

AUDIT REPORT
CITY OF LEHIGH, OKLAHOMA
JUNE 30, 2012



KERSHAW CPA & ASSOCIATES, PC

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CITY OF LEHIGH, OKLAHOMA
JUNE 30, 2012

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CITY OF LEHIGH, OKLAHOMA
JUNE 30, 2012

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

BOARD OF TRUSTEES

<u>NAME</u>	<u>POSITION</u>
EARNEST COTTRELL	MAYOR
WANDA CALVERT	VICE-MAYOR
CHERYL YOUNG	BOARD MEMBER
GUY KNIGHT	BOARD MEMBER
JESSE HORN	BOARD MEMBER

CITY TREASURER

KAY YARBROUGH

WATER SUPERVISOR

DARRELL LONG

Unaudited

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Lehigh, Oklahoma

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lehigh, Oklahoma, as of and for the fiscal year ended June 30, 2012, which collectively comprise the City of Lehigh, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lehigh, 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 of 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.

Until October 2006, the City recorded its business-type activities within the governmental funds, primarily the General Fund. Accounting principles generally accepted in the United States of America require the City to report, in a financial statement format, its business-type activities separate from its governmental activities. Although the City now has separate accounts for the PWA and IDA, funds are still being commingled.

In our opinion, except for the effects, if any, on the financial statements of improper capital asset recordkeeping and the lack of segregation of its business-type activities described in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities and each major fund of the City of Lehigh, Oklahoma, as of June 30,

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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 December 18, 2012, on our consideration of the City of Lehigh, Oklahoma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information and the notes to the budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City of Lehigh 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.

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.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

December 18, 2012

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>2012 Total</u>
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 112,450	\$ 78,370	\$ 190,820
Investments	-	-	-
Total Current Assets	<u>112,450</u>	<u>78,370</u>	<u>190,820</u>
<u>Other Assets:</u>			
Cash and cash equivalents - Restricted	-	3,323	3,323
Total Other Assets	<u>-</u>	<u>3,323</u>	<u>3,323</u>
<u>Capital Assets:</u>			
Capital Assets, net of Accum. Depreciation	<u>261,167</u>	<u>3,158,732</u>	<u>3,419,899</u>
Total Capital Assets	<u>261,167</u>	<u>3,158,732</u>	<u>3,419,899</u>
TOTAL ASSETS	<u>373,617</u>	<u>3,240,425</u>	<u>3,614,042</u>
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Accounts Payable	-	-	-
Total Current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<u>Long-Term Liabilities:</u>			
Capital Lease Obligations	-	-	-
Revenue Bonds Payable	-	-	-
Notes Payable	-	671,451	671,451
Total Long-Term Liabilities	<u>-</u>	<u>671,451</u>	<u>671,451</u>
TOTAL LIABILITIES	<u>-</u>	<u>671,451</u>	<u>671,451</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	261,167	2,487,281	2,748,449
Restricted for:			-
Debt Service	-	3,323	3,323
Other Purposes	-	-	-
Unrestricted	<u>112,450</u>	<u>78,370</u>	<u>190,820</u>
TOTAL NET ASSETS	<u>\$ 373,617</u>	<u>\$ 2,568,974</u>	<u>\$ 2,942,591</u>

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

CITY OF LEHIGH, 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:					
General Govt. & Public Safety:					
Personal Services	\$ 23,086	\$ -	\$ -	\$ -	\$ (23,086)
Maintenance & Operations	187,025	-	38,106	83,856	(65,064)
M&O: Community Development	224,000	-	-	-	(224,000)
Debt Service - Interest	-	-	-	-	-
Total Governmental Activities	434,111	-	38,106	83,856	(312,150)
Business-type activities:					
Water, Sewer & Sanitation	312,372	163,660	-	-	(148,712)
Total Business-type Activities	312,372	163,660	-	-	(148,712)
Total	\$ 746,483	\$ 163,660	\$ 38,106	\$ 83,856	\$ (460,862)

Changes in Net Assets:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (312,150)	\$ (148,712)	\$ (460,862)
General revenues:			
Taxes:			
Sales Tax	7,234	-	7,234
Use Tax	1,172	-	1,172
Cigar Tax	116	-	116
Franchise Tax	4,489	-	4,489
Intergovernmental:			
Alcoholic Beverage Tax	5,546	-	5,546
Gasoline Excise Tax	673	-	673
Motor Vehicle Tax	2,029	-	2,029
Lease Income/Rent	4,064	-	4,064
Oil & Gas Lease Income	16,832	-	16,832
Licenses & Permits	-	-	-
Donations	100	-	100
Fund Raisers	4,936	-	4,936
Miscellaneous Income	849	-	849
Interest Income	312	104	416
Transfers - Internal Activity	-	-	-
Total general revenues & transfers	48,354	104	48,458
Changes in net assets	(263,796)	(148,608)	(412,405)
Net assets - beginning	637,414	2,717,582	3,354,996
Net assets - transfer to PWA & IDA from Gen. Fund	-	-	-
Net assets - prior year adjustment	-	-	-
Net assets - ending	\$ 373,617	\$ 2,568,974	\$ 2,942,591

