

Wagoner Public Works Authority

P.O. BOX 406
City Offices 485-2554

Wagoner Oklahoma 74467
City Clerk 485-4586

FINANCIAL STATEMENTS

JUNE 30, 2011



Clothier & Company CPA's P.C.

P.O. Box 1495 * Muskogee, Ok 74402
(918) 687-0189 FAX (918) 687-3594

cccpa@yahoo.com

WAGONER PUBLIC WORKS AUTHORITY

A COMPONENT UNIT OF THE CITY OF WAGONER, OKLAHOMA

FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2011

TABLE OF CONTENTS

Independent Auditors' Report.....	1 - 2
Management's Discussion and Analysis.....	I – VIII
Statement of Net Assets	3
Statement of Revenue, Expense and Changes in Fund Net Assets.....	4-5
Statement of Cash Flows.....	6
Notes to the Financial Statements	7 – 12
Report on Compliance and on Internal Control over Financial Reporting and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	13-14



Clothier & Company CPA's P.C.
cccpa@yahoo.com

P.O. Box 1495
Muskogee, Oklahoma 74402
918-687-0189 FAX 918-687-3594

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Wagoner Public Works Authority
Wagoner, OK

We have audited the accompanying statement of net assets, statement of revenues, expenses, and changes in fund net assets pr statements of the business-type activities of the Wagoner Public Works Authority, a component unit of the City of Wagoner, Oklahoma, as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Wagoner Public Works Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our 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 we 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Wagoner Public Works Authority as of June 30, 2011, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2011, on our consideration of the Wagoner Public Works Authority's internal control over financial reporting and on our 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 our audit.

The management's discussion and analysis information on pages I through VIII is not a required part of the basic financial statements but is supplementary information required by accounting principles

generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clothier & Company CPA's

Clothier & Company, CPA's, P.C.

November 3, 2011

Wagoner Public Works Authority

P.O. Box 406

Wagoner, Oklahoma 74477

City Offices 485-2554 • City Clerk 485-4586 • Fax 485-4748

Management's Discussion and Analysis For Year Ended June 30, 2011

As management of the Wagoner Public Works Authority, we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2011. The Authority implemented Governmental Accounting Standards Board Statement 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$12,858,629 (net assets). Of this amount, \$3,442,341 (unrestricted net assets) may be used to meet the authority's ongoing obligations to citizens and creditors in accordance with the Authority's fund designation and fiscal policies.
- The Authority's total net assets increased by \$457,221, \$927,557, and \$403,018 for 2011, 2010 and 2009 respectively, while its unrestricted net assets decreased by \$19,565.
- The Authority's total liabilities were \$6,274,373 at the end of the 2010/11 fiscal year, an increase of \$323,381 from the \$5,950,992 for the 2009/10 fiscal year.
- At the end of the current fiscal year, unreserved fund balance for the Authority was \$3,442,341 or 26.8% of the total budgeted expenditure, as compared to 27.9% for the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: 1) unit-wide financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The Authority operates a utility service in a proprietary fund.

Unit-wide financial statements – The authority-wide financial statements are designed to provide readers with a broad overview of the Authority's finance, in a manner similar to a private-sector business.

The Balance Sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or

decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The Income Statement presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

The business-type activities of the Authority include Sanitation, Water, Sewer, and Electric.

The financial statements can be found on pages 3 through 6 of this report.

Proprietary Funds – The Authority maintains one proprietary fund. The Authority uses a proprietary fund to account for all its water, sewer, electric, and sanitation operations.

Notes to the Financial Statements - The footnote section provides additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 7 through 13 of this report.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning budget versus actual. Required supplementary information can be found on pages 18 through 29 of this report.

Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Authority's financial position. In the case of the Wagoner Public Works Authority, assets exceeded liabilities by \$12,858,629 as of June 30, 2011.

