

AUDIT REPORT
CITY OF HARTSHORNE, OKLAHOMA
JUNE 30, 2012



KERSHAW CPA & ASSOCIATES, PC

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CITY OF HARTSHORNE, OKLAHOMA
JUNE 30, 2012

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CITY OF HARTSHORNE, OKLAHOMA
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CITY OF HARTSHORNE, OKLAHOMA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2012

COUNCIL MEMBERS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
MARK DAY	MAYOR	APRIL 2015
CAROLYN TRUEBLOOD	COUNCIL	APRIL 2015
EDDIE KELLY	COUNCIL	APRIL 2013
BARNEY ROSSO	COUNCIL	APRIL 2015
ALVIN LOPEZ	COUNCIL	APRIL 2015
BRIAN YOUNG	COUNCIL	APRIL 2013
TERESA FARRIS	COUNCIL	APRIL 2015
GILBERT EDINGTON	COUNCIL	APRIL 2013
CHARLES GREEN	COUNCIL	APRIL 2013

MANAGEMENT

DAWN DUNKIN	CITY CLERK	APRIL 2015
SHIRLEY DAY	CITY TREASURER	APRIL 2013

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Hartshorne, 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 Hartshorne, Oklahoma, as of and for the fiscal year ended June 30, 2012, which collectively comprise the City of Hartshorne, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hartshorne, Oklahoma's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis as accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the City has not maintained accurate capital asset records to support the historical cost of past capital asset purchases. The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. Documentation supporting historical cost was not readily available for our review. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental & Business-Type Activities is not readily determinable.

In our opinion, except for the effects, if any, on the financial statements of improper capital asset recordkeeping described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hartshorne, Oklahoma, as of June 30, 2012, and the changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described above.

In accordance with Government Auditing Standards, we have also issued our report dated September 14, 2012, on our consideration of the City of Hartshorne, Oklahoma'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

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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 compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Hartshorne has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the City has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hartshorne's basic financial statements. The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the City. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion thereon.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and is not a required part of the financial statements of the City of Hartshorne. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

September 14, 2012

CITY OF HARTSHORNE, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2012

	Governmental Activities	Business-Type Activities	2012 Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 179,816	\$ 11,919	\$ 191,735
Investments	144,758	-	144,758
Due from Other Funds	-	-	-
Restricted Assets:			
Restricted PWA Cash & cash equivalents	-	39,868	39,868
Restricted PWA Investments	-	128,536	128,536
Police Bonds	12,542	-	12,542
Capital Assets	4,053,921	7,787,528	11,841,449
TOTAL ASSETS	4,391,037	7,967,852	12,358,889
<u>LIABILITIES</u>			
Due to Other Funds	-	-	-
Police Bonds Payable	-	-	-
Meter Deposits Payable	-	52,838	52,838
Notes Payable	26,311	3,129,546	3,155,857
TOTAL LIABILITIES	26,311	3,182,385	3,208,695
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	4,027,610	4,657,982	4,027,610
Restricted for:			
Debt Service	-	168,405	-
Other Purposes	12,542	-	12,542
Unrestricted	324,574	(40,919)	324,574
TOTAL NET ASSETS	\$ 4,364,726	\$ 4,785,467	\$ 9,150,193

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF HARTSHORNE, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Highways and Roads	\$ 91,610	\$ -	\$ -	\$ -	\$ (91,610)
Cultural & Recreation	64,788	-	-	-	(64,788)
Public Safety	425,187	154,570	4,413	-	(266,205)
General Government	523,867	-	-	-	(523,867)
Public Works Department	58,123	5,780	-	-	(52,343)
Debt Service - Interest	1,919	-	-	-	(1,919)
Total Governmental Activities	1,165,494	160,350	4,413	-	(1,000,731)
Business-type activities:					
Water	426,125	414,579	-	-	(11,546)
Sewer	135,461	228,479	-	1,048,590	1,141,608
Sanitation	261,965	244,107	-	-	(17,858)
Miscellaneous	110,869	34,376	-	-	(76,493)
Total Business-type Activities	934,421	921,541	-	1,048,590	1,035,711
Total	\$ 2,099,914	\$ 1,081,891	\$ 4,413	\$ 1,048,590	\$ 34,980

Changes in Net Assets:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (1,000,731)	\$ 1,035,711	\$ 34,980
General revenues:			
Taxes:			
Sales Tax	603,737	-	603,737
Use Tax	54,395	-	54,395
Cigar Tax	8,843	-	8,843
Franchise Tax	50,541	-	50,541
Intergovernmental:			
Alcoholic Beverage Tax	14,265	-	14,265
Gasoline Excise Tax	4,017	-	4,017
Motor Vehicle Tax	14,484	-	14,484
Licenses & Permits	1,773	-	1,773
Donations	200	-	200
Royalties	17,763	-	17,763
Sale of Lots & Fees	13,379	-	13,379
Miscellaneous	163,862	-	163,862
Interest Income	1,455	689	2,144
Transfers - Internal Activity	(62,430)	62,430	-
Total general revenues & transfers	886,283	63,119	949,402
Changes in net assets	(114,448)	1,098,829	984,382
Net assets - beginning	4,460,911	3,686,638	8,147,549
Net assets - prior year adjustment	18,263	-	18,263
Net assets - ending	\$ 4,364,726	\$ 4,785,467	\$ 9,150,193

