

**INDEPENDENT AUDITOR'S REPORT**

**CITY OF HEALDTON**

**JUNE 30, 2012**

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Healdton, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Healdton, Oklahoma, as of and for the year ended June 30, 2012, and the related notes to the financial statements. We were engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. As discussed in Note 1, the City prepares its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

### **Auditor's Responsibility**

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter(s) described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Basis for Disclaimer of Opinion on the Financial Statements**

We were unable to obtain sufficient records supporting financial statement amounts because of discrepancies in the records. The inability to resolve this condition was due at least in part to the conditions noted in the State Auditor’s Report date January 22, 2014.

**Disclaimer of Opinion**

Because of the significance of the matter described in the “Basis for Disclaimer of Opinion on the Financial Statements” paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements. Accordingly, we do not express an opinion on these financial statements.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and budgetary comparison information on pages 5, 6 and 7 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Stanfield & Brim, P.C.*

Lawton, Oklahoma  
December 1, 2015

City of Healdton, Oklahoma  
Management Discussion and Analysis  
June 30, 2012

Management's Discussion and Analysis ("MD&A") provides an overview of the City of Healdton's ("City") activities and financial performance for the fiscal's year ended June 30, 2012. Readers are encouraged to read the MD&A in conjunction with the basic financial statement that immediately follow, along with the letter of transmittal at the beginning of this presentation and with other portions of this financial report. All amounts have been rounded to the nearest dollar.

### **FINANCIAL HIGHLIGHTS**

Below is the City's comparative summary statement of net assets for the years ended June 30, 2012 and 2011:

Net assets of the City of Healdton increased by 13% (\$7,489,234 in 2012 compared to \$6,515,892 in 2011. This is a significant change in the city's new position from June 30, 2011. We believe the increase in cash and cash equivalents is a result of the necessity of re-creating the asset list for the city. The City also increased its Land and Construction in Progress during the year while decreasing Restricted Cash. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements—changed from a \$771,04 at the end of 2011 to a \$732,800 at the end of 2012. The City of Healdton's financial health and or financial positions are very sound.

The capital assets account predominantly consists of the water plant, sewer plant and equipment required.

Next, the City's summary statement of activities is shown, below:

### **FUTURE PLANS**

City of Healdton's elected and appointed officials considered many factors when setting the fiscal-year 2012 budget, tax rates, and fees that will be charged for the business-type activities. The City of Healdton does expect the sales tax revenue to decrease in the 2013 budget year given the higher unemployment rate in 2012 – 2013. Given these economic factors we still expect the city financial position to be sound.

### **CONTACT INFORMATION**

For question and concern regarding Management's Discussion and Analysis or other sections of the report, please contact Gregory Parker, City Manager or a member of City Council at City Hall.

Phone Number 580-229-1283

Address 167 Franklin St Healdton, Oklahoma 73438

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

City of Healdton, Oklahoma  
Management Discussion and Analysis  
June 30, 2012

**FINANCIAL HIGHLIGHTS (CONT'D)**

As noted in the “% change” column shown, there have been only minimal changes in the city’s net position from June 30, 2011 to June 30, 2012. The increase in cash and cash equivalents is a positive change for the City and indicates an improved liquidity over the prior year. The City has also reduced its debt during the year while increasing capital assets.

<u>City of Healdton</u>			
<u>Summary Statement of Net Assets</u>			
<u>For the year ended June 30,</u>			
	<u>2012</u>	<u>2011</u>	<u>% Change</u>
<b><u>Assets</u></b>			
<b><u>Current Assets</u></b>			
Cash and Cash Equivalents	\$ 1,879,890	\$ 1,076,269	74.7%
Restricted Cash	287,738	290,732	-1.0%
Inventory	15,010	68,300	-78.0%
<b><u>Noncurrent Assets</u></b>			
Restricted Cash			
Land & Improvements & Construction in Progress	1,311,535	728,184	80.1%
Other Assets, Net of Depreciation	3,995,061	4,352,407	-8.2%
Total Asset	<u>7,489,234</u>	<u>6,515,892</u>	13.0%
<b><u>Liabilities</u></b>			
<b><u>Current Liabilities</u></b>			
Bank Overdrafts	734,243		
Due to Landfill	45,064	43,406	
Bonds Pending Court	10,203	10,202	
Refundable Meter Deposits	65,716	65,716	
Bonds and Notes Payable-Current	235,794	141,483	
<b><u>Long-Term Liabilities</u></b>			
Bonds and Notes Payable	2,319,160	2,452,939	-5.5%
Total Liabilities	<u>3,410,180</u>	<u>2,713,746</u>	25.7%
<b><u>Net Position</u></b>			
Invested in Capital, Net of Related Debt	2,755,494	2,486,169	10.8%
Restricted	590,760	544,930	8.4%
Unrestricted	732,800	771,047	-5.0%
Total Net Position	<u>4,079,054</u>	<u>3,802,146</u>	7.3%
Total Liabilities and Net Position	<u>\$ 7,489,234</u>	<u>\$ 6,515,892</u>	14.9%