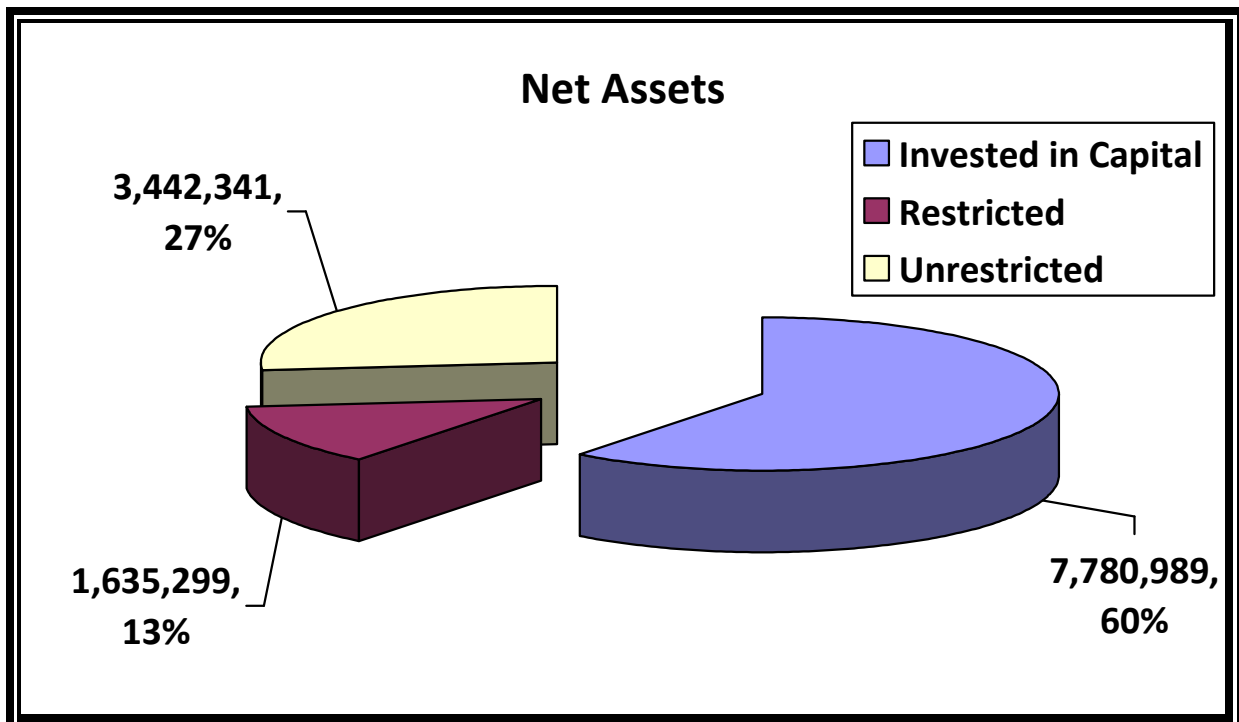
The largest portion of the Authority's net assets, 60.5%, (as compared to 63.5% in 2010) is invested in capital assets. The Authority uses these capital assets to provide service to citizens; consequently these assets are not available for future spending. Restricted net assets of the Authority are 12.7% (as compared to 8.5% in 2010) of total net assets and are subject to external restriction on how they may be used. The percentage of restricted net assets to total net assets has increased by 4.2%. The remaining balance of unrestricted net assets \$3,442,341 may be used to meet the authority's ongoing obligation to citizens and creditors.

As of June 30, 2011, the Authority is able to report positive balances in all three categories of net assets.

The implementation of GASB Statement 34 requires the Authority to present comparable information in the various analysis.

WPWA's Net Assets

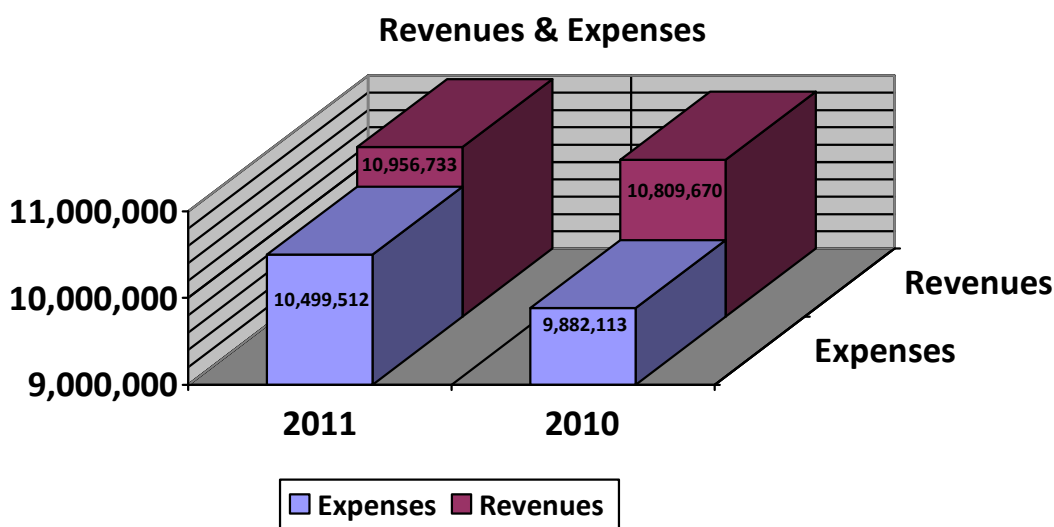
	June 30, <u>2011</u>	June 30, <u>2010</u>	INCREASE <u>(DECREASE)</u>
Current assets	5,412,109	4,814,657	597,452
Capital assets and other assets	<u>13,720,893</u>	<u>13,537,673</u>	<u>183,220</u>
Total Assets	<u>\$19,133,002</u>	<u>\$18,352,330</u>	<u>\$780,672</u>
Current liabilities	1,613,526	1,511,860	101,666
Other liabilities	<u>4,660,847</u>	<u>4,439,062</u>	<u>221,785</u>
Total Liabilities	<u>\$6,274,373</u>	<u>\$5,950,922</u>	<u>\$323,451</u>
Net assets:			
Invested in capital assets, net of debt	7,780,989	7,882,142	(101,153)
Restricted	1,635,299	1,057,360	577,939
Unrestricted	<u>3,442,341</u>	<u>3,461,906</u>	<u>(19,565)</u>
Total Net Assets	<u>\$12,858,629</u>	<u>\$12,401,408</u>	<u>\$457,221</u>