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**CITY OF HARTSHORNE, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2012**

	General Fund	Street & Alley	Ambulance Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 144,892	\$ 4,272	\$ 20,732	\$ 9,920	\$ 179,816
Investments	92,420	31,205	-	21,134	144,758
Due from other Funds	-	-	-	-	-
Restricted Assets:					
PWA Project Fund	-	-	-	-	-
Police Bonds	12,542	-	-	-	12,542
Meter Deposits	-	-	-	-	-
TOTAL ASSETS	\$ 249,853	\$ 35,477	\$ 20,732	\$ 31,054	\$ 337,117
LIABILITIES & FUND EQUITY					
LIABILITIES:					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Police Bonds Payable	-	-	-	-	-
Meter Deposits Payable	-	-	-	-	-
TOTAL LIABILITIES	-	-	-	-	-
FUND BALANCES:					
Nonspendable	-	-	-	-	-
Restricted	-	35,477	-	-	35,477
Committed	-	-	-	-	-
Assigned	-	-	20,732	31,054	51,786
Unassigned	249,853	-	-	-	249,853
TOTAL FUND BALANCES	249,853	35,477	20,732	31,054	337,117
TOTAL LIABILITIES AND FUND BALANCES	\$ 249,853	\$ 35,477	\$ 20,732	\$ 31,054	

Reconciliation to Statement of Net Assets:

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

Capital assets used in governmental activities of \$4,053,921, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds.	4,053,921
Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(26,311)</u>
Net Assets of Governmental Activities	<u>\$ 4,364,726</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF HARTSHORNE, OKLAHOMA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	Street & Alley	Ambulance Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Sales Tax	\$ 432,294	\$ -	\$ 171,443	\$ -	603,737
Use Tax	54,395	-	-	-	54,395
Cigar Tax	8,843	-	-	-	8,843
Franchise Tax	50,541	-	-	-	50,541
Intergovernmental:					
Alcoholic Beverage Tax	14,265	-	-	-	14,265
Gasoline Excise Tax	-	4,017	-	-	4,017
Motor Vehicle Tax	-	14,484	-	-	14,484
Grants	-	-	-	4,413	4,413
User Fees - Public Works Dept.	5,780	-	-	-	5,780
Licenses & Permits	1,773	-	-	-	1,773
Fines	53,252	-	-	-	53,252
Donations	200	-	-	-	200
Royalties	17,763	-	-	-	17,763
Charges for Services	-	-	101,318	-	101,318
Sale of Lots & Fees	13,379	-	-	-	13,379
Miscellaneous Income	163,712	-	-	150	163,862
Interest Income	738	590	29	99	1,455
TOTAL REVENUES	816,933	19,091	272,790	4,661	1,113,476
EXPENDITURES:					
Highways and Roads	12,975	78,635	-	-	91,610
Cultural & Recreation	64,788	-	-	-	64,788
Public Safety	152,114	-	261,373	11,700	425,187
General Government	523,867	-	-	-	523,867
Public Works Department	58,123	-	-	-	58,123
Debt Service	-	-	16,740	-	16,740
Capital Outlay	-	-	-	-	-
TOTAL EXPENDITURES	811,866	78,635	278,113	11,700	1,180,315
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	5,067	(59,545)	(5,323)	(7,039)	(66,839)
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	-	-	13,000	-	13,000
Operating Transfers Out	(75,430)	-	-	-	(75,430)
Capital Debt Proceeds	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(75,430)	-	13,000	-	(62,430)
NET CHANGES IN FUND BALANCES	(70,363)	(59,545)	7,677	(7,039)	(129,269)
FUND BALANCE - BEGINNING OF YEAR	302,257	95,021	12,751	38,093	448,123
FUND BALANCE - PRIOR YEAR ADJUSTMENT	17,959	-	304	-	18,263
FUND BALANCE - END OF YEAR	\$ 249,853	\$ 35,477	\$ 20,732	\$ 31,054	337,117

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF HARTSHORNE, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds \$ (129,269)

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

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:

 Capital debt obligation principal payments 14,821

Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Assets:

 Capital Debt Proceeds -

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

 Capital asset purchases capitalized -

 Depreciation expense -

Change in Net Assets of Governmental Activities \$ (114,448)

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF HARTSHORNE, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2012

