

AUDIT REPORT
CITY OF HARTSHORNE, OKLAHOMA
JUNE 30, 2013



KERSHAW CPA & ASSOCIATES, PC

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CITY OF HARTSHORNE, OKLAHOMA
JUNE 30, 2013

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CITY OF HARTSHORNE, OKLAHOMA
JUNE 30, 2013

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CITY OF HARTSHORNE, OKLAHOMA
LIST OF PRINCIPAL OFFICIALS
JUNE 30, 2013

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 2017
BARNEY ROSSO	COUNCIL	APRIL 2015
TERESA FARRIS	COUNCIL	APRIL 2015
DESTINY FRENCH	COUNCIL	APRIL 2017
NATHAN SPARKS	COUNCIL	APRIL 2015

MANAGEMENT

DAWN DUNKIN	CITY CLERK	APRIL 2015
SHIRLEY DAY	CITY TREASURER	APRIL 2017

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Hartshorne, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Hartshorne, Oklahoma, as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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Basis for Qualified Opinion

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. The City has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the Governmental & Business-Type Activities is not readily determinable.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion 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, and the aggregate remaining fund information of the City of Hartshorne, Oklahoma, as of June 30, 2013, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is 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 or provide an assurance on it.

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, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Hartshorne, Oklahoma.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2013, on our consideration of the City of Hartshorne's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering City of Hartshorne's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

September 13, 2013

CITY OF HARTSHORNE, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	2013 Total
<u>ASSETS</u>			
Cash and cash equivalents	\$ 181,467	\$ (21,625)	\$ 159,842
Investments	95,651	-	95,651
Due from Other Funds	-	-	-
Restricted Assets:			
Restricted PWA Cash & cash equivalents	-	59,487	59,487
Restricted PWA Investments	-	140,592	140,592
Police Bonds	12,605	-	12,605
Capital Assets	4,053,921	8,305,571	12,359,491
TOTAL ASSETS	4,343,643	8,484,025	12,827,668
<u>LIABILITIES</u>			
Due to Other Funds	-	-	-
Police Bonds Payable	-	-	-
Meter Deposits Payable	-	55,977	55,977
Notes Payable	10,620	3,085,320	3,095,941
TOTAL LIABILITIES	10,620	3,141,297	3,151,917
<u>NET POSITION</u>			
Net investment in capital assets	4,043,300	5,220,251	4,043,300
Restricted for:			
Debt Service	-	200,079	-
Other Purposes	12,605	-	12,605
Unrestricted	277,117	(77,601)	277,117
TOTAL NET POSITION	\$ 4,333,022	\$ 5,342,728	\$ 9,675,750

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, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Highways and Roads	\$ 44,446	\$ -	\$ -	\$ -	\$ (44,446)
Cultural & Recreation	41,886	-	-	-	(41,886)
Public Safety	461,983	148,606	4,484	-	(308,893)
General Government	734,666	-	-	234,999	(499,667)
Public Works Department	42,261	3,196	-	-	(39,065)
Debt Service - Interest	1,050	-	-	-	(1,050)
Total Governmental Activities	1,326,292	151,801	4,484	234,999	(935,007)
Business-type activities:					
Water	435,951	441,116	-	-	5,166
Sewer	137,694	234,381	-	550,207	646,894
Sanitation	281,797	264,397	-	-	(17,400)
Miscellaneous	109,386	31,583	-	-	(77,803)
Total Business-type Activities	964,827	971,477	-	550,207	556,857
Total	\$ 2,291,119	\$ 1,123,278	\$ 4,484	\$ 785,206	\$ (378,150)

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (935,007)	\$ 556,857	\$ (378,150)
General revenues:			
Taxes:			
Sales Tax	598,427	-	598,427
Use Tax	57,732	-	57,732
Cigar Tax	7,843	-	7,843
Franchise Tax	39,045	-	39,045
Intergovernmental:			
Alcoholic Beverage Tax	14,930	-	14,930
Gasoline Excise Tax	3,906	-	3,906
Motor Vehicle Tax	14,980	-	14,980
Licenses & Permits	2,479	-	2,479
Donations	-	-	-
Royalties	8,167	-	8,167
Sale of Lots & Fees	10,772	-	10,772
Miscellaneous	148,990	-	148,990
Interest Income	573	404	976
Transfers - Internal Activity	-	-	-
Total general revenues & transfers	907,842	404	908,246
Changes in net position	(27,165)	557,260	530,095
Net position - beginning	4,364,726	4,785,467	9,150,193
Net position - prior year adjustment	(4,539)	-	(4,539)
Net position - ending	\$ 4,333,022	\$ 5,342,728	\$ 9,675,750

