

Canton Public Works Authority
Town of Canton, State of Oklahoma

Audit Report
for the year ended June 30, 2015

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Independent Auditor's Report

Board of Trustees
Canton Public Works Authority
PO Box 128
Canton, Oklahoma 73724

I have audited the accompanying financial statements of the Canton Public Works Authority of the Town of Canton, State of Oklahoma, as of and for the year ended June 30 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 the 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 opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Canton Public Works Authority of the Town of Canton, State of Oklahoma, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Canton Public Works Authority and do not purport to, and do not, present fairly the financial position of the Town of Canton, State of Oklahoma, as of June 30, 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated March 25, 2016, on my consideration of the Canton Public Works Authority of the Town of Canton, State of 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 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 Canton Public Works Authority of the Town of Canton, State of Oklahoma's internal control over financial reporting and compliance.

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



Linda Woodruff
Certified Public Accountant

Oklahoma City, Oklahoma 73172-1578
March 25, 2016

Canton Public Works Authority
Statement of Net Position: Proprietary Fund
June 30, 2015

Assets

Current Assets

Change Fund	\$	321.58	
Cash		129,520.01	
Meter Deposit CD		12,000.00	
Accounts Receivable		25,988.75	
Restricted Cash		29,709.03	
Total Current Assets		\$	197,539.37

Capital Assets

Land		16,830.50	
Property and Equipment		838,137.59	
Less Accumulated Depreciation		(246,590.50)	
Total Capital Assets		608,377.59	
Total Assets		805,916.96	

Deferred Outflows of Resources

Total Deferred Outflows	-		-
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Liabilities

Current Liabilities

Current Portion of Long Term Debt		12,175.00	
Accrued Payroll Tax		1,539.98	
Interest Payable		432.84	
Meter Deposits		22,983.98	
Total Current Liabilities		37,131.80	

Long Term Liabilities

Long Term Debt		75,016.60	
Current Portion of Long Term Debt		(12,175.00)	
Total Long Term Liabilities		62,841.60	
Total Liabilities		99,973.40	

Deferred Inflows of Resources

Total Deferred Inflows	-		-
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Net Position

Invested in Capital Assets		608,377.59	
Restricted		29,709.03	
Unrestricted		67,856.94	
Total Net Position		\$	705,943.56

The accompanying Notes to the Financial Statement are an integral part of the basic financial statements.

Canton Public Works Authority
Statement Revenue, Expense, and Change in Net Position: Proprietary Fund
June 30, 2015

Revenue		
Utilities	\$ 276,699.57	
Lake Income	41,440.85	
Refunds	-	
Total Revenues	-	\$ 318,140.42
Expense		
Trash Contract	90,043.16	
Salaries	85,323.08	
Supplies	13,013.35	
Repairs	13,980.99	
Utilities/Telephone	17,054.69	
Insurance	20,268.68	
Fuel	5,102.26	
Taxes	8,054.34	
Uniforms	2,105.19	
Dues & Fees	4,963.34	
Office Supplies/Postage	4,438.01	
Advertising	619.61	
Total Expense	619.61	264,966.70
Income from Operations		53,173.72
Non-Operating Revenue (Expense)		
Grant - Sewer	86,725.48	
Depreciation	(20,360.72)	
Interest & Dividends	293.48	
Interest Expense	(1,321.36)	
Settlement for Damages	17,465.00	
Miscellaneous Expense	(1,146.19)	
Total Non-Operating Revenue Expense	(1,146.19)	81,655.69
Income (Loss) before Operating Transfers		134,829.41
Transfer In (Out)		
Transfer from General Fund	69,000.00	
Total Transfer In (Out)	69,000.00	69,000.00
Change in Net Position		203,829.41
Net Position - Beginning of Year		502,114.15
Net Position - End of Year		\$ 705,943.56

The accompanying Notes to the Financial Statement are an integral part of the basic financial statements.

Canton Public Works Authority
Statement of Cash Flow: Proprietary Fund
for the year ended June 30, 2015

Cash Flow from Operating Activities	
Cash Received from Customers & Services Users	\$ 369,713.93
Cash Payments for Goods & Services	<u>(314,590.93)</u>
Net Cash Provided by Operating Activities	55,123.00
 Cash Flow from Non-Capital Financing Activities	
Operating Transfers In (Out) to Other Funds	69,000.00
Settlement - Damages	17,465.00
Grant - Sewer	<u>86,725.48</u>
Net Cash Used in Noncapital and Financing Activities	173,190.48
 Cash Flow from Capital and Related Financing Activities	
Acquisition of Capital Assets	(190,094.21)
Principal Paid on Debt	<u>(29,833.34)</u>
Net Cash Provided (Used) for Capital and Related Financing Activities	(219,927.55)
 Cash Flow from Investing Activities	
Interest on Investment	<u>293.48</u>
Net Cash Provided by Investing Activities	293.48
Net Increase (Decrease) in Cash & Cash Equivalents	8,679.41
Cash & Cash Equivalents - Beginning of Year	<u>162,871.21</u>
Cash & Equivalents - End of Year	171,550.62
 Reconciliation of Operation Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	30,345.45
 Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	20,360.72
Changes in Assets & Liabilities	
(Increase) Decrease in Accounts Receivable	(403.99)
Increase (Decrease) in Interest Payable	233.31
Increase (Decrease) in Accrued Liabilities	767.51
Increase (Decrease) in Meter Deposits	<u>3,820.00</u>
Total Adjustments	24,777.55
Net Cash Provided by Operating Activities	\$ 55,123.00

The accompanying Notes to the Financial Statement are an integral part of the basic financial statements.