	Hartshorne Public Works Authority Enterprise Fund June 30, 2012
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ 11,919
Restricted cash and cash equivalents	39,868
Total Current Assets	51,787
Noncurrent Assets:	
Restricted Investments	128,536
Land and construction-in-progress	5,466,338
Other capital assets, net of accumulated depreciation	2,321,190
Total Noncurrent Assets	7,916,065
TOTAL ASSETS	7,967,852
<u>LIABILITIES & FUND EQUITY</u>	
Current Liabilities:	
Notes Payable - Current Portion	44,230
Total Current Liabilities	44,230
Noncurrent Liabilities:	
Due to Depositors	52,838
Note Payable - RD #1	2,122,114
Note Payable - RD #3	1,007,432
Less: Notes Payable - Current Portion	(44,230)
Total Noncurrent Liabilities	3,138,155
TOTAL LIABILITIES	3,182,385
NET ASSETS:	
Invested in capital assets, net of related debt	4,657,982
Restricted for debt service	168,405
Unrestricted	(40,919)
TOTAL NET ASSETS	\$ 4,785,467

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF HARTSHORNE, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Hartshorne Public Works Authority Enterprise Fund June 30, 2012
<u>OPERATING REVENUES:</u>	
Charges for services:	
Water Sales	\$ 414,579
Sanitation Fees	244,107
Sewer Fees	228,479
Penalties	29,585
Miscellaneous Income	4,791
TOTAL OPERATING REVENUES	921,541
<u>OPERATING EXPENSES:</u>	
Water	426,125
Sanitation	261,965
Sewer	135,461
Miscellaneous	-
Depreciation	-
TOTAL OPERATING EXPENSES	823,551
NET OPERATING INCOME (LOSS)	97,990
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	689
Interest Expense	(110,869)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(110,181)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(12,191)
Capital Contributions	1,048,590
Transfers in	62,430
Transfers out	-
CHANGE IN NET ASSETS	1,098,829
TOTAL NET ASSETS - BEGINNING	3,686,638
TOTAL NET ASSETS - PRIOR YEAR ADJUSTMENT	-
TOTAL NET ASSETS - ENDING	\$ 4,785,467

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF HARTSHORNE, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>June 30, 2012</u>
<u>Net Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 921,541
Other Cash Receipts	-
Payments to Suppliers & Laborers for Goods & Services	(823,551)
Receipts of Customer Utility Deposits, Net of Refunds	1,468
Net Cash Provided (Used) by Operating Activities	<u>99,458</u>
<u>Net Cash Flows from Non-Capital Financing Activities:</u>	
Transfers to other funds	-
Transfers from other funds	62,430
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>62,430</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>	
Capital grant received for construction of capital assets	1,048,590
Additions to Capital Assets	(1,231,251)
Proceeds from sale of Capital Assets	-
Loan Proceeds received	-
Principal paid on Notes Payable	(42,743)
Interest paid	(110,869)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(336,273)</u>
Net Cash Flows from Investing Activities:	
Interest Income	689
Net Cash Provided (Used) by Investing Activities	<u>689</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(173,696)
Cash & Cash Equivalents, Beginning of Year	354,020
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	<u>\$ 180,324</u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ 97,990
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	-
Increase(Decrease) in Due to Depositors	1,468
Increase(Decrease) in Payroll Taxes Payable	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 99,458</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Hartshorne is a municipal corporation incorporated under the laws of Indian Territory on March 1, 1900. The City of Hartshorne operates under an elected Mayor-Council form of government. In evaluating how to define the City of Hartshorne, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestation of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. The public works component unit is included in the financial statements.

The financial statements of the City have been prepared on the modified cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

B. Basis of Presentation - Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are summarized by a separate set of self-balancing accounts, which include its assets, liabilities, fund equity, revenues and expenses or expenditures. The individual funds account for the government resources allocated to them for the purpose of carrying on specific activities in accordance with laws, regulations, or other restrictions. The following funds are used by the City:

Governmental Fund Types:

General Fund:

This fund is established to account for resources devoted to financing the general services that the City performs for its citizens. General tax revenues and other sources of revenue used to finance the fundamental operations of the City are included in this fund. The fund is charged with

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

all cost of operating the government for which a separate fund has not been established. Utility revenues are recognized when received.

Special Revenue Funds:

These funds are established to account for the proceeds of specific revenue sources other than special assessments, expendable trusts, or major capital projects that are legally restricted to expenditures for specified purposes.

Street & Alley:

The Street & Alley Fund was created under O.S. 11, Section 17-212 which requires each municipality to deposit all monies received under the motor fuel tax and motor vehicle license and registration tax into said fund. Expenditures from this account shall be made as earmarked and provided by law.

Emergency Fund:

The Emergency Fund was created with the intention of creating a reserve (Non-restricted) for unforeseen contingencies. The source of revenue for the fund has been limited to interest and any one-time miscellaneous receipts, i.e. not budgeted.