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

CITY OF HARTSHORNE, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2013

	<u>General Fund</u>	<u>Street & Alley</u>	<u>Ambulance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 141,011	\$ 3,003	\$ 14,872	\$ 22,581	\$ 181,467
Investments	43,177	31,299	-	21,176	95,651
Due from other Funds	-	-	-	-	-
Restricted Assets:					
PWA Project Fund	-	-	-	-	-
Police Bonds	12,605	-	-	-	12,605
Meter Deposits	-	-	-	-	-
TOTAL ASSETS	<u>\$ 196,793</u>	<u>\$ 34,301</u>	<u>\$ 14,872</u>	<u>\$ 43,757</u>	<u>\$ 289,723</u>
LIABILITIES & FUND EQUITY					
LIABILITIES:					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Police Bonds Payable	-	-	-	-	-
Meter Deposits Payable	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:					
Nonspendable	-	-	-	-	-
Restricted	-	34,301	-	-	34,301
Committed	-	-	-	-	-
Assigned	-	-	14,872	43,757	58,629
Unassigned	196,793	-	-	-	196,793
TOTAL FUND BALANCES	<u>196,793</u>	<u>34,301</u>	<u>14,872</u>	<u>43,757</u>	<u>289,723</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 196,793</u>	<u>\$ 34,301</u>	<u>\$ 14,872</u>	<u>\$ 43,757</u>	

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>(10,620)</u>
Net Assets of Governmental Activities	<u>\$ 4,333,023</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, 2013

	General Fund	Street & Alley	Ambulance Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Sales Tax	\$ 400,425	\$ -	\$ 198,002	\$ -	598,427
Use Tax	57,732	-	-	-	57,732
Cigar Tax	7,843	-	-	-	7,843
Franchise Tax	39,045	-	-	-	39,045
Intergovernmental:					
Alcoholic Beverage Tax	14,930	-	-	-	14,930
Gasoline Excise Tax	-	3,906	-	-	3,906
Motor Vehicle Tax	-	14,980	-	-	14,980
Grants	234,999	-	-	4,484	239,483
User Fees - Public Works Dept.	3,196	-	-	-	3,196
Licenses & Permits	2,479	-	-	-	2,479
Fines	39,426	-	-	-	39,426
Donations	-	-	-	-	-
Royalties	8,167	-	-	-	8,167
Charges for Services	-	-	109,179	-	109,179
Sale of Lots & Fees	10,772	-	-	-	10,772
Miscellaneous Income	135,953	-	-	13,037	148,990
Interest Income	388	100	34	50	573
TOTAL REVENUES	955,354	18,986	307,215	17,571	1,299,127
EXPENDITURES:					
Highways and Roads	24,284	20,162	-	-	44,446
Cultural & Recreation	41,886	-	-	-	41,886
Public Safety	156,709	-	296,336	8,938	461,983
General Government	722,680	-	-	11,987	734,666
Public Works Department	42,261	-	-	-	42,261
Debt Service	-	-	16,740	-	16,740
Capital Outlay	-	-	-	-	-
TOTAL EXPENDITURES	987,820	20,162	313,076	20,925	1,341,982
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(32,466)	(1,175)	(5,861)	(3,353)	(42,855)
OTHER FINANCING SOURCES (USES):					
Operating Transfers In	-	-	-	1,346	1,346
Operating Transfers Out	(1,346)	-	-	-	(1,346)
Capital Debt Proceeds	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(1,346)	-	-	1,346	-
NET CHANGES IN FUND BALANCES	(33,812)	(1,175)	(5,861)	(2,007)	(42,855)
FUND BALANCE - BEGINNING OF YEAR	249,853	35,477	20,732	31,054	337,117
FUND BALANCE - PRIOR YEAR ADJUSTMENT	(19,249)	-	-	14,710	(4,539)
FUND BALANCE - END OF YEAR	\$ 196,793	\$ 34,301	\$ 14,872	\$ 43,757	289,723