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

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

	General Fund	Volunteer Fire Fund	Housing Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 81,014	\$ 17,438	\$ -	\$ 13,998	\$ 112,450
Investments	-	-	-	-	-
Accounts Receivable	-	-	-	-	-
TOTAL ASSETS	\$ 81,014	\$ 17,438	\$ -	\$ 13,998	\$ 112,450
LIABILITIES & FUND EQUITY					
LIABILITIES:					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL LIABILITIES	-	-	-	-	-
FUND BALANCES:					
Nonspendable	-	-	-	-	-
Restricted	-	-	-	8,556	8,556
Committed	-	-	-	-	-
Assigned	-	17,438	-	5,442	22,879
Unassigned	81,014	-	-	-	81,014
TOTAL FUND BALANCES	81,014	17,438	-	13,998	112,450
TOTAL LIABILITIES AND FUND BALANCE	\$ 81,014	\$ 17,438	\$ -	\$ 13,998	

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 \$261,167, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds. 261,167

Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds. -

Net Assets of Governmental Activities \$ 373,617

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

CITY OF LEHIGH, 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	Volunteer Fire Fund	Housing Project Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Sales Tax	\$ 7,234	\$ -	\$ -	\$ -	\$ 7,234
Use Tax	1,172	-	-	-	1,172
Cigar Tax	116	-	-	-	116
Franchise Tax	4,489	-	-	-	4,489
Intergovernmental:					
Alcoholic Beverage Tax	5,546	-	-	-	5,546
Gasoline Excise Tax	-	-	-	673	673
Motor Vehicle Tax	-	-	-	2,029	2,029
Grants	72,193	6,663	38,106	5,000	121,961
Lease Income/Rent	4,064	-	-	-	4,064
Oil & Gas Lease Income	16,832	-	-	-	16,832
Water Revenue	-	-	-	-	-
Licenses & Permits	-	-	-	-	-
Donations	-	100	-	-	100
Fund Raisers	-	4,936	-	-	4,936
Miscellaneous Income	799	50	-	-	849
Interest Income	272	30	-	10	312
TOTAL REVENUES	112,718	11,778	38,106	7,713	170,315
EXPENDITURES:					
Current:					
Personal Services	21,886	1,200	-	-	23,086
Maintenance & Operations:					
Maintenance & Operations - General	12,445	17,715	-	4,246	34,407
Community Development	-	-	224,000	-	224,000
Debt Service	-	-	-	-	-
Capital Outlay	146,198	-	-	6,420	152,618
TOTAL EXPENDITURES	180,530	18,915	224,000	10,666	434,111
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(67,811)	(7,137)	(185,894)	(2,954)	(263,796)
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	-	3,617	-	3,617	7,233
Operating Transfers Out	(7,233)	-	-	-	(7,233)
Capital Debt Proceeds - CRG	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(7,233)	3,617	-	3,617	-
NET CHANGES IN FUND BALANCES	(75,045)	(3,520)	(185,894)	663	(263,796)
FUND BALANCE - BEGINNING OF YEAR	156,059	20,958	185,894	13,335	376,246
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 81,014	\$ 17,438	\$ -	\$ 13,998	112,450

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

CITY OF LEHIGH, 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 \$ (263,796)

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 -

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 \$ (263,796)

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

CITY OF LEHIGH, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2012

	Lehigh Public Works Authority	Lehigh Industrial Development Authority	Total Enterprise Funds
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 77,982	\$ 388	\$ 78,370
Investments	-	-	-
Total Current Assets	77,982	388	78,370
Noncurrent Assets:			
Restricted cash, including time deposits	-	3,323	3,323
Capital assets, net of accumulated depreciation	197,149	2,961,583	3,158,732
Total Noncurrent Assets	197,149	2,964,906	3,162,055
TOTAL ASSETS	275,131	2,965,294	3,240,425
<u>LIABILITIES & FUND EQUITY</u>			
Current Liabilities:			
Accounts Payable	-	-	-
Total Current Liabilities	-	-	-
Noncurrent Liabilities:			
Notes Payable	-	671,451	671,451
Total Noncurrent Liabilities	-	671,451	671,451
TOTAL LIABILITIES	-	671,451	671,451
NET ASSETS:			
Invested in capital assets, net of related debt	197,149	2,290,132	2,487,281
Restricted for debt service	-	3,323	3,323
Restricted for other purposes	-	-	-
Unrestricted	77,982	388	78,370
TOTAL NET ASSETS	\$ 275,131	\$ 2,293,843	\$ 2,568,974

