

**CITY OF HEAVENER,  
OKLAHOMA**

**FINANCIAL STATEMENTS  
JUNE 30, 2012**

**CITY OF HEAVENER, OKLAHOMA**  
**JUNE 30, 2012**  
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## INDEPENDENT AUDITORS' REPORT

City Council  
**City of Heavener**  
Heavener, Oklahoma

### **Report on the Financial Statements**

We were engaged to audit the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **City of Heavener, Oklahoma** (the "City") as of and for the year ended June 30, 2012, 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***

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### ***Basis for Disclaimer of Opinion***

We were unable to rely on beginning balances and believe the lack of internal control over financial reporting, as outlined in the Schedule of Findings and Questioned Costs, to be so pervasive as to not provide sufficient appropriate evidence on which to base an opinion.

### ***Disclaimer of Opinion***

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

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and budgetary comparison schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The City has not presented a Management Discussion and Analysis or budgetary comparison schedules. Our disclaimer of opinion on the basic financial statements is not affected by this missing information.

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying supplementary information, such as the combining statements and the Schedule of Expenditures of Federal Awards required by U. S. 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 basic financial statements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the significance of the matters previously described, we do not express an opinion on the supplementary information referred to above.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2015, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Beall Barclay & Company, PLC*

**BEALL BARCLAY & COMPANY, PLC**  
Certified Public Accountants

Fort Smith, Arkansas  
June 4, 2015

**CITY OF HEAVENER, OKLAHOMA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2012**

	<u>Governmental</u> <u>Activities</u>	Primary Government <u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 765,448	\$ 163,763	\$ 929,211
Certificates of deposit	87,683	124,922	212,605
Receivables			
Accounts receivable	20,120	202,659	222,779
Due from other governments	70,104	10,064	80,168
Internal balances	16,905	(16,905)	-
Restricted assets			
Cash and cash equivalents	351,504	1,032,980	1,384,484
Certificates of deposit	196,454	42,012	238,466
Deferred bond cost, net of accumulated amortization	23,168	-	23,168
Capital assets			
Construction in progress	-	2,040,114	2,040,114
Depreciable assets, net of accumulated depreciation	3,641,582	4,542,861	8,184,443
<b>Total assets</b>	<b><u>5,172,968</u></b>	<b><u>8,142,470</u></b>	<b><u>13,315,438</u></b>
<b><u>LIABILITIES</u></b>			
Accounts payable	98,610	101,761	200,371
Accrued expenses	13,248	2,523	15,771
Compensated absences	26,150	29,152	55,302
Customer deposits	-	130,177	130,177
Long-term liabilities			
Due within one year	92,984	192,029	285,013
Due in more than one year	852,205	6,529,901	7,382,106
<b>Total liabilities</b>	<b><u>1,083,197</u></b>	<b><u>6,985,543</u></b>	<b><u>8,068,740</u></b>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	2,696,393	-	2,696,393
Restricted for:			
Other	39,704	137,069	176,773
Grants	196,454	-	196,454
Debt service	364,314	937,923	1,302,237
Unrestricted	792,906	81,935	874,841
<b>Total net position</b>	<b><u>\$ 4,089,771</u></b>	<b><u>\$ 1,156,927</u></b>	<b><u>\$ 5,246,698</u></b>

See Independent Auditors' Report and Notes to Financial Statements.