Analysis of the Authority's Operations – The following table provides a summary of the Authority's operations for the years ended June 30, 2011 and 2010. Business activities increased the Authority's net assets by \$457,221 and \$927,557 respectively.

Wagoner Public Works Authority's Changes in Net Assets

	<u>2011</u>	<u>2010</u>	INCREASE (DECREASE)
Revenues:			
Program Revenues:			
Charges for services	10,685,195	10,029,317	655,878
Operating grants and contributions	22,922	13,027	9895
Capital grants and contributions	0	366,910	(366,910)
General revenues:			
Investment earnings	31,416	55,765	(24,349)
Transfer- in	217,200	344,651	(127,451)
Total Revenues	<u>\$10,956,733</u>	<u>\$10,809,670</u>	<u>\$147,063</u>
Expenses:			
General government and administration	862,341	686,957	175,384
Utility and supporting services	<u>9,637,171</u>	<u>9,195,156</u>	<u>442,015</u>
Total expenses	<u>\$10,499,512</u>	<u>\$9,882,113</u>	<u>\$617,399</u>
 Increase (Decrease) in net assets	 457,221	 927,557	 (470,336)
 Net assets – July 1	 <u>12,401,408</u>	 <u>11,473,851</u>	 <u>927,557</u>
 Net assets- June 30	 <u>\$12,858,629</u>	 <u>\$12,401,408</u>	 <u>\$457,221</u>



Debt Administration

At the end of the current fiscal year, the Authority had a total notes payable of \$4,821,668, as compared to \$4,598,171 at the end of the prior year. This is an increase of \$223,497. The Authority signed a note for \$1,200,000 with OWRB as a part of the ARRA in 2009. At the end of the 09/10 fiscal year, a net debt of \$429,062 had been drawn after principal forgiveness had been applied in the amount of \$364,332. The remainder of the proceeds \$406,606 were drawn in the 10/11 fiscal year and construction was complete June 2011.

Outstanding Debt at Year End Bonds and Notes Payable

	BALANCE			BALANCE
	6/30/2010	PROCEEDS	PAYMENT	6/30/2011
N/P OWRB (WATER SYSTEM)	4,135,000	0	125,000	4,010,000
N/P OWRB (STIMULAS LOAN)	429,062	406,606	24,000	811,668
N/P AMERICAN (AERIAL LIFT)	34,109	0	34,109	0
TOTALS	<u>\$4,598,171</u>	<u>\$406,606</u>	<u>\$183,109</u>	<u>\$4,821,668</u>

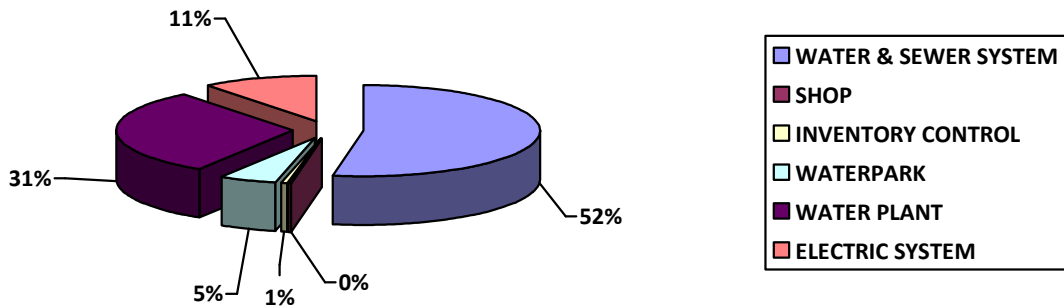
Capital Assets

The following is a description of significant capital assets and the changes during the current year.

