

**ELLIS COUNTY, OKLAHOMA
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2002**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

June 19, 2003

TO THE CITIZENS OF
ELLIS COUNTY, OKLAHOMA

Transmitted herewith is the audit of Ellis County, Oklahoma, for the fiscal year ended June 30, 2002. A report of this type is critical in nature; however, we do not intend to imply that our audit failed to disclose commendable features in the present accounting and operating procedures of the County.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our audit.

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and to issue reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in cursive script that reads "Jeff A. McMahon".

JEFF A. McMAHAN
State Auditor and Inspector

**ELLIS COUNTY, OKLAHOMA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2002**

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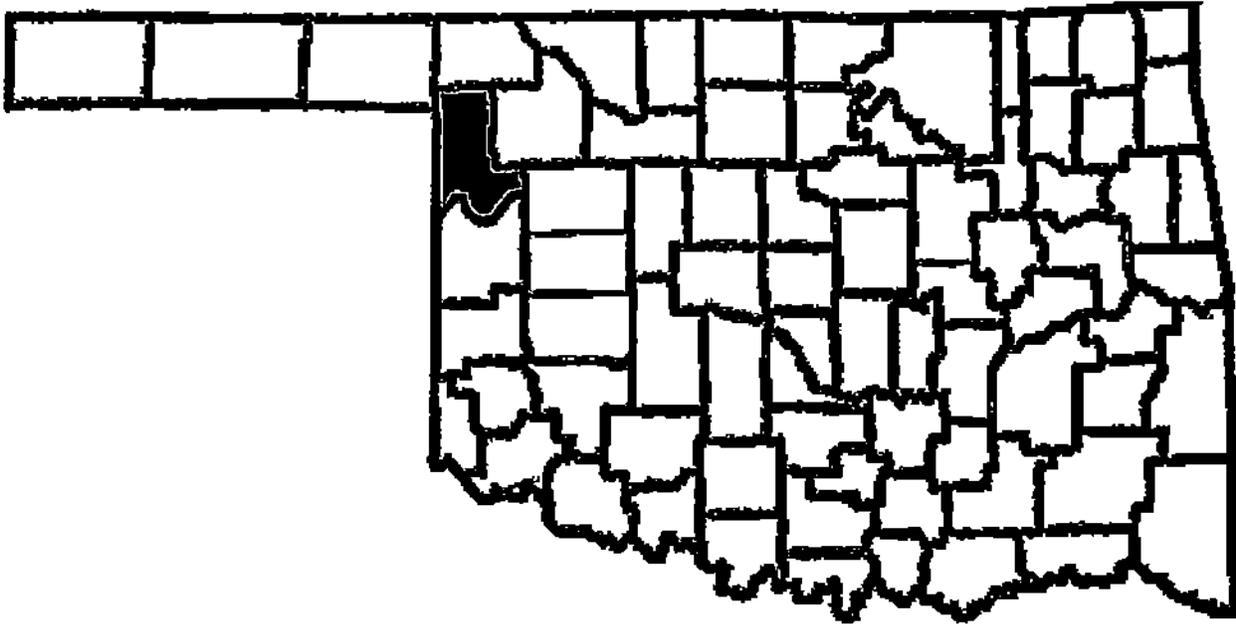
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REPORT TO THE CITIZENS
OF
ELLIS COUNTY, OKLAHOMA



Located in western Oklahoma and created at statehood from portions of Roger Mills and Woodward counties, Ellis County was named for Albert H. Ellis, vice president of the Oklahoma Constitutional Convention.

Site of several Indian battles, Ellis County was crossed by Camp Supply Road, a major thoroughfare to military camps and posts in the Indian Territory.

Although primarily an agricultural area, Ellis County within the last 20 years has emerged not only as a leading county in the dairy industry, but also as a major producer of oil and gas.

County Seat - Arnett

Area - 1229.2 Square Miles

County Population - 4,194
(1999 est.)

Farms - 622

Land in Farms - 669,922 acres

Source: Oklahoma Almanac 2001 - 2002

See independent auditor's report

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**

COUNTY ASSESSOR
Karen Mackey Perkins
(D) Gage

The County Assessor has the responsibility to appraise and assess the real and personal property within the county for the purpose of ad valorem taxation. Also, the County Assessor is required to compute the ad valorem taxes due on all taxable property. The County Assessor appraises all the taxable real and personal property according to its fair cash value for which the property is actually being used as of January 1 of the taxable year at the percentages provided for in Article 10, § 8 of the Oklahoma Constitution.

The County Assessor is required to build and maintain permanent records of the taxable real property and tax exempt real property within the county. Information entered on each record includes the property's legal description, owner's name and address, and the homestead exemption status of the owner.