**CITY OF HEAVENER, OKLAHOMA**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2012**

	Program Revenues		Primary Government Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Governmental Activities	Business-type Activities	Total
Governmental activities:					
General government	\$ 306,237	\$ -	\$ (306,237)	\$ -	\$ (306,237)
Police department	686,919	-	(686,919)	-	(686,919)
Fire department	90,612	-	(90,612)	-	(90,612)
Culture and recreation	88,008	-	(88,008)	-	(88,008)
Public works	255,914	-	(255,914)	-	(255,914)
Interest and fees on long-term debt	49,781	-	(49,781)	-	(49,781)
Total governmental activities	<u>1,477,471</u>	<u>-</u>	<u>(1,477,471)</u>	<u>-</u>	<u>(1,477,471)</u>
Business-type activities:					
Utility Authority	<u>2,733,420</u>	<u>2,471,090</u>	<u>-</u>	<u>(262,330)</u>	<u>(262,330)</u>
Total primary government	<u>\$ 4,210,891</u>	<u>\$ 2,471,090</u>	<u>(1,477,471)</u>	<u>(262,330)</u>	<u>(1,739,801)</u>
General revenues:					
Intergovernmental			21,377	-	21,377
Taxes			722,325	103,656	825,981
TIF income			39,676	-	39,676
Franchise fees			142,876	-	142,876
Fines and fees			254,026	52,144	306,170
Investment income			6,166	5,440	11,606
Rent			20,214	-	20,214
Miscellaneous			46,299	24,104	70,403
Total general revenues			<u>1,252,959</u>	<u>185,344</u>	<u>1,438,303</u>
Changes in net position			(224,512)	(76,986)	(301,498)
Net position - beginning of year, as restated			<u>4,314,283</u>	<u>1,233,913</u>	<u>5,548,196</u>
Net position - end of year			<u>\$ 4,089,771</u>	<u>\$ 1,156,927</u>	<u>\$ 5,246,698</u>

**CITY OF HEAVENER, OKLAHOMA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2012**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 765,448	\$ -	\$ 765,448
Certificates of deposit	87,683	-	87,683
Accounts receivable	20,120	-	20,120
Due from other governments	53,331	16,773	70,104
Due from other funds	197,380	73,025	270,405
Restricted assets			
Cash and cash equivalents	39,704	311,800	351,504
Certificates of deposit	-	196,454	196,454
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 1,163,666</u>	<u>\$ 598,052</u>	<u>\$ 1,761,718</u>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>			
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ 98,610	\$ -	\$ 98,610
Accrued expenses	9,626	3,622	13,248
Due to other funds	96,796	156,704	253,500
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>205,032</u>	<u>160,326</u>	<u>365,358</u>
 <b><u>FUND BALANCE</u></b>			
Restricted	39,704	560,768	600,472
Unrestricted			
Unassigned	918,930	(123,042)	795,888
	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balance	<u>958,634</u>	<u>437,726</u>	<u>1,396,360</u>
Total liabilities and fund balance	<u>\$ 1,163,666</u>	<u>\$ 598,052</u>	<u>\$ 1,761,718</u>

See Independent Auditors' Report and Notes to Financial Statements.

**CITY OF HEAVENER, OKLAHOMA**  
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS**  
**WITH THE STATEMENT OF NET POSITION**  
**JUNE 30, 2012**

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

Total fund balance - governmental funds	\$ 1,396,360
Capital assets, net of accumulated depreciation used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	3,641,582
Certain liabilities for acquisition of capital assets are recognized as liabilities in the governmental fund when the amounts are normally expected to be liquidated with expendable available financial resources.	(252,294)
Certain liabilities for compensated absences are recognized as liabilities in the governmental funds when the amounts are normally expected to be liquidated with expendable available financial resources.	(26,150)
Assets related to long-term debt are deferred, and therefore, are not reported in the funds.	23,168
Bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(692,895)</u>
Total net position - governmental activities	<u><u>\$ 4,089,771</u></u>

**CITY OF HEAVENER, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2012**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b>REVENUES</b>			
Intergovernmental revenues	\$ -	\$ 21,377	\$ 21,377
Taxes	549,565	172,760	722,325
Tax Incremental Financing (TIF) income	39,676	-	39,676
Franchise fees	142,876	-	142,876
Fines and fees	254,026	-	254,026
Investment income	2,291	3,875	6,166
Rent	20,214	-	20,214
Miscellaneous	46,299	-	46,299
	<u>1,054,947</u>	<u>198,012</u>	<u>1,252,959</u>
Total revenues			
<b>EXPENDITURES</b>			
Current			
General government	287,231	-	287,231
Police department	665,445	-	665,445
Fire department	68,004	-	68,004
Culture and recreation	34,232	-	34,232
Public works	-	194,873	194,873
Capital outlay	246,815	29,412	276,227
Debt Service			
Principal	31,572	50,000	81,572
Interest and fiscal charges	14,893	34,888	49,781
	<u>1,348,192</u>	<u>309,173</u>	<u>1,657,365</u>
Total expenditures			
<b>(DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(293,245)</u>	<u>(111,161)</u>	<u>(404,406)</u>
<b>OTHER FINANCING SOURCES</b>			
Capital financing	<u>215,000</u>	<u>-</u>	<u>215,000</u>
<b>NET CHANGES IN FUND BALANCE</b>	(78,245)	(111,161)	(189,406)
<b>TOTAL FUND BALANCE, BEGINNING OF YEAR, AS RESTATED</b>	<u>1,036,879</u>	<u>548,887</u>	<u>1,585,766</u>
<b>TOTAL FUND BALANCE, END OF YEAR</b>	<u>\$ 958,634</u>	<u>\$ 437,726</u>	<u>\$ 1,396,360</u>