	COST			
	BALANCE		DELETIONS	BALANCE
	6/30/2010	ADDITIONS		6/30/2011
ELECTRIC SYSTEM	\$3,697,081	0	-	\$3,697,081
WATER & SEWER SYSTEM	10,605,432	674,809	-	11,280,241
INVENTORY CONTROL	125,892	0	-	125,892
BRUSH DEPT	2,798	0	(2,798)	0
SHOP	30,524	21,896	-	52,420
CODE ENFORCEMENT	1,400	0	(1,400)	0
WATER PLANT	4,785,300	13,754	-	4,799,054
WATER PARK	1,036,300	0	-	1,036,300
	<u>\$20,284,727</u>	<u>\$710,459</u>	<u>(\$4,198)</u>	<u>\$20,990,988</u>

	ACCUMULATED DEPRECIATION			
	BALANCE		DELETIONS	BALANCE
	6/30/2010	EXPENSE		6/30/2011
ELECTRIC SYSTEM	\$2,242,693	129,733	-	\$2,372,426
WATER & SEWER SYSTEM	4,325,247	302,132	-	4,627,379
INVENTORY CONTROL	55,344	3,597	-	58,941
BRUSH DEPT	2,798		(2,798)	0
SHOP	20,974	4,933	-	25,907
CODE ENFORCEMENT	1,400		(1,400)	0
WATER PLANT	829,071	120,650	-	949,721
WATER PARK	326,887	27,070	-	353,957
	<u>\$7,804,414</u>	<u>\$588,115</u>	<u>(\$4,198)</u>	<u>\$8,388,331</u>

BOOK VALUES



Financial Analysis of Authority Funds

The following shows significant variations between original and final budget amounts and between final budget amounts and actual results for the Authority:

- The Stimulus Wagoner Water Project was completed using all of the budgeted loan proceeds available, as well as an additional \$33,446 in funds from WPWA's Gross Revenue Fund. The Authority received the 2010 Drinking Water State Revolving Fund Award from the EPA in conjunction with this project for showing outstanding dedication and for the extension of multiple projects due to good budgeting and management.
- Power factor upgrades were originally budgeted at \$130,000 for the 10/11 fiscal year, however funds were not expended. The Authority carried forward \$50,000 to be budgeted for the 11/12 fiscal year and \$80,000 to go towards cash on hand.
- Reliable power funds of \$210,000 were not spent during the year and were rolled into a cd to be set aside for future use.
- The Authority budgeted \$50,000 to purchase a sewer line camera; however it was not purchased during the year and the funds have been rolled over into the next budget.

Economic Factors and Next Year's Budget and Rates.

- Across the board raises were given to all eligible full time and part time employees in the amount of fifty cents per hour. Additional raises were also given to some employees for receiving license upgrades and for showing exceptional merit.
- Shortly after the beginning of 11/12 fiscal year, the Authority was contacted by the Oklahoma Department of Emergency Management to notify us that an overpayment of \$111,388 was made during FEMA disbursements for recovery from the January 2007 ice storm. The Board approved to pay back half of the funds in FY 11/12 and half in FY 12/13.
- The Authority budgeted \$80,000 in funds to complete the East Side McQuarrie water line replacement project. Due to unforeseen issues, additional funding for this project may be expensed from the 3R system improvement line item.
- The Authority will begin making monthly payments of approximately \$4,646 to the Bank of Oklahoma for the Stimulus Loan signed in 2009. The bank will make payments on our behalf semi-annually to the OWRB.
- In July 2011, the Wagoner Water Plant suffered a malfunction causing one of two existing filters to become non-operational. The water plant had to temporarily shut down while filter media screens were being fabricated to replace both the broken parts, as well as filters that were under distress. Labor and materials for the fabrication totaled \$26,585 and there were also miscellaneous costs associated with the repair that had not been anticipated in the Authority's original budget.

Request for information

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the Authority's finances. If you have questions about this report or need any additional information, you may contact any one of the following at the Wagoner Public Works Authority, P.O. Box 406, Wagoner, OK 74477, or by calling (918)-485-4586, or by the e-mail addresses provided below.

Dwayne Elam
Public Works Director
wagonerwpwa@valornet.com

Rhonda Hash
City Clerk/WPWA Secretary
rhash@valornet.com

Laura Duvall
Comptroller
lduvallcityofwag@aol.com

WAGONER PUBLIC WORKS AUTHORITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

ASSETS

Current Assets	
Cash and Cash Equivalents	\$ 4,135,276
Accounts Receivable Net Allowance	657,969
Interest Receivable	21,562
Inventory	517,063
Due from other Funds	80,239
Total Current Assets	<u>5,412,109</u>
Noncurrent Assets	
Restricted Cash	1,118,236
Capital Assets	
Shop	52,420
Water and Sewer System	11,280,241
Water Plant	4,799,054
Electric System	3,697,081
Waterpark	1,036,300
Inventory Control	125,892
Accumulated Depreciation	<u>(8,388,331)</u>
Total Noncurrent Assets	<u>13,720,893</u>
Total Assets	<u>19,133,002</u>

LIABILITIES

Current Liabilities	
Accounts Payable	566,133
Due to Customers	531,185
Due To Other Funds	160,496
Salaries and Benefits Payable	131,067
Interest Payable	63,824
Current Maturities	<u>160,821</u>
Total Current Liabilities	1,613,526
Noncurrent Liabilities	
Loan on Water Plant	4,010,000
OWRB 2010 Stimulus Loan	811,668
Less: Current Maturities	<u>(160,821)</u>
Total Noncurrent Liabilities	<u>4,660,847</u>
Total Liabilities	<u>6,274,373</u>

