

**HARMON COUNTY, OKLAHOMA
FINANCIAL STATEMENT
AND INDEPENDENT AUDITOR'S REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

December 4, 2007

TO THE CITIZENS OF
HARMON COUNTY, OKLAHOMA

Transmitted herewith is the audit of Harmon County, Oklahoma, for the fiscal year ended June 30, 2007. 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 serving the public interest by providing independent oversight and by issuing 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 black ink that reads "Jeff A. McMahan".

JEFF A. McMAHAN
State Auditor and Inspector

**HARMON COUNTY, OKLAHOMA
FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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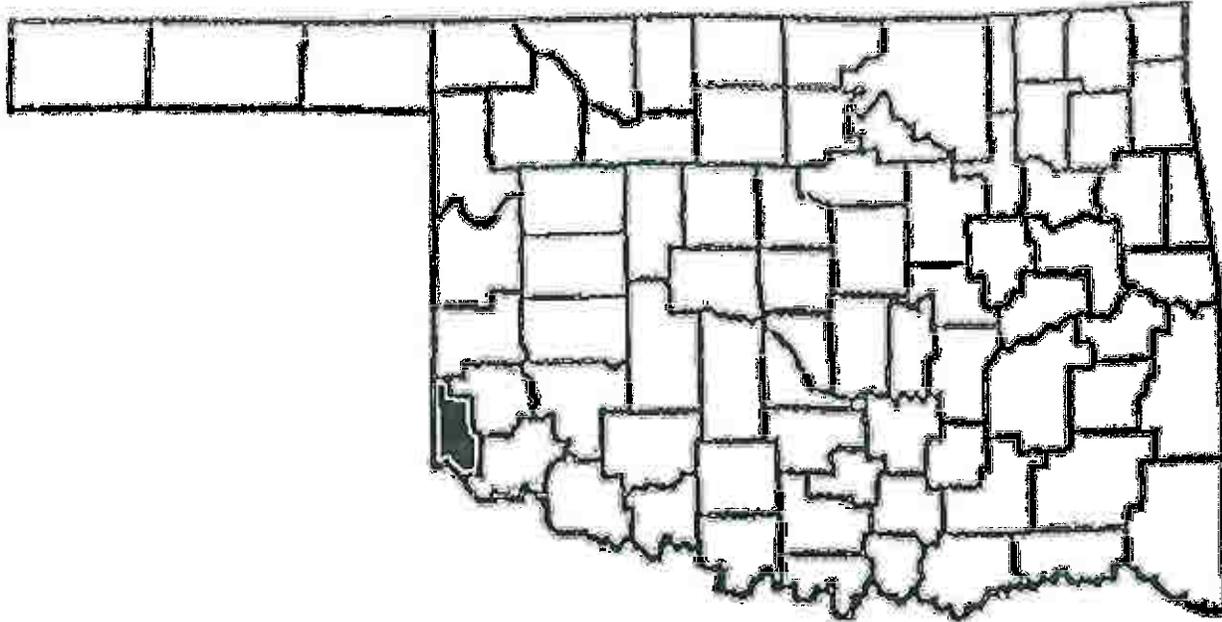
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**REPORT TO THE CITIZENS
OF
HARMON COUNTY, OKLAHOMA**



Harmon County, part of the original disputed Greer County claimed by both Texas and the United States, was created by special election in 1909, and named for Judson C. Harmon, a former governor of Ohio and later U.S. attorney general.

The economy of the county is based largely on farming and ranching, with two contributing industries - Western Fibers Insulation Plant, manufacturing insulation from recycled paper, and Buck Creek "Honey" Mesquite Company, Inc., processing mesquite for use as a flavor enhancer for barbecued meats. Lake Hall provides fishing and recreational opportunities for the area.

The Black-Eyed Pea Festival is held annually during the second week in August.

County Seat - Hollis

Area – 538.56 Square Miles

County Population – 3,030
(2005 est.)

Farms - 397

Land in Farms - 296,368 acres

Primary Source: Oklahoma Almanac 2007-2008

See independent auditor's report.