See Independent Auditors' Report and Notes to Financial Statements.

**CITY OF HEAVENER, OKLAHOMA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2012**

Net changes in fund balance, governmental funds	\$ (189,406)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeds depreciation expense.	98,322
The issuance on long-term debt (e.g. bonds, notes, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	81,572
Capital financing provides current financial resources to governmental funds but is not recorded as revenue in the government wide statement of activities.	<u>(215,000)</u>
Change in net position of governmental activities	<u><u>\$ (224,512)</u></u>

**CITY OF HEAVENER, OKLAHOMA**  
**STATEMENT OF NET POSITION - PROPRIETARY FUND**  
**JUNE 30, 2012**

	<u>Business-Type Activities Utility Authority Fund</u>
<b><u>ASSETS</u></b>	
Current assets	
Cash and cash equivalents	\$ 163,763
Certificates of deposit	124,922
Accounts receivable	202,659
Due from other governments	10,064
Due from other funds	<u>163,816</u>
Total current assets	<u>665,224</u>
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	1,032,980
Certificates of deposit	42,012
Capital assets	
Construction in progress	2,040,114
Depreciable assets, less accumulated depreciation	<u>4,542,861</u>
Total noncurrent assets	<u>7,657,967</u>
Total assets	<u>8,323,191</u>
<b><u>LIABILITIES</u></b>	
Current liabilities	
Accounts payable	101,761
Accrued expenses	2,523
Due to other funds	180,721
Compensated absences	29,152
Customer deposits	<u>130,177</u>
Total current liabilities	<u>444,334</u>
Long-term liabilities	
Due within one year	192,029
Due in more than one year	<u>6,529,901</u>
Total noncurrent liabilities	<u>6,721,930</u>
Total liabilities	<u>7,166,264</u>
<b><u>NET POSITION</u></b>	
Restricted for other purposes	137,069
Restricted for debt service	937,923
Unrestricted	<u>81,935</u>
Total net position	<u>\$ 1,156,927</u>

See Independent Auditors' Report and Notes to Financial Statements.

**CITY OF HEAVENER, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET POSITION - PROPRIETARY FUND**  
**YEAR ENDED JUNE 30, 2012**

	<b>Business-Type Activities Utility Authority Fund</b>
<b>OPERATING REVENUES</b>	
Charges for services	\$ 2,471,090
Taxes	103,656
Penalties and fees	52,144
Miscellaneous	24,104
	2,650,994
Total operating revenues	2,650,994
<b>OPERATING EXPENSES</b>	
Water	1,004,952
Sewer	192,828
Industrial sewer	806,155
Garbage	203,699
Depreciation	282,812
	2,490,446
Total operating expenses	2,490,446
<b>NET OPERATING INCOME</b>	160,548
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Investment income	5,440
Interest and fiscal charges	(242,974)
	(237,534)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	(237,534)
<b>CHANGE IN NET POSITION</b>	(76,986)
<b>NET POSITION, BEGINNING OF YEAR, AS RESTATED</b>	1,233,913
<b>NET POSITION, END OF YEAR</b>	\$ 1,156,927

See Independent Auditors' Report and Notes to Financial Statements.

