Amortization	-
(Increase)Decrease in Accounts Receivable	-
Increase(Decrease) in Accounts Payable	(13)
Net Cash Provided (Used) by Operating Activities	\$ 10,765

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Hanna Public Works Authority distributes and sells water to its customers.

B. Basis of Presentation

The Company records are posted on the cash basis until yearend. Adjusting entries required for the presentation of financial statements in accordance with generally accepted accounting principles, i.e., the accrual method, are recorded at yearend.

Inventory of materials on hand at any date consists of a small amount of pipe and supplies. Hence, the value of the amount is not considered to be material at the balance sheet date.

The straight-line method of depreciation is used in computing annual depreciation on the plant and equipment.

C. Income Tax Status

The Company is conducting its affairs as a non-profit organization and has made no provision for federal income tax.

D. Assets & Depreciation

The water system currently being depreciated was placed in service in 1971, and has an estimated forty year life. Construction completed in 1986 and 1996 is being depreciated over the remaining life of the system. Other equipment, purchased in 1987, was placed into service during the year ended June 30, 1999, and was assigned a life of ten years for depreciation purposes. The Tolbert Mountain project was assigned a life of twenty years, with depreciation first taken in the year ended June 30, 1996.

E. Equity Classification

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

1. Invested in capital assets, net of related debt—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 improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

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

3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

F. Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

NOTE 2 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2011, the Authority held deposits of approximately \$8,140 at financial institutions. The Authority's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Investment Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The Authority has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school Authority tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school Authority.

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

- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 3 - RESTRICTED ASSETS

The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installment (\$8,004), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval. As of June 30, 2011, the Authority was required to have at least \$8,004.00 set aside in the reserve account; as of that date the account balance for the reserve account was \$1,751.19, which does not comply with the covenants of the loan agreement.

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended June 30, 2011, was as follows:

	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
ToIbert Mountain Project	\$ 112,510	\$ -	\$ -	\$ 112,510
Water System	251,434	-	-	251,434
Sewer Project	522,820	-	-	522,820
Equipment	15,200	-	-	15,200
Subtotal	901,964	-	-	901,964
Less: Accum. Depr.	(256,401)	-	-	(256,401)
Total Capital Assets (Net of Depreciation)	<u>\$ 645,563</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 645,563</u>

NOTE 5 - LONG-TERM DEBT

The Authority borrowed money from RECD to construct the water system. The mortgage is payable in 351 monthly installments of \$514.00 including interest at the rate of 4.75% per year. An additional \$33,000 (\$21,000.00 & \$12,000.00) was borrowed in April 1999 to help with construction cost of a sewer system. The two additional loans are for forty years at 4.5%, with payments of \$97 and \$56 monthly beginning in May of 2001.

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

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

	Balance at June 30, 2010	Additions	Deductions	Balance at June 30, 2011
L-T Mortgage Payable - USDA #1 (91-02)	\$ 54,060.53	\$ -	\$ 3,679.33	\$ 50,381.20
L-T Mortgage Payable - USDA #2 (92-03)	\$ 18,521.90	\$ -	\$ 337.36	\$ 18,184.54
L-T Mortgage Payable - USDA #3 (92-05)	\$ 10,506.46	\$ -	\$ 203.33	\$ 10,303.13
Total Long-Term Debt	<u>\$ 83,088.89</u>	<u>\$ -</u>	<u>\$ 4,220.02</u>	<u>\$ 78,868.87</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2011, are as follows:

USDA RURAL DEVELOPMENT LOAN #91-02

Year Ending June 30,	Principal	Interest	Total
2012	\$ 3,858	\$ 2,310	\$ 6,168
2013	4,046	2,122	6,168
2014	4,242	1,926	6,168
2015	4,448	1,720	6,168
2016	4,664	1,504	6,168
2017-2021	26,943	3,897	30,840
2022-2026	2,181	23	2,204
Total	<u>\$ 50,381</u>	<u>\$ 13,503</u>	<u>\$ 63,884</u>