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

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

	Lehigh Public Works Authority	Lehigh Industrial Development Authority	Total Enterprise Funds
<u>OPERATING REVENUES:</u>			
Water, Sewer and Sanitation Charges	\$ 148,675	\$ -	\$ 148,675
Grant Income - USDA RD	-	-	-
Grant Income	-	-	-
Oil & Gas Lease Income	-	-	-
Miscellaneous	9,600	5,384	14,984
TOTAL OPERATING REVENUES	158,275	5,384	163,660
<u>OPERATING EXPENSES:</u>			
Current:			
Personal Services	65,196	-	65,196
Trash Service Expense	30,563	-	30,563
Electricity	14,930	-	14,930
Maintenance & Operations	52,959	2,910	55,869
Depreciation	11,113	105,771	116,884
TOTAL OPERATING EXPENSES	174,762	108,681	283,443
NET OPERATING INCOME (LOSS)	(16,487)	(103,296)	(119,783)
NON-OPERATING REVENUES (EXPENSES)			
Interest Income	101	3	104
Interest Expense	-	(28,929)	(28,929)
TOTAL NON-OPERATING REVENUES (EXPENSES)	101	(28,926)	(28,825)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(16,385)	(132,223)	(148,608)
Capital Contributions	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
CHANGE IN NET ASSETS	(16,385)	(132,223)	(148,608)
TOTAL NET ASSETS - BEGINNING	291,516	2,426,066	2,717,582
TOTAL NET ASSETS - ADJUSTMENTS	-	-	-
TOTAL NET ASSETS - ENDING	\$ 275,131	\$ 2,293,843	\$ 2,568,974

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

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

	Lehigh Public Works Authority	Lehigh Industrial Development Authority	Total Enterprise Funds
<u>Net Cash Flows from Operating Activities:</u>			
Cash Receipts from Customers	\$ 158,275	\$ -	\$ 158,275
Cash Receipts from Granting Agencies/Other	-	5,384	5,384
Payments to Suppliers, Employees & Laborers	(163,649)	(2,910)	(166,559)
Net Cash Provided (Used) by Operating Activities	<u>(5,373)</u>	<u>2,474</u>	<u>(2,899)</u>
<u>Net Cash Flows from Non-Capital Financing Activities:</u>			
Operating Transfers in	-	-	-
Operating Transfers Out	-	-	-
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>			
Additions to Capital Assets	-	-	-
Decrease (Increase) in Restricted Cash	-	31,372	31,372
Loan Proceeds received	-	-	-
Principal paid	-	(7,827)	(7,827)
Interest paid	-	(28,929)	(28,929)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>-</u>	<u>(5,384)</u>	<u>(5,384)</u>
Net Cash Flows from Investing Activities:			
Interest Earned	101	3	104
Net Cash Provided (Used) by Investing Activities	<u>101</u>	<u>3</u>	<u>104</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(5,272)	(2,907)	(8,179)
Cash & Cash Equivalents, Beginning of Year	83,255	3,295	86,550
Cash & Cash Equivalents, Adjustments	-	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 77,982</u>	<u>\$ 388</u>	<u>\$ 78,370</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>			
Net Operating Income (Loss)	\$ (16,487)	\$ (103,296)	\$ (119,783)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation Expense	11,113	105,771	116,884
(Increase)Decrease in Due from Other Funds	-	-	-
Increase(Decrease) in Payroll Taxes Payable	-	-	-
Increase(Decrease) in Due to Other Funds	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (5,373)</u>	<u>\$ 2,474</u>	<u>\$ (2,899)</u>

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

CITY OF LEHIGH, OKLAHOMA
 STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
 FIDUCIARY FUND TYPES
 JUNE 30, 2012

	<u>Meter Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 9,743
Investments	<u>5,773</u>
TOTAL ASSETS	<u>15,516</u>
<u>LIABILITIES & FUND EQUITY</u>	
Meter Deposit Payable	<u>14,229</u>
TOTAL LIABILITIES	<u>14,229</u>
NET ASSETS:	
Invested in capital assets, net of related debt	-
Restricted for debt service	-
Unrestricted	1,287
TOTAL NET ASSETS	<u><u>\$ 1,287</u></u>

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lehigh, Oklahoma (City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the City are discussed below:

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the City's overall financial position and results of operations. However, the City has chosen not to present the required MD&A for the current year.
 - b. Financial statements prepared using full accrual accounting for all of the City's activities, except for including the General capital assets or infrastructure (roads, bridges, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement the general provisions of the Statement and report infrastructure acquired after July 1, 2003 as provided by GASB standards.