COUNTY CLERK
Peggy Ann Schoenhals
(D) Arnett

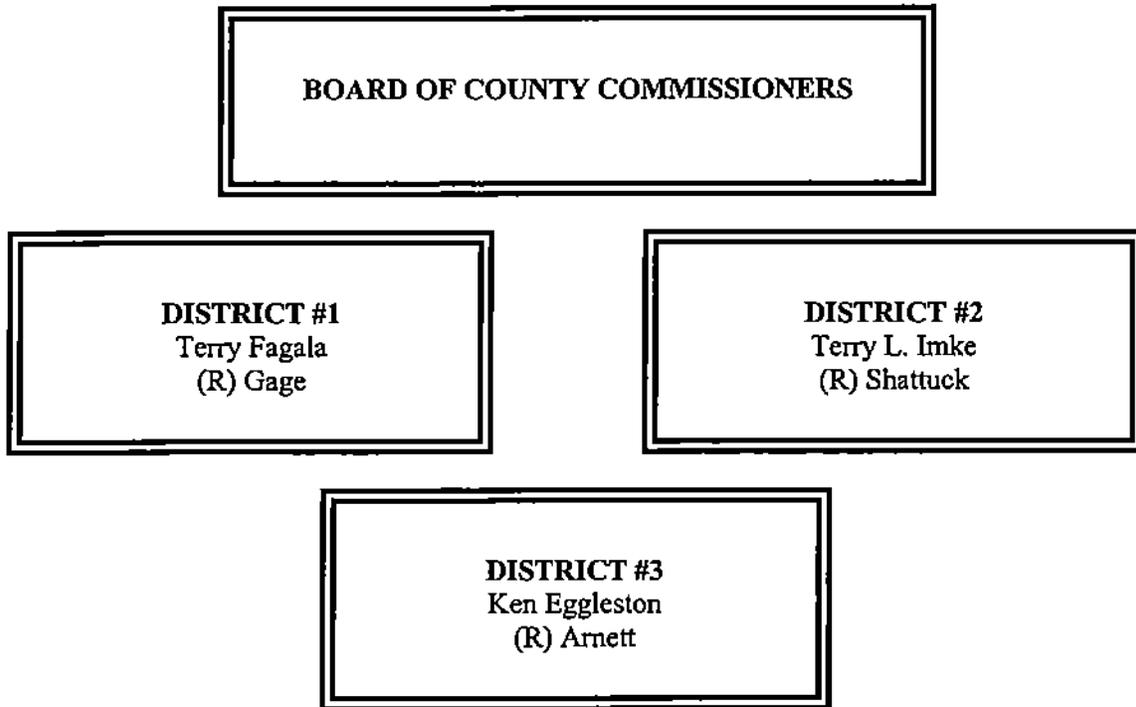
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

The County Clerk reviews all the claims for payment of goods and services purchased or contracted by the county, and prepares the proper warrants for payment of those goods and services and the county payroll. The County Clerk, or his or her designated deputy, serves as the purchasing agent for the county. This system is a means to ensure the public that tax dollars are being spent appropriately.

Various records within the different county offices are classified as "open records." As such, they can be reviewed and mechanically copied by the public.

See independent auditor's report

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**



The Board of County Commissioners is the chief administrative body for the county. County Commissioners are also responsible for maintaining and constructing the county roads and bridges.

The Commissioners must act as a Board when entering into contracts or other agreements affecting the county's welfare. Thus, actions taken by the Board are voted on and approved by a majority of the Commissioners. The Board of County Commissioners' business meetings are open to the public.

As the county's chief administrative body, the three County Commissioners must make major financial decisions and transactions. The Board has the official duty to ensure the fiscal responsibility of the other county officers who handle county funds. The review and approval procedures empowered to the Board of County Commissioners are a means to provide the public with a fiscally efficient system of county government.

See independent auditor's report

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**

COUNTY SHERIFF
Dewayne Miller
(R) Gage

The County Sheriff is responsible for preserving the peace and protecting life and property within the county's jurisdiction. As the county's chief law enforcement officer, the Sheriff has the power and authority to suppress all unlawful disturbances, to apprehend and secure persons charged with felony or breach of peace, and to operate the county jail.

The County Sheriff has the responsibility of serving warrants and processing papers ordered by the District Court.

COUNTY TREASURER
Cynthia Davis Hunter
(D) Arnett

All revenues received by county government from ad valorem taxes and other sources are deposited with the County Treasurer. The County Treasurer collects ad valorem taxes for the county and its political subdivisions. The County Treasurer is authorized to issue delinquent personal property tax warrants and to impose tax liens on real property for delinquent taxes.

To account for county revenues and expenditures, the County Treasurer is required to maintain an accurate record of all the monies received and disbursed. The State Auditor and Inspector's Office prescribes all the forms used by the County Treasurer, and at least twice a year inspects the County Treasurer's accounts.

See independent auditor's report

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**

COURT CLERK
Donna Slavin Folks
(D) Arnett

The Court Clerk has the primary responsibility to record, file, and maintain as permanent records the proceedings of the District Court.

