

TOWN OF CANADIAN, OKLAHOMA

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

Ralph Osborn
Certified Public Accountant
P. O. Box 1015
500 South Chestnut
Bristow, Oklahoma 74010-1015

INDEPENDENT AUDITORS' REPORT

The Honorable Members of the Board of Trustees
Town of Canadian, Oklahoma

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Canadian, Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the Town of Canadian, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Canadian, Oklahoma's management. My responsibility is to express opinions 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 financial audits contained in *Government 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 A, Town of Canadian, Oklahoma prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, and which is a change from prior year.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Town of Canadian, Oklahoma as of June 30, 2012, and the respective changes in financial position-modified cash basis and cash flows where appropriate, thereof, for the year ended, in conformity with the basis of accounting described in Note A.

The Town of Canadian, Oklahoma has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, I have also issued my report dated August 30, 2013, on my consideration of Town of Canadian, Oklahoma'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 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 accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Town of Canadian, Oklahoma's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,

A handwritten signature in cursive script that reads "Ralph Osborn".

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
August 30, 2013

TOWN OF CANADIAN, OKLAHOMA
STATEMENT OF NET ASSETS
JUNE 30, 2012

| | <u>Primary Government</u> | | |
|-----------------------------|---------------------------|----------------------------------|-------------------|
| | Governmental | Business | <u>Total</u> |
| | <u>Activities</u> | <u>Type</u> <u>Activities</u> | |
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 2,178 | \$ 7,097 | \$ 9,275 |
| Internal Balances | 85,428 | (85,428) | - |
| Capital Assets: | | | |
| Other Capital Assets Net of | | | |
| Accumulated Depreciation | <u>109,755</u> | <u>515,159</u> | <u>624,914</u> |
| Total Assets | <u>197,361</u> | <u>436,828</u> | <u>634,189</u> |
| LIABILITIES | | | |
| Long-term liabilities: | | | |
| Due within one year | - | 28,649 | 28,649 |
| Due in more than one year | <u>-</u> | <u>73,957</u> | <u>73,957</u> |
| Total Liabilities | <u>-</u> | <u>102,606</u> | <u>102,606</u> |
| NET ASSETS | | | |
| Nonspendable | 195,183 | 327,125 | 522,308 |
| Unassigned | <u>2,178</u> | <u>7,097</u> | <u>9,275</u> |
| Total Net Assets | <u>\$ 197,361</u> | <u>\$ 334,222</u> | <u>\$ 531,583</u> |

The accompanying notes are an integral part of these financial statements.

TOWN OF CANADIAN, OKLAHOMA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

| FUNCTION/PROGRAMS | <u>Expenses</u> | <u>Program Revenue</u> | | | <u>Net (Expenses) Revenue</u> |
|--------------------------------|------------------|-------------------------------------|---|---|---------------------------------------|
| | | <u>Charges For Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | |
| Governmental activities: | | | | | |
| Administration | \$ 87,963 | \$ - | \$ - | \$ - | \$ (87,963) |
| Public safety | 36,224 | - | - | - | (36,224) |
| Street and alley | - | - | - | - | - |
| Total governmental activities | <u>124,187</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(124,187)</u> |
| Business-type activities | | | | | |
| Utilities | 335,395 | 292,968 | - | - | (42,427) |
| Total business-type activities | <u>335,395</u> | <u>292,968</u> | <u>-</u> | <u>-</u> | <u>(42,427)</u> |
| Total primary government | <u>\$459,582</u> | <u>\$292,968</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (166,614)</u> |

| | <u>Primary Government</u> | | |
|-------------------------------------|------------------------------------|-------------------------------------|-------------------|
| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
| Changes in net assets: | | | |
| Net (expense) revenue | \$ (124,187) | \$ (42,427) | \$ (166,614) |
| General revenues and transfer | | | |
| Taxes: | | | |
| Sales and use taxes | | 72,841 | 72,841 |
| Franchise taxes | | 5,990 | 5,990 |
| Cigarette taxes | | 802 | 802 |
| Intergovernmental | | 2,725 | 2,725 |
| Investment income | | 18 | 18 |
| Other revenue | | 809 | 809 |
| Total general revenue and transfers | | <u>83,185</u> | <u>83,185</u> |
| Change in net assets | (41,002) | (42,427) | (83,429) |
| Net assets - beginning | <u>238,363</u> | <u>376,649</u> | <u>615,012</u> |
| Net assets - ending | <u>\$ 197,361</u> | <u>\$ 334,222</u> | <u>\$ 513,583</u> |

The accompanying notes are an integral part of this financial statement.