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, 2013

	Hartshorne Public Works Authority Enterprise Fund June 30, 2013
<u>ASSETS</u>	
Current Assets:	
Cash and cash equivalents	\$ (21,625)
Restricted cash and cash equivalents	59,487
Total Current Assets	37,862
Noncurrent Assets:	
Restricted Investments	140,592
Land and construction-in-progress	5,984,381
Other capital assets, net of accumulated depreciation	2,321,190
Total Noncurrent Assets	8,446,162
TOTAL ASSETS	8,484,025
<u>LIABILITIES & NET POSITION</u>	
Current Liabilities:	
Notes Payable - Current Portion	45,768
Total Current Liabilities	45,768
Noncurrent Liabilities:	
Due to Depositors	55,977
Note Payable - RD #1	2,094,992
Note Payable - RD #3	990,328
Less: Notes Payable - Current Portion	(45,768)
Total Noncurrent Liabilities	3,095,529
TOTAL LIABILITIES	3,141,297
NET POSITION:	
Net investment in capital assets	5,220,251
Restricted for debt service	200,079
Unrestricted	(77,602)
TOTAL NET POSITION	\$ 5,342,728

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

CITY OF HARTSHORNE, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Hartshorne Public Works Authority Enterprise Fund June 30, 2013</u>
<u>OPERATING REVENUES:</u>	
Charges for services:	
Water Sales	\$ 441,116
Sanitation Fees	264,397
Sewer Fees	234,381
Penalties	28,312
Miscellaneous Income	3,271
TOTAL OPERATING REVENUES	<u>971,477</u>
<u>OPERATING EXPENSES:</u>	
Water	435,951
Sanitation	281,797
Sewer	137,694
Miscellaneous	-
Depreciation	-
TOTAL OPERATING EXPENSES	<u>855,441</u>
NET OPERATING INCOME (LOSS)	<u>116,036</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest Income	404
Interest Expense	(109,386)
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(108,982)</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	7,053
Capital Contributions	550,207
Transfers in	-
Transfers out	-
CHANGE IN NET POSITION	557,260
TOTAL NET POSITION - BEGINNING	4,785,467
TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT	-
TOTAL NET POSITION - ENDING	<u>\$ 5,342,728</u>

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, 2013**

	June 30, 2013
<u>Net Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 971,477
Other Cash Receipts	-
Payments to Suppliers & Laborers for Goods & Services	(855,441)
Receipts of Customer Utility Deposits, Net of Refunds	3,139
Net Cash Provided (Used) by Operating Activities	119,174
<u>Net Cash Flows from Non-Capital Financing Activities:</u>	
Transfers to other funds	-
Transfers from other funds	-
Net Cash Provided (Used) by Non-Capital Financing Activities	-
<u>Net Cash Flows from Capital & Related Financing Activities:</u>	
Capital grant received for construction of capital assets	550,207
Additions to Capital Assets	(518,042)
Proceeds from sale of Capital Assets	-
Loan Proceeds received	-
Principal paid on Notes Payable	(44,226)
Interest paid	(109,386)
Net Cash Provided (Used) by Capital & Related Financing Activities	(121,448)
Net Cash Flows from Investing Activities:	
Interest Income	404
Net Cash Provided (Used) by Investing Activities	404
Net Increase (Decrease) in Cash and Cash Equivalents	(1,870)
Cash & Cash Equivalents, Beginning of Year	180,324
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	\$ 178,454
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>	
Operating Income (Loss)	\$ 116,036
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities	
Depreciation	-
Increase(Decrease) in Due to Depositors	3,139
Increase(Decrease) in Payroll Taxes Payable	-
Net Cash Provided (Used) by Operating Activities	\$ 119,174

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

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. REPORTING ENTITY

The City's financial reporting entity is comprised of the following:

Primary Government:	City of Hartshorne
Blended Component Units:	Hartshorne Public Works Authority (HPWA)

PRIMARY GOVERNMENT

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. The City provides the following services: public safety (police and fire), highways and streets, sanitation, culture-recreation, education, public improvements, planning and zoning, and general administrative services.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit's governing body is the same or substantially the same as the City Council, and there is a financial benefit or burden relationship with the City, or City management has operational responsibility for the component unit; (b) the component unit provides services entirely or almost entirely to the City; or (c) the component unit's debt is expected to be repaid entirely or almost entirely with resources of the City. The blended component unit's funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. The City's blended component unit is presented subsequently:

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

INCLUDED COMPONENT UNITS

Hartshorne Public Works Authority

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.