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

City of Healdton, Oklahoma  
Management Discussion and Analysis  
June 30, 2012

City of Healdton			
Summary of Activities			
for the year ended June 30,			
<b>Governmental Activities</b>	2012	2011	% change
Charges for Services	391,187	438,462	-11%
Operating Grants and Contributions		79,391	-100%
(Expenses)	(964,464)	(1,169,644)	-18%
Net revenue (loss) from governmental activities	(573,277)	(651,791)	-12%
<b>Governmental Activities</b>			
Charges for Services	1,115,339	998,011	12%
Capital grants and contributions	83,899	121,751	-31%
(Expenses)	(1,477,279)	(1,256,936)	18%
Gain (loss) as a result of business-type activities.	(278,041)	(137,174)	103%
<b>General Revenue</b>			
Taxes	932,821	921,305	1%
Investment Income	418	1,270	-67%
Miscellaneous	-	9,200	-100%
Prior period error	194,987	7,482	2506%
Transfers (net)	-		
Total general revenue	1,128,226	939,257	20%
Change in net position	276,908	150,292	84%
Net position June 30, 2011, 2010	3,802,146	3,651,854	4%
Net position June 30, 2012, 2011	4,079,054	3,802,146	7%

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

**BASIC FINANCIAL STATEMENTS**

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

City of Healdton, Oklahoma

Government-Wide Statement of Assets, Liabilities and Net Position – Modified Accrual Basis  
For the Year Ended June 30, 2012

	Governmental Activities	Primary Government Business- Type Activities	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	\$ 880,975	\$ 998,915	\$1,879,890
Inventory	-	15,010	15,010
Restricted Cash	-	287,738	287,738
<b>Capital Assets</b>			
Land, Land Improvements and Construction in Progress	717,726	593,809	1,311,535
Other Capital Assets, Net of Depreciation	1,355,318	2,639,743	3,995,061
<b>Total Assets</b>	<b>\$ 2,954,019</b>	<b>\$4,535,215</b>	<b>\$7,489,234</b>
<b>LIABILITIES</b>			
Due to Landfill	45,064	-	45,064
Bank Overdrafts	5,438	728,805	734,243
Interest Payable	-	-	-
Bonds Pending Court	10,203	-	10,203
Due to Other Funds	-	-	-
Refundable Meter Deposits	-	65,716	65,716
<b>Long-term Liabilities</b>			
Due Within One Year	1,434	234,360	235,794
Due in More than One Year	-	2,319,160	2,319,160
<b>Total Liabilities</b>	<b>\$ 62,139</b>	<b>\$3,348,041</b>	<b>\$3,410,180</b>
<b>NET POSITION</b>			
Invested in Capital Assets (net of related debt)	\$ 2,168,516	\$ 586,978	\$2,755,494
<b>Restricted</b>			
Streets	95,819	-	95,819
911 Emergency Service	4,556	-	4,556
Debt Service and Capital Projects	237,738	248,120	485,858
Cemetery	4,527	-	4,527
<b>Unrestricted</b>			
	380,724	352,076	732,800
<b>Total Net Position</b>	<b>\$ 2,891,880</b>	<b>\$1,187,174</b>	<b>\$4,079,054</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 2,954,019</b>	<b>\$4,535,215</b>	<b>\$7,489,234</b>

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

City of Healdton, Oklahoma  
 Government Wide Statement of Revenues, Expenses and Changes in Net Assets-Modified Cash for the Year ended June 30, 2012

	Primary Government				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
<i>Functions/Programs</i>					
<b>Primary Government</b>					
<b>Governmental Activities</b>					
General Government	\$ 82,734	\$ 47,058	-	-	\$ (35,676)
Highways and Streets	141,744	-	-	-	(141,744)
Public Safety	487,615	50,744	-	-	(436,871)
Culture and Recreation	4,512	-	-	-	(4,512)
Cemetery	2,630	-	-	-	(2,630)
Garbage	245,229	293,385	-	-	48,156
<b>Total Governmental Activities</b>	<b>\$ 964,464</b>	<b>\$ 391,187</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (573,277)</b>
<b>Business-Type Activities</b>					
General Government	\$ 264,226	-	-	-	\$ (264,226)
Water	541,986	747,686	-	-	205,700
Sewer	257,835	244,697	-	83,899	70,761
Cable	298,948	122,956	-	-	(175,992)
Garbage	4,164	-	-	-	(4,164)
Interest Expense	110,120	-	-	-	(110,120)
<b>Total Business-Type Activities</b>	<b>\$ 1,477,279</b>	<b>\$ 1,115,339</b>	<b>\$ -</b>	<b>\$ 83,899</b>	<b>\$ (278,041)</b>
<b>Total Primary Government</b>	<b>\$ 2,441,743</b>	<b>\$ 1,506,526</b>	<b>\$ -</b>	<b>\$ 83,899</b>	<b>\$ (573,277)</b>
<b>General Revenues</b>					
Taxes	-	\$ 770,117	-	\$ 162,704	\$ 932,821
Interest	-	214	-	204	\$ 418
Rent	-	-	-	-	-
Miscellaneous	-	194,987	-	-	\$ 194,987
Transfers	-	(251,089)	-	251,089	-
<b>Total General Revenues and Transfers</b>	<b>\$ -</b>	<b>\$ 714,229</b>	<b>\$ -</b>	<b>\$ 413,997</b>	<b>\$ 1,128,226</b>
<b>Change in Net Position</b>	<b>\$ -</b>	<b>\$ 140,952</b>	<b>\$ -</b>	<b>\$ 135,956</b>	<b>\$ 276,908</b>
<b>Net Position - Beginning</b>	<b>2,750,928</b>	<b>2,750,928</b>	<b>1,051,218</b>	<b>1,051,218</b>	<b>3,802,146</b>
<b>Net Position - Ending</b>	<b>\$ 2,891,880</b>	<b>\$ 2,891,880</b>	<b>\$ 1,187,174</b>	<b>\$ 1,187,174</b>	<b>\$ 4,079,054</b>

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

City of Healdton, Oklahoma  
Government-Wide Statement of Net Position – Accrual Basis  
Governmental Funds  
June 30, 2012