Court proceedings are recorded in the appropriate journal or record docket. All the court proceedings are public information except those related to juvenile, guardianship, adoption, and mental health cases.

The Court Clerk issues marriage licenses, passports, notary certificates, beer and pool hall licenses, and private process server licenses.

Monies from the court fund are identified for distribution by the Court Clerk to the appropriate units of county and state government. Court Clerks use forms and follow procedures prescribed by the Court Administrator's Office, the Oklahoma Supreme Court, and the State Auditor and Inspector.

DISTRICT ATTORNEY
Ray Don Jackson
(D) Woodward

As the chief attorney for county government, the District Attorney acts as the legal advisor to the county officers on matters related to their duties. The District Attorney represents the county in civil litigation. County officials may call upon the District Attorney to clarify a law or request an official interpretation from the Attorney General.

**COUNTY ELECTED OFFICIALS
AND RESPONSIBILITIES**

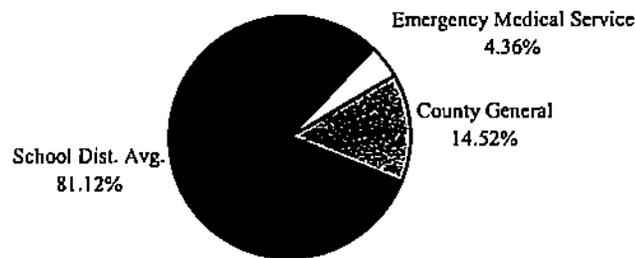
ELECTION BOARD SECRETARY
Gwendoline L. Suthers
(D) Arnett

The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within the county.

To finance the operating expenses of the County Election Board, the County Excise Board must appropriate sufficient funds annually. The state and counties split the election costs, but counties must pay for any county elections not held concurrently with state elections.

**AD VALOREM TAX DISTRIBUTION
ELLIS COUNTY, OKLAHOMA
SHARE OF THE AVERAGE MILLAGE**

Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is 1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



■ County General ■ School Dist. Avg. □ Emergency Medical Service

County-Wide Millages	
Co. General	10.00
Emergency Medical Service	3.00

		School District Millages						
		Gen.	Bldg.	Skg.	Vo-Tech	Common	Total	
Fargo	I-2	35.00	5.00		12.00	4.00	56.00	
Arnett	I-3	35.00	5.00	10.01		4.00	54.01	
Gage	I-39	35.00	5.00	7.88	12.00	4.00	63.88	
Shattuck	I-42	35.00	5.00	7.69		4.00	51.69	
Vici	I-5	35.00	5.00	10.86		4.00	54.86	
Laverne	I-1	35.00	5.00			4.00	44.00	
Ft. Supply	J-5	35.00	5.00	10.52	12.00	4.00	66.52	

See independent auditor's report



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

Independent Auditor's Report

TO THE OFFICERS OF
ELLIS COUNTY, OKLAHOMA

We have audited the accompanying general-purpose financial statements of Ellis County, Oklahoma, as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of Ellis County'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.

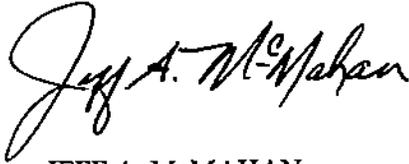
As explained in Note (1H), the general-purpose financial statements referred to above do not include the general fixed assets account group, which should be included in order to conform with accounting principles generally accepted in the United States of America. The amount that should be recorded in the general fixed assets account group is not known.

In our opinion, based on our audit, except for the effect on the general-purpose financial statements of the omission described in the preceding paragraph, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Ellis County, Oklahoma, as of June 30, 2002, and the results of its operations 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 May 12, 2003, on our consideration of Ellis County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of Ellis County, Oklahoma, taken as a whole. The other information listed in the table of contents under *Introductory Section* has not been audited by us, and accordingly, we express no opinion on such data.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMahen". The signature is written in a cursive style with a large initial "J" and "M".