Municipal Pool Fund:

The Municipal Pool Fund was created for the maintenance and operation of the municipal pool and related facilities.

Ambulance Fund:

The Ambulance Fund was created for the maintenance and operation of an ambulance service for the City. The City has allocated 33 1/3% of its sales tax revenue for the operation of the service.

Cemetery Perpetual Care:

The Cemetery Perpetual Care Funds is used to account for the sale of cemetery lots by the City.

Land Fund:

The Land Fund was created to allocate funds for the purchase of real property, i.e. the purchase of additional cemetery land.

Twin City Youth Fund:

The Twin City Youth Fund was created for the maintenance and operation of the municipal baseball field.

Library Fund:

The Library Fund was created to accumulate the necessary funds needed to aid in the building of a new library.

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Volunteer Fire Dept:

The Volunteer Fire Department Fund was established to account for grant funds received and expended.

C. Basis of Accounting

Governmental Funds, Expendable Trust Funds and Agency Funds utilize the cash basis of accounting. Under this method, revenues are recognized when received. Expenditures are recognized when paid. The City of Hartshorne does not have any expendable trust funds or agency funds.

D. Budgetary Data

The City adopts an annual budget for all funds established by the governing body as required by O.S. 11 Section 17.207 through 17.210. The state statutes also require that the budget be adopted by resolution or per the city charter at the legal level of classification (fund, department & object category) and that the budget be filed with the County Clerk and the State Auditor and Inspector. The City may transfer budgeted amounts within and among departments. The budget is prepared on the cash basis.

E. Encumbrances

Encumbrances represent commitments related to unperformed contract for goods or services. Municipalities are prohibited by state statute from approving encumbrances which would exceed the current fund balance of any fund. All unencumbered budget appropriations lapse at the end of each fiscal year.

F. Inventory of Supplies

Inventory of supplies is not reported on the financial statements of the City. The amount of inventory on hand is not material to the financial statements.

G. Cash

The City maintains separate cash accounts for each fund with the exception of the operating account for the General Fund, the Street and Alley, and part of the Cemetery Fund. These funds are pooled.

H. Investments

Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. In addition,

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

the City can invest in direct debt securities of the United States unless an investment is expressly prohibited by law.

For purposes of the statement of cash flows, the City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The fair value and cost of investments at June 30, 2012 are the same.

I. Due to and Due from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

J. Restricted Cash and Investments

Cash and investments are restricted for customer meter deposits, police bonds received, PWA Improvement Project and PWA Debt Reserve.

K. Property, Plant and Equipment

Public domain (infrastructure) general capital assets consisting of certain improvements other than buildings, such as roads, sidewalks, and bridges, are not capitalized. Property, plant and equipment acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditure and capitalized at cost. The City of Hartshorne does not maintain detailed asset records.

L. Equity Classification

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Government does not have a formal minimum fund balance policy.

The purposes of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Street & Alley Fund	Commercial Vehicle Tax Gasoline Excise Tax Grant Income
Ambulance Fund	Charges for Services

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

M. Revenues, Expenditures and Expenses

Property Tax Revenues

The county assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax roll for submission to the county treasurer prior to October 1. The county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes is due prior to January 1. The second half is due prior to April 1. The City of Hartshorne currently is not levying any property taxes.

Expenditures/Expenses

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

Governmental Fund Types - By Character: Current (further classified by activity) Capital Outlay
Proprietary Fund Types - By Operating and Non-Operating

Governmental fund types report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

N. Vacation, Sick Leave, and Other Compensated Absences

City Employees are entitled to vacation and sick leave based on their length of employment and if they are considered full time employees. Full time employees are defined as 30 hours or more. An employee is entitled to 40 hours of vacation leave and 40 hours of sick leave after one year of continuous employment. If the leave is not taken by the employee's anniversary date, the leave will be lost. Leave will not be paid upon termination of an employee. If an employee does not take their one week of sick leave, it can be taken as vacation leave.

O. Memorandum Totals

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the City's internal control over financial reporting and tested its compliance with certain provisions of laws,

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installment (\$111,516 and \$42,096), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval. As of June 30, 2012, the Authority was required to have at least \$28,433.14 set aside in the reserve account; as of that date the account balance for the reserve account was \$37,355.44, which complies with the covenants of the loan agreement.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the City for this fiscal year.

Excess of Expenditures Over Appropriations

As indicated in Note 1, the City prepares an Estimate of Needs budget. The expenditures for the year did not exceed appropriations.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2012, the City held deposits of approximately \$517,440 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name.

Investment Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The City has no policy that limits its investment choices other than the limitation of state law as follows:

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

Investments held by the City are all certificates of deposit and are stated at cost. The carrying amount of the City's investments at June 30, 2012 was \$273,294 and the bank balance was \$273,294 and was covered by sufficient collateral.