The significant accounting policies followed by the City of Lehigh, Oklahoma are summarized below.

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 accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various

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

funds are grouped in the financial statements in this report, into three generic fund types and three broad fund categories as follows:

GOVERNMENTAL FUND TYPES

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Street and Alley, Volunteer Fire, OWRB REAP Grant and Cemetery

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable rust or major capital projects) that are legally restricted to expenditures for specified purposes.

For the current fiscal year, the City has a new Special Revenue Fund, the Housing Project Fund. This fund was created as a Rehabilitation Project for five homes located in the City. The improvements provided by this fund are not owned by the City itself but by the individual homeowners. Income for this project is received from OHFA and HUD.

PROPRIETARY FUND TYPES

Enterprise Funds - Lehigh Public Works Authority and Lehigh Industrial Development Authority

Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheets.

FIDUCIARY FUND TYPES

Trust and Agency Funds - Meter Deposit Fund

Trust and Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments and/or other funds. These include meter deposit funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement or results of operations.

Basis of Accounting

Basis of accounting refers to the time when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting is

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

related to the timing of the measurement made, regardless of the measurement focus applied.

The modified cash basis of accounting is followed by all funds of the City, which is not in accordance with generally accepted accounting principles. Under this modified cash basis of accounting, revenues are recorded when received and expenditures are recorded when paid. In accordance with generally accepted accounting principles, governmental fund types would utilize the modified accrual basis of accounting while proprietary type funds would use the accrual basis of accounting.

If the books of the governmental fund types and the similar trust fund were maintained on the basis of accounting required by generally accepted accounting principles, revenues would be recorded when susceptible to accrual (i.e. both measurable) and available and expenditures would be recorded when the current liability is incurred. If the books of the proprietary fund types and similar trust funds were maintained on the basis of accounted required by generally accepted accounting principles, revenues would be recognized when earned and expenses would be recorded when the liability is incurred.

The City does not maintain adequate records for capital assets of the governmental and proprietary fund types; therefore Capital Assets are not reported as required by generally accepted accounting principles. The City has capitalized some but not all of its capital assets. The capitalization threshold utilized has been \$400.00.

This basis of accounting follows the budgetary laws of the State of Oklahoma as applied to Cities and Towns.

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Budgetary Comparison Schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles.

Total Columns on Combined Statements - Overview

Total Columns on the Combined Statements - Overview are captioned "totals - (memorandum only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

Custodial Credit Risk

At June 30, 2012, the City held deposits of approximately \$194,143 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:

Investments of the City are limited by O.S., Title 62, Section 348.1 to the following:

- a. Direct obligations of the U.S. Government or its agencies or 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 of Oklahoma is pledged.
- b. Certificates of deposit 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. Negotiable certificates of deposits, prime bankers acceptance prime commercial paper and repurchase agreements with certain limitations. Any investments mentioned in the previous paragraphs a. and b., where the collateral has been deposited with a trustee in an irrevocable trust or escrow account.
- 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 trust whose beneficiary is a county, municipality or school district.

For the year ended June 30, 2012 the City complies with the above noted investment restrictions.

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

ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Accumulated unpaid vacation and sick leave benefits have not been shown as a liability in the financial statements. The City's position is that any accrued benefits are not significant and would not materially affect the financial statements.

PENSION PLAN

The City does not maintain or contribute to any type of pension plan.

SALES TAX COLLECTIONS

The City of Lehigh has a two cent sales tax. One cent sales tax is earmarked for cemetery maintenance and one cent sales tax is earmarked for the Volunteer Fire Department. Sales tax is deposited to the General Fund, and then transferred to the Cemetery and Volunteer Fire checking accounts. Purchase orders are prepared and approved by the City Council for expenditures from both accounts.

ACCOUNTS RECEIVABLE

The City of Lehigh's basis of accounting only reflects revenue when received.

APPROPRIATIONS

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. Unused appropriations for all of the above annually budgeted funds lapse at the end of year.