JEFF A. McMAHAN
State Auditor and Inspector

May 12, 2003

General-Purpose Financial Statements

ELLIS COUNTY, OKLAHOMA
COMBINED BALANCE SHEET-ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 2002

	GOVERNMENTAL FUND TYPES		FIDUCIARY FUND TYPE	ACCOUNT GROUP	TOTAL (MEMORANDUM ONLY)
	GENERAL	SPECIAL REVENUE	AGENCY	GENERAL LONG-TERM DEBT	
	GENERAL	REVENUE	AGENCY	DEBT	
ASSETS					
Cash and investments	\$ 746,121	\$ 1,628,023	\$ 164,963	\$	\$ 2,539,107
Ad valorem taxes receivable	3,586		20,548		24,134
Sales tax receivable	22,869		22,869		45,738
Due from other governments	644	245,986	5,284		251,914
Accrued interest receivable	4,312				4,312
Amount to be provided for compensated absences				71,069	71,069
Amount to be provided for capitalized lease purchase agreements				1,176,618	1,176,618
Total assets	\$ 777,532	\$ 1,874,009	\$ 213,664	\$ 1,247,687	\$ 4,112,892
LIABILITIES AND FUND BALANCES					
Liabilities:					
Warrants payable	\$ 56,682	\$ 248,999	\$	\$	\$ 305,681
Accounts payable	9,315	115,527			124,842
Due to other taxing units			89,688		89,688
Due to others			123,976		123,976
Compensated absences payable				71,069	71,069
Capitalized lease obligations payable				1,176,618	1,176,618
Total liabilities	65,997	364,526	213,664	1,247,687	1,891,874
Fund balances:					
Reserved for encumbrances	3,172	11,285			14,457
Unreserved:					
Undesignated	708,363	1,498,198			2,206,561
Total fund balances	711,535	1,509,483	-	-	2,221,018
Total liabilities and fund balances	\$ 777,532	\$ 1,874,009	\$ 213,664	\$ 1,247,687	\$ 4,112,892

The notes to the financial statements are an integral part of this statement.

ELLIS COUNTY, OKLAHOMA
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES-ALL GOVERNMENTAL FUND TYPES
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	<u>GOVERNMENTAL FUND TYPES</u>		TOTAL
	<u>GENERAL</u>	<u>SPECIAL REVENUE</u>	(MEMORANDUM ONLY)
Revenues:			
Ad valorem taxes	\$ 416,818	\$	\$ 416,818
Sales tax	286,643		286,643
Charges for services	45,257	31,650	76,907
Intergovernmental revenues	104,486	2,750,090	2,854,576
Miscellaneous revenues	109,055	60,010	169,065
Total revenues	<u>962,259</u>	<u>2,841,750</u>	<u>3,804,009</u>
Expenditures:			
Current operating:			
General government	713,807	76,770	790,577
Public safety	260,598	105,042	365,640
Health and welfare		2,082	2,082
Culture and recreation	17,497		17,497
Education	21,671		21,671
Roads and highways		3,298,551	3,298,551
Total expenditures	<u>1,013,573</u>	<u>3,482,445</u>	<u>4,496,018</u>
Excess revenues over (under) expenditures	<u>(51,314)</u>	<u>(640,695)</u>	<u>(692,009)</u>
Other financing sources:			
Capitalized lease agreements	60,576	181,118	241,694
Total other financing sources	<u>60,576</u>	<u>181,118</u>	<u>241,694</u>
Excess revenues and other sources over (under) expenditures	9,262	(459,577)	(450,315)
Beginning fund balances	702,273	1,969,060	2,671,333
Ending fund balances	<u>\$ 711,535</u>	<u>\$ 1,509,483</u>	<u>\$ 2,221,018</u>

The notes to the financial statements are an integral part of this statement.

ELLIS COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL-GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2002

	General Fund		
	Budget	Actual	Variance
Beginning fund balances, budgetary basis	\$ 630,083	\$ 659,746	\$ 29,663
Revenues:			
Ad valorem taxes	347,221	415,528	68,307
Sales tax	297,290	295,044	(2,246)
Charges for services	44,037	49,326	5,289
Intergovernmental revenues	103,376	104,534	1,158
Miscellaneous revenues	96,303	103,878	7,575
Total revenues, budgetary basis	<u>888,227</u>	<u>968,310</u>	<u>80,083</u>
Expenditures:			
General government	855,383	626,179	229,204
Public safety	263,244	260,435	2,809
Health and welfare	1,000		1,000
Culture and recreation	39,721	17,497	22,224
Education	358,962	19,931	339,031
Total expenditures, budgetary basis	<u>1,518,310</u>	<u>924,042</u>	<u>594,268</u>
Excess of revenues and beginning fund balances over expenditures, budgetary basis	<u>\$ -</u>	704,014	<u>\$ 704,014</u>
Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balances			
Add: Ad valorem receivable		3,586	
Sales tax receivable		22,869	
Accrued interest		4,312	
Due from other governments		644	
Reserved for encumbrances		3,172	
Adjustment to prior year reserved for encumbrances		<u>(27,062)</u>	
Ending fund balance		<u>\$ 711,535</u>	

The notes to the financial statements are an integral part of this statement.

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

The financial statements of the County are required to be presented 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. The more significant accounting policies and practices are described below.

A. Reporting Entity

Counties were created by the Constitution of Oklahoma. One county officer is appointed; however, most county officers are locally elected by their constituents. All county powers are delegated by the state.

In accordance with the Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, the County is required to present the entities which comprise the primary government and its legally separate component units in the fiscal year 2002 general-purpose financial statements. The County had no component units in the fiscal year 2002.