	<u>General Fund</u>	<u>Water Plant Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>Assets</b>				
Cash and Cash Equivalents	\$ 351,387	\$ 365,711	\$ 163,877	\$ 880,975
Due from Other Funds	-			-
Total Assets	<u>351,387</u>	<u>365,711</u>	<u>163,877</u>	<u>880,975</u>
<b>Liabilities</b>				
Bank Overdrafts	\$ -		\$ 5,438	\$ 5,438
Bonds Pending Court	10,203	-	-	10,203
Due Other Funds	-	-	-	-
Due to Landfill	-	-	-	-
Total Liabilities	<u>10,203</u>	<u>-</u>	<u>5,438</u>	<u>15,641</u>
<b>Fund Balances</b>				
Restricted	\$ 95,819	\$ 237,738	\$ 3,648	\$ 337,205
Assigned	-		59,208	59,208
Unassigned	245,365	127,973	95,583	468,921
Total Fund Balances	<u>341,184</u>	<u>365,711</u>	<u>158,439</u>	<u>865,334</u>
Total Liabilities and Fund Balances	<u>\$ 351,387</u>	<u>\$ 365,711</u>	<u>\$ 163,877</u>	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore, are not reported in the fund. \$ 2,073,044

Long-term liabilities are not due and payable in the current period and therefore, are not reported in the fund. -

Net position of governmental activities \$ 3,811,289

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

City of Healdton, Oklahoma  
Statement of Revenues, Expenditures and Changes in Net Assets – Modified Accrual Basis  
Governmental Funds  
For the Year Ended June 30, 2012

	General Fund	Water Plant Sales Tax Fund	Other Governmental Funds	Total
<b>REVENUE</b>				
Taxes	\$ 507,851	\$ 162,704	\$ 99,562	\$ 770,117
Charges for Services	24,451		1,181	25,632
Interest	14	204	200	418
Garbage Fees	293,385			293,385
License and Permits	2,684			2,684
Fines	48,060			48,060
Intergovernmental	-			-
Miscellaneous	21,426			21,426
Total Revenue	<u>\$ 897,871</u>	<u>\$ 162,908</u>	<u>\$ 100,943</u>	<u>\$ 1,161,722</u>
<b>EXPENDITURES</b>				
Current				
General Government	\$ 82,734		\$ 56,606	\$ 139,340
Highways and Streets	141,744			141,744
Public Safety	487,615		5,050	492,665
Public Health and Welfare				
Culture and Recreation	4,512			4,512
Cemetery	2,630			2,630
Airport			60,324	60,324
Garbage	245,229			245,229
Capital Outlay				
Culture and Recreation			-	-
Public Safety			-	-
Highways and Streets			-	-
Debt Service				
Principal	8,483			8,483
Interest	308			308
Total Expenditures	<u>\$ 973,255</u>	<u>\$ -</u>	<u>\$ 121,980</u>	<u>\$ 1,095,235</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (75,384)</u>	<u>\$ 162,908</u>	<u>\$ (21,037)</u>	<u>\$ 66,487</u>
Other Financial Services				
Transfers In	\$ 166,585		\$ 41,413	\$ 207,998
Transfers Out			-	-
Total Other Financing Sources	<u>166,585</u>	<u>-</u>	<u>41,413</u>	<u>207,998</u>
Net Change in Fund Balances	\$ 91,201	\$ 162,908	\$ 20,376	\$ 274,485
Fund Balances - Beginning	<u>\$ 260,186</u>	<u>\$ 202,803</u>	<u>\$ 143,501</u>	<u>\$ 606,490</u>
Fund Balances - Ending	<u>\$ 351,387</u>	<u>\$ 365,711</u>	<u>\$ 163,877</u>	<u>\$ 880,975</u>

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

City of Healdton, Oklahoma

Reconciliation of the Statement of Revenues, Expenditures and Changes in Net Assets Accrual Basis to the Statement of Revenue, Expenses and Changes in Net Assets – Modified Accrual Basis  
For the Year Ended June 30, 2012

Amounts reported for governmental activities  
in the statement of activities are different because:

Net change in fund balances - total governmental funds \$ 140,952

Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as a depreciation expense.

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

-

Change in net assets of governmental activities \$ 140,952

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

City of Healdton, Oklahoma

Statement of Net Position – Modified Cash Basis  
 Proprietary Fund  
 June 30, 2012

	Healdton Municipal Authority
<b>ASSETS</b>	
Current Assets	
Cash and Cash Equivalent	\$ 998,915
Restricted Cash and Cash Equivalent	287,738
Cable Inventory	15,010
Total Current Assets	<u>1,301,663</u>
Noncurrent Assets	
Restricted Cash and Cash Equivalent	
Capital Assets	
Land and Construction in Progress	593,809
Other Capital Assets, Net of Depreciation	2,639,743
Total Noncurrent Assets	<u>3,233,552</u>
Total Assets	<u>\$ 4,535,215</u>
<b>LIABILITIES AND EQUITY</b>	
Current Liabilities	
Refundable Meter Deposits	\$ 65,716
Bank Overdrafts	\$ 728,805
Bonds and Notes Payable - Current	234,360
Total Current Liabilities	<u>1,028,881</u>
Noncurrent Liabilities	
Bonds and Notes Payable	<u>2,319,160</u>
Total Liabilities	3,348,041
Net Position	
Invested in Capital Assets, Net of Related Debt	586,978
Restricted of Debt Service (nonexpendable)	248,120
Unrestricted	352,076
Total Net Position	<u>1,187,174</u>
Total Net Position and Liabilities	<u>\$ 4,535,215</u>