USDA RURAL DEVELOPMENT LOAN #92-03

Year Ending June 30,	Principal	Interest	Total
2012	\$ 353	\$ 811	\$ 1,164
2013	369	795	1,164
2014	386	778	1,164
2015	404	760	1,164
2016	422	742	1,164
2017-2021	2,421	3,399	5,820
2022-2026	3,031	2,789	5,820
2027-2031	3,794	2,026	5,820
2032-2036	4,750	1,070	5,820
2037-2041	2,254	108	2,362
Total	<u>\$ 18,185</u>	<u>\$ 13,277</u>	<u>\$ 31,462</u>

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

USDA RURAL DEVELOPMENT LOAN #92-05

Year Ending June 30,	Principal	Interest	Total
2012	\$ 213	\$ 459	\$ 672
2013	222	450	672
2014	233	439	672
2015	243	429	672
2016	255	417	672
2017-2021	1,459	1,901	3,360
2022-2026	1,827	1,533	3,360
2027-2031	2,287	1,073	3,360
2032-2036	2,863	497	3,360
2037-2041	701	18	719
Total	<u>\$ 10,303</u>	<u>\$ 7,216</u>	<u>\$ 17,519</u>

NOTE 6 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

See Note 3 above for restricted net assets

NOTE 7 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at June 30, 2011, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the Authority participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that 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.

NOTE 8 - SUBSEQUENT EVENTS

The District did not have any subsequent events through December 20, 2011, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2011.

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

To the Board of Directors
Hanna Public Works Authority
Hanna, Oklahoma

I was engaged to audit the financial statements of the Hanna Public Works Authority, as of June 30, 2011 and have issued my report thereon dated December 20, 2011, which was a disclaimer of opinion because inadequate accounting records precluded me from performing sufficient audit procedures on the financial statements. The Hanna Public Works Authority has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the Authority did not present the required MD&A.

Internal Control Over Financial Reporting

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

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 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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weakness, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that I consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 11-01 and 11-02. A

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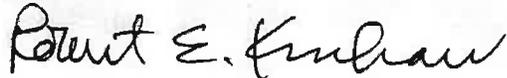
significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hanna Public Works Authority's financial statements are free of material misstatement, I performed tests of 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is included in the Schedule of Findings as Item 11-03. The results of my tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

Hanna PWA's response to the findings identified in my audit is described in the accompanying Schedule of Findings. I did not audit Hanna PWA's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the board of directors and management of the Hanna Public Works Authority, Hanna, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, CPA

December 20, 2011

HANNA PUBLIC WORKS AUTHORITY
HANNA, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2011

INTERNAL CONTROL FINDINGS:

Item 11-01 - Management-Imposed Restrictions on Access to Financial Records

Criteria - It is important to have efficient response from management to facilitate the audit process, and keep the Board informed about the operation of the Authority. Extensive audit work including preliminary audit planning, analytical procedures, field work, and limited substantive audit testing must be followed by additional audit testing in accordance with professional auditing standards.

Condition -Management of the Authority has incurred significant turnover during the last several years. Current management has tried unsuccessfully to locate additional financial records. However, because of the inadequate recordkeeping of past management no other documents can be located.

Cause - Inadequate Accounting Records

Effect - Since audit documentation is an essential element of an audited performed in accordance with generally accepted auditing standards, the auditor cannot state that he or she has performed an audit in accordance with generally accepted auditing standards without the required audit documentation.

Recommendation - The governing body should be aware of the increased risk and develop policies and procedures to reduce the effect of the internal control deficiency.

Response - The Authority has new management which is maintaining the current accounting records.

Item 11-02: Refundable Customer Deposits

Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The Authority does not keep a ledger or any other documentation regarding the balance of customer deposits.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

HANNA PUBLIC WORKS AUTHORITY
HANNA, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2011

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits.

Response: The documentation has not maintained by previous management that would allow the Authority to reconstruct such a ledger.

COMPLIANCE FINDINGS:

Item 11-03: Reserve Requirements

Criteria: The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installment (\$8,004), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval.

Condition: The Authority has a loan reserve account with a balance of \$1,751.19.

Cause/Effect: This leaves the Authority out of compliance with the Rural Development loan agreement. The Authority withdrew money from the account without approval from the USDA. This unauthorized withdrawal left an insufficient balance in the account.

Recommendation: The Authority should make a deposit to bring the account into compliance.

Response: The new management is trying to correct all of the problems created by previous management.