Related Organizations Excluded from the Reporting Entity

Ellis County Industrial Authority: Board members are appointed by the County. Board members are all-authoritative. The County is not responsible for approving budgets, contracts, key personnel, fiscal matters, or day-to-day operations of the Authority. The Authority was inactive during the fiscal year audited.

Joint Ventures

The County is a participant in a joint venture, Northwestern Oklahoma Solid Waste Disposal Authority, in which it retains an ongoing financial interest.

Northwestern Oklahoma Solid Waste Disposal Authority was established September 14, 1993, under provisions of Title 60 O.S. § 176 to 180.4, and other applicable statutes of the State of Oklahoma. The trust is not organized for profit and no part of its income or property shall ever inure to the benefit of any private person. Ellis County retains an ongoing financial interest with regard to fees assessed for use of the solid waste disposal facility. The solid waste facility is operated by Dewey, Ellis, Harper, and Woodward counties in northwest Oklahoma. All four counties are beneficiaries of the trust.

The County is also a participant in a joint venture with Beaver, Cimarron, Dewey, Harper, Texas, Woods, and Woodward counties. On June 9, 1998, the Oklahoma Economic Development Authority was created in accordance with Title 60 O.S. § 176 to § 180.4, and other applicable statutes of the State of Oklahoma. Ellis County retains an ongoing financial interest in the

Summary of Significant Accounting Policies (continued)

Oklahoma Economic Development Authority. The Authority was created to further the general economic development of the above counties. The Authority is governed by eight trustees.

B. Fund Accounting

A government uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into the categories governmental and fiduciary.

Governmental Funds

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Fiduciary Funds

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. Agency funds are generally used to account for assets that the government holds on behalf of others as their agent.

Account Group

General Long-Term Debt Account Group (GLTDAG) - The general long-term debt account group (GLTDAG) is used to account for a government's unmatured long-term indebtedness that has not been identified as a specific fund liability of a proprietary or trust fund. In addition to general obligation debt instruments (e.g., bonds, notes, warrants), the GLTDAG is also used to report revenue bonds that will be repaid from general government resources, special assessment debt when the government is "obligated in some manner," special revenue bonds, and certain liabilities that are normally not expected to be liquidated with expendable available financial resources (e.g., capitalized lease-purchase obligations and compensated absences.)

Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these fund types present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all governmental fund types and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be quantified, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if collected within 60 days after year-end. Expenditures are recorded when incurred and the related fund liability is expected to be paid from available spendable resources.

Those revenues susceptible to accrual are property taxes, interest revenue, sales tax, and other taxes collected and held by the Oklahoma Tax Commission at year-end on behalf of the government. Charges for services are not susceptible to accrual because generally they are not measurable until received in cash.

D. Budgetary Policies and Procedures

Under current Oklahoma Statutes, the general fund is the only fund required to adopt a formal budget. The budget presented for the general fund includes the originally approved budgeted appropriations for expenditures as adjusted for supplemental appropriations and approved transfers between budget categories. Appropriations for the highway funds and other cash funds are made on a monthly basis, according to the funds then available.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general and special revenue funds.

Any encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. At the end of the year, unencumbered appropriations are lapsed.

Summary of Significant Accounting Policies (continued)

The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual – General Fund presents comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types because of adopting certain aspects of the modified accrual basis of accounting and the adjusting of encumbrances to their related budget year.

E. Cash and Investments

The County pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Investments are carried at cost, which approximates market value. All funds were fully invested or deposited in interest-bearing demand accounts at June 30, 2002.

F. Receivables

All receivables are reported at their gross value.

G. Interest Receivable

Interest on deposits and investments is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

H. Fixed Assets

The County presently maintains some individual records of personal property; however, the County does not keep similar records for land, buildings, and improvements. Because the County does not maintain detailed records of its land, buildings, and improvements, a statement of general fixed assets, required by accounting principles generally accepted in the United States of America, is not presented on the Combined Balance Sheet – All Fund Types and Account Group.

Summary of Significant Accounting Policies (continued)

I. Risk Management

The County is exposed to various risks of loss as follows:

<u>Types of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
General Liability - Torts - Errors and Omissions - Law Enforcement Officers Liability - Vehicle	The County participates in a public entity risk pool; Association of County Commissioners of Oklahoma-Self-Insured Group. (See ACCO-SIG.)	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Physical Plant - Theft - Damage to Assets - Natural Disasters	The County participates in a public entity risk pool. (See ACCO-SIG.)	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Worker's Compensation - Employees' Injuries	The County participates in a public entity risk pool; Association of County Commissioners of Oklahoma-Self-Insured Fund. (See ACCO-SIF.)	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Health and Life - Medical - Disability - Dental - Life	The County participates in the Oklahoma Public Employees Health and Welfare Plan. (See OPEH&WP.)	If claims exceed authorized deductibles, the County would have surcharges assessed to pay the excess claims.