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

City of Healdton, Oklahoma

Statement of Revenue, Expenses and Changes in Net Assets – Modified Cash Basis  
 Proprietary Fund  
 For the Year Ended June 30, 2012

	Healdton Municipal Authority
Operating Revenues:	
Water	\$ 747,686
Sewer	244,697
Cable	122,956
Total Operating Revenue	<u>1,115,339</u>
Operating Expenses:	
Administration	264,226
Water	541,986
Sewer	257,835
Garage	4,164
Cable	298,948
Total Operating Expenses	<u>1,367,159</u>
Operating Income (Loss)	<u>(251,820)</u>
Nonoperating Revenue (Expenses):	
Interest Income	204
Interest Expense	
Total Nonoperating Revenues (Expenses)	<u>204</u>
Income (Loss) before Contributions and Transfers	(251,616)
Capital Contributions	83,899
Transfer In	572,242
Transfer Out	-
Net Change in Net Assets	<u>404,525</u>
Total Net Assets - Beginning	1,051,217
Total Net Assets - Ending	<u>\$ 1,455,742</u>

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

City of Healdton, Oklahoma

Statement of Cash Flows – Modified Cash Basis  
 Proprietary Fund  
 For the Year Ended June 30, 2012

	Healdton Municipal Authority
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 1,115,339
Payments to Employees for Services	\$ (339,925)
Payments to Vendors for Goods and Services	\$ (957,303)
Net Cash Provided by Operating Activities	<u>\$ (181,889)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of Capital Assets	
Capital Contributions	\$ 83,899
Interfund Transfers from Other Funds for Capital purposes	
Proceeds from Capital Debt	\$ 101,850
Principal Paid on Capital Debt	\$ (43,000)
Interest Paid on Capital Debt	\$ (110,120)
Net Cash Used by Capital Financing Activities	<u>\$ 32,629</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Income	\$ 204
Net Cash Provided by Investing Activities	<u>\$ 204</u>
Net Decrease in Cash and Cash Equivalents	\$ (149,056)
Cash and Cash Equivalents, Beginning of Year	<u>\$ 706,904</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 888,398</u></u>
<b>Reconciliation of Operating Income to Net Cash                  Provided by Operating Activities</b>	
Operating Loss	\$ (278,041)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	\$ 180,051
Loss on Disposal of Assets	\$ (83,899)
Increase in Refundable Meter Deposits	\$ -
Total Adjustments	<u>\$ (181,889)</u>
Net Cash Provided by Operating Activities	<u><u>\$ (181,889)</u></u>

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

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1. The Reporting Entity**

The City of Healdton, Oklahoma (the City) is a charter city operating under a Council-Manager form of government authorized by the charter and Title 11 of the Oklahoma statutes. The governing body of the City is the City Council, comprised of five elected members. The appointed City Manager is the administrative head of the City.

The accompanying financial statements present the City of Healdton and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended Component Unit

The Healdton Municipal Authority was created for the use and benefit of the beneficiary, City of Healdton, to furnish, construct, administer and finance any public works facilities or improvements for public purposes under the laws of the State of Oklahoma. The City Council of the City of Healdton acts as the Board of Trustees of the Healdton Municipal Authority. The rates for user charges and bond issuance authorizations are approved by the government council and the legal liability for the general obligation portion of the Authority's debt remains with the government. The Authority is reported as an enterprise fund.

Discretely Component Unit

The Healdton Industrial Authority (HIA) was established to promote industrial development in the Healdton area. The City collects a ¼ cent sales tax dedicated to HIA. HIA has not been included in these financial statements.

**2. Government-wide and Fund Financial Statements**

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Government-wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The government-wide financials statements of the City are prepared on a modified cash basis of accounting. Under this basis, cash receipts are recognized as revenue at the date of receipt and cash payments are recognized as expenditures at the date of payment with the following modifications:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Government-wide and Fund Financial Statements (Continued)**

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in each fund-type financial statement.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The modified cash basis of accounting is used. However, the governmental funds focus on a current financial resources measurement thus capital assets and debt is not recorded.

The City reports the following major governmental funds:

General Fund – is the Government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The special hospital and library account funds have been included as part of the General Fund.

Water Plant Sales Tax Fund – is a special revenue fund that accounts for dedicated sales tax to be used for repayment of debt by the Healdton Municipal Authority.

The City reports the Healdton Municipal Authority (HMA) as a major proprietary fund. HMA Accounts for the activities related to the provision of water and sewer services to businesses and residents. It operates the water and sewer treatment plants, water distribution system, sewer collections system and pump stations.

Proprietary funds are accounted for using the modified cash basis of accounting, modified as follows:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Inventory is recorded as an asset when purchased and expensed as consumed.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but related to compensation paid are recorded as liabilities.

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

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**2. Government-wide and Fund Financial Statements (Continued)**

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**3. Assets, Liabilities, and Net Assets or Equity**

Deposits and Investments

For purposes of the statement of cash flows, the City considers short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

Oklahoma Statutes authorize the City to invest in direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposits of financial institutions located in the State of Oklahoma or fully-insured certificates of deposits of financial institutions located outside the state; savings accounts, and county, municipal or school district general obligation debt.

The City does not have a specific policy limiting the concentration amount that may be invested with one issuer. The City has no formal policy on managing credit risk.