B. BASIS OF PRESENTATION

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed, in whole or in part, by fees charges to external parties for goods or services.

Fund Financial Statements

The accounts of the Town 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 with a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into three broad funds types and five generic fund categories as follows:

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

GOVERNMENTAL FUND TYPES

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

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.

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Library Fund:

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

Volunteer Fire Dept:

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

PROPRIETARY FUND TYPES

Enterprise Funds

Enterprise funds are used to account for the acquisition, operation and maintenance of Town facilities which are financed primarily by user charges. The Enterprise funds are accounted for similar to activities of the private sector. The measurement focus is upon determination of net income, financial position and changes in financial position. The Hartshorne Public Works Authority is accounted for as the Town's Enterprise Fund.

Hartshorne Public Works Authority accounts for the activities of the public trust in providing water and sewer services to the public.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide State of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

funds use fund balance as their measure of available spendable financial resources at the end of the period.

- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. FINANCIAL POSITION

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

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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.

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.

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.

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.

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, 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, 2013 are the same.

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.

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Restricted Cash and Investments

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

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.

Equity Classification

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

1. Net investment in capital assets – 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 and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction 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 amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the City's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

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:

CITY OF HARTSHORNE, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2013

- 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.

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

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

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

April 1. For the fiscal year ending June 30, 2013, the City of Hartshorne levied a property tax of 2.36 Mills and collected \$11,986.55.

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.

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.

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, 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

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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, 2013, the Authority was required to have at least \$51,204.00 set aside in the reserve account; as of that date the account balance for the reserve account was \$49,169.01, which does not comply 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, 2013, the City held deposits of approximately \$468,177 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:

- 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.

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

- 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, 2013 was \$236,243 and the bank balance was \$236,243 and was covered by sufficient collateral.

NOTE 4 - CAPITAL ASSETS

City of Hartshorne:

Capital asset activity, for the fiscal year ended June 30, 2013, 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	4,053,921	-	-	4,053,921
Less: Accum. Depr.	-	-	-	-
Total Capital Assets (Net of Depreciation)	<u>\$ 4,053,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,053,921</u>

Hartshorne Public Works Authority:

Capital asset activity, for the fiscal year ended June 30, 2013, was as follows:

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

	Balance at June 30, 2012	Additions	Deductions	Balance at June 30, 2013
Public Works	\$ 2,321,190	\$ -	\$ -	\$ 2,321,190
Construction in Progress - PWA	5,466,338	518,042	-	5,984,381
Subtotal	7,787,528	518,042	-	8,305,571
Less: Accum. Depr.	-	-	-	-
Total Capital Assets (Net of Depreciation)	<u>\$ 7,787,528</u>	<u>\$ 518,042</u>	<u>\$ -</u>	<u>\$ 8,305,571</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, 2013:

	Balance 7/1/2012	Additions	Deductions	Balance 6/30/2013
Note Payable - FNB	\$ 26,311	\$ -	\$ (15,690)	\$ 10,620
Note Payable - RD #92-01	\$ 2,122,114	\$ -	\$ (27,122)	\$ 2,094,992
Note Payable - RD #92-03	\$ 1,007,432	\$ -	\$ (17,104)	\$ 990,328
	<u>\$ 3,155,857</u>	<u>\$ -</u>	<u>\$ (59,916)</u>	<u>\$ 3,095,941</u>

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

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

Year Ending June 30,	Note Payable - FNB		Total
	Principal	Interest	
2014	10,620	191	\$ 10,811
2015	-	-	-
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019-2023	-	-	-
Total	<u>\$ 10,620</u>	<u>\$ 191</u>	<u>\$ 10,811</u>