TOWN OF CANADIAN, OKLAHOMA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

| | <u>General Fund</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|---|
| ASSETS | | |
| Cash and cash equivalents | \$ 2,178 | \$ 2,178 |
| Due from other funds | <u>85,428</u> | <u>85,428</u> |
| TOTAL ASSETS | <u>\$ 87,606</u> | <u>\$ 87,606</u> |
| LIABILITIES AND FUND BALANCES | | |
| FUND BALANCES: | | |
| Nonspendable | 85,428 | 85,428 |
| Unassigned | <u>2,178</u> | <u>2,178</u> |
| TOTAL FUND BALANCES | <u>87,606</u> | 87,606 |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 87,606</u> | |

Amounts reported for governmental activities in the Statement of Net Assets are different because:

| | |
|--|-------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund, net of accumulated depreciation of \$46,449 | <u>109,755</u> |
| Net assets of governmental activities | <u>\$ 197,361</u> |

The accompanying notes are an integral part of this financial statement.

TOWN OF CANADIAN, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>General Fund</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|---|
| Revenue: | | |
| Taxes | \$ 79,633 | \$ 79,633 |
| Intergovernmental | 2,725 | 2,725 |
| Investment income | 18 | 18 |
| Grant | - | - |
| Other revenue | <u>809</u> | <u>809</u> |
| Total revenues | <u>83,185</u> | <u>83,185</u> |
| | | |
| Expenditures: | | |
| Administration | 76,981 | 76,981 |
| Public Safety | <u>36,224</u> | <u>36,224</u> |
| Total expenditures | <u>113,205</u> | <u>113,205</u> |
| | | |
| Excess of revenues over expenditures | <u>(30,020)</u> | <u>(30,020)</u> |
| | | |
| Fund balances, beginning | <u>117,626</u> | <u>117,626</u> |
| | | |
| Fund balances, ending | <u>\$ 87,606</u> | <u>\$ 87,606</u> |

The accompanying notes are an integral part of this financial statement.

TOWN OF CANADIAN, OKLAHOMA
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND
JUNE 30, 2012

| | <u>Public Works</u> |
|---|---------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 7,097 |
| Total current assets | <u>7,097</u> |
| Non-current assets | |
| Capital assets: | |
| Capital assets, net of accumulated depreciation | <u>515,159</u> |
| Total non-current assets | <u>515,159</u> |
| Total assets | <u>522,256</u> |
| LIABILITIES | |
| Current liabilities: | |
| Due to General fund | 85,428 |
| Lease obligations payable, current | 22,473 |
| Notes payable, current | <u>6,176</u> |
| Total current liabilities | <u>114,077</u> |
| Non-current liabilities: | |
| Lease obligations payable, non current | 35,771 |
| Notes payable, non current | <u>38,186</u> |
| Total non-current liabilities | <u>73,957</u> |
| Total liabilities | <u>188,034</u> |
| NET ASSETS | |
| Nonspendable | 327,125 |
| Unrestricted | <u>7,097</u> |
| Net assets of business-type activities | <u>\$ 334,222</u> |

The accompanying notes are an integral part of this financial statement.

TOWN OF CANADIAN, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Public Works</u> |
|--|---------------------|
| <u>OPERATING REVENUES</u> | |
| Charges for services: | |
| Sewer charges | \$ 29,511 |
| Sanitation charges | <u>263,457</u> |
| Total operating revenues | <u>292,968</u> |
| <u>OPERATING EXPENSES</u> | |
| Wages | 105,931 |
| Payroll taxes | 8,127 |
| Employee benefits | 5,215 |
| Fuel | 26,209 |
| Insurance | 5,053 |
| Maintenance and supplies | 51,149 |
| Office and Postage | 8,231 |
| Professional fees | 8,120 |
| Telephone and Utilities | 7,860 |
| Sanitation contractor | 35,082 |
| Depreciation | <u>71,364</u> |
| Total operating expenses | <u>332,341</u> |
| Net Operating income (loss) | <u>(39,373)</u> |
| <u>NON-OPERATING REVENUE (EXPENSES)</u> | |
| Interest on notes payable | <u>(3,054)</u> |
| Total non-operating revenue (expenses) | <u>(3,054)</u> |
| Change in net assets of business type activities | (42,427) |
| Total net assets, beginning | <u>376,649</u> |
| Total net assets, ending | <u>\$ 334,222</u> |

The accompanying notes are an integral part of this financial statement.