Public trusts created under Oklahoma Statutes Title 60 are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

Interfund Transactions

Interfund receivables and payables arise from interfund transactions and are recorded in the period transacted. Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to move unrestricted revenue collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Assets, Liabilities, and Net Assets or Equity (Continued)**

Restricted Assets

Certain proceeds of the Authority’s revenue bonds as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable loan covenants. The debt service reserve accounts are used to report resources set aside to make up potential future deficiencies, or to meet unexpected contingencies or to fund asset renewals and replacements. Customer utility deposits are reported as restricted cash.

Capital Assets

Capital assets, which include property, plant equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items) are, reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets’ lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
<b>Buildings</b>	<b>50</b>
<b>Infrastructure</b>	<b>25</b>
<b>System infrastructure</b>	<b>30</b>
<b>Vehicles</b>	<b>5</b>
<b>Machinery and equipment</b>	<b>10</b>

Fund Equity

Beginning July 1, 2010, the City implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.”

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

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Assets, Liabilities, and Net Assets or Equity (Continued)**

This Statement more clearly defines fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. Changes to the fund presentation have been made to comply with this statement.

Fund Balance Classification

The government fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the entity is bound to honor the constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

*Non-spendable* – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. City of Healdton, Oklahoma did not have any non-spendable resources as of June 30, 2012.

*Restricted* – This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. City of Healdton, Oklahoma, has restricted resources by state law and from grants as of June 30, 2012.

*Committed* – This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal ordinance or resolution of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

*Assigned* – This classification includes amounts that are constrained by City of Healdton, Oklahoma's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the Council delegating this responsibility to the Manager through the budgetary process.

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

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**3. Assets, Liabilities, and Net Assets or Equity (Continued)**

*Unassigned* – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

As of June 30, 2012, fund balances are composed of the following:

	<u>General Fund</u>	<u>Water Plant</u>	<u>Other</u>	<u>Total</u>
<b>Restricted</b>				
Cemetery			\$ 4,527	\$ 4,527
Streets	95,819			95,819
911 Emergency Services			4,556	4,556
Grants			3	3
Airport			(5,438)	(5,438)
HMA Debt Service		237,738		237,738
<b>Assigned</b>				
HMA Debt Service		127,973		127,973
Capital Projects			59,208	59,208
Hospital				-
Library				-
<b>Unassigned</b>	<u>245,365</u>		<u>95,583</u>	<u>340,948</u>
	<u>\$ 341,184</u>	<u>\$ 365,711</u>	<u>\$ 158,439</u>	<u>\$ 865,334</u>

The City would typically use restricted fund balances first, followed by committed resources and the assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Government-wide net assets

Government-wide net assets are divided into three components:

- Invested in capital assets, net of related debt – consist of the historical cost of capital assets, less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net assets – consist of net assets that are restricted by creditors, by the state enabling legislation, by grantors (both federal and state) and by other contributors.
- Unrestricted – all other net assets are reported in this category.

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

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**1. Explanation of certain difference between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes a reconciliation of the \$2,073,043 difference between *fund balance – total government funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets.

One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” This would include the long term portion of Capital lease payments. There are no long term Capital lease payments due at this time.

Another element of that reconciliation is capital assets used in governmental activities that are not financial resources. The net value of these assets is \$2,073,043.

Capital Assets, Land & Construction	717,726.00
Capital Assets	5,897,323.00
Less Accumulated Depreciation	<u>(4,542,006.00)</u>
	2,073,043.00

**2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the \$8,064 difference between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities.

One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures.” However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense related to the governmental operations was: \$116,582

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**NOTE C – BUDGETARY INFORMATION**

The City Manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. In June the City Council adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personnel services, materials and supplies, other services and charges, capital outlay, debt services and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

**NOTE D – DEPOSITS**

Deposit custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The City follows state statutes regarding custodial credit risk which requires collateral for all deposits in excess of federally insured limits. At June 30, 2012, the bank balance was \$1,529,511. Uninsured and uncollateralized deposits totaled \$362,055

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**NOTE E – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Government Activities:</b>				
Capital assets, not being depreciated				
Land	659,168	58,558	-	717,726
Total capital assets, not being depreciated	659,168	58,558	-	717,726
Capital assets, being depreciated				
Buildings	1,606,001			1,606,001
Computers and electronics	68,449	3,294		71,743
Vehicles	476,128	6,000		482,128
Furniture and fixtures	160,440			160,440
Equipment	300,720	6,299	-	307,019
Infrastructure	3,328,551		(58,558)	3,269,993
Total capital assets, being depreciated	5,940,289	15,593	(58,558)	5,897,324
Less accumulated depreciation	4,445,100	116,582	(19,676)	4,542,006
Total capital assets, being depreciated, net	1,495,189	(100,989)	(38,882)	1,355,318
Governmental activities capital assets, net	2,154,357	(42,431)	(38,882)	2,073,044
<b>Business-type activities:</b>				
Capital assets, not being depreciated				
Land	13,000	-	-	13,000
Construction in progress	56,016	524,793		580,809
Total capital assets, not being depreciated	69,016	524,793	-	593,809
Capital assets, being depreciated				
Buildings	28,340	-	-	28,340
Vehicles	263,059	5,900	-	268,959
Equipment	491,695	22,451	-	514,146
Computers	3,730	-	-	3,730
Cable System	1,237,630	-	-	1,237,630
Water System	13,939,739	14,243	(80,018)	13,873,964
Sewer System	7,271,954	-	-	7,271,954
Total capital assets, being depreciated	23,236,147	42,594	(80,018)	23,198,723
Less accumulated depreciation	20,378,929	180,051	-	20,558,980
Total capital assets, being depreciated, net	2,857,218	(137,457)	(80,018)	2,639,743
Business activities capital assets, net	2,926,234	387,336	(80,018)	3,233,552
<b>Total Primary Government</b>	<b>5,080,591</b>	<b>344,905</b>	<b>(118,900)</b>	<b>5,306,596</b>