Year Ending June 30,	Note Payable - RD 92-01		Note Payable - RD 92-03		Total
	Principal	Interest	Principal	Interest	
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	33,120	78,396	19,380	22,716	153,612
2019-2023	186,973	370,607	104,506	105,974	768,060
2024-2028	228,294	329,286	118,405	92,075	768,060
2029-2033	278,746	278,834	134,153	76,327	768,060
2034-2038	340,348	217,232	151,996	58,484	768,060
2039-2043	415,564	142,016	172,212	38,269	768,060
2044-2048	491,935	50,192	195,116	15,364	752,607
2049-2053	-	-	21,702	162	21,865
Total	<u>\$ 2,094,992</u>	<u>\$ 1,792,615</u>	<u>\$ 990,328</u>	<u>\$ 504,897</u>	<u>\$ 5,382,832</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, 2013 which would materially affect the City's financial statements.

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.

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

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 \$368,790.49 and total employee and employer contributions to the plan for the year were \$11,063.98 and \$25,813.87, 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 \$1,140.00. 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. Net investment in capital assets
2. Restricted
3. Unrestricted

Restricted 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, 2013

Fund Balances

City of Hartshorne
 Disclosure of Fund Balances Reported on Balance Sheet
 For Fiscal Year Ending June 30, 2013

	General Fund	Street & Alley Fund	Ambulance Service Fund	Other Governmental Funds	Total Governmental Funds
FUND BALANCES:					
Restricted for:					
Road Maintenance	\$ -	\$ 34,301	\$ -	\$ -	\$ 34,301
Assigned to:					
Ambulance	-	-	14,872	-	14,872
Land Fund	-	-	-	21,176	21,176
Cemetery Fund	-	-	-	20,595	20,595
Fire Dept Fund	-	-	-	1,986	1,986
Unassigned	196,793	-	-	-	196,793
Total	<u>\$ 196,793</u>	<u>\$ 34,301</u>	<u>\$ 14,872</u>	<u>\$ 43,757</u>	<u>\$ 289,723</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, 2013

As of June 30, 2012, all loan proceeds from both loans have been received, all of the initial grant has been received and \$626,914.69 of the overrun grant has been received.

NOTE 11 - SUBSEQUENT EVENTS

The City did not have any subsequent events through September 13, 2013, 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, 2013.

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.

For the year ending June 30, 2013, \$11,986.55 was collected for property tax.

NOTE 13 - PRIOR YEAR ADJUSTMENT

A prior year adjustment was made to adjust the cemetery balance.

CITY OF HARTSHORNE, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 - MODIFIED CASH BASIS -
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Beginning Budgetary Fund Balance:	\$ 249,853	\$ 249,853	\$ 249,853	\$ 0
<u>Resources (Inflows):</u>				
Taxes:				
Sales Tax	389,064	389,064	400,425	11,361
Use Tax	48,955	48,955	57,732	8,777
Cigar Tax	7,959	7,959	7,843	(116)
Franchise Tax	45,487	45,487	39,045	(6,443)
Intergovernmental:				
Alcoholic Beverage Tax	12,838	12,838	14,930	2,091
Gasoline Excise Tax	-	-	-	-
Motor Vehicle Tax	-	-	-	-
Grants	-	-	234,999	234,999
User Fees - Public Works Dept.	-	-	3,196	3,196
Licenses & Permits	1,595	1,595	2,479	884
Fines	47,926	47,926	39,426	(8,500)
Pool	-	-	-	-
Donations	-	-	-	-
Royalties	15,986	15,986	8,167	(7,820)
Lease	-	-	-	-
Charges for Services	-	-	-	-
Sale of Lots & Fees	12,221	12,221	10,772	(1,450)
Miscellaneous Income	147,341	147,341	135,953	(11,387)
Interest Income	664	664	388	(276)
Capital Debt Proceeds	-	-	-	-
Transfers In	-	-	-	-
Amounts available for appropriation	<u>979,891</u>	<u>979,891</u>	<u>1,205,207</u>	<u>225,316</u>
<u>Charges to Appropriations (Outflows):</u>				
Highways and Roads	-	-	24,284	(24,284)
Cultural & Recreation	-	-	41,886	(41,886)
Public Safety	180,000	180,000	156,709	23,291
General Government	710,000	710,000	722,680	(12,680)
Public Works Department	-	-	42,261	(42,261)
Debt Service	-	-	-	-
Capital Outlay	30,000	30,000	-	30,000
Transfers	59,891	59,891	1,346	58,545
Total Charges to Appropriations	<u>979,891</u>	<u>979,891</u>	<u>989,166</u>	<u>(9,275)</u>
Prior Year Adjustments to Fund Balance	<u>-</u>	<u>-</u>	<u>(19,249)</u>	<u>(19,249)</u>
Ending Budgetary Fund Balance	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>196,793</u></u>	<u><u>196,793</u></u>