ACCO-SIG - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. Each participating County will pay a deductible amount (\$1,000 to \$10,000; the County has a \$7,500 deductible) for each insured event as stated in the County's "Certificate of Participation." The risk pool will pay legitimate claims in excess of the deductible amounts up to and including \$50,000 per insured event. The pool has acquired commercial reinsurance to cover claims in excess of \$50,000 up to \$1,000,000 limit per insured event. The pool, established in 1986, has never had to assess additional premiums to be paid by its members.

Summary of Significant Accounting Policies (continued)

ACCO-SIF - The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. ACCO-SIF was set up in 1984 and will pay legitimate worker's compensation claims up to \$500,000 per incident. A reinsurance policy, with no limit, pays claims that exceed \$500,000 for a particular incident. The pool has not assessed additional premiums to be paid by its members in the past three years.

OPEH&WP - The County has entered into an interlocal agreement with other governmental entities to participate in a pooled self-insurance fund to provide insurance. The pool provides for surcharges to be assessed for claims in excess of pool assets to offset pool deficits. The pool has assessed additional premiums to be paid by its members in the current fiscal year.

J. Compensated Absences

Vacation benefits are earned by the employee during the year and may be accumulated from 5 to 20 days depending on the number of years of service. The County has no established policy regarding compensated sick pay. The amount of accumulated unpaid benefits reported in the financial statements for the fiscal year ending June 30, 2002, was \$71,069.

K. Long-Term Obligations

The County reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group.

L. Memorandum Only - Total Columns

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Interfund transactions have not been eliminated from the total column of each financial statement.

M. Grant Revenue

Revenues from federal and state grants are recognized when expenditures are incurred.

2. Stewardship, Compliance, and Accountability

Budgetary Compliance

On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved by fund, office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

3. Detailed Notes on Account Balances

A. Deposits

At year-end, the reported amount of the County's deposits was \$2,539,107 and the bank balance was \$2,469,959. Of the bank balance, all funds were covered by federal depository insurance or collateral held by the County's agent in the County's name.

Title 62 O.S. § 348.1 authorizes the County Treasurer to invest in:

- U.S. Government obligations
- Certificates of deposit
- Savings accounts
- G.O. bonds issued by counties, municipalities, or school districts
- Money judgments against counties, municipalities, or school districts
- Bonds and revenue notes issued by a public trust when the beneficiary of the trust is a county, municipality, or school district

B. Receivables

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, ". . . Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

The assessed property value as of January 1, 2001, was approximately \$38,194,288.

ELLIS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

Detailed Notes on Account Balances (continued)

The County levied 10 mills for general fund operations and 3 mills for Emergency Medical Service. In addition, the County also collects the ad valorem taxes assessed by cities and towns and school districts and apportions the ad valorem taxes collected to the appropriate taxing units.

Taxes are due on November 1 following the levy date, although, they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year. Unpaid delinquent personal property taxes are published usually in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

Current year tax collections for the year ended June 30, 2002, were approximately 98.5 percent of the tax levy.

C. Joint Ventures

Northwestern Oklahoma Solid Waste Disposal Authority (NOSWDA): Pursuant to an interlocal agreement authorized by state statutes, the County joined Dewey, Woodward, and Harper counties to form a joint venture to operate a regional landfill for solid waste disposal. Two or more trustees from each county are appointed by the county commissioners of each county. Each county has two votes in trustee board decisions.

Woodward County provided the initial contributed capital in the form of cash and certain equipment. Ellis and the other counties have contributed in-kind labor and equipment at various times. Upon termination, each county would have an equal financial interest in any proceeds of the trust that exceed the amount of initial contributed capital provided by Woodward County.

Summary financial information as of and for the fiscal year ended June 30, 2002, is as follows:

	<u>NOSWDA</u>
Cash and investments	\$ 608,638
Other assets	<u>1,084,363</u>
Total assets	<u>\$1,693,001</u>
Total liabilities	\$ 531,504
Contributed capital	340,862
Retained earnings	<u>820,635</u>
Total liabilities and equity	<u>\$1,693,001</u>
Total revenues	\$1,081,699
Total expenses	<u>(836,072)</u>
Net increase in equity	<u>\$ 245,627</u>

Detailed Notes on Account Balances (continued)

The Authority was audited by other auditors and a separate audit report is available from the County Clerk of Woodward County.

Oklahoma Economic Development Authority: The Authority's financial statements were unavailable for inclusion in the County's financial statements.

D. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation, which is performed to determine the adequacy of contribution rates. County employees are required to contribute between 3.5% and 8.5% of earned compensation. The County contributes between 5% and 10% of earned compensation. Elected officials contribute between 4.5% and 10% of their entire compensation. The County contributes 10% of earned compensation for elected officials. The County's contributions to the Plan for the years ending June 30, 2002, 2001, and 2000, were \$132,576, \$130,104, and \$131,467, respectively, equal to the required contributions for each year.