**HARMON COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

COUNTY ASSESSOR

Lavinda Smith
(D) Hollis

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

Kara Gollihare
(D) Hollis

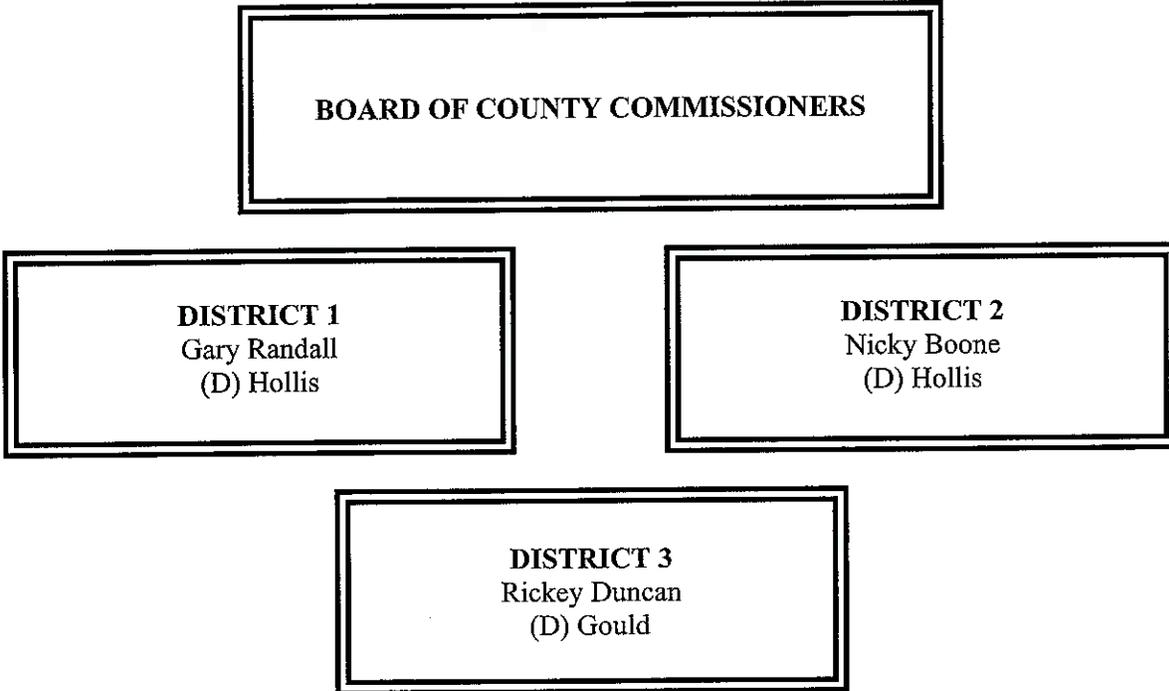
The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

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.

**HARMON COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**



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.

**HARMON COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

COUNTY SHERIFF

Joe Johnson
(D) Hollis

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

Robbie Gee
(D) Hollis

All collections 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 collections and disbursements, 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.

**HARMON COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

COURT CLERK
Stacy Macias
(D) Hollis

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
John Wampler
(D) Altus

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.

See independent auditor's report.

**HARMON COUNTY OFFICIALS
AND RESPONSIBILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

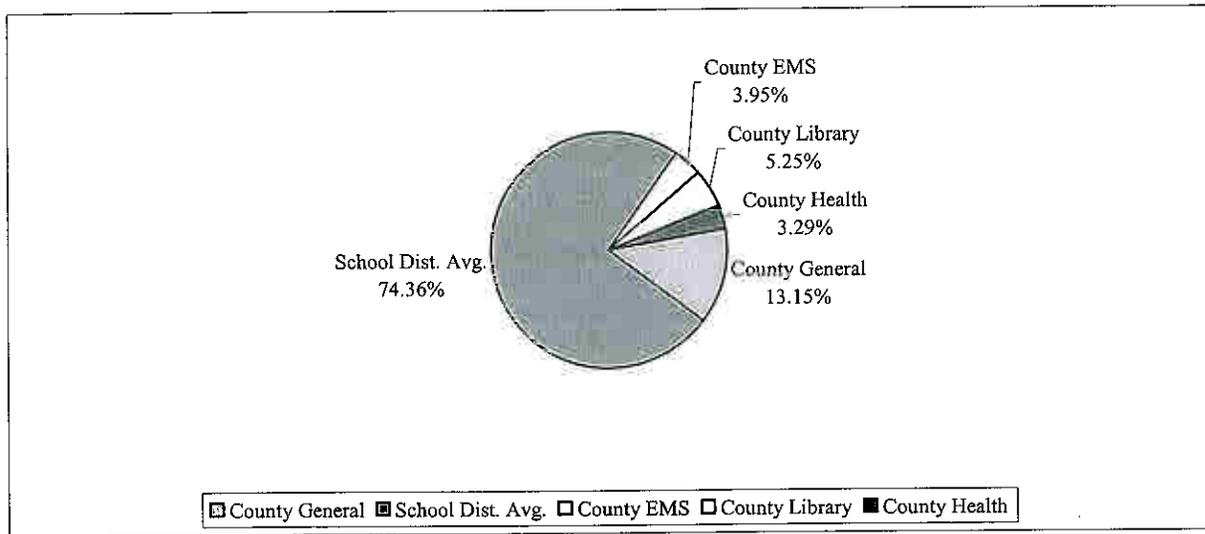
<p>ELECTION BOARD SECRETARY Frankie Long (D) Hollis</p>
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The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within the county.