NET ASSETS

Investment in General Fixed Assets	7,780,989
Restricted for:	
Deposits and Loan Repayment	1,118,236
Other Purposes	1,084,753
Unrestricted	<u>2,874,651</u>
Total Net Assets	<u>\$ 12,858,629</u>

WAGONER PUBLIC WORKS AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Business-type Enterprise
<hr/>	
Operating Revenues	
Charges for Services	\$ 10,685,195
 Total Operating Revenues	 <u>10,685,195</u>
 Operating Expenses	
Salaries	1,217,620
Overtime	51,749
Outside Consultant	2,583
Payroll Taxes	102,637
Employee Insurance	161,651
Workers Comp Insurance	63,114
Retirement	100,411
Retirement Administration	735
Supplies	373,827
Copier Maintenance	1,288
Repair & Maint-General	89,161
Chlorine Room	1,293
Gas Oil & Filters-Vehicles	58,193
Uniform Expense	33,600
School And Training	7,961
Trust Service Fees	4,175
Insurance-General	51,824
Trustee Expenses	113
Postage	21,020
Workers Comp Claims	1,098
Repair & Maint - Vehicle	46,763
Generator Maintenance	8,073
DEQ Employee License	1,564
ONG/ Gas Bill	1,267
Diagnostic Service Fees	552
DEQ Water Fees	11,784
Telephone	23,301
Auditing	14,930
Bad Debt / Theft Expense	64,181
Legal	2,320
Refuse Collection	678,456
Rural Water Dist #6	11,108
Electricity	65,820
Landfill Costs	3,965
Security Alarm Service	615
Laboratory Analysis	8,700
G.R.D.A. Electricity	4,943,904
Engineering	5,524
MESO Dues	5,525
EMS - Water Meter Surcharge	412,000
Trans to City - Utilities	192
Trans to EMS - Utilities	9,447
Adjustments & Refunds	300
Employee Remembrance	35
Water Tower Compliance	24,400
Engineering Payment	2,496

See Notes to Financial Statements

WAGONER PUBLIC WORKS AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Business-type Enterprise
WPWA Utilities	155,506
Depreciation Expense	<u>588,115</u>
Total Operating Expenses	<u>9,434,896</u>
 Operating Income (Loss)	 <u>1,250,299</u>
 Non-Operating Revenues (Expenses)	
Interest Earnings	31,416
Interest Expense	(211,914)
Non Operating Income	<u>22,922</u>
Total Non-Operating Revenues (Expenses)	<u>(157,576)</u>
 Income (Loss) Before Contributions and Transfers	 <u>1,092,723</u>
 Transfers In	 217,200
Transfers Out	<u>(852,702)</u>
	<u>(635,502)</u>
 Change in Net Assets	 457,221
 Net Assets - Beginning	 <u>12,858,629</u>
 Net Assets - Ending	 <u><u>\$ 13,315,850</u></u>

See Notes to Financial Statements

WAGONER PUBLIC WORKS AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDING JUNE 30, 2011

Cash Flows From Operating Activities:

Receipts from Customers	\$	10,679,897
Payment to Suppliers		(6,566,072)
Other Operating Income		61,935
Payment to Employees		(1,705,460)
Net Cash Provided by Operations		2,470,300

Cash Flows From Noncapital Financing Activities:

Other NonOperating Income		22,922
Interest Paid on Long Term Debt		(211,914)
Accounts Payable Affiliates		(542,991)
Transfers Out		(635,502)
Net Cash (Used) by Noncapital Financing Activities		(1,367,485)

Cash Flows From Capital and Related Financing Activities:

Proceeds from Issuance of Debt		406,606
Payment of Debt		(183,109)
Disposal of Asset		-
Purchase of Capital Assets		(710,459)
Net Cash (Used) by Capital and Related Financing Activities		(486,962)

Cash Flows From Investing Activities:

Receipts of Interest and Dividends		31,416
Increase in Cash Reserve		(60,876)
Net Cash (Used) by Investing Activities		(29,460)

Net Increase in Cash and Cash Equivalents

586,393

Cash and Cash Equivalents at Beginning of Year

3,548,883

Cash and Cash Equivalents at End of Year

\$ 4,135,276

Reconciliation of Operating Income (Loss) to Net Cash

Provided by (Used) Operating Activities:

Operating Income (Loss)		1,250,299
Adjustments to reconcile operating income to net cash provided by operations:		
Add Depreciation Expense		588,115
(Increase) Decrease Current Assets		
(Increase) Decrease Receivables, Net		(5,298)
(Increase) Decrease Inventories		(8,767)
Increase (Decrease) Current Liabilities		
Increase (Decrease) Accounts Payable		588,976
Increase (Decrease) Accrued Liabilities		(4,960)
Increase (Decrease) Other Liabilities		61,935