E. Capital Leases

The County acquires road machinery and equipment through lease-purchase agreements financed by the Oklahoma Department of Transportation and/or the equipment vendors or their assignees pursuant to the provisions of 69 O.S. § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest free. However, starting in January 1997, ODOT began charging a one-time fee of 3% on all subsequent pieces of machinery acquired. The one-time fee will be reported as interest. Oklahoma Statutes prohibit the County from entering into contracts of this nature longer than one year. For this reason, these lease-purchase agreements do not qualify for capitalization until the year the lease-purchase agreements are completed and title to the equipment is transferred to the County. However, it is the County's intent to exercise its right to purchase this property; accordingly, the lease-purchase agreements have been capitalized to conform with generally accepted accounting principles. The unpaid portions of these agreements have been reflected as capitalized lease obligations within the general long-term debt account group. In addition to road machinery and equipment lease-

ELLIS COUNTY, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2002

Detailed Notes on Account Balances (continued)

purchase agreements, the County may acquire other equipment through lease agreements. Through lease-purchase agreements, the County repaired the courthouse roof and acquired two police cars for the Sheriff's department.

Providing all capital leases are renewed each year by resolution of the Board of Commissioners, minimum lease commitments under capitalized lease-purchase agreements as of June 30, 2002, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 482,218	\$39,326	\$ 521,544
2004	249,866	9,753	259,619
2005	184,429	6,153	190,582
2006	104,431	2,969	107,400
2007	78,999	2,363	81,362
2008-2009	<u>76,675</u>	<u>2,293</u>	<u>78,968</u>
Total	<u>\$1,176,618</u>	<u>\$62,857</u>	<u>\$ 1,239,475</u>

During the year, the County capitalized leases totaling \$241,694 and paid \$480,136 the outstanding balances of lease-purchase agreements.

F. Long-Term Debt

Changes in Long-Term Liabilities

During the year ended June 30, 2002, the following changes occurred in liabilities reported in the general long-term debt account group:

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2002</u>
Compensated absences	\$ 66,067	\$ 5,002	\$ -	\$ 71,069
Capital leases	<u>1,415,060</u>	<u>241,694</u>	<u>480,136</u>	<u>1,176,618</u>
Total	<u>\$ 1,481,127</u>	<u>\$246,696</u>	<u>\$ 480,136</u>	<u>\$ 1,247,687</u>

G. Fund Balance

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Specific reservations of the fund balance accounts are summarized below.

ELLIS COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2002

Detailed Notes on Account Balances (continued)

Reserved for Encumbrances The reserve for encumbrances represents encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the County but not completed as of the close of the fiscal year.

H. Sales Tax

On August 12, 1997, a renewal of a one-cent sales tax was passed by the citizens of Ellis County beginning on January 1, 1998, and ending December 31, 2003. Sales tax revenue was allocated in the general fund to the Ellis County OSU Extension 23%, Ellis County Free Fair 5%, Ellis County Rural Fire Departments 12%, Restoration and Maintenance of Ellis County Courthouse 10%, and 50% for general government purposes. Total sales tax collections in the general fund for fiscal year 2001-2002 were \$295,045. Sales tax revenue reported on the modified accrual basis was \$286,643.

On August 22, 2000, an additional one-cent five-year sales tax was passed by the citizens of Ellis County beginning on August 23, 2000, for funding of the Shattuck Hospital Authority, a Municipal Trust, to be used for the operations and maintenance of the Newman Memorial Hospital. Total sales tax collections for the Newman Memorial Hospital for the fiscal year 2001-2002 were \$295,045, reported as an agency fund of Ellis County. Revenues and expenditures are not presented for agency funds.

I. Fuel Taxes

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for roads and highways only and are accounted for in the County highway fund. The County highway fund is reported herein as "special revenue," and the fuel tax revenue is presented as "intergovernmental."

4. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although, the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in management's opinion, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

**Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**Report on Compliance and on Internal Control Over Financial
Reporting Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

TO THE OFFICERS OF
ELLIS COUNTY, OKLAHOMA

We have audited the financial statements of Ellis County, Oklahoma, as of and for the year ended June 30, 2002, and have issued our report thereon dated May 12, 2003. 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. We qualified our opinion because the general fixed assets account group was not included in the financial statements.

Compliance

As part of obtaining reasonable assurance about whether Ellis County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Finding 2002-3 – Pledged Collateral

Criteria: Title 62 O.S. 2001, §511 requires the county to secure public deposits with collateral to insure the safety of all public funds.

Condition: The County's deposits were inadequately pledged from April 9, 2002, until April 22, 2002, at the Farmer's & Merchants Bank.

Effect: Noncompliance with the statutes leaves the County at an increased risk of loss of assets in the event of a bank failure.