To finance the operation 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.

**HARMON COUNTY, OKLAHOMA
AD VALOREM TAX DISTRIBUTION
SHARE OF THE AVERAGE MILLAGE
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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-Wide Millages		School District Millages							
							Technology Center		
				Gen.	Bldg.	Skg.	Building	Common	Total
Co. General	10.46								
County Health	2.62	Hollis	I-66	36.61	5.23			4.18	46.02
County EMS	3.14	Greer County	JC-1	39.46	5.64	10.92		4.18	60.20
County Library	4.18	Jackson County	JC-14	35.22	5.03	13.10	10.16	4.18	67.69
		Jackson County	JC-25	35.63	5.09	14.95	10.16	4.18	70.01
		Beckham County	JC-51	35.00	5.00	7.66		4.18	51.84

See independent auditor's report.

**HARMON COUNTY, OKLAHOMA
COMPUTATION OF LEGAL DEBT MARGIN
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)**

Total net assessed value as of January 1, 2006		<u>\$ 17,493,763</u>
Debt limit - 5% of total assessed value		874,688
Total bonds outstanding	-	
Total judgments outstanding	-	
Less cash in sinking fund	-	-
Legal debt margin		<u>\$ 874,688</u>

See independent auditor's report.

**HARMON COUNTY, OKLAHOMA
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
VALUE AND NET BONDED DEBT PER CAPITA
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
(UNAUDITED)**

	2007
Estimated population	3,030
Net assessed value as of January 1, 2006	\$ 17,493,763
Gross bonded debt	-
Less available sinking fund cash balance	-
Net bonded debt	\$ -
Ratio of net bonded debt to assessed value	0.00%
Net bonded debt per capita	\$ -

See independent auditor's report.

**HARMON COUNTY, OKLAHOMA
 ASSESSED VALUE OF PROPERTY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007
 (UNAUDITED)**

Valuation Date	Personal	Public Service	Real Estate	Homestead Exemption	Net Value	Estimated Fair Market Value
1/1/2006	\$2,307,061	\$2,630,251	\$13,266,739	\$710,288	\$17,493,763	\$141,292,612

See independent auditor's report.

FINANCIAL SECTION



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

Independent Auditor's Report

TO THE OFFICERS OF
HARMON COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Harmon County, Oklahoma, as of and for the year ended June 30, 2007, listed in the table of contents as the basic financial statement. This financial statement is the responsibility of Harmon County's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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. Oklahoma Statutes, in addition to audit responsibilities, assign other responsibilities to the State Auditor and Inspector's Office. Those responsibilities include providing various information technology (IT) support for county government.

As described in Note 1, this financial statement was prepared using accounting practices prescribed or permitted by Oklahoma state law, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the matter discussed in the preceding paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Harmon County as of June 30, 2007, or changes in its financial position for the year then ended.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the combined total of receipts, disbursements, and changes in cash of Harmon County, for the year ended June 30, 2007, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2007, on our consideration of Harmon County'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.

Our audit was conducted for the purpose of forming an opinion on the combined total of all funds within the basic financial statement taken as a whole. The combining information is presented for purposes of additional analysis rather than to present the receipts, disbursements, and cash balances of the individual funds. Also, the other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis, and is not a required part of the basic financial statement. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statement taken as a whole. The information listed in the table of contents under Introductory Section has not been audited by us, and accordingly, we express no opinion on it.