**CITY OF HEAVENER, OKLAHOMA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**YEAR ENDED JUNE 30, 2012**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Cash received from customers	\$ 2,608,802	
Other cash receipts	24,104	
Cash payments for goods, services, and employees	<u>(2,128,296)</u>	
Net cash from operating activities		\$ 504,610

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest income	<u>5,440</u>	
Net cash from investing activities		5,440

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

Net change in due to/from other funds	46,448	
Change in due from other governments	(10,064)	
Change in restricted assets	<u>987,232</u>	
Net cash from noncapital financing activities		1,023,616

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Acquisition and construction of capital assets	(2,088,021)	
Note proceeds	1,232,287	
Principal payments on notes payable	(179,526)	
Other cash payments	<u>(242,975)</u>	
Net cash (used for) capital and related financing activities		<u>(1,278,235)</u>

**NET CHANGE IN CASH AND CASH EQUIVALENTS**

255,431

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR**

(91,668)

**CASH AND CASH EQUIVALENTS, END OF YEAR**

\$ 163,763

**RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:**

Operating income		\$ 160,548
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	\$ 282,812	
Change in:		
Accounts receivable	(18,088)	
Deposits	87,658	
Accounts payable	(10,843)	
Accrued expenses	<u>2,523</u>	
Total adjustments		<u>344,062</u>
Net cash from operating activities		<u>\$ 504,610</u>

See Independent Auditors' Report and Notes to Financial Statements.

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Heavener, Oklahoma (the "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 its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

***Reporting Entity***

The City was incorporated under the laws of the State of Oklahoma and operates under an elected Mayor-Council form of government. The reporting entity includes all funds of the City. The criteria provided in GASB Statement No. 14, *The Financial Reporting Entity* have been considered, and there are no other agencies or entities which should be presented with the City.

liabilities

As required by GAAP, these financial statements present the activities of the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with data of the primary government.

***Blended Component Units***

Heavener Utilities Authority ("the Authority") was created as a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by the City Commission members during their term along with four appointed trustees who are elected to serve four-year terms. The trust was created to develop and operate the water, sewer and solid waste activities of the City. In order to fulfill these functions, the Authority has leased its water distribution system from the City.

Heavener Economic Development Authority was created as a public trust and as an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by the City Commission members during their term along with additional appointed trustees who are elected to serve four-year terms. The trust was created for the use and benefit of the City to encourage, promote, and foster economic development within the City.

***Basis of Presentation***

The City's basic financial statements consist of government-wide statements, which include the statement of net position, statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Measurement Focus and Basis of Accounting***

The measurement focus establishes the basis of accounting. The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, the presentation of expenses versus expenditures, the recording of capital assets, the recognition of depreciation and the recording of long-term liabilities. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements and the governmental fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recognized when the related liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Net position is used as a practical measure of economic resources and the operating statement includes all transactions and events that increase or decrease net position. Depreciation is charged as an expense against current operations and accumulated depreciation is reported in the statement of net position.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenue to be available if collected within 60 days of the end of the current fiscal period. Revenue from Federal, state and other grants designated for payment of specific expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned. Expenditures are recognized when the liability is incurred, except for claims, compensated absences and interest on long-term debt which are recorded when normally expected to be liquidated with expendable available financial resources. Proceeds from issuance of long-term debt are recognized when received and payment of long-term debt principal is reported as an expenditure when paid. Capital asset purchases are recorded as expenditures and depreciation is not recognized.

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Measurement Focus and Basis of Accounting - Continued***

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

The City applies all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989 that are developed for business enterprises, unless those pronouncements conflict with or contradict GASB pronouncements.

***Government-wide Financial Statements***

The statement of net position and the statement of activities report information about the City as a whole. These statements include the financial activities of the primary government. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net position presents the financial position of the City's governmental and business-type activities at year end. The statement of activities demonstrates the degree to which the direct expenses of a given function or activity is offset by a given function or program revenues. Direct expenses are those that are clearly identifiable within a specific function or activity. Program revenues include charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity. In addition, program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Certain eliminations have been made as prescribed by governmental accounting standards to interfund activities, such as payables, receivables, and transfers, where applicable. Interfund activities between governmental funds and between governmental funds and proprietary funds have been reported as due to/due from on the governmental Balance Sheet and the proprietary Statement of Net Position and, and as other financing sources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balances and on the proprietary fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions between governmental funds are eliminated on the government-wide financial statements. All internal balances in the Statement of Net Position have been eliminated.