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

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**NOTE E – CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions/programs of the primary government as follows:

Government activities:	
General government	\$ 36,056
Public safety	31,647
Culture and recreation	-
Highways and streets	48,880
Cemetery	-
Total depreciation expense - governmental activities	<u>\$ 116,583</u>
Business-type activities:	
Water	\$ 87,752
Sewer	41,567
Cable	49,505
Administration	1,228
Total depreciation expense - business-type activities	<u>\$ 180,052</u>

**NOTE F – INTERFUND TRANSFERS**

Interfund transfers as of June 30, 2012 consisted of the following:

	<b>Transfers from</b>			
	General Fund	Healdton Municipal Authority	All Others	Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Transfers to:</b>				
General Fund	\$ -	\$ -	\$ -	\$ -
Healdton Municipal Authority	251,089			251,089
All Others				
<b>Total</b>	<u>\$ 251,089</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 251,089</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

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

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**NOTE G – LONG-TERM LIABILITIES**

A summary of long-term liability activity for the year ended June 30, 2012 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities					
Capital Lease Obligations	\$ 9,917		\$ 8,483	\$ 1,434	\$ 1,434
Business-type Activities					
Bonds Payable	2,120,000		90,000	\$ 2,030,000	95,000
Notes Payable	464,505	102,015	43,000	\$ 523,520	42,000
	<u>\$ 2,594,422</u>	<u>\$ 102,015</u>	<u>\$ 141,483</u>	<u>\$ 2,554,954</u>	<u>\$ 138,434</u>

Business-type activities long-term liabilities at June 30, 2012 consisted of the following:

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Installments	Original Issue Amount	Outstanding at June 30, 2012
Utility System Revenue Bonds (Advance refund the 2003 Series Utility Revenue Bonds which financed costs of water and wastewater system improvements and costs of construction of a cable system)	January 2027	4.80%	Variable	\$ 2,385,000	\$ 2,030,000
Oklahoma Water Resource Board (Construct improvements to water system)	March 2040	3.35%	Variable	1,700,000	<u>523,520</u>
					<u>\$ 2,553,520</u>

As of June 30, 2012, annual debt service requirements of the business-type activities to maturity are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 138,000	\$ 110,120
2014	143,000	104,000
2015	148,000	97,759
2016	153,000	91,159
2017-2021	909,508	349,346
2022-2026	904,012	155,246
2027-2030	158,000	6,720
	<u>\$ 2,553,520</u>	<u>\$ 914,350</u>

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

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**NOTE G – LONG-TERM LIABILITIES (Continued)**

As of the date of this report, the City had drawn additional funds on the Oklahoma Water Resource Board note.

The Utility System and Sales Tax Revenue Bonds 2007 are secured by the fixed assets and the service revenues of the HMA. The HMA receives a special sales tax approved for the purpose of assisting the HMA in meeting principal, interest, and debt service requirements on its authorized indebtedness. The HMA must maintain net revenues available for debt service equal to at least 120% of the maximum annual amount required for debt service.

**NOTE H – RESTRICTED ASSETS**

Restricted cash as of June 30, 2012 is as follows:

Funds restricted for debt service reserves	
Utility Revenue Bond	<u>\$ 193,840</u>
Funds restricted for other purposes	
Meter deposits	<u>\$ 65,716</u>

**NOTE I – PENSION PLANS**

Municipal Retirement Plan

The City of Healdton and its employees participate in the Oklahoma Municipal Retirement Fund (OMRF). All regular full-time employees, except those covered under another retirement system, are eligible. Employees are vested at 10 years.

The OMRF issues a publicly available financial report that includes financial statements and the required supplementary information that can be obtained by requesting a copy at City Hall.

Funding Policy – The contribution requirements of City of Healdton and Healdton Municipal Authority and employees are established and may be amended by the OMRF board. Employees are required to contribute 3.75 percent of their annual covered salary after tax.

City of Healdton and Healdton Municipal Authority are required to contribute at an actuarially determined rate.

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

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**NOTE I – PENSION PLANS (Continued)**

Annual Pension Cost – The required contribution was determined as part of the January 1, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial report was not available.

Trend information:

<u>Year Ending June 30,</u>	<u>Cost (APC)</u>
2012	\$ 32,042
2011	26,720
2010	24,042

**NOTE J – CONTINGENCIES**

Federal Programs

The City participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The final acceptance of the audits of these programs including the year ended June 30, 2012 has not been given. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, the City expects such amounts, if any, to be immaterial.

**NOTE K – RISK MANAGEMENT**

The City is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

HMA has been issued a current order concerning water system quality (10-325). The construction of the new water treatment plant has been undertaken to respond to the order.