JEFF A. McMAHAN
State Auditor and Inspector

November 19, 2007

Basic Financial Statement

**HARMON COUNTY, OKLAHOMA
 COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 (WITH COMBINING INFORMATION)
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Beginning Cash Balances July 1, 2006	Receipts Apportioned	Disbursements	Ending Cash Balances June 30, 2007
Combining Information:				
County General Fund	\$ 376,751	\$ 773,190	\$ 684,340	\$ 465,601
County Highway	2,290,002	1,322,861	1,116,968	2,495,895
County Health Department	29,738	135,394	104,454	60,678
Resale Property	12,978	6,404	4,772	14,610
Sheriff Service Fee	45,472	16,853	11,728	50,597
Sheriff Service Fee Courthouse Security		1,463		1,463
Sheriff Prisoner Revolving	40,871	17,196	17,125	40,942
Sheriff Drug	309			309
Sheriff Estray Cattle	37			37
County Clerk Lien Fee	6,628	2,146	2,187	6,587
County Clerk Records Preservation Fee	23,558	4,705	12,311	15,952
Treasurer Mortgage Tax Certification Fee	3,058	1,105	1,059	3,104
Assessor Revolving Fee	7,627	2,768	3,583	6,812
Assessor Visual Inspection	15,851	814	3,703	12,962
REAP Grant	7,490	104,643	99,919	12,214
Grants		9,373	9,373	
Combined Total--All County Funds	\$ 2,860,370	\$ 2,398,915	\$ 2,071,522	\$ 3,187,763

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

**HARMON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

1. Summary of Significant Accounting Policies

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.

The accompanying basic financial statement presents the receipts, disbursements, and changes in cash balances of the total of all funds of Harmon County, Oklahoma. The funds presented as line items are not a part of the basic financial statement, but have been included as supplementary information within the basic financial statement. These separate funds are established by statute, and their operations are under the control of the County officials. The general fund is the County's general operating fund, accounting for all financial resources except those required to be accounted for in another fund. The other funds presented account for financial resources whose use is restricted for specified purposes.

B. Fund Accounting

The County uses funds to report on receipts, disbursements, and changes in cash balances. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Following are descriptions of the funds included as supplementary information within the financial statement:

County General Fund - accounts for the general operations of the government.

County Highway - accounts for state, local and miscellaneous receipts and disbursements for the purpose of constructing and maintaining county roads and bridges.

County Health Department - accounts for monies collected on behalf of the county health department from ad valorem taxes and state and local revenues.

Resale Property - accounts for the collection of interest and penalties on delinquent taxes and the disposition of same as restricted by statute.

Sheriff Service Fee - accounts for the collection and disbursement of sheriff process service fees as restricted by statute.

Sheriff Service Fee Courthouse Security - accounts for a fee collected by the Court Clerk and disbursements are for courthouse security.

**HARMON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Sheriff Prisoner Revolving – accounts for the collection of monies from the Oklahoma Department of Corrections and disbursements are for the purpose of maintaining the jail.

Sheriff Drug – accounts for the collection of drug forfeitures and disbursements are for the purpose of equipment and training.

Sheriff Estray Cattle – accounts for the proceeds from the sale of estray cattle and disbursements are for the expenses related to the care of cattle.

County Clerk Lien Fee - accounts for lien collections and disbursements as restricted by statute.

County Clerk Records Preservation Fee – accounts for fees collected for instruments filed in the Registrar of Deeds as restricted by statute for preservation of records.

Treasurer Mortgage Tax Certification Fee - accounts for the collection of fees by the Treasurer for mortgage tax certificates and the disbursement of the funds as restricted by statute.

Assessor Revolving Fee - accounts for the collection of fees for copies and disbursements as restricted by state statute.

Assessor Visual Inspection - accounts for the collection and expenditure of monies by the Assessor as restricted by state statute for the visual inspection program.

REAP Grant – accounts for grant monies received for courthouse improvements and installation of fire alarms, and the disbursements are for prior monies received for installation of the elevator, construction of the EMS barn, and for courthouse improvements.

Grants – accounts for state grant monies received from the Department of Environmental Quality for help in constructing the convenience site (trash dump).

The County Treasurer collects and remits material amounts of intergovernmental revenues and ad valorem tax revenue for other budgetary entities, including emergency medical districts, county or city-county health departments, school districts and cities and towns. The cash receipts and disbursements attributable to those other entities do not appear in funds on the County's financial statement; those funds play no part in the County's operations.