NOTE 4 - CAPITAL ASSETS

City of Hartshorne:

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

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
General Fund	\$ 1,185,251	\$ -	\$ -	\$ 1,185,251
Cemetery	32,645	-	-	32,645
Street & Alley	31,355	-	-	31,355
Library	403,918	-	-	403,918
Speck Building	1,477,353	-	-	1,477,353
Nutrition	201,671	-	-	201,671
Volunteer Fire	340,561	-	-	340,561
Utilities	89,624	-	-	89,624
Ambulance	232,238	-	-	232,238
Emergency	47,924	-	-	47,924
Park Supplies	11,380	-	-	11,380
Public Works	-	-	-	-
Subtotal	<u>4,053,921</u>	<u>-</u>	<u>-</u>	<u>4,053,921</u>
Less: Accum. Depr.	-	-	-	-
Total Capital Assets (Net of Depreciation)	<u>\$ 4,053,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,053,921</u>

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

Hartshorne Public Works Authority:

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

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Public Works	\$ 2,321,190	\$ -	-	\$ 2,321,190
Construction in Progress - PWA	4,235,087	1,231,251	-	5,466,338
Subtotal	6,556,277	1,231,251	-	7,787,528
Less: Accum. Depr.	-	-	-	-
Total Capital Assets (Net of Depreciation)	<u>\$ 6,556,277</u>	<u>\$ 1,231,251</u>	<u>\$ -</u>	<u>\$ 7,787,528</u>

The City, along with KEDDO (Kiamichi Economic Development District), has prepared a Capital Improvement Plan which lists all of the City's capital assets at replacement cost. This list does not show original cost or prior year depreciation.

The current year additions included the PWA Project.

NOTE 5 - LONG-TERM DEBT

On January 13, 2009, the Ambulance Fund entered into a loan agreement with First National Bank of Hartshorne in the amount of \$75,250.00 with a fixed interest rate of 4.3% with monthly payments of \$1,395.98 for 60 months (5 years) beginning February 13, 2009. This note was for the purchase of a 2008 Ambulance and included a down payment of \$20,000.00.

During the year ending June 30, 2010, the City incurred a note #92-01 due to Rural Development in the amount of \$2,223,000 with a fixed interest rate of 4.00% with 480 monthly payments of principal and interest of \$9,293.00. The note is for the purpose of providing loan funds for a portion of the cost of the sewer system improvement project. As of June 30, 2011, all loan proceeds have been received from this loan.

During the year ending June 30, 2010, the City incurred a second note #92-03 due to Rural Development in the amount of \$1,063,000 with a fixed interest rate of 2.50% with 480 monthly payments of principal and interest of \$3,508.00. The note is for the purpose of providing loan funds for a portion of the cost of the sewer system improvement project. As of June 30, 2011, all loan proceeds have been received from this loan.

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2012:

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

	Balance 7/1/2011	Additions	Deductions	Balance 6/30/2012
Note Payable - FNB	\$ 41,132	\$ -	\$ (14,821)	\$ 26,311
Note Payable - RD #92-01	\$ 2,148,174	\$ -	\$ (26,060)	\$ 2,122,114
Note Payable - RD #92-03	\$ 1,024,115	\$ -	\$ (16,683)	\$ 1,007,432
	<u>\$ 3,213,421</u>	<u>\$ -</u>	<u>\$ (57,564)</u>	<u>\$ 3,155,857</u>

A summary of future maturities of principal and interest are as follows:

Year Ending June 30,	Note Payable - FNB		Total
	Principal	Interest	
2013	15,963	789	\$ 16,752
2014	10,348	191	10,539
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018-2022	-	-	-
Total	<u>\$ 26,311</u>	<u>\$ 980</u>	<u>\$ 27,291</u>

Year Ending June 30,	Note Payable - RD 92-01		Note Payable - RD 92-03		Total
	Principal	Interest	Principal	Interest	
2013	\$ 27,125	\$ 84,391	\$ 17,105	\$ 24,991	\$ 153,612
2014	28,230	83,286	17,538	24,558	153,612
2015	29,381	82,135	17,981	24,115	153,612
2016	30,578	80,938	18,436	23,660	153,612
2017	31,823	79,693	18,902	23,194	153,612
2018-2022	179,654	377,926	101,928	108,552	768,060
2023-2027	219,357	338,223	115,485	94,995	768,060
2028-2032	267,834	289,746	130,844	79,636	768,060
2033-2037	327,024	230,556	148,247	62,233	768,060
2038-2042	399,296	158,284	167,964	42,516	768,060
2043-2047	487,539	70,041	190,303	20,177	768,060
2048-2052	94,272	1,791	62,697	1,263	160,024
Total	<u>\$ 2,122,114</u>	<u>\$ 1,877,009</u>	<u>\$ 1,007,432</u>	<u>\$ 529,888</u>	<u>\$ 5,536,444</u>

NOTE 6 - INSURANCE

The City's facilities are insured under a blanket property and general liability insurance policy.