CITY OF HARTSHORNE, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE
 STREET & ALLEY FUND
 - MODIFIED CASH BASIS -
 FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance:	\$ 35,477	\$ 35,477	\$ 35,477	\$ -
<u>Resources (Inflows):</u>				
Gasoline Excise Tax	3,616	3,616	3,906	290
Motor Vehicle Tax	13,035	13,035	14,980	1,945
Miscellaneous Income	-	-	-	-
Interest Income	531	531	100	(430)
Transfers In	-	-	-	-
Amounts available for appropriation	<u>52,658</u>	<u>52,658</u>	<u>54,463</u>	<u>1,805</u>
<u>Charges to Appropriations (Outflows):</u>				
Highways and Roads	52,658	52,658	20,162	32,497
Capital Outlay	-	-	-	-
Transfers Out	-	-	-	-
Total Charges to Appropriations	<u>52,658</u>	<u>52,658</u>	<u>20,162</u>	<u>32,497</u>
Prior Year Adjustments to Fund Balance	-	-	-	-
Ending Budgetary Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,301</u>	<u>\$ 34,301</u>

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO BUDGETARY COMPARISON SCHEDULE
JUNE 30, 2013

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, 2013**

<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	756,700	550,207
<u>Department of Housing and Urban Development:</u>			
Pass-Through Program From:			
Oklahoma Department of Commerce			
Community Development Block Grants	14.228	249,999	234,999
Total		<u>\$ 1,006,699</u>	<u>\$ 785,206</u>

**CITY OF HARTSHORNE, OKLAHOMA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2013**

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>\$ 785,206</u>
	Total	<u><u>\$ 785,206</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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis 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 year ended June 30, 2013, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the City of Hartshorne, Oklahoma's basic financial statements, and have issued our report thereon dated September 13, 2013, which was qualified for the improper capital asset recordkeeping.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hartshorne's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of City of Hartshorne's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Items 13-01, 13-02 and 13-03.

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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 one instance of noncompliance that is required to be reported under Government Auditing Standards, which is included in the Schedule of Findings as Item 13-04. The results of our tests disclosed no instances of other matters that are required to be reported under Government Auditing Standards.

City of Hartshorne's Response to Findings

City of Hartshorne's response to the findings identified in our audit is described in the accompanying Schedule of Findings. City of Hartshorne's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

September 13, 2013

KERSHAW CPA & ASSOCIATES, PC

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

To the City Council
City of Hartshorne, Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the City of Hartshorne, Oklahoma'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, Oklahoma's major federal programs for the year ended June 30, 2013. The City of Hartshorne, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Hartshorne, Oklahoma's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance 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; and 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, Oklahoma's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on City of Hartshorne, Oklahoma's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Hartshorne, Oklahoma complied, in all material respects, with the types of 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, 2013.

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Report on Internal Control Over Compliance

Management of the City of Hartshorne, Oklahoma is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Hartshorne, Oklahoma's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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, Oklahoma's internal control over compliance.

A deficiency in internal control over compliance 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 to detect and correct, noncompliance with a type of compliance requirement of a federal program a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw, CPA & Associates, PC

September 13, 2013

CITY OF HARTSHORNE, OKLAHOMA
SUMMARY STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2013

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 City.

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 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 12-01 and 12-02 still exist in the current year.

CITY OF HARTSHORNE, OKLAHOMA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2013

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

INTERNAL CONTROL FINDINGS:

Item 13-01: 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

CITY OF HARTSHORNE, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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 City.

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

Item 13-02: 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.

Item 13-03: Overdrawn Cash

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

Condition: The PWA account book balance was negative \$21,624.72 as of the fiscal yearend. The bank reconciliation for the PWA includes large balances of un-reconciled differences which resulted in the negative balance.

Cause/Effect: Overdraft charges will be incurred if the bank balance becomes negative.