C. Basis of Accounting

The basic financial statement is prepared on a basis of accounting wherein amounts are recognized when received or disbursed. This basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable or when they are earned, and

**HARMON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

expenditures or expenses to be recognized when the related liabilities are incurred. This cash basis financial presentation is not a comprehensive measure of economic condition or changes therein.

D. Budget

Under current Oklahoma Statutes, the general fund and the county health department fund are the only funds required to adopt a formal budget. 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.

For the highway funds and other funds, which are not required to adopt a formal budget, appropriations are made on a monthly basis, according to the funds then available.

E. Cash

The County pools the cash of its various funds in maintaining its bank accounts. However, cash applicable to a particular fund is readily identifiable on the County's books. The balance in the pooled cash accounts is available to meet current operating requirements.

State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County's deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount insured (by, for example, the FDIC).

F. Investments

The County Treasurer has been authorized by the County's governing board to make investments. By statute (62 O.S. § 348.1 and § 348.3), the following types of investments are allowed:

- 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
- Negotiable certificates of deposit
- Prime bankers acceptance which are eligible for purchase by the Federal Reserve System
- Prime commercial paper with a maturity of 180 days or less
- Repurchase agreements

**HARMON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

- Money market funds regulated by the Securities and Exchange Commission and which investments consist of the above-mentioned types of investments

All investments must be backed by the full faith and credit of the United States Government, the Oklahoma State Government, fully collateralized, or fully insured.

G. Compensated Absences

The County does not accrue liability for future vacation benefits. Vacation benefits are earned by the employee during the year and must be used by the employee one year from calendar year in accordance with the following schedule:

<u>Years of Service</u>	<u>Annual Leave</u>
1-4 years	10 days
Over 4 years	15 days

In management's opinion, the accumulated liability for vacation benefits would not be material to the financial statements.

The County does accumulate sick leave. An employee earns 6 days per year and may accumulate up to 19 days. In management's opinion, such an amount if recorded would not be material to the financial statements.

2. Ad Valorem Tax

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, 2006, was approximately \$17,493,763.

Per Article 10, § 8A, with the repeal of personal property tax, the millages with the adjustment factor are 10.46 mills for general fund operations, 2.62 mills for county health department, 4.18 mills for the county library, and 3.14 mills for emergency medical service. In addition, the County collects the ad valorem taxes assessed by cities and towns and school districts and remits the ad valorem taxes collected to the appropriate taxing units.

**HARMON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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, 2007, were approximately 96.33 percent of the tax levy.

3. Fuel Tax

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.

4. Risk Management

The County is exposed to the various risks of loss shown in the following table:

Types of Loss	Method of Management	Risk of Loss Retained
General Liability <ul style="list-style-type: none"> • 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-Insurance Group. (See ACCO-SIG.)	If claims exceed the authorized deductibles, the County could have to pay its share of any pool deficit. A judgment could be assessed for claims in excess of the pool's limits.
Physical Plant <ul style="list-style-type: none"> • Theft • Damage to Assets • Natural Disasters 		
Workers' Compensation <ul style="list-style-type: none"> • Employees' Injuries 	The County carries commercial insurance.	A judgment could be assessed for claims in excess of coverage.

**HARMON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Types of Loss	Method of Management	Risk of Loss Retained
Employee <ul style="list-style-type: none"> • Medical • Disability • Dental • Life 	The County carries commercial insurance.	None

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 chooses a \$10,000, \$25,000, or a \$50,000 deductible amount. The County has chosen a \$10,000 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 amount for replacement value up to \$100,000 for property, and up to \$500,000 for general liability. The pool has acquired commercial reinsurance in the amount of \$1,000,000 to cover claims that exceed the pool's risk retention limits. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

Commercial Insurance - The County obtains commercial insurance coverage to pay legitimate workers' compensation claims and employees' insurance. Settled claims have not exceeded insurance coverage for each of the past three fiscal years. There have been no significant reductions in coverage from the prior fiscal year.

5. Long-term Obligations

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 pieces of machinery subsequently acquired.

6. 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,

**HARMON COUNTY, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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 7.5% and 12.5% of earned compensation. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributes 12.5% of earned compensation for elected officials. The County's contributions to the Plan for the years ending June 30, 2007, 2006, and 2005 were \$78,110, \$76,970, and \$73,321, respectively, equal to the required contributions for each year.

7. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in the Pension Plan note, OPERS provides post-retirement health care benefits of up to \$105 each for retirees who are members of an eligible group plan. These benefits are funded on a pay-as-you-go basis as part of the overall retirement benefit. OPEB expenditure and participant information is available for the state as a whole; however, information specific to the County is not available nor can it be reasonably estimated.