Net Cash Provided by (Used in) Operating Activities

\$ 2,470,300

Interest Expense

\$ 211,914

WAGONER PUBLIC WORKS AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

Component Unit of The City of Wagoner, Oklahoma
For the Year Ending June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Wagoner Public Works Authority (WPWA) is a public trust and a component unit of the City of Wagoner, Oklahoma. The WPWA was created in 1972 in the interest of the public health and for the purpose of providing adequate sewer and drainage facilities in the City of Wagoner. The WPWA is governed by a board of 8 trustees. The WPWA is managed by a director and supervisors and utilizes the accounting office of the City to maintain its accounting records.

PROPRIETARY FUND ACCOUNTING

The financial statements of the Wagoner Public Works Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. With respect to proprietary activities, the Authority has adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting." The Authority has elected to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Gross Revenue Fund

The Gross Revenue Fund accounts for the activities of the Wagoner Public Works Authority in much the same way that a private business would account for its activities. The intent of which being that 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. The Authority provides electric service, water service, sewer service, and refuse collections for the residents of Wagoner, Oklahoma.

BASIS OF PRESENTATION

In June 1999, the Governmental Accounting Standards Board ("GASB") issued Statement No. 34 *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments*. This Statement provides for the most significant change in financial reporting in over twenty years and required implementation by Wagoner Public Works Authority for fiscal years ending after June 15, 2003.

In June 2001, GASB issued Statement No. 38, *Certain Financial Statement Note Disclosures*, which in part addressed the need to reevaluate certain existing disclosure requirements in the context of the reporting model in Statement No. 34. Wagoner Public Works Authority implemented Statement No. 38 in conjunction with Statement No. 34 in a previous year.

WAGONER PUBLIC WORKS AUTHORITY

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T.)

BASIS OF ACCOUNTING

The Authority utilizes the accrual basis of accounting for its business type activities. Under this method, revenues are recorded when earned and expenses when incurred. The financial statements are presented using the economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the utility system are included on the statement of net assets. Total net assets are segregated into 1) amounts invested in plant, infrastructure and facilities, net of related debt, 2) restricted for payment of loan principal and interest and 3) unrestricted. Operating statements present increases and decreases in net assets.

BUDGETS AND BUDGETARY ACCOUNTING

The Board of Trustees of the Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. The Wagoner Public Works Authority voluntarily submits to the Board of Trustees a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the two preceding years. The budget is submitted in summary form. In addition, more detailed line item budgets are included for administrative control.
- B. Public hearings are conducted to obtain taxpayer comment.
- C. Prior to June 30 the budget is legally enacted through passage of an ordinance.
- D. The Public Works secretary is required to present a monthly report to the Board of Trustees, showing any variance from the approved budget.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents include all highly liquid debt instruments with maturities of three months or less at the date of their acquisition. Funds held in reserve are not considered to be part of cash.

ACCOUNTS RECEIVABLE

The Authority is principally a utility provider including electric, water, sewer and sanitation services to the residents of the City of Wagoner Oklahoma. The Authority grants credit to customers, most of who are residential homes, under credit terms that the Authority believes are customary in the industry. Deposits are obtained from customers based on the Authorities policies as to type of customer.

Operating revenues are defined as those revenues generated directly from the primary activity of services provided by the Wagoner Public Utilities Authority, non operating revenues are those generated by non utility services such as interest income or disposal of equipment. Revenues are recognized when there is persuasive evidence of an arrangement, delivery has occurred, the price

WAGONER PUBLIC WORKS AUTHORITY

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T.)

has been fixed or is determinable, and collectability can be reasonably assured. The Authority provides allowances for expected doubtful accounts based upon historical bad debt.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Additions, renewals, and betterments are capitalized whereas expenditures for maintenance and repairs are charged to expense. The cost and related accumulated depreciation of assets retired or sold are removed from the appropriate asset and depreciation accounts, and the resulting gain or loss is reflected in income.

It is the policy of the Authority to provide depreciation based on the estimated useful life of the individual units of property and equipment. The depreciation methods and the estimated useful lives used as the basis for the application of those methods are as follows:

<u>Description</u>	<u>Method</u>	<u>Estimated Useful Life</u>
Building and improvements.....	Straight-line.....	40 Years
Vehicles.....	Straight-line.....	5 Years
Electric, sewer & water systems & improvements.....	Straight-line.....	40Years
Equipment.....	Straight-line.....	10 Years

INVENTORIES

Items in inventory consist of finished goods to be used for the repair and maintenance of the utility infrastructure. The items are not for sale. Inventories are stated at fair market value. A physical inventory is taken at the end of the year. Due to the implementation of Statement No. 34, Wagoner Public Works Authority has also done an inventory of small equipment that is not capitalized.