Recommendation: It is recommended that the un-reconciled differences be reconciled.

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

CITY OF HARTSHORNE, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

COMPLIANCE FINDINGS:

Item 13-04: Reserve Requirements

Criteria: The Authority's loan agreement with the USDA Rural Development requires the Authority to maintain reserve accounts. The reserve requirement for the loans is \$153,612, the Authority is required to set aside into a Reserve Account the sum of 10% of the monthly installments or \$1,280.10 each month until there is accumulated in that account the sum of the annual installments (\$153,612), after which deposits may be suspended, except to replace withdrawals. The Authority cannot withdraw funds from the reserve account without USDA approval.

Condition: The Authority is currently making monthly deposits of \$982.57 into the reserve account rather than the required \$1,280.10. The reserve account balance at June 30, 2013 was \$49,169.01, which reflects a deficit of \$2,034.99, because the required balance was \$51,204.00 as of that date.

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

Recommendation: The Authority should deposit \$1,280.10 a month into the reserve account as required by Rural Development and make a deposit to bring the account into compliance.

Response: There was a miscommunication between the Authority and Rural Development at to the required amount of the monthly deposits. The Authority is now aware of the problem and will correct it.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

CITY OF HARTSHORNE, OKLAHOMA
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2013

	<u>SPECIAL REVENUE FUNDS</u>				Total Nonmajor Governmental Funds
	<u>Land Fund</u>	<u>Sinking Fund</u>	<u>Cemetery Fund</u>	<u>Volunteer Fire Dept</u>	
<u>ASSETS</u>					
Cash and cash equivalents	\$ -	\$ -	\$ 20,595	\$ 1,986	\$ 22,581
Investments	21,176	-	-	-	21,176
Due from other Funds	-	-	-	-	-
TOTAL ASSETS	<u>\$ 21,176</u>	<u>\$ -</u>	<u>\$ 20,595</u>	<u>\$ 1,986</u>	<u>\$ 43,757</u>
<u>LIABILITIES & FUND BALANCES</u>					
<u>LIABILITIES:</u>					
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -
Payroll Taxes	-	-	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES:</u>					
Nonspendable	-	-	-	-	-
Restricted	-	-	-	-	-
Committed	-	-	-	-	-
Assigned	21,176	-	20,595	1,986	43,757
Unassigned	-	-	-	-	-
TOTAL FUND BALANCES	<u>21,176</u>	<u>-</u>	<u>20,595</u>	<u>1,986</u>	<u>43,757</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 21,176</u>	<u>\$ -</u>	<u>\$ 20,595</u>	<u>\$ 1,986</u>	<u>\$ 43,757</u>

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, 2013

	SPECIAL REVENUE FUNDS				Total Nonmajor Governmental Funds
	Land Fund	Sinking Fund	Cemetery Fund	Volunteer Fire Dept	
<u>REVENUES:</u>					
Taxes:					
Sales Tax	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental:					
Gasoline Excise Tax	-	-	-	-	-
Motor Vehicle Tax	-	-	-	-	-
Grants	-	-	-	4,484	4,484
Charges for Services	-	-	-	-	-
Sale of Lots & Fees	-	-	-	-	-
Miscellaneous	-	11,987	-	1,050	13,037
Interest Income	42	-	-	8	50
TOTAL REVENUES	42	11,987	-	5,542	17,571
<u>EXPENDITURES:</u>					
Highways & Roads	-	-	-	-	-
Public Safety	-	-	-	8,938	8,938
General Government	-	11,987	-	-	11,987
Capital Outlay	-	-	-	-	-
TOTAL EXPENDITURES	-	11,987	-	8,938	20,925
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	42	-	-	(3,396)	(3,353)
<u>OTHER FINANCING SOURCES (USES):</u>					
Operating Transfers In	-	-	1,346	-	1,346
Operating Transfers Out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-	-	1,346	-	1,346
NET CHANGES IN FUND BALANCES	42	-	1,346	(3,396)	(2,007)
FUND BALANCE - BEGINNING OF YEAR	21,134	-	4,539	5,381	31,054
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	14,710	-	14,710
FUND BALANCE - END OF YEAR	\$ 21,176	\$ -	\$ 20,595	\$ 1,986	\$ 43,757

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