**City of Healdton**  
**Notes to the Financial Statements**  
**June 30, 2012**

**SUPPLEMENTARY INFORMATION**

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

City of Healdton, Oklahoma

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balances  
(Modified Cash Basis)

For the year ended June 30, 2012

	Budget General Fund	Actual General Fund	Difference
<b>REVENUE</b>			
Taxes	544,554	507,851	-7%
Charges for Services	10,850	24,451	125%
Interest	-	14	
Garbage Fees	-	293,385	
License and Permits	4,600	2,684	-42%
Fines	62,450	48,060	-23%
Miscellaneous	500	21,426	4185%
Total Revenue	622,954	897,871	44%
<b>EXPENDITURES</b>			
<b>Current</b>			
General Government	50,800	82,734	63%
Highways and Streets	91,150	141,744	56%
Public Safety	389,750	487,615	25%
Culture and Recreation	3,350	4,512	35%
Cemetery	2,000	2,630	32%
Garbage	-	245,229	
<b>Capital Outlay</b>			
Public Safety	1,000	-	-100%
<b>Debt Service</b>			
Principal	\$8,483	\$8,483	0%
Interest	\$308	\$308	0%
Total Expenditures	546,841	973,255	78%
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	\$76,113	(\$75,384)	-199%
<b>Other Financial Services</b>			
Transfers In	\$-	\$166,585	
Transfers Out			
Total Other Financing Sources	-		
Net Change in Fund Balances	\$76,113	\$91,201	20%
Fund Balances - Beginning	\$198,307	\$260,186	31%
Fund Balances - Ending	\$274,420	\$351,387	28%

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

City of Healdton, Oklahoma

Non-Major Governmental Funds  
Statement of Assets, Liabilities, and Net Assets  
(Modified Cash Basis)

June 30, 2012

	Special Street	911 Emergency	REAP Grant	Airport	Capital Improvements	Cemetery	Total
<b>Assets</b>							
Cash	95,819	4,556	3	-	59,208	4,289	163,875
Due from other funds	-	-	-	-	-	238	238
<b>Total Assets</b>	<b>95,819</b>	<b>4,556</b>	<b>3</b>	<b>-</b>	<b>59,208</b>	<b>4,527</b>	<b>164,113</b>
<b>Liabilities</b>							
	-	-	-	(5,438)	-	-	(5,438)
<b>Fund balances</b>							
Restricted	95,819	4,556	3	-	59,208	4,527	104,905
Assigned	-	-	-	-	-	-	59,208
Unassigned	-	-	-	-	-	-	-
<b>Total fund balances</b>	<b>95,819</b>	<b>4,556</b>	<b>3</b>	<b>-</b>	<b>59,208</b>	<b>4,527</b>	<b>164,113</b>
<b>Total liabilities and fund balances</b>	<b>95,819</b>	<b>4,556</b>	<b>3</b>	<b>(5,438)</b>	<b>59,208</b>	<b>4,527</b>	<b>158,675</b>

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

City of Healdton, Oklahoma

Non-Major Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

(Modified Cash Basis)

For the year ended June 30, 2012

	Special Street	911/Emergency	HIA	REAP Grant	Airport Grant	Capital Improvement	Cemetery	Total
<b>REVENUE</b>								
Taxes	60,466	-	56,606	-	-	39,096	-	156,168
Interest	199	-	-	-	2	-	-	201
Charges for services	-	-	-	54,051	-	-	1,81	55,232
Intergovernmental	-	-	-	-	-	-	-	-
Total revenue	60,665	-	56,606	54,051	2	39,096	1,81	211,601
<b>EXPENDITURES</b>								
Current								
General government	-	-	56,606	-	-	-	-	56,606
Highways and streets	-	-	-	-	-	-	-	-
Public safety	-	5,050	-	-	-	-	-	5,050
Public health and welfare	-	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Airport	-	-	-	-	60,324	-	-	60,324
Capital outlay								
Highways and streets	3,570	-	-	-	-	-	-	3,570
Culture and recreation	-	-	-	54,051	-	-	-	54,051
Public safety	-	-	-	-	-	16,826	-	16,826
Cemetery	-	-	-	-	-	-	-	-
Total expenditures	3,570	5,050	56,606	54,051	60,324	16,826	-	196,427
Transfers								
Transfers in	-	-	-	-	54,824	-	-	54,824
Transfers out	-	-	-	-	-	(54,824)	-	(54,824)
Net change in fund balances	57,095	(5,050)	-	-	(5,498)	(32,554)	1,81	15,174
Fund balances - beginning	38,724	9,606	-	3	60	9,1762	3,346	143,501
Fund balances - ending	95,819	4,556	-	3	(5,438)	59,208	4,527	158,675

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

City of Healdton, Oklahoma

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**Government Auditing Standards Report on Internal Control over Financial Reporting and on Compliance and Other Matters—with Material Weaknesses and Significant Deficiencies and Reportable Instances of Noncompliance, and Other Matters Identified**

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council  
City of Healdton, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Healdton, Oklahoma, as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the City of Healdton, Oklahoma basic financial statements and have issued our report thereon dated December 1, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Healdton, Oklahoma's internal control over financial reporting (internal control) and the City of Healdton Investigative Report from Oklahoma State Auditor and Inspector's report dated January 22, 2014 to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Healdton, Oklahoma internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Healdton, Oklahoma's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, which we obtained from the Oklahoma State Auditor and Inspector, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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

## City of Healdton, Oklahoma

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Healdton, Oklahoma's financial statements are free from material misstatement, we did not perform 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. We relied on the Oklahoma State Auditor and Inspector's report. 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 disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items.

### **City of Healdton, Oklahoma's Response to Findings**

City of Healdton, Oklahoma's response to the findings identified in the State Auditor's report date January 22, 2014, is described in the accompanying schedule of findings and questioned costs. City of Healdton, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stanfield, Brim P.C.

Lawton, Oklahoma  
December 1, 2015

City of Healdton, Oklahoma

**Schedule of Findings and Questions Cost from the State Auditors Report  
Dated January 22, 2014**

**Finding #1:** Funds were misappropriated through the former City Treasurer's office.

**Conditions:** There were ineffective controls in place for cash receipts and so the controls were easily circumvented so that cash could be removed.