INVESTMENTS

Investments are stated at cost, which approximates market. Investment income consists of interest and dividends.

METER DEPOSITS

Meter Deposits consist of deposits paid for the use of water and electric meters by citizens of Wagoner. The cash is deposited in the First Wagoner Bank and in certificates of deposit. By law these deposits are either applied against their account or are refunded when the depositor moves from the address where the meter is located.

COMPENSATED ABSENCES

A total of 30 days vacation may be accumulated by each employee and carried over to the next year. Accrued vacation is recorded as a liability of the Authority. When an employee is

WAGONER PUBLIC WORKS AUTHORITY

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CON'T.)

terminated or quits, accumulated vacation is paid. The Authority will pay twenty-five dollars for each unused accrued sick leave day to a maximum of one hundred days at either: death, disability retirement, retirement at age 65 or older, or early retirement age 55 or older, plus 10 years of continuous service. When an employee is terminated or quits, they are not paid for the accrued sick leave. As of June 30, 2011 the Public Works Authority had unrecorded sick leave of \$185,163.

2. ECONOMIC DEPENDENCY

The Wagoner Public Works Authority is dependent on the Grand River Dam Authority (G.R.D.A.) for their purchase of electricity used for re-sale. For the year ended June 30, 2011, the Wagoner Public Works Authority purchased \$4,943,904 worth of electricity from G.R.D.A.

3. CASH AND INVESTMENTS

The Wagoner Public Works Authority maintains depository accounts with First Bank and Trust and American Bank for use by individual funds. Investments consist of Certificates of Deposit, all of which are kept with the same banks noted above. For custodial credit risk each depository maintains segregated collateral in an amount proportionate to its deposits. Funds restricted for debt service are maintained by BOK Trust Services, an outside custodian.

4. ACCOUNTS RECEIVABLE

Due from customers.....	723,365
Less allowance for bad accounts.....	(65,396)
	\$ 657,969

5. PROPERTY AND EQUIPMENT

<u>Description</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Water & Sewer	\$ 10,605,432	\$ 674,809	\$ 0	\$ 11,280,241
Electric System	3,697,081	0	0	3,697,081
Inventory Control	125,892	0	0	125,892
Water Park	1,036,300	0	0	1,036,300
Water Plant	4,785,300	13,754	0	4,799,054
Shop	30,524	21,896	0	52,420
Other	4,198	0	4,198	0
	\$20,284,727	\$ 710,459	\$ 4,198	\$ 20,990,988

WAGONER PUBLIC WORKS AUTHORITY

<u>Description</u>	<u>Accumulated Depreciation</u>	<u>Expense</u>	<u>Retirements</u>	<u>Ending</u>
Water & Sewer	\$ 4,325,247	\$ 302,132	\$ 0	\$ 4,627,379
Electric System	2,242,693	129,733	0	2,372,426
Inventory Control	55,344	3,597	0	58,941
Water Park	326,887	27,070	0	353,957
Water Plant	29,071	120,650	0	949,721
Shop	20,974	4,933	0	25,907
Other	4,198	0	4,198	0
	<u>\$ 7,804,414</u>	<u>\$ 588,115</u>	<u>\$ 4,198</u>	<u>\$8,388,331</u>

6. TRANSFERS

The Gross Revenue Fund regularly transfers money and assets to and from other funds. During the year ended June 30, 2011 the following transfers were made from the Gross Revenue Fund.

City of Wagoner – operations	\$ (585,727)
City of Wagoner – stimulus loan funds.....	(175,053)
City of Wagoner – utilities.....	<u>(91,922)</u>
 Transfers Out.....	 <u>\$ (852,702)</u>
 City of Wagoner – stimulus project	 \$ 171,249
City of Wagoner – CDBG.....	<u>45,951</u>
 Transfers In	 <u>\$ 217,200</u>

7. CONCENTRATION OF CREDIT RISK

The Wagoner Public Works Authority maintains their bank accounts in three banks located in Oklahoma. Noninterest bearing accounts are guaranteed by the Federal Deposit Insurance Corporation up to the full amount of deposits until 12/31/2012. A summary of the total insured and uninsured cash balances as well as safekeeping receipts are as follows:

	<u>American</u>	<u>First Bank</u>	<u>BOK</u>	<u>Petty Cash</u>
Wagoner Public Works Authority.....	\$381,000	\$4,388,464	\$482,649	1,400
FDIC Non Interest Bearing accounts.....	0	0	0	0
Portion Insured by FDIC.....	-250,000	-250,000	0	0
U.S. Treasury.....	0	0	-482,649	0
Letters of Credit.....	0	-5,200,000	0	0
Pledged Securities.....	<u>-2,203,435</u>	<u>0</u>	<u>0</u>	<u>0</u>
Collateralized receipts (over) under Amounts required.....	<u>\$(2,072,435)</u>	<u>\$(1,061,536)</u>	<u>\$ 0</u>	<u>1,400</u>