NOTE 7 - CONTINGENT LIABILITIES

The management of the City of Hartshorne is not aware of any contingent liabilities at June 30, 2012 which would materially affect the City's financial statements.

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

NOTE 8 - RETIREMENT PLAN

The City of Hartshorne provides pension benefits for substantially all of its regular full time employees through a defined contribution plan in the Oklahoma Municipal Retirement Fund (OMRF). The term employee shall not include any individual who is covered by any other state or local retirement system to which the City of Hartshorne make contributions. The employee must work a year before he is eligible for the plan. After six years, the employee is fully vested.

The City of Hartshorne transferred retirement assets from a previous plan to the Oklahoma Municipal Retirement Fund as of April 1, 1996. The amount rolled over for each participating employee became that employee's beginning balance at OMRF.

The City of Hartshorne contributes 7% for all eligible employees and each employee must contribute 3%. The current year's covered payroll is \$396,498.22 and total employee and employer contributions to the plan for the year were \$11,864.89 and \$27,684.23, respectively.

The City of Hartshorne has a voluntary firefighters department. The firefighters are provided a retirement plan through the Oklahoma Firefighters Pension and Retirement System. The amount paid to the Oklahoma Firefighters Pension and Retirement System was \$60.00 per fireman. The annual fire department report determines the number of members of each affiliated department.

Dues paid on behalf of the firefighters to the Oklahoma State Firefighters Association was \$900.00. The volunteer firemen are not required to make any contributions.

NOTE 9 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

The restricted net assets include those restricted for the meter deposit liability, the police bond liability the debt service reserve.

CITY OF HARTSHORNE, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2012

Fund Balances

City of Hartshorne
 Disclosure of Fund Balances Reported on Balance Sheet
 For Fiscal Year Ending June 30, 2012

	General Fund	Street & Alley Fund	Ambulance Service Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES:					
Restricted for:					
Road Maintenance	\$ -	\$ 35,477	\$ -	\$ -	\$ 35,477
Assigned to:					
Ambulance	-	-	20,732	-	20,732
Land Fund	-	-	-	21,134	21,134
Cemetery Fund	-	-	-	4,539	4,539
Fire Dept Fund	-	-	-	5,381	5,381
Unassigned	249,853	-	-	-	249,853
Total	<u>\$ 249,853</u>	<u>\$ 35,477</u>	<u>\$ 20,732</u>	<u>\$ 31,054</u>	<u>\$ 337,117</u>

NOTE 10 - PWA SEWER SYSTEM IMPROVEMENT PROJECT

The Hartshorne Public Works Authority has been approved by USDA Rural Development for a Sewer System Improvement Project. The loan disbursement cannot exceed \$2,223,000 and \$1,063,000. The grant disbursement cannot exceed \$2,112,800 and \$756,700.

The estimated project costs are as follows:

Construction	\$5,139,690
Engineering	317,940
Resident Inspection	102,200
Legal fees	53,540
Environmental	10,000
Additional engineering	5,800
Electric to WWTP/Lift	100,000
Geotechnical/Survey/DEQ	12,350
Contingencies	<u>513,980</u>
Total	<u>\$6,255,500</u>

The project funding is planned in the form of loan and grants from the following sources and amounts:

Applicant Contributions	\$ 100,000
Rural Development Initial Loan	2,223,000
Rural Development Overrun Loan	1,063,000
Rural Development Initial Grant	2,112,800
Rural Development Overrun Grant	<u>756,700</u>
Total	<u>\$6,255,500</u>

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

As of June 30, 2012, all loan proceeds from both loans have been received, all of the initial grant has been received and \$76,707.98 of the overrun grant has been received.

NOTE 11 - SUBSEQUENT EVENTS

The City did not have any subsequent events through September 14, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2012.

NOTE 12 - ADDITIONAL INFORMATION

On October 7, 2011, the District Court of Pittsburg County entered a journal entry of judgment against the City of Hartshorne on behalf of Chesapeake Operating, Inc. in reference to case number CJ-2011-00250. The judgment was in the sum of \$29,450.91, plus all court costs accrued and accruing herein, and plus post judgment interest at the statutory rate until paid in full. The judgment is to be paid by a levy of property tax.