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Fund Financial Statements***

The City maintains fund accounting in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at a more detailed level. The City's major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

***Fund Accounting***

The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

***Governmental Funds***

Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they are to be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

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 – Special revenue funds are used to account for the proceeds of special revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes. The Street and Alley Fund as well as the Grant Fund make up the special revenue funds of the City.

Debt Service Funds – Debt service funds are used to account for the accumulation of resources for, and the payment of general long-term debt, including capital lease obligations, principal, interest, and related costs. The Bond Fund is the City's only debt service fund.

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Proprietary Funds***

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Enterprise Funds – Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is for the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Authority is the City's only enterprise fund.

***Cash and cash equivalents***

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Certificates of deposit are stated at cost.

***Inventories***

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of governmental fund type and proprietary fund type inventories are recorded as expenditures when purchased rather than when consumed.

***Use of Estimates***

Management uses estimates and assumptions in preparing these financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

***Compensated Absences***

All full-time employees of the City and the Authority are eligible for sick leave and annual vacation leave benefits in varying amounts to specified maximums depending on tenure with the City or the Authority.

***Long-Lived Assets***

FASB Codification Topic Property, Plant and Equipment, Section Subsequent Measurement requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of this Codification Topic has not materially affected the City's reported changes in fund balance or net position.

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Accrued Liabilities and Long-term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued and bond premiums are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***Capital Assets***

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position, but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net position and in the respective funds.

Capital assets are recorded at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair value as of the date received. Improvements are capitalized and the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

All reported capital assets, except for land and construction in progress, are depreciated using the straight-line method over estimated useful lives of the assets, which range from five to fifty years.

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Equity Classification***  
**Government-wide statements**

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

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net position – Consists restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted net position – The amount of the assets, deferred outflows of resources, liabilities, and deferred inflow of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

**Fund Statements**

Governmental fund equity is classified as fund balance. Fund Balance is the difference between assets and liabilities in a Governmental Fund. The following types of fund balance may be presented in the Governmental Funds Balance Sheet:

Nonspendable fund balance – the portion of a Governmental Fund's fund balance that is not available to be spent, either short term or long term, in either form or through legal restrictions. The City did not have any fund with a nonspendable fund balance.

Restricted fund balance – the portion of a Governmental Fund's fund balance that is subject to external enforceable legal restrictions. The Bond and Grant fund balances are restricted by grant agreements or Oklahoma Statute.

Committed fund balance – the portion of a Governmental Fund's fund balance with self-imposed constraints that have been placed at the highest level of decision making. The City has no funds with a committed fund balance.

Assigned fund balance – the portion of a Governmental Fund's fund balance to denote an intended use of resources. The City has no funds with an assigned fund balance.

Unassigned fund balance – available expendable financial resources in a governmental fund that are not designated for a specific purpose. The unassigned fund balance is made up of the General fund and the Street and Alley fund.

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Current Accounting Developments***

In 2012, the City early implemented GASB Statement Number 63 (GASB 63), *Financial Reporting of Resources, Deferred Inflows of Resources, and Net Position*. The implementation of GASB 63 changed how the statement of financial position is presented. The City will now report *net position* instead of *net assets* in the Statement of Net Position and the Statement of Activities.

In March 2012, the GASB issued Statement Number 65 (GASB 65), *Items Previously Reported As Assets and Liabilities*, effective for periods beginning after December 15, 2012. GASB 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

In March 2012, the GASB issued Statement Number 66 (GASB 66), *Technical Corrections – 2012*, effective for periods beginning after December 15, 2012. GASB 66 improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB 62.

In June 2012, the GASB issued Statement Number 67 (GASB 67), *Financial Reporting for Pension Plans – An amendment of GASB Statement No.25*, effective for periods beginning after June 15, 2013. GASB 67 is intended to improve the accounting and financial reporting for public employee pensions by state and local governments. GASB 67 replaces the requirements of GASB Statement No. 25 and GASB Statement No. 50, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria.