LEHIGH DEVELOPMENT AUTHORITY

In August, 2001, the City of Lehigh established and created a Trust entitled "Lehigh Development Authority: for the use and benefit of the Beneficiary for the public purposes set forth under the provisions of Title 60, Oklahoma Statutes 1991, Sections 176 to 180.4, inclusive, as amended and supplemented, the Oklahoma Trust act and other applicable statutes and laws of the State of Oklahoma. The Trust is to have and hold such property and the proceeds, rents, profits, and increases unto said Trustees and said Trustees' successors and assigns, but nevertheless in trust, for the use and benefit of the City of Lehigh, State of Oklahoma, such City being designated as "Beneficiary."

The purpose of this Trust are to assist the Beneficiary, the State of Oklahoma, Governmental Agencies, municipalities and private entities, agencies and citizens in making the most efficient use of all of their economic resources and powers in accord with the needs and benefit of the State of Oklahoma and the Beneficiary in order to lessen the burdens of government and to stimulate economic growth and development.

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

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.”

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City 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 City 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.

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

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

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Volunteer Fire Fund	Grants Donations
Housing Project Fund	Grant Income

RISK MANAGEMENT

The City's risk management of loss consists of commercial insurance for property and liability losses, an employee's bond for employee dishonesty, and worker's compensation through the State Insurance Fund. There have been no significant reductions in insurance coverage during the year ended June 30, 2012.

ESTIMATES

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

PARTICIPATION IN PUBLIC ENTITY RISK POOL

The City of Lehigh participated in the Oklahoma Municipal Assurance Group (OMAG) for insurance purposes. The Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan) became effective October 1, 1984. The purpose of the Plan is to provide workers' compensation coverage through the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing and legal defense for any and all claims submitted to it during the Plan year. A plan year normally begins at 12:01 a.m. July 1, in any year and ends at Midnight June 30, of the following calendar year. The Plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

A municipality may apply and enter into agreement with the Plan to participate in the coverage's and services that the Plan offers as outlined above. Upon acceptance into the Plan, a participant has the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, a participant in the Plan is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. Participants have a right to the return of any Loss Funds set aside for claims which have not been paid out as benefits.

These funds represent both current and past plan year participation with the Loss Fund balances in respect to worker's compensation retention. The State Insurance

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

Fund provides coverage in excess of these respective retention levels so each participant's liability for claim losses is limited to these retention levels. Failure of the State Insurance Fund to honor its obligation could result in losses to the Plan. However, OMAG's evaluation of the financial condition of the State Insurance Fund indicates that the State Insurance Fund is presently financially sound and will be able to meet its contractual obligations.

RESTRICTED ASSETS

The loan agreements with the United States Department of Agriculture Rural Development (USDA) require the District to set aside into a Reserve Account the sum 10% of the monthly installments or \$306.30 each month until there is accumulated in that account the sum of the annual installment for each loan (\$27,492 for 92-01 and \$9,264 for 92-04, total of \$36,756), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of June 30, 2012, the account balance for the reserve account was \$3,322.94, which does not meet the required balance of \$7,351.20.

NOTE 2 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2012, was as follows:

City of Lehigh:

	Balance at July 1, 2011	Additions	Retirements	Balance at June 30, 2012
PRIMARY GOVERNMENT:				
<i>Governmental Activities:</i>				
Other capital assets:				
Capital Assets	\$ 261,167	\$ -	\$ -	\$ 261,167
Total Other Capital Assets at Historical Cost	261,167	-	-	261,167
Less: Accum. Depreciation for:				
Capital Assets	-	-	-	-
Total Accumulated Depreciation	-	-	-	-
Governmental Activities Capital Assets, net	\$ 261,167	\$ -	\$ -	\$ 261,167

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

Lehigh Public Works Authority:

	Balance at July 1, 2011	Additions	Retirements	Balance at June 30, 2012
<i>Business-Type Activities:</i>				
Capital Assets not being Depreciated:				
Land and Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total Capital Assets not being Depreciated	-	-	-	-
Other capital assets:				
Sewer Improvements	217,911	-	-	217,911
Machinery & Equipment	653	-	-	653
Total Other Capital Assets at Historical Cost	218,564	-	-	218,564
Less: Accum. Depreciation for:				
Sewer Improvements	10,084	10,896	-	20,980
Machinery & Equipment	218	218	-	436
Total Accumulated Depreciation	10,302	11,113	-	21,415
Other Capital Assets, Net	208,262	(11,113)	-	197,149
Business-Type Activities Capital Assets, net	\$ 208,262	\$ (11,113)	\$ -	\$ 197,149

Lehigh Industrial Development Authority:

	Balance at July 1, 2011	Additions	Retirements	Balance at June 30, 2012
<i>Business-Type Activities:</i>				
Capital Assets not being Depreciated:				
Land and Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total Capital Assets not being Depreciated	-	-	-	-
Other capital assets:				
Sewer Improvements	3,173,125	-	-	3,173,125
Total Other Capital Assets at Historical Cost	3,173,125	-	-	3,173,125
Less: Accum. Depreciation for:				
Sewer Improvements	105,771	105,771	-	211,542
Total Accumulated Depreciation	105,771	105,771	-	211,542
Other Capital Assets, Net	3,067,354	(105,771)	-	2,961,583
Business-Type Activities Capital Assets, net	\$ 3,067,354	\$ (105,771)	\$ -	\$ 2,961,583

NOTE 3 - LONG-TERM DEBT

ENTERPRISE FUND DEBT

NOTE PAYABLE:

Terms and Collateral

Outstanding Debt
June 30, 2012

Promissory Note to USDA Rural Development (#01) in the amount of \$517,000.00 with an interest rate of 4.25%, monthly payments of \$2,291 and maturing in 2048. The note was used to finance a sewer project.

\$504,495.32

Promissory Note to USDA Rural Development (#04) in the

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

amount of \$171,000.00 with an interest rate of 4.375%, monthly payments of \$772 and maturing in 2048. The note was used to finance a sewer project.

\$166,955.61

Total Notes Payable Outstanding

\$671,450.93

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

	Balance 7/1/2011	Additions	Deductions	Balance 6/30/2012
Note Payable - RD #1	\$ 510,408	\$ -	\$ (5,913)	\$ 504,495
Note Payable - RD #4	168,869	-	(1,914)	166,956
	\$ 679,278	\$ -	\$ (7,827)	\$ 671,451

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2012, are as follows:

RD #92-01

Year Ended June 30,	Principal	Interest	Annual Payment
2013	\$ 6,162	\$ 21,330	\$ 27,492
2014	6,429	21,063	27,492
2015	6,707	20,785	27,492
2016	6,998	20,494	27,492
2017	7,301	20,191	27,492
2018-2022	41,537	95,923	137,460
2023-2027	51,352	86,108	137,460
2028-2032	63,487	73,973	137,460
2033-2037	78,489	58,971	137,460
2038-2042	97,036	40,424	137,460
2043-2047	119,966	17,494	137,460
2048	19,030	521	19,551
Total	\$ 504,495	\$ 477,276	\$ 981,771

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

RD #92-04

Year Ended June 30,	Principal	Interest	Annual Payment
2013	\$ 1,997	\$ 7,267	\$ 9,264
2014	2,086	7,178	9,264
2015	2,179	7,085	9,264
2016	2,276	6,988	9,264
2017	2,378	6,886	9,264
2018-2022	13,578	32,742	46,320
2023-2027	16,891	29,429	46,320
2028-2032	21,013	25,307	46,320
2033-2037	26,141	20,179	46,320
2038-2042	32,520	13,800	46,320
2043-2047	40,456	5,864	46,320
2048	5,443	149	5,592
Total	<u>\$ 166,956</u>	<u>\$ 162,876</u>	<u>\$ 329,832</u>

NOTE 4 - 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 City's restricted net assets are described in Note 1 above.

Governmental Fund Balances

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

	General Fund	Volunteer Fire Fund	Housing Project Fund	Other Governmental Funds	Total Governmental Funds
<u>FUND BALANCES:</u>					
Restricted for:					
Road Maintenance	\$ -	\$ -	\$ -	\$ 8,556	\$ 8,556
Assigned to:					
Fire Department	-	17,438	-	-	17,438
Cemetery Fund	-	-	-	5,442	5,442
Unassigned	81,014	-	-	-	81,014
Total	<u>\$ 81,014</u>	<u>\$ 17,438</u>	<u>\$ -</u>	<u>\$ 13,998</u>	<u>\$ 112,450</u>

NOTE 5 - COMMITMENTS AND CONTINGENCIES

GRANT PROGRAMS

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

The City participates in certain federal and state grant programs as available, currently the City is not participating in any ongoing programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. The amount of expenditures that may be disallowed by the granting agency cannot be determined at this time, although it is believed by the City that the amount, if any, would not be significant.

LITIGATION

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

NOTE 6 - ENTERPRISE FUNDS

During the fiscal year ending June 30, 2007, the Lehigh Industrial Development Authority and the Lehigh Public Works Authority opened bank accounts separate from the City's General Fund. Until 2007, all PWA financial activity was accounted for in the general fund and the IDA did not have any activity. Since all activity was previously commingled in the General Fund, prior year adjustments to Net Assets were required to show the Capital Assets and Debt that actually belonged to the Enterprise Funds.