CITY OF HARTSHORNE, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 - MODIFIED CASH BASIS -
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Beginning Budgetary Fund Balance:	\$ 302,257	\$ 302,257	\$ 302,257	\$ 0
Resources (Inflows):				
Taxes:				
Sales Tax	334,321	334,321	432,294	97,972
Use Tax	28,497	28,497	54,395	25,898
Cigar Tax	7,088	7,088	8,843	1,756
Franchise Tax	45,952	45,952	50,541	4,589
Intergovernmental:				
Alcoholic Beverage Tax	12,302	12,302	14,265	1,963
Gasoline Excise Tax	-	-	-	-
Motor Vehicle Tax	-	-	-	-
Grants	-	-	-	-
User Fees - Public Works Dept.	-	-	5,780	5,780
Licenses & Permits	2,522	2,522	1,773	(750)
Fines	41,350	41,350	53,252	11,901
Pool	-	-	-	-
Donations	-	-	200	200
Royalties	23,768	23,768	17,763	(6,005)
Lease	-	-	-	-
Charges for Services	-	-	-	-
Sale of Lots & Fees	10,916	10,916	13,379	2,463
Miscellaneous Income	156,615	156,615	163,712	7,097
Interest Income	1,015	1,015	738	(277)
Capital Debt Proceeds	-	-	-	-
Transfers In	-	-	-	-
Amounts available for appropriation	966,602	966,602	1,119,191	152,588
Charges to Appropriations (Outflows):				
Highways and Roads	-	-	12,975	(12,975)
Cultural & Recreation	-	-	64,788	(64,788)
Public Safety	195,000	195,000	152,114	42,886
General Government	700,000	700,000	523,867	176,133
Public Works Department	-	-	58,123	(58,123)
Debt Service	-	-	-	-
Capital Outlay	60,000	60,000	-	60,000
Transfers	11,602	11,602	75,430	(63,828)
Total Charges to Appropriations	966,602	966,602	887,296	79,306
Prior Year Adjustments to Fund Balance	-	-	17,959	17,959
Ending Budgetary Fund Balance	-	-	249,853	249,853

CITY OF HARTSHORNE, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE
 STREET & ALLEY FUND
 - MODIFIED CASH BASIS -
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 95,021	\$ 95,021	\$ 95,021	\$ 0
<u>Resources (Inflows):</u>				
Gasoline Excise Tax	3,407	3,407	4,017	610
Motor Vehicle Tax	13,534	13,534	14,484	950
Miscellaneous Income	-	-	-	-
Interest Income	799	799	590	(210)
Transfers In	-	-	-	-
Amounts available for appropriation	<u>112,762</u>	<u>112,762</u>	<u>114,112</u>	<u>1,351</u>
<u>Charges to Appropriations (Outflows):</u>				
Highways and Roads	112,762	112,762	78,635	34,126
Capital Outlay	-	-	-	-
Transfers Out	-	-	-	-
Total Charges to Appropriations	<u>112,762</u>	<u>112,762</u>	<u>78,635</u>	<u>34,126</u>
Prior Year Adjustments to Fund Balance	-	-	-	-
Ending Budgetary Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,477</u>	<u>\$ 35,477</u>

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2012

The City's annual operating budget represents appropriations as authorized by the Governing Body of the City and the County Excise Board in accordance with the provisions of Title 68 of the Oklahoma Statutes. The City's budget is limited by law to 90% of the amount of revenue collected in the prior year plus unreserved fund balance. In addition, revisions may be made to the budget throughout the year as authorized by the Board and the County Excise Board. The legal level of control of the budget is the expenditures category within a department. The expenditure categories required by the applicable State Statutes are:

1. Personal Services;
2. Maintenance and Operations; and
3. Capital Outlay

The budget is prepared on the same modified cash basis of accounting as applied to the basic financial statements. Revenues and expenses are reported when they result from cash transactions.

**CITY OF HARTSHORNE, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/ Program Title</u>	<u>Federal CFDA No.</u>	<u>Award Amount</u>	<u>Federal Expenditures</u>
<u>USDA Rural Development:</u>			
Grant:			
Water and Waste Disposal Systems for Rural Communities	10.760	2,112,800	971,882
Water and Waste Disposal Systems for Rural Communities	10.760	756,700	76,708
Total		<u>\$ 2,869,500</u>	<u>\$ 1,048,590</u>

**CITY OF HARTSHORNE, OKLAHOMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2012**

NOTE 1 - GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards of the City of Hartshorne, Oklahoma (the "City").
The City's reporting entity is defined in Note 1 to the City's basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

NOTE 2 - BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is present using the modified cash basis of accounting, which is described in Note 1 to the City's basic financial statements.

NOTE 3 - RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal awards revenues are reported in the City's basic financial statements as follows:

		<u>Federal Sources</u>
General		<u>\$ 1,048,590</u>
	Total	<u><u>\$ 1,048,590</u></u>

NOTE 4 - RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports except for changes made to reflect amounts in accordance with the modified cash basis of accounting.