8. 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 County expects such amounts, if any, to be immaterial.

The County 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 County.

9. Sales Tax

The citizens voted a one-cent (1%) sales tax to begin May 1, 1984 for unlimited life. The funds are to be used for general operations and county roads of the government of Harmon County Oklahoma. On October 13, 1992, the voters approved an additional one-cent (1%) sales tax effective October 1, 1993, for a limited life of twenty-five (25) years. The funds are to be used for the general operations of Harmon Memorial Hospital.

All sales tax revenue is apportioned to the County General Fund.

OTHER SUPPLEMENTARY INFORMATION

**HARMON COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Beginning Cash Balances	\$ 376,751	\$ 376,751	\$ 376,751	\$ -
Less: Prior Year Warrants	(14,943)	(14,943)	(14,943)	
Beginning Cash Balances, Budgetary Basis	<u>361,808</u>	<u>361,808</u>	<u>361,808</u>	<u>-</u>
Receipts:				
Ad Valorem Taxes	166,350	166,350	184,928	18,578
Sales Tax	180,000	180,000	301,000	121,000
Charges for Services	11,500	11,500	12,709	1,209
Intergovernmental Revenues	74,950	74,950	90,243	15,293
Miscellaneous Revenues	59,000	64,553	184,310	119,757
Total Receipts, Budgetary Basis	<u>491,800</u>	<u>497,353</u>	<u>773,190</u>	<u>275,837</u>
Expenditures:				
District Attorney	250	250		250
County Sheriff	106,665	113,690	112,806	884
County Treasurer	51,332	52,068	50,692	1,376
OSU Extension	14,800	14,800	13,396	1,404
County Clerk	58,745	67,014	62,664	4,350
Court Clerk	48,332	51,203	50,094	1,109
County Assessor	51,332	52,955	50,350	2,605
Revaluation of Real Property	22,900	22,750	1,919	20,831
Juvenile Shelter Bureau	3,000	8,000	3,891	4,109
General Government	175,073	126,853	49,073	77,780
Excise-Equalization Board	3,500	3,500	2,070	1,430
County Election Board	46,254	54,962	46,213	8,749
Insurance	121,075	110,766	89,038	21,728

continued on next page

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

HARMON COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

continued from previous page

	Original Budget	Final Budget	Actual	Variance
Charity	1	1		1
County Audit Budget	1,749	1,749		1,749
Free Fair Budget	2,600	2,600	2,348	252
County Hospital Budget	130,000	160,000	15,500	144,500
Building Maintenance Account	16,000	16,000	294	15,706
Total Expenditures, Budgetary Basis	853,608	859,161	685,348	173,813
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	449,650	<u>\$ 449,650</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Outstanding Warrants			15,951	
Ending Cash Balance			<u>\$ 465,601</u>	

The accompanying notes to the other supplementary information are an integral part of this schedule.
See independent auditor's report.

**HARMON COUNTY, OKLAHOMA
COMPARATIVE SCHEDULE OF RECEIPTS, EXPENDITURES, AND
CHANGES IN CASH BALANCES—BUDGET AND ACTUAL—BUDGETARY BASIS—
COUNTY HEALTH DEPARTMENT FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	County Health Department Fund			
	Original	Final	Actual	Variance
	Budget	Budget		
Beginning Cash Balances	\$ 29,738	\$ 29,738	\$ 29,738	\$ -
Less: Prior Year Warrants	<u>(7,866)</u>	<u>(7,866)</u>	<u>(7,866)</u>	
Beginning Cash Balances, Budgetary Basis	<u>21,872</u>	<u>21,872</u>	<u>21,872</u>	<u>-</u>
Receipts:				
Ad Valorem Taxes	41,667	41,667	46,886	5,219
Charges for Services		88,397	87,211	(1,186)
Intergovernmental Revenue			1,297	1,297
Total Receipts, Budgetary Basis	<u>41,667</u>	<u>130,064</u>	<u>135,394</u>	<u>5,330</u>
Expenditures:				
Health and Welfare	<u>63,539</u>	<u>151,936</u>	<u>97,387</u>	<u>54,549</u>
Total Expenditures, Budgetary Basis	<u>63,539</u>	<u>151,936</u>	<u>97,387</u>	<u>54,549</u>
Excess of Receipts and Beginning Cash Balances Over Expenditures, Budgetary Basis	<u>\$ -</u>	<u>\$ -</u>	59,879	<u>\$ 59,879</u>
Reconciliation to Statement of Receipts, Disbursements, and Changes in Cash Balances				
Add: Current Year Outstanding Warrants			799	
Ending Cash Balance			<u>\$ 60,678</u>	

The accompanying notes to the other supplementary information are an integral part of this schedule. See independent auditor's report.