Recommendation: We recommend during the heavy tax collection season, the County ensure the securities pledged will adequately cover the collected taxes deposited in accordance with Title 62 O.S. 2001, §511.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Ellis County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described below.

Finding 1996-1 – General Fixed Assets

Criteria: Accounting principles generally accepted in the United States of America for a governmental entity using governmental fund types require the presentation of the general fixed assets account group (GFAAG) in the financial statements.

Condition: Information is not available for reporting general fixed assets in accordance with accounting principles generally accepted in the United States of America for a government entity. The County does not maintain a summary listing with the required information for land, buildings, and improvements. The general fixed assets control account is not accurate.

Effect: This component of internal control is not effective. Accordingly, there is a greater risk that a fixed asset may not be properly accounted for and safeguarded against loss.

Recommendation: We recommend records include acquisition cost, a complete description, purchase date, location of such asset, and that a control total of the cost of these assets be maintained and reconciled annually.

Finding 2002-1 – Segregation of Duties

Criteria: Good internal controls indicate that the various duties of processing cash receipts and cash disbursements be separated from the related duties of reviewing cash receipts and disbursements, posting bookkeeping records, reporting and reconciling balances.

Condition: Due to the limited number of persons in these offices, there are individuals who are primarily responsible for all or most of the collection, receipting, balancing, depositing and reporting of collections and/or who are primarily responsible for all or most of the calculating, reviewing, approving, disbursing and reporting of disbursements from official depository accounts.

Effect: Internal controls are weaker and more easily circumvented when there is an inadequate separation of duties.

Recommendation: We recommend management be aware of this condition and the possibility of weakened internal controls when all collection and disbursement activity are the responsibility of one or two officers/employees. Although it is not feasible to divide these duties to the extent described above, it is desirable to review transactions and cross train employees to perform various duties, and then periodically change the division of the duties. This would provide some level of separation of duties and increase the possibility for the detection of irregularities.

Finding 2002-2 – Mode of Payment

Criteria: Good internal control procedures require that receipts be identified as “cash” or “check” in order to prevent “check for cash” substitutions and/or other irregularities.

Condition: For the five days sampled, the Assessor’s office and the Election Board office did not indicate “cash” or “check” on their money receipt forms.

Condition: The Treasurer’s office did not indicate mode of payment on ad valorem receipts issued for 2001 as valorem taxes.

Effect: Auditors could not verify the cash composition of receipts deposited for those days tested.

Recommendation: Each money receipt should be identified as “cash”, “check”, or “money order” (MO). Cash composition of official deposits should be reconciled in addition to the reconciliation of total receipts to the daily deposit.

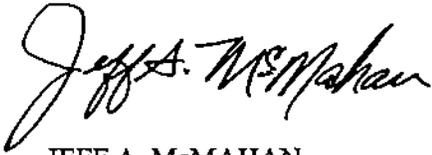
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 1996-1 and 2002-1 to be material weaknesses.

The American Institute of Certified Public Accountants’ Statement on Auditing Standards No. 87 requires the inclusion of the following paragraph in this report.

This report is intended solely for the information and use of the management of the County and is not intended to be and should not be used by anyone other than these specified parties.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of the Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,

A handwritten signature in black ink that reads "Jeff A. McMahen". The signature is written in a cursive style with a large, stylized initial "J".

JEFF A. McMAHAN
State Auditor and Inspector

May 12, 2003

Management Response

OFFICE OF
Board of County Commissioners
OF ELLIS COUNTY
BOX 257
ARNETT, OKLA. 73832

June 3, 2003

STATE AUDITOR & INSPECTOR OFFICE
Sherri Merle
Weatherford District Manager
1401 Lera, Suite G
Weatherford, Ok. 73096

Subject : Response to the auditor's comments (# 1996-1,2002-1,2002-2,
2002-3).

We concur with the auditor's comments and are implementing the following
procedural changes or taking necessary action to comply.

Finding 2000-2 Mode of Payment:

Assessor's Office & Election Board office are aware of the irregularities
on their receipts and are taking the necessary action to comply with the
auditors recommendations.

Treasurers Office, Tax payments are now being marked on the hard copy of the receipts.
They are always marked on the computer so if there are ever a question the computer
is a source of information.

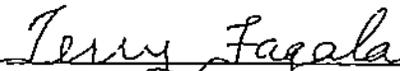
Finding 2002-03 Pledged Collateral:

Collateral for April is a problem. In this point economically, banks don't like
to pledge more collateral than they need to.

The months of February and March, collections are down and we don't need as much
collateral The bank puts pressure on me to drop pledges, when April collections
start, I'm over deposited for a few days until collections drop. To fix this problem
I will have to have better communication with my Bank. Cynthia Hunter, Co. Treasurer.

We wish to take this opportunity to express our appreciation for your cooperation
and assistance.

BOARD OF COUNTY COMMISSIONERS
ELLIS COUNTY



Chairman of the Board