**Effects:**

- A method often used to misappropriate funds was identified. This method is usually referred to as a check-for-cash substitution scheme. The amount of alleged misappropriation identified was \$42,704.57.
- A second method of misappropriation was identified. The second method was a simple cash larceny scheme. Cash, which had been receipted, was apparently taken and not deposited. The amount of alleged misappropriation identified was \$37,053.39.
- Some daily receipt reports were missing.
- Out of 214 receipt numbers that were missing from the daily receipt reports reviewed, only twenty could be accounted for.
- A printed receipt that conflicts with the amounts recorded on the computer system was found, indicating the potential for additional unreliable records.

**Cause:** A lack of proper segregation of duties allowed the treasurer to circumvent the limited controls in place.

**Criteria:** When handling cash the duties of collecting, recording and depositing should be segregated appropriately to reduce the likelihood of theft.

**Recommendation:** We recommend the duties be segregated and monitored to ensure the continued adherence to the proper policy. This includes issuing a sequentially numbered receipt record for every payment and using a second person to make the deposit timely while reconciling the deposit to the receipt records.

**Management Response:**

**As of 9/8/2015:** - The City Council has enacted financial internal control policy that identifies risks and implements control procedures. These control procedures focus on segregation of incompatible duties to increase accountability and reduces the risk that any employees will be able to carry out and conceal errors or fraud in the normal course of their duties without being detected. There are three categories of duties or responsibilities that are adhered to within the city's segregation of duties:

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

City of Healdton, Oklahoma

**Schedule of Findings and Questions Cost from the State Auditors Report  
Dated January 22, 2014**

- Custody of assets
- Authorization or approval of transactions affecting those assets
- Recording or reporting of related transactions.
- 

City employees performing any one of the above functions will not also have responsibilities in either of the other two functions. The objective of the city's segregation of duties is to prevent one person from having access to assets and responsibility for maintaining the accountability or authorizing transactions affecting those assets. To ensure these control procedures are effective, city treasurer and or the city manager will regularly review available documentation and accounting records to confirm that controls are being executed as designed.

**Finding #2:** The City Council and or the management ignored the prior findings in the City's annual audit report.

**Condition:** Those charged with governance ignored their obligation to investigate and resolve these ongoing issues reported to them.

**Effect:** No effort was made to monitor or change the management of City funds and resources. The misappropriation of funds continued for an undetermined period of time without resolution.

**Criteria:** The City Charter, Section 2-4 outlines the powers of the Council. These include:

"Determinations of all matters of policy and to inquire into the conduct of any office, department or agency of the city government and investigate municipal affairs; and for this purpose to subpoena witnesses, take testimony and require production of evidence.

All members of the governing board also have a fiduciary responsibility to act in the best interest of the citizens and the municipality as a whole."

**Recommendation:** We recommend that the City Council and the Mayor review the annual audit make inquiries as necessary to understand the results and take any action needed to resolve the findings appropriately including continued ongoing monitoring of changes made to ensure that new policy are being adhered to.

City of Healdton, Oklahoma

**Schedule of Findings and Questions Cost from the State Auditors Report  
Dated January 22, 2014**

**Management Response:**

**As of 9/8/2015:** - The City of Healdton is committed to protecting its financial assets for the benefit of our citizens. The City is also committed to integrity, to diligence in investigating discrepancies and fraud. Proper financial practices are very important in preventing and detect errors and fraud; they also assure our citizens that we are using their tax revenue for the purposes for which it was intended. To that end, the City of Healdton will display its commitment by:

- 1) Enacting a Code of Conduct that will be given to and signed by all employees.
- 2) Enacting financial internal control policy that will be given to and signed by all employees.
- 3) Timely investigate any and all allegations of noncompliance of its code of conduct and or internal control policy by employees.
- 4) Sending employees, that deal with or that are exposed to city funds, to ethics training at least once every three years. This includes but not limited to; the mayor, each city council member, city treasurer, deputy treasurer, city clerk, payment clerks.

**Finding #3:** Checks were cashed for employees, some of which were drawn on accounts with insufficient funds and one personal check from 2002 was found still un-deposited during the 2011 audit.

**Condition:** In spite of the fact that the city hall shares an alleyway with a local bank, City employees were allowed to cash personal checks as well as two-party checks at city hall. Some of these were returned as uncollectible.

**Effect:** Cash was improperly removed from the City's funds in what appears to be a "loan" arrangement where employees would cash checks when they had no funds in their personal bank.

**Criteria:** The City Treasurer has a fiduciary responsibility to care for any money that belongs to the City. There should be clearly documented rules prohibiting allowing anyone to remove cash from the office. All money collected should be deposited into the City's bank account.

According to the City Charter, Article IV, Sec 4-1:

"...the city treasurer or personnel under his supervision and control shall collect or receive revenue and other money for the city; shall be responsible for its custody, safekeeping, deposit, and disbursement; shall maintain a general accounting system for the city government..."

City of Healdton, Oklahoma

**Schedule of Findings and Questions Cost from the State Auditors Report  
Dated January 22, 2014**

**Recommendation:** There should be clearly documented policies and procedures on the handling of cash designed to prevent misappropriation. The adherence to these procedures should be monitored and enforced.

**Management Response:**

**As of 9/8/2015:** - The City Council has enacted financial internal control policy that identifies risks and implements control procedures. These control procedures focus clearly state that NO personal or payroll checks will be cashed from moneys in cash drawers. Further, cash is deposited daily and cash receipts are intact. City Treasurer performs bank reconciliation and is the final custodian of all deposit slips. To ensure these control procedures are effective, the city manager will regularly review available documentation and accounting records to confirm that these controls are being executed as designed.