**HARMON COUNTY, OKLAHOMA
NOTES TO OTHER SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Budgetary Schedules

The Comparative Schedules of Receipts, Expenditures, and Changes in Cash Balances—Budget and Actual—Budgetary Basis, for the General Fund and the County Health Department Fund present 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 Receipts, Disbursements, and Changes in Cash Balances with Combining Information because of adopting certain aspects of the budgetary basis of accounting and the adjusting of encumbrances and outstanding warrants to their related budget year.

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 these funds. At the end of the year, unencumbered appropriations lapse.

INTERNAL CONTROL AND COMPLIANCE SECTION



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

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

TO THE OFFICERS OF
HARMON COUNTY, OKLAHOMA

We have audited the combined totals—all funds of the accompanying Combined Statement of Receipts, Disbursements, and Changes in Cash Balances of Harmon County, Oklahoma, as of and for the year ended June 30, 2007, which comprises Harmon County's basic financial statement, prepared using accounting practices prescribed or permitted by Oklahoma state law, and have issued our report thereon dated November 19, 2007. Our report on the basic financial statement was adverse because the statement is not a presentation in conformity with accounting principles generally accepted in the United States of America. Also, our report describes certain responsibilities of the State Auditor and Inspector's Office other than audit responsibilities. 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 Harmon County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. 2007-1 and 2007-3.

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 entity'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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2007-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harmon County's financial statement is 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and responses as item 2007-2.

Harmon County's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit Harmon County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of Harmon County and should not be used for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S., section 24A.1 et seq.), and shall be open to any person for inspection and copying.



JEFF A. McMAHAN
State Auditor and Inspector

November 19, 2007

**HARMON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Findings related to the 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

Finding 2007-1 – Segregation of Duties (Repeat Finding)

Criteria: Accountability and stewardship are overall goals in evaluating management's accounting for funds. To help ensure a proper accounting of funds, the duties of receiving, receipting, recording, and depositing cash and checks should be segregated.

Condition: Based on inquiries and observation of the following offices, County Treasurer, County Clerk, County Sheriff, Court Clerk, and County Assessor, it was noted that the duties of receiving, receipting, recording, and depositing collections were not adequately segregated.

Effect: This condition could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of assets.

Recommendation: We recommend management be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge of office operations and periodic review of those operations.

Views of responsible officials and planned corrective actions: Management is aware of this situation and conducts periodic reviews of operations.

Finding 2007-2 – Pledged Collateral (Repeat Finding)

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

Condition: The County was underpledged during the peak ad valorem tax season at Stockman's Bank in the amount of \$306,070.

Effect: Deposits of the County were not adequately secure.

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

**HARMON COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Views of responsible officials and planned corrective actions: The County Treasurer will monitor the pledged collateral very closely during peak tax season to determine that adequate pledges are available to cover funds on deposit.

Finding 2007-3 – Timesheets – County Sheriff (Repeat Finding)

Criteria: The overall goal of effective internal control in evaluating management’s accounting of funds is to demonstrate accountability and stewardship. To help ensure a proper accounting of funds, timesheets and leave balances should be signed by the employee and supervisor/elected official and submitted to the County Clerk each pay period.

Condition: The County Sheriff employees did not maintain timesheets to record hours worked, vacation leave time accrued/used, and sick leave time accrued/used.

Effect: Timesheets are used to track accruals and without the timesheet there is no way to tell the amount of vacation or sick leave that an employee has accrued or used.

Recommendation: We recommend management take steps to ensure that the employee and supervisor/elected official sign and approve timesheets for each pay period. Additionally, management should take steps to ensure that leave reports are submitted to the County Clerk annually for placement in the employee personnel files to provide an effective internal control over time reporting.

Views of responsible officials and planned corrective actions: The Sheriff has determined that timesheets for deputies are not required, because over-time is not paid or accrued.

SA& response: Timesheets should be prepared for each employee in order to document allowable compensated absences.