NOTE 7 - LEASE INCOME

Oil & Gas Lease

The City entered into an Oil and Gas Lease dated December 7, 2006 through Lowry Land Co., Inc. The lease is for Sec. 16-1S-10E which is 40 acres in Coal County, Oklahoma. The lease calls for \$2,200 per acre for a term of 2 years, with a royalty of 3/16.

The City entered into a second Oil and Gas Lease dated December 7, 2006 through Lowry Land Co., Inc. The lease is for Sec. 21-1S-10E which is 160 acres in Coal County, Oklahoma. The lease calls for \$2,200 per acre for a term of 2 years, with a royalty of 3/16.

The City entered into an Oil and Gas Lease dated April 26, 2007 through Texhoma Land Consultants, Inc. with Antero Resources. The lease is for Sec. 11-1S-10E which is 21.2 acres in Coal County, Oklahoma. The lease calls for \$2,268 per acre.

Grass Lease

The City accepted the following grass leases:

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

Keith Horn \$805.00 on the 80 acres
Danny West \$759.00 on the 40 acres
Bob Thomas \$1,665.00 on the 160 acres

NOTE 8 - INTERFUND TRANSACTIONS

Interfund operating transfers for the year ended June 30, 2012, were as follows:

OPERATING TRANSFERS:	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
GENERAL:		
Fire Department Fund	\$ -	\$ 3,616.72
Street & Alley Fund	-	-
Cemetery Fund	-	3,616.72
Lehigh Industrial Development Authority	-	-
Lehigh Public Works Authority	-	-
Total General Fund	<u>\$ -</u>	<u>\$ 7,233.44</u>
SPECIAL REVENUE FUNDS:		
Fire Department Fund:		
General Fund	\$ 3,616.72	\$ -
Street & Alley Fund:		
General Fund	-	-
Cemetery Fund:		
General Fund	3,616.72	-
Housing Project Fund:		
Lehigh Public Works Authority	-	-
Total Special Revenue Funds	<u>\$ 7,233.44</u>	<u>\$ -</u>
ENTERPRISE FUNDS		
Lehigh Public Works Authority:		
General Fund	\$ -	\$ -
Housing Project Fund	-	-
Lehigh Industrial Development Authority:		
General Fund	-	-
Total Enterprise Funds	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ 7,233.44</u>	<u>\$ 7,233.44</u>

NOTE 9 - SUBSEQUENT EVENTS

The City did not have any subsequent events through December 18, 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.

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		<u>Positive (Negative)</u>
Beginning Budgetary Fund Balance:	\$156,059	\$156,059	\$156,059	\$ -
<u>Resources (Inflows):</u>				
Taxes:				
Sales Tax	5,970	5,970	7,234	1,265
Use Tax	1,056	1,056	1,172	116
Cigar Tax	80	80	116	36
Franchise Tax	3,843	3,843	4,489	646
Intergovernmental:				
Alcoholic Beverage Tax	4,790	4,790	5,546	757
Grant Income	-	-	72,193	72,193
Lease Income/Rent	3,658	3,658	4,064	406
Oil & Gas Lease Income	18,115	18,115	16,832	(1,282)
Water Revenue	-	-	-	-
Licenses & Permits	-	-	-	-
Miscellaneous Income	1,199	1,199	799	(400)
Interest Income	401	401	272	(129)
Other Financing Sources:				
Operating Transfers In	-	-	-	-
Amounts available for appropriation	<u>195,170</u>	<u>195,170</u>	<u>268,777</u>	<u>73,607</u>
<u>Charges to Appropriations (Outflows):</u>				
Personal Services	30,000	30,000	21,886	8,114
Maintenance & Operations	60,000	60,000	12,445	47,555
Debt Service	-	-	-	-
Capital Outlay	60,000	60,000	146,198	(86,198)
Transfers	45,170	45,170	7,233	37,937
Total Charges to Appropriations	<u>195,170</u>	<u>195,170</u>	<u>187,763</u>	<u>7,407</u>
Adjustments to Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending Budgetary Fund Balance	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>81,014</u></u>	<u><u>81,014</u></u>

Unaudited

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

The City's annual operating budget represents appropriations as authorized by the Board of Trustees and 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 of Trustees and 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

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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 Lehigh, Oklahoma

We have audited the financial statements of the governmental activities and each major fund and the aggregate remaining funds of the City of Lehigh, 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 December 18, 2012, which was qualified for the effect on the basic financial statements for the improper capital asset recordkeeping and the lack of segregation of its business-type activities. The City has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that it has not presented an 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 Lehigh is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Lehigh'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 Lehigh's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lehigh'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 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

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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 Lehigh'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 instances of noncompliance that are required to be reported under *Government Auditing Standards*, which are included in the Schedule of Findings as Items 12-03 and 12-04. The results of our tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of the board of trustees and management of the City of Lehigh, Oklahoma 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

December 18, 2012

CITY OF LEHIGH, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2012

INTERNAL CONTROL 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 City's major areas of internal control, that would be prevalent in a larger City, 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 organization.