**Canton Public Works Authority
Town of Canton, State of Oklahoma**

Notes to the Financial Statements
June 30, 2015

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 Town of Canton. 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.

A. 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.

B. Basis of Accounting

Proprietary Funds – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the Town has applied only Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise funds.

Enterprise Funds – are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability.

C. 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.

**Canton Public Works Authority
Town of Canton, State of Oklahoma**

Notes to the Financial Statements
June 30, 2015

1. Summary of Significant Accounting Policies - Continued

D. 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, 2015, all cash and time deposits of the Authority are entirely insured or collateralized as required by Oklahoma Statutes.

2. Cash

The Authority utilizes the services of the Authority Treasurer for cash and investments control and accountability. The Treasurer is authorized to deposit 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.

3. Property & Equipment

A summary of property and equipment follows

	Balance 6/30/2014	Additions	Retirements	Balance 6/30/2015
Land	\$ 16,830.50	\$ -	\$ -	\$ 16,830.50
Depreciable Assets				
Water System	431,962.07	43,969.13	-	475,931.20
Lift Station	106,774.49	-	-	106,774.49
Sewer System	109,306.82	146,125.08	-	255,431.90
Total Depreciable Assets	<u>648,043.38</u>	<u>190,094.21</u>	-	<u>838,137.59</u>
Less Accumulated Depreciation				
Water System	(201,989.03)	(13,001.83)	\$ -	(214,990.86)
Lift Station	(19,917.13)	(1,689.53)	-	(21,606.66)
Sewer System	(4,323.62)	(5,669.36)	-	(9,992.98)
Total Accumulated Assets	<u>(226,229.78)</u>	<u>(20,360.72)</u>	-	<u>(246,590.50)</u>
Net Depreciable Assets	<u>\$ 438,644.10</u>	<u>\$ 169,733.49</u>	<u>\$ -</u>	<u>\$ 608,377.59</u>

**Canton Public Works Authority
Town of Canton, State of Oklahoma**

Notes to the Financial Statements
June 30, 2015

4. 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, 2015, was \$104,849.94 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 was \$1,136.48 during the period from July 1, 2013, through August 1, 2013, and \$1,179.80 from September 1, 2013 to June 30, 2015. Additional Principal payments have been made in the prior fiscal year which accelerated payoff to 2023.

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, 2015, are presented below.

2016	12,175.00
2017	12,366.00
2018	12,560.00
2019	12,757.00
2020	10,233.00
2021-2023	14,926.00
	<u>75,017.00</u>

5. 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.

6. Commitments and Contingencies

A. 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.

**Canton Public Works Authority
Town of Canton, State of Oklahoma**

Notes to the Financial Statements
June 30, 2015

B. 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.

7. Subsequent Events

Management has evaluated subsequent events through March 25, 2016, which is the date the final statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

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

Board of Trustees
Canton Public Works Authority
PO Box 128
Canton, Oklahoma 73724

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 Canton Public Works Authority an enterprise fund of the Town of Canton, State of Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Canton Public Works Authority an enterprise fund of the Town of Canton, State of Oklahoma's basic financial statements and have issued my report thereon dated March 25, 2016.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Canton Public Works Authority an enterprise fund of the Town of Canton, State of 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 Canton Public Works Authority an enterprise fund of the Town of Canton, State of Oklahoma's internal control. Accordingly, I do not express an opinion on the effectiveness of the Canton Public Works Authority an enterprise fund of the Town of Canton, State of 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that I consider to be significant deficiencies 2015-01 and 2015-02.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Canton Public Works Authority an enterprise fund of the Town of Canton, State of 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*.

Canton Public Works Authority's Response to Findings

Canton Public Works Authority an enterprise fund of the Town of Canton, State of Oklahoma's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Canton Public Works Authority an enterprise fund of the Town of Canton, State of Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

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.



Linda Woodruff
Certified Public Accountant

Oklahoma City, Oklahoma 73172-1578
March 25, 2016

**Canton Public Works Authority
Town of Canton, State of Oklahoma**

Schedule of Findings & Questioned Costs
for the year ended June 30, 2015

While there are no questioned costs for the period ending, the findings are listed below.

2015-01. Internal Control – Segregation of Duty

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 this condition might exceed the benefit.

2015-02. Internal Control – Reconciliation of Revenue

Condition: Revenue from the billing register does not balance to money deposited in the bank account.

Criteria: Internal controls should be in place to provide assurance that the billing system is utilized for all utility revenue and deposits should reflect this revenue.

Effect: If reconciliations are not prepared, incorrect revenue could be recorded which could materially affect the financial statements.

Recommendation: A monthly comparison of the amount billed according to the utility system and the total deposited for the month should be maintained. The difference between these amounts would be the amount of fluctuation of the accounts receivable. If the difference is not accounts receivable, there should be documentation to reconcile these amounts.

Response: The Authority concurs with the recommendation and will use the template provided to the Town Clerk.