TOWN OF CANADIAN, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2012

| | <u>Public Works</u> |
|--|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | \$ 292,968 |
| Cash payments to employees | (119,273) |
| Cash payments to suppliers for goods and services | <u>(141,704)</u> |
| Net cash provided (used) by operating activities | <u>31,991</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Interest paid on notes payable and lease obligations | (3,054) |
| Principal paid on notes payable and lease obligations | <u>(30,636)</u> |
| Net cash used for capital and related financing activities | <u>(33,690)</u> |
| Net increase (decrease) in cash and cash equivalents | (1,699) |
| Cash and cash equivalents, beginning | <u>8,796</u> |
| Cash and cash equivalents, ending | <u>\$ 7,097</u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES | |
| Operating income (loss) | \$ (39,373) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation | <u>71,364</u> |
| Net cash provided (used) by operating activities | <u>\$ 31,991</u> |

The accompanying notes are an integral part of this financial statement.

TOWN OF CANADIAN
CANADIAN, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Canadian, Oklahoma, was incorporated under the provisions of the laws of the State of Oklahoma. The financial statements of the City have been prepared in conformity with the modified cash basis, which is a change from prior year. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies of the government are described below.

A.1. FINANCIAL REPORTING ENTITY

Financial Reporting Entity

The accompanying financial statements present the activities of the Town of Canadian. The Town has considered all potential component units for which the Town is financially accountable and other organizations for which the nature and significance of their relationships with the Town are such that exclusion would cause the Town's financial statements to be misleading or incomplete. Gasb has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Town to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Town.

Component Units

Component units are legally separate organizations for which the Town is financially accountable as described above. A blended component unit is a separate legal entity that meets the component unit criteria above. In addition, the blended component units provide services that almost exclusively benefit the Town even though they do not provide services directly to the Town. These component units are blended into those of the Town by appropriate fund type to constitute the primary government presentation. A discretely presented component unit is reported separate from Town fund types in the financial statements.

TOWN OF CANADIAN, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

BLENDING COMPONENT UNITS

Blended component units are separate legal entities that meet the GASB 14 component unit criteria and whose governing body governing body is the same or substantially the same as the Board of Trustees or the component unit provides services entirely to the Town. The component units' funds are blended into the Town's by appropriate fund type to comprise the primary government presentation. The component unit that is blended into the primary government's fund types of the Town's report is present below:

| <u>Component Unit</u> | <u>Brief Description/Inclusion Criteria</u> | <u>Included Funds</u> |
|--|---|-----------------------|
| Canadian Public Works Authority (CPWA) | Created to finance, develop and operate the water, sewer, and solid waste activities of the Town. Current Board of Trustees serves as entire governing body (Trustees) of the Authority. Debt issued by the Authority requires 2/3rds approval of the Town Board of Trustees. | CPWA Enterprise Fund |

A.2. BASIS OF PRESENTATION

Government-Wide Financial Statements:

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Town as a whole excluding fiduciary activities such as employee pension plans. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguished 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.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A functional program 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 report fees, fines and forfeitures, and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions on these programs uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements:

Fund financial statements of the Town are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds

TOWN OF CANADIAN, OKLAHOMA
CANADIAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item B below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- A. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- B. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current, financial, or non-financial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental and business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are *not recorded* in these financial statements.

TOWN OF CANADIAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements of proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Fund Types and Major Funds

The Town reports the following major governmental funds:

General Fund - The general fund reports as the primary fund of the Town. This fund is used to account for all financial resources not reported in other funds.

Public Works Authority - The Authority provides certain utility services for the Town.