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

Item 12-02: Meter Deposits

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

Condition: The Meter Deposit Control Account has not been accurately posted with all transactions during past years.

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: All deposit refunds and final bills should be accurately posted to reconcile the account at yearend. A Meter Deposit Ledger should be maintained so that an accurate liability amount can be reported.

Response: The City has developed a meter deposit ledger in its WaterWorks program and also keeps a handwritten ledger of current year activity. However, the balance in the program does not reconcile to the balance in the financial statements and the handwritten ledger only includes current year activity.

COMPLIANCE FINDINGS:

Item 12-03: Water and Sewer Recordkeeping

Criteria: The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to maintain income and expense records for water and sewer systems separately.

CITY OF LEHIGH, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2012

Condition: The Authority maintains separate billing records for water and sewer income. However, the Authority does not maintain separate income and expense accounts for the water and sewer systems.

Cause/Effect: This leaves the Authority out of compliance with the Rural Development loan agreement as the USDA will no longer be accepting audits that do not have Water and/or Sewer Records broken out separately.

Response: The Authority was not aware of the requirement.

Item 12-04: Reserve Requirements

Criteria: The loan agreements with the United States Department of Agriculture Rural Development (USDA) require the Authority to set aside into a Reserve Account the sum of 10% of the monthly installments until there is accumulated in the account the sum of the annual installment for each loan (\$27,492 & \$9,264), after which deposits may be suspended, except to replace withdrawals.

Condition: The Authority did not make monthly deposits into the reserve accounts.

Cause/Effect: This leaves the Authority out of compliance with the Rural Development loan agreements.

Recommendation: The Authority should make the required monthly payments.

Response: The problem will be corrected.

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

	<u>SPECIAL REVENUE FUNDS</u>		Total Nonmajor Governmental Funds
	<u>Street & Alley Fund</u>	<u>Cemetery Fund</u>	
<u>ASSETS</u>			
Cash and cash equivalents	\$ 8,556	\$ 5,442	\$ 13,998
Accounts Receivable	-	-	-
TOTAL ASSETS	<u>\$ 8,556</u>	<u>\$ 5,442</u>	<u>\$ 13,998</u>
<u>LIABILITIES & FUND EQUITY</u>			
<u>LIABILITIES:</u>			
Accounts Payable	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES:</u>			
Nonspendable	-	-	-
Restricted	8,556	-	8,556
Committed	-	-	-
Assigned	-	5,442	5,442
Unassigned	-	-	-
TOTAL FUND BALANCES	<u>8,556</u>	<u>5,442</u>	<u>13,998</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,556</u>	<u>\$ 5,442</u>	<u>\$ 13,998</u>

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

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

	<u>SPECIAL REVENUE FUNDS</u>		Total Nonmajor Governmental Funds
	<u>Street & Alley Fund</u>	<u>Cemetery Fund</u>	
<u>REVENUES:</u>			
Taxes:			
Sales Tax	\$ -	\$ -	\$ -
Franchise Tax	-	-	-
Intergovernmental:			
Alcoholic Beverage Tax	-	-	-
Gasoline Excise Tax	673	-	673
Motor Vehicle Tax	2,029	-	2,029
Grants	5,000	-	5,000
Donations	-	-	-
Fund Raisers	-	-	-
Reimbursements	-	-	-
Miscellaneous	-	-	-
Interest Income	7	3	10
TOTAL REVENUES	<u>7,709</u>	<u>3</u>	<u>7,713</u>
<u>EXPENDITURES:</u>			
Current:			
Personal Services	-	-	-
Maintenance & Operations	3,439	808	4,246
Capital Outlay	6,420	-	6,420
Debt Service - Principal & Interest	-	-	-
TOTAL EXPENDITURES	<u>9,859</u>	<u>808</u>	<u>10,666</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,149)	(805)	(2,954)
<u>OTHER FINANCING SOURCES (USES):</u>			
Operating Transfers In	-	3,617	3,617
Operating Transfers Out	-	-	-
Capital Debt Proceeds	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>3,617</u>	<u>3,617</u>
NET CHANGES IN FUND BALANCES	(2,149)	2,812	663
FUND BALANCE - BEGINNING OF YEAR	10,705	2,629	13,335
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-
FUND BALANCE - END OF YEAR	<u>\$ 8,556</u>	<u>\$ 5,442</u>	<u>\$ 13,998</u>

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