WAGONER PUBLIC WORKS AUTHORITY

8. NOTES PAYABLE

Long-term debt:

On September 15, 2009 the Wagoner Public Works Authority signed a promissory note with the Oklahoma Water Resources Board in the sum of \$1,200,000. The purpose of this promissory note is to construct improvements to the water system of Wagoner Public Works Authority. Interest is to accrue at the rate of 2.55% per annum plus an administrative fee of 0.5% per annum. The loan is carried on the books of Wagoner Public Works Authority net of debt forgiveness credits applied through the American Recovery and Reinvestment Act. As of June 30, 2011 federal debt forgiveness credit totaling \$364,000 had been expended on loan principal. The Authority has pledged and assigned the revenues and receipts derived from the operations of water, sanitary, sewer, solid waste management and electric systems as security.

On May 3, 2005, the Wagoner Public Works Authority signed a promissory note with the Oklahoma Water Resources Board in the sum of \$4,635,000. The purpose of this promissory note is the conversion from a note bearing a variable rate of interest to one bearing a fixed rate of interest. Interest is to accrue at the rate of 3.795% per annum. Prior to this note the interest rate was determined by OWRB every six months. This note is not to mature prior to October 1, 2030, with initial payments in the amount of \$26,289.96 beginning May 15, 2005. The Authority has pledged and assigned the revenues and receipts derived from the operations of water, sanitary sewer, solid waste management, and electric systems as security.

On February 6, 2009 the Wagoner Public Works Authority signed a promissory note with American Bank in the sum of \$68,466. The purpose of the note was to acquire an aerial lift for a truck. The aerial lift is pledged as collateral. As of June 30, 2011 the note was paid in full.

	BALANCE 6/30/2010	PROCEEDS	PAYMENTS	BALANCE 6/30/2011
OWRB 2005 Water System	4,135,000	0	125,000	4,010,000
OWRB 2009 Water System	429,062	406,606	24,000	811,668
N/P 2009 Aerial Lift	34,109	0	34,109	0
Total	\$4,598,171	\$406,606	\$183,109	\$4,821,668

Schedule of debt service payments due	Gross Revenue Fund		Memo Only
	Principal	Interest	Total
June 30, 2012.....	160,821	206,117	366,938
June 30, 2013.....	166,849	206,745	373,594
June 30, 2014.....	172,841	200,189	373,030
June 30, 2015.....	178,865	193,257	372,122
June 30, 2016.....	184,864	185,997	370,861
5 Yrs ending '21.....	1,046,563	802,783	1,849,346
5 Yrs ending '26.....	1,298,344	539,960	1,838,304
5 Yrs ending '31.....	1,612,521	198,936	1,811,457
Total	4,821,668	2,533,984	7,355,652

WAGONER PUBLIC WORKS AUTHORITY

9. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

10. CONTINGENT LIABILITY

As of June 30, 2011 The Wagoner Public Works Authority is guarantor on two loans for the Wagoner Hospital Authority. Both loans are made with First Bank & Trust Company in Wagoner, Oklahoma for the amount of \$3,000,000 and \$500,000 respectively. The City of Wagoner maintains an agreement with The Wagoner Hospital Authority to pay the interest on the first note, in F.Y. 2011 the amount was \$120,491 and was paid from the Economic Development Fund. Wagoner Public Works collateralizes the note with its receipts and assets. As of 06/30/11 there does not appear to be a reasonable probability the Wagoner Hospital Authority will default and the Wagoner Public Works will become liable for the balance.

11. PENSION PLAN

The underwriter and plan administrator for the Wagoner Public Works Authority's retirement plan is the New York Life Insurance Company. The plan is a defined contribution plan. Terms of the retirement plan are as follows:

The Wagoner Public Works Authority pays 8% of each full time employee's base salary into the fund. An employee must be employed by the Authority a minimum of three years to be eligible to draw partial retirement. An employee is eligible for full retirement at the end of seven years of service. For the year ending June 30, 2011, pension plan contributions paid by the Wagoner Public Works Authority totaled \$100,411, and plan contributions by employees total \$18,714.



Clothier & Company CPA's P.C.
cccpa@yahoo.com

P.O. Box 1495
Muskogee, Oklahoma 74402
918-687-0189 FAX 918-687-3594

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*

Board of Trustees
Wagoner Public Works Authority
Wagoner, Oklahoma

We have audited the financial statements of the Wagoner Public Works Authority, a component unit of the City of Wagoner, Oklahoma, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 3, 2011. We conducted our 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

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Wagoner Public Works Authority's financial statements are free of material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Wagoner Public Works Authority in a separate letter dated November 3, 2011.

This report is intended solely for the information and use of management, the Wagoner Public Works Authority's Board of Trustees, others within the entity, and the Oklahoma State Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

Clothier & Company, CPA's, P.C.

November 3, 2011