Budgetary Accounting and Control

The Mayor submits an annual budget to the Town Council in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Town Council for review, and public hearings are held to address priorities and allocation of resources. In June, the Town Council adopts the annual fiscal year budgets for the Town operating funds. Once approved, the Town Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Public trusts submit budget and other planning documents to their respective governing bodies.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by sources. Expenditures are budgeted by department and class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. Budget revisions at this level are subject to final review by the Town Council. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without Council approval.

The budgets for the governmental funds and proprietary fund operations are prepared on the cash basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be paid. Any budget and actual financial statements are reported on this basis. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

TOWN OF CANADIAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

"Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The Town considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investments reported in the financial statements consist of Certificates of Deposits, government bonds, U.S. government notes and securities. Money held by trustee banks for use in retiring bonds is usually held in United States government securities.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year end are cancelled under the modified cash basis. The encumbrance is added to the subsequent year expenses when paid.

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary funds and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis. The Town has not maintained inventory records, however, the value of inventory on hand at June 30, 2012 is not believed to be material.

Prepaids record payments to vendors that benefit future reporting periods are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements. Under the modified cash basis, prepaids are not reported. The expense is included in the period the liability is paid.

Capital Assets, Depreciation, and Amortization

The Town's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported and comprehensively reported in the government-wide financial statements. The Town maintains infrastructure assets records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The Town generally capitalizes assets with a cost of \$2,500 or more as purchase and construction outlays occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

TOWN OF CANADIAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Estimated useful lives, in years, for depreciable assets are as follows:

| | |
|-------------------------------------|------|
| Buildings | 5-60 |
| Improvements, other than buildings | 2-50 |
| Mobile equipment | 3-40 |
| Furniture, machinery, and equipment | 3-30 |
| Utility system | 5-60 |

Compensated Absences

Full-time, permanent employees are granted personal leave in varying amounts to specified maximums depending on tenure with the Town. The Town does not record a liability for accrued compensated absences. The amount paid for compensated absences is expensed as paid.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Sales Tax

The Town presently levies a three-cent 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 Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors.

The sales tax is recorded as revenue within the General Fund, Fire Department and Police Department based upon the following allocation as of June 30, 2012:

- 66.5% recorded in the General Fund
- 22.5% recorded in the Fire Department
- 11% recorded in the Police Department

Property Tax

At the present time, the Town levies no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

TOWN OF CANADIAN, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE B - CASH AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the Town will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Town, and are held by counterparty or the counterparty's trust department but not in the name of the Town. The Town's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2012, all of the Town's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The Town had deposits at financial institutions with a carrying amount of approximately \$9,275 at June 30, 2013. The bank balance of the deposits at June 30, 2013 was approximately \$14,079.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Town did not have fixed income securities at June 30, 2012.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the Town's interest rate risk. As of June 30, 2012, the Town's deposits consisted of demand deposits and certificates of deposit with a maturity of 13 months or less.

NOTE C - INTERFUND BALANCES AND ACTIVITIES

Interfund receivables and payables at June 30, 2012 consist of the following:

| | Due From <u>Other Funds</u> | Due to <u>Other Funds</u> |
|---|--------------------------------|------------------------------|
| Reconciliation to Fund Financial Statements | | |
| Government Funds | \$ 85,428 | \$ - |
| Enterprise Funds | - | 85,428 |
| Total | <u>\$ 85,428</u> | <u>\$ 85,428</u> |

NOTE D - CHANGES IN LONG-TERM DEBT

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2012:

| | <u>Notes Payable</u> | <u>Capital Lease Obligation</u> | <u>Total</u> |
|------------------------|--------------------------|-------------------------------------|-------------------|
| Balance, July 1, 2011 | \$ 50,831 | \$ 82,411 | \$ 133,242 |
| Additions | - | - | - |
| Retirements | <u>(6,470)</u> | <u>(24,166)</u> | <u>(30,636)</u> |
| Balance, June 30, 2012 | <u>\$ 44,361</u> | <u>\$ 58,245</u> | <u>\$ 102,606</u> |

TOWN OF CANADIAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE E - LONG TERM DEBT

The Town's long-term debt is segregated between the amounts to be repaid from governmental type funds (General Long-Term Debt) and the amounts to be repaid from proprietary type funds (Enterprise Fund Debt).

General Long-Term Debt

As of June 30, 2012, the general fund did not report any long-term debt.