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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 Hartshorne, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining funds of the City of Hartshorne, State of Oklahoma, as of June 30, 2012, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 14, 2012, which was qualified for the effect on the basic financial statements of the improper capital asset recordkeeping. The City of Hartshorne has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the City did not present the required MD&A. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

Management of the City of Hartshorne is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Hartshorne's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hartshorne's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hartshorne's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

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

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any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 12-01 and 12-02. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hartshorne's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Hartshorne's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit the City of Hartshorne's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of trustees, others within the entity, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

September 14, 2012

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the City Council
City of Hartshorne, Oklahoma

Compliance

We have audited the City of Hartshorne's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Hartshorne's major federal financial programs for the year ending June 30, 2012. The City of Hartshorne's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Hartshorne's management. Our responsibility is to express an opinion on the City of Hartshorne's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and in accordance with Oklahoma Statutes. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hartshorne's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Hartshorne's compliance with those requirements.

As described in Note 1, these financial statements were prepared on the modified cash basis as accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the City of Hartshorne complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the City of Hartshorne is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations,

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contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Hartshorne's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Hartshorne's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of significant deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Kershaw CPA & Associates, P.C.

Robert E. Kershaw, CPA

September 14, 2012

CITY OF HARTSHORNE, OKLAHOMA
SUMMARY STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2012

Item 11-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the Town.

Response: The Board continues to be actively involved in the operations of the Town.

Item 11-02: Meter Deposits

Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The City does not keep a ledger regarding the balance of customer meter deposits.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits.

Response: The City is aware of the problem and has already taken steps to correct the situation.

Current Status: Findings 11-01 and 11-02 still exist in the current year.

CITY OF HARTSHORNE, OKLAHOMA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issue: Qualified

Internal control over financial reporting:

Material weaknesses identified? ___yes X no

Significant deficiencies identified
that are not considered to be material
weaknesses? X yes ___none reported

Noncompliance material to financial
statements noted? ___yes X no

Federal Awards

Internal control over major programs:

Material weaknesses identified? ___yes X no

Significant deficiencies identified
that are not considered to be
material weaknesses? ___yes X none reported

Type of auditor's report issued on compliance
for major programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
section 510(a) of Circular A-133? ___yes X no

Identification of major programs:
#10.760 Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between
type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes ___no

SECTION II - FINANCIAL STATEMENT FINDINGS

Item 12-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of

CITY OF HARTSHORNE, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the Town.

Response: The Board continues to be actively involved in the operations of the Town.

Item 12-02: Meter Deposits

Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The City does not keep a ledger regarding the balance of customer meter deposits.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: It is recommended that the organization properly report and account for the balance of customer deposits.

Response: The City is aware of the problem and has already taken steps to correct the situation.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

CITY OF HARTSHORNE, OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	SPECIAL REVENUE FUNDS			Total Nonmajor Governmental Funds
	Land Fund	Cemetery Fund	Volunteer Fire Dept	
ASSETS				
Cash and cash equivalents	\$ -	\$ 4,539	\$ 5,381	\$ 9,920
Investments	21,134	-	-	21,134
Due from other Funds	-	-	-	-
TOTAL ASSETS	\$ 21,134	\$ 4,539	\$ 5,381	\$ 31,054
LIABILITIES & FUND BALANCES				
LIABILITIES:				
Due to Other Funds	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-
TOTAL LIABILITIES	-	-	-	-
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	21,134	4,539	5,381	31,054
Unassigned	-	-	-	-
TOTAL FUND BALANCES	21,134	4,539	5,381	31,054
TOTAL LIABILITIES AND FUND BALANCES	\$ 21,134	\$ 4,539	\$ 5,381	\$ 31,054

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF HARTSHORNE, OKLAHOMA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	SPECIAL REVENUE FUNDS			Total Nonmajor Governmental Funds
	Land Fund	Cemetery Fund	Volunteer Fire Dept	
REVENUES:				
Taxes:				
Sales Tax	\$ -	\$ -	\$ -	\$ -
Intergovernmental:				
Gasoline Excise Tax	-	-	-	-
Motor Vehicle Tax	-	-	-	-
Grants	-	-	4,413	4,413
Charges for Services	-	-	-	-
Sale of Lots & Fees	-	-	-	-
Miscellaneous	-	-	150	150
Interest Income	79	-	19	99
TOTAL REVENUES	79	-	4,582	4,661
EXPENDITURES:				
Highways & Roads	-	-	-	-
Public Safety	-	-	11,700	11,700
General Government	-	-	-	-
Capital Outlay	-	-	-	-
TOTAL EXPENDITURES	-	-	11,700	11,700
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	79	-	(7,118)	(7,039)
OTHER FINANCING SOURCES (USES):				
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-
NET CHANGES IN FUND BALANCES	79	-	(7,118)	(7,039)
FUND BALANCE - BEGINNING OF YEAR	21,054	4,539	12,500	38,093
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 21,134	\$ 4,539	\$ 5,381	\$ 31,054

See Accountant's Audit Report & Notes Which Accompany These Financial Statements