Enterprise Fund Long-Term Debt

At June 30, 2012, the long-term debt payable from Enterprise Fund resources consisted of the following:

| | | |
|---|--|------------------|
| <u>Berkadia Commercial Mortgage Corporation</u> | | |
| | | \$ 44,361 |
| Total Notes Payable | | <u>\$ 44,361</u> |
| Current Portion | | \$ 6,176 |
| Non-Current Portion | | 38,185 |
| Total Notes Payable | | <u>\$ 44,361</u> |

NOTE F - LEASE OBLIGATIONS

The Authority has entered into a lease agreement as lessee for financing the acquisition of equipment. The lease agreement qualifies as a capital lease for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments.

The schedule of the future minimum lease payments under the capital lease and the present value of the net minimum lease payments at June 30, is as follows:

| <u>Year ending June 30</u> | <u>Equipment</u> | <u>Trash Truck</u> | <u>Total</u> |
|--|------------------|--------------------|------------------|
| 2013 | \$ 1,605 | \$ 22,684 | \$ 24,289 |
| 2014 | - | 22,684 | 22,684 |
| 2016 | - | 15,123 | 15,123 |
| Total minimum lease payments | 1,605 | 60,491 | 62,096 |
| Less: Amount representing interest | 113 | 3,738 | 3,851 |
| Present value of future minimum lease payments | <u>\$ 1,492</u> | <u>\$ 56,753</u> | <u>\$ 58,245</u> |

NOTE G - INTERFUND BALANCES AND ACTIVITIES

Interfund receivables and payables at June 30, 2012 consist of the following:

| | <u>Due From Other Funds</u> | <u>Due to Other Funds</u> |
|---|---------------------------------|-------------------------------|
| Reconciliation to Fund Financial Statements | | |
| Government Funds | \$ 85,428 | \$ - |
| Enterprise Funds | - | 85,428 |
| Total | <u>\$ 85,428</u> | <u>\$ 85,428</u> |

TOWN OF CANADIAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE H - CAPITAL ASSETS

Capital asset transactions for the year ended June 30, 2012 Are shown below:

| Balance at | Balance at | | | |
|---|---------------------|--------------------|------------------|----------------------|
| | <u>July 1, 2011</u> | <u>Additions</u> | <u>Disposals</u> | <u>June 30, 2012</u> |
| PRIMARY GOVERNMENT: | | | | |
| <i>Governmental Activities:</i> | | | | |
| Capital assets: | | | | |
| Buildings | \$ - | \$ - | \$ - | \$ - |
| Parks | 108,030 | - | - | 108,030 |
| Other improvements | - | - | - | - |
| Machinery and equipment | <u>59,157</u> | <u>-</u> | <u>-</u> | <u>59,157</u> |
| Total capital assets | <u>167,187</u> | <u>-</u> | <u>-</u> | <u>167,187</u> |
| Less: Accumulated Depreciation | | | | |
| Buildings | - | - | - | - |
| Parks | (15,478) | (2,701) | - | (18,179) |
| Other Improvements | - | - | - | - |
| Machinery and Equipment | <u>(30,972)</u> | <u>(8,281)</u> | <u>-</u> | <u>(39,253)</u> |
| Total Accumulated Depreciation | <u>(46,450)</u> | <u>(10,982)</u> | <u>-</u> | <u>(57,432)</u> |
| Total Governmental activities | <u>\$ 120,737</u> | <u>\$ (10,982)</u> | <u>\$ -</u> | <u>\$ 109,755</u> |
| <i>Business-Type Activities:</i> | | | | |
| Capital Assets not being Depreciated: | | | | |
| Land and Construction in progress | \$ - | \$ - | \$ - | \$ - |
| Total Capital Assets not being Depreciated | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other capital assets: | | | | |
| Buildings | 33,400 | - | - | 33,400 |
| Other Improvements | 948,158 | - | - | 948,158 |
| Machinery and Equipment | <u>341,656</u> | <u>-</u> | <u>-</u> | <u>341,656</u> |
| Total other capital assets at historical cost | <u>1,323,214</u> | <u>-</u> | <u>-</u> | <u>1,323,214</u> |
| Less: Accumulated Depreciation | | | | |
| Buildings | - | - | - | - |
| Other Improvements | (709,155) | (43,828) | - | (752,983) |
| Machinery and Equipment | <u>(27,536)</u> | <u>(27,536)</u> | <u>-</u> | <u>(55,072)</u> |
| Total accumulated depreciation | <u>(736,691)</u> | <u>(71,364)</u> | <u>-</u> | <u>(808,055)</u> |
| Other capital assets, net | <u>586,523</u> | <u>(71,364)</u> | <u>-</u> | <u>515,159</u> |
| Business-type Activities Capital Assets, Net | <u>\$ 586,523</u> | <u>\$ (71,364)</u> | <u>\$ -</u> | <u>\$ 515,159</u> |

TOWN OF CANADIAN, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

NOTE I - PENSION OBLIGATIONS

The Town participates in two pension plans.

Oklahoma Firefighter's Pension and Retirement System

The Town participates in this statewide, cost-sharing, multiple-employer benefit plan on behalf of firefighters. The system is administered by an agency of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

| | <u>Oklahoma Firefighter's Pension And Retirement System</u> |
|--|--|
| Eligibility to Participate | All full-time or voluntary Firefighters of a participating Municipality hired before age 45 |
| Authority establishing contribution obligations and benefit provisions | State Statute |
| Plan members' contribution rate | 8% of covered payroll |
| Town's contribution rate | 13% of covered payroll/\$60 per volunteer |
| Period required to vest | 10 years |
| Benefits and eligibility for distribution (full time) | 20 years credited service, 2 ½% Of final average salary multiplied By the years of credited service with A maximum of 30 years considered; If vested, at or after age 50, or After 10 but before 20 years of Credited service, with reduced benefits |
| Benefits and eligibility for distribution (Volunteer) | 20 years credited service equal to \$5.46 per month per year of service With a maximum of 30 Years considered |
| Deferred retirement option | Yes, 20 years credited service with Continued service for 30 or more years |
| Provisions for: | |
| Cost of living adjustments (normal retirement) | Yes, if vested by 5/83 |
| Death (duty, non-duty, post-retirement) | Yes |
| Disability | Yes |
| Cost of living allowances | Yes |

Contributions required by State Statute:

| <u>Fiscal Year</u> | <u>Required Contribution</u> | <u>Percentage Contributed</u> |
|------------------------|----------------------------------|-----------------------------------|
| 2012 | 780 | 100% |
| 2011 | 1,380 | 100% |
| 2010 | 660 | 100% |

TOWN OF CANADIAN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE J - COMPENSATED ABSENCES

The Town and Authority have not reported an amount for accrued compensated absences. Under the modified cash basis of accounting, payments for vacation and sick leave are expensed as paid.

NOTE K - LITIGATION

Neither the Town or the Authority have any pending claims or lawsuits against them as of June 30, 2012, the outcome of which would result in a material liability or damage claim.

NOTE L - JOINT VENTURE

The Town of Canadian is in a joint venture with two other communities. The Pittsburg County Public Works Authority act as collection agency for sewer and trash and also bills for water services. Amounts collected for these services are given to the Town's Treasurer. The Authority provides these services for one other town and a community close to Eufala Lake.

NOTE L - SUBSEQUENT EVENTS

The Town has evaluated subsequent events and contingencies through August 30, 2013, the date which financial statements were available. The Town believes there are no events requiring disclosure.

INDEPENDENT AUDITOR'S 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 Honorable Mayor and Members of the Town Council
Town of Canadian
Canadian, Oklahoma

I have audited the accompanying financial statements-modified cash basis, of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Canadian, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town of Canadian, Oklahoma's basic financial statements, and have issued my report thereon dated August 30, 2013 which did not include Management's Discussion and Analysis. I conducted my audit in accordance with 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.

Internal Control Over Financial Reporting

Management of Town of Canadian is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered Town of Canadian, Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Calvin, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Town of Canadian, Oklahoma'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 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.

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 we consider to be material weaknesses, as defined above. However, I consider failure to use a purchase order system of controls and failure to comply with The Municipal Budget Act to be significant deficiencies. A *significant deficiency* is a deficiency, or 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 Town of Canadian, Oklahoma's financial statements are free of 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*.

This report is intended solely for the information and use of management, Town Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Ralph Osborn".

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
August 30, 2013