In June 2012, the GASB issued Statement Number 68 (GASB 68), *Accounting and Financial Reporting for Pensions*, effective for periods beginning after June 15, 2014. GASB 68 is intended to improve the accounting and financial reporting for public employee pensions by state and local governments. GASB 68 replaces the requirements of GASB Statement No. 27 and GASB Statement No. 50, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria.

Management is currently evaluating the impact of implementation of these statements on the financial statements of the City.

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Subsequent Events***

Subsequent events are evaluated through the date the financial statements were available to be issued, which is the date of the Independent Auditors' Report.

**NOTE 2: DEPOSITS IN FINANCIAL INSTITUTIONS**

***Custodial Credit Risk***

Deposits in financial institutions are financial instruments that could potentially subject the City to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. The City maintains deposit balances in various financial institutions, and all deposit balances are carried as cost. State law requires that municipal funds be deposits in federally insured banks within the State of Oklahoma.

Per Oklahoma State statute, the amount of deposits cannot exceed the federal insurance limit unless secured by acceptable collateral. At June 30, 2012, the City held deposits of approximately \$3,101,000 at financial institutions within the State of Oklahoma. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or by 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.

Oklahoma Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

***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:

1. 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.
2. 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.

**CITY OF HEAVENER, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 2: DEPOSITS IN FINANCIAL INSTITUTIONS - CONTINUED**

***Investment Credit Risk - Continued***

3. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
4. 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.
5. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administration and debentures issued by the Federal Housing Administration, and in obligations of the National Mortgage Association.
6. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs.

***Restricted Cash and Investments***

The restricted cash and investments are the result of financial requirements of promissory notes between the Authority and the United States Department of Agriculture, Rural Development. Under the terms and provisions of the promissory notes, these special funds are maintained with the Trustee bank for the benefit of the holders of the notes. These funds are to be maintained so long as the notes are outstanding. Monies contained in the funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the notes.

**CITY OF HEAVENER, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 2: DEPOSITS IN FINANCIAL INSTITUTIONS - CONTINUED**

***Summary of Carrying Values***

The carrying values of deposits shown below are included in the fund financial statements as follows:

Carrying value	
Cash and cash equivalents	\$ 2,313,695
Certificates of deposit	<u>451,071</u>
	<u>\$ 2,764,766</u>

Included in the following fund financial statement captions:

Cash and cash equivalents	\$ 929,211
Certificates of deposit	212,605
Restricted assets:	
Cash and cash equivalents	1,384,484
Certificates of deposit	<u>238,466</u>
	<u>\$ 2,764,766</u>

**NOTE 3: RECEIVABLES AND DUE FROM OTHER GOVERNMENTS**

The City's governmental receivables consisted of amounts due by citizens for tickets, fines and other miscellaneous penalties. Business-type receivables consisted of amounts due on customer accounts for utility services and related charges.

The City's due from other governments balance consisted of the amount due by the State of Oklahoma to the City for June sales tax collections.

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 4: INTERNAL BALANCES**

Transactions between funds that are outstanding at the end of the year are referred to as "due from/due to other funds" in the fund statements and as internal balances in the statement of net position. The purpose of these transactions is to fund accounts payable and reflect transfers for various tax revenues and expense allocations. The following schedule reflects the net due from/due to other funds, including the net internal balances, as of June 30, 2012:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental activities			
<i>General Fund</i>			
Street and Alley	\$ 16,659	\$ 9,450	
Utility Authority	180,721	23,771	
Bond Fund	-	63,575	
	<u>197,380</u>	<u>96,796</u>	\$ 100,584
<i>Street and Alley</i>			
General Fund	9,450	16,659	
Utility Authority	-	140,045	
	<u>9,450</u>	<u>156,704</u>	(147,254)
<i>Bond Fund</i>			
General Fund	63,575	-	63,575
			<u>\$ 16,905</u>
Business-type activities			
<i>Utility Authority</i>			
Street and Alley	140,045	-	
General Fund	23,771	180,721	
	<u>163,816</u>	<u>180,721</u>	\$ (16,905)

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 5: CAPITAL ASSETS**

Governmental capital asset balances and activity were as follows:

	Balance June 30, 2011 <u>as restated</u>	Additions	Deletions	Balance June 30, 2012
Capital assets, not depreciated				
Land	\$ 353,407	\$ -	\$ -	\$ 353,407
Total capital assets, not depreciated	<u>353,407</u>	<u>-</u>	<u>-</u>	<u>353,407</u>
Capital assets, depreciated				
Buildings	1,908,189	24,167	-	1,932,356
Improvements	138,290	1,123	-	139,413
Street system	3,359,788	-	-	3,359,788
Street improvements	1,220,319	22,462	-	1,242,781
Furniture and fixtures	104,013	-	-	104,013
Machinery and equipment	579,273	8,621	-	587,894
Vehicles	575,417	219,854	-	795,271
Total capital assets, depreciated	7,885,289	276,227	-	8,161,516
Less accumulated depreciation	<u>4,695,436</u>	<u>177,905</u>	<u>-</u>	<u>4,873,341</u>
Net capital assets, depreciated	<u>3,189,853</u>	<u>98,322</u>	<u>-</u>	<u>3,288,175</u>
Total capital assets, net	<u>\$ 3,543,260</u>	<u>\$ 98,322</u>	<u>\$ -</u>	<u>\$ 3,641,582</u>

Depreciation expense was charged to governmental activities as follows:

General government	\$ 19,006
Police Department	21,474
Fire Department	22,608
Culture and recreation	53,776
Public works	61,041
	<u>\$ 177,905</u>

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 5: CAPITAL ASSETS - CONTINUED**

Business-type capital asset balances and activity for the year were as follows:

	Balance June 30, 2011 <u>as restated</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, 2012
Capital assets, not depreciated				
Land	\$ 229,621	\$ -	\$ -	\$ 229,621
Construction in progress	-	2,040,114	-	2,040,114
Total capital assets, not depreciated	<u>229,621</u>	<u>2,040,114</u>	<u>-</u>	<u>2,269,735</u>
Capital assets, depreciated				
Buildings	4,879,647	33,578	-	4,913,225
Improvements	2,000	-	-	2,000
Sewer system	3,161,928	-	-	3,161,928
Sewer improvements	2,161	-	-	2,161
Water system	1,216,025	-	-	1,216,025
Water improvements	81,088	-	-	81,088
Furniture and fixtures	2,864	-	-	2,864
Machinery and equipment	653,703	14,329	-	668,032
Vehicles	67,699	-	-	67,699
Total capital assets, depreciated	<u>10,067,115</u>	<u>47,907</u>	<u>-</u>	<u>10,115,022</u>
Less accumulated depreciation	<u>5,518,970</u>	<u>282,812</u>	<u>-</u>	<u>5,801,782</u>
Net capital assets, depreciated	<u>4,548,145</u>	<u>(234,905)</u>	<u>-</u>	<u>4,313,240</u>
Total capital assets, net	<u>\$ 4,777,766</u>	<u>\$ 1,805,209</u>	<u>\$ -</u>	<u>\$ 6,582,975</u>

The City's active construction project at June 30, 2012 consisted of a Wastewater Treatment Facility Improvements project. The remaining commitment at June 30, 2012 was approximately \$2 million. The project was completed in August 2014.

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 6: CAPITAL LEASES**

The City has entered into various lease agreements for the acquisition of capital assets. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the net present value of future minimum lease payments as of the acquisition date. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These payments are reported as expenditures on the fund financial statements.

The following is a summary of capital lease activity for the year:

	<u>Balance</u> <u>June 30, 2011</u> <u>Restated</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital lease obligations	\$ 68,866	\$ 215,000	\$ 31,572	\$ 252,294

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2012 were as follows:

	<u>Years Ending June 30,</u>
	2013 \$ 55,853
	2014 40,922
	2015 35,606
	2016 28,165
	2017 28,165
	2018-2021 <u>122,047</u>
Total minimum lease payments	310,758
Less amount representing interest	<u>(58,464)</u>
Present value of minimum lease payments	<u>\$ 252,294</u>

**CITY OF HEAVENER, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 7: LONG-TERM LIABILITIES**

Long-term liability balances and activity were as follows:

	Balance June 30, 2011 <u>Restated</u>	<u>Increases</u>	<u>Decreases</u>	Balance June 30, 2012	Amounts Due in One Year
Primary Government					
Governmental Activities					
Bonds payable					
General obligation bonds, net	\$ 740,000	\$ -	\$ 50,000	\$ 690,000	\$ 50,000
Less deferred issuance premiums (discounts)	<u>2,895</u>	<u>-</u>	<u>-</u>	<u>2,895</u>	<u>-</u>
Bonds payable, net	742,895	-	50,000	692,895	50,000
Capital leases	<u>68,866</u>	<u>215,000</u>	<u>31,572</u>	<u>252,294</u>	<u>42,984</u>
Governmental activities long-term liabilities	<u>\$ 811,761</u>	<u>\$ 215,000</u>	<u>\$ 81,572</u>	<u>\$ 945,189</u>	<u>\$ 92,984</u>
Business-type Activities					
Notes payable	<u>\$ 5,669,169</u>	<u>\$ 1,232,287</u>	<u>\$ 179,526</u>	<u>\$ 6,721,930</u>	<u>\$ 192,029</u>

Payments on bonds are made by the Debt Service Fund. Capital lease payments are made by the General Fund. See Note 6.

On June 1, 2007, the City of Heavener issued \$890,000 General Obligation Bonds of 2007. The proceeds of the bonds were to be used to acquire, construct and equip tornado sirens, a library, and lighting for municipal ball fields within the City of Heavener. The bonds are direct and general obligations of the City and are payable as to principal and interest from ad valorem taxes which are required to be levied on all taxable property within the City, without limitation as to the rate or amount. The bonds bear interest in rates varying from 4.25% to 5.00%, with interest paid semi-annually and an annual payment of principal beginning June 1, 2009. The outstanding balance of general obligation bonds at June 30, 2012 was \$690,000.

During the year ended June 30, 2002, the Heavener Utilities Authority obtained a loan (Loan #1) from U.S. Department of Agriculture Rural Development Water and Waste Disposal Systems for Rural Communities Direct Loans in the amount of \$985,000 for a domestic wastewater treatment improvement project. The loan is to be repaid over forty years at 3.25% interest, with monthly payments of principal and interest of \$3,724. The balance of this loan at June 30, 2012 was approximately \$841,000 and is included in the business-type activities notes payable balance.

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 7: LONG-TERM LIABILITIES - CONTINUED**

During the year ended June 30, 2007, the Heavener Utilities Authority obtained two loans (Loans #2 and #3) from U.S. Department of Agriculture Rural Development Water and Waste Disposal Systems for Rural Communities Direct Loans totaling \$4,951,800 to finance multiple improvement projects, including a new water tower, water distribution and storage upgrades, system and sludge removal project improvement, and water and sewer line upgrades. The first loan was for \$3,460,000 at 4.25% interest, to be repaid over forty years with monthly payments of principal and interest of \$15,155. The balance of this loan at June 30, 2012 was approximately \$3,329,000 and is included in the business-type activities notes payable balance. The second loan was for \$1,491,800 at 4.5% interest, to be repaid over forty years with monthly payments of principal and interest of \$6,773. The balance of this loan at June 30, 2012 was approximately \$1,426,000 and is included in the business-type activities notes payable balance.

During the year ended June 30, 2012, the Heavener Utilities Authority obtained two additional loans (Loans #4 and #5) from U.S. Department of Agriculture Rural Development Water and Waste Disposal Systems for Rural Communities Direct Loans totaling \$3,260,750 for the continued acquisition, construction, improvements to the sanitary sewer system and equipment additions to the sewer system. The first loan was for \$2,074,000 at 4.125% interest, to be repaid over forty years with monthly payments of principal and interest of \$8,836. The Authority only took draws on this loan totaling approximately \$748,000 during the year ended June 30, 2012. The balance of this loan at June 30, 2012 was approximately \$674,000 and is included in the business-type activities notes payable balance. The second loan was for \$1,186,750 at 2.5% interest, to be repaid over forty years with monthly payments of principal and interest totaling \$3,917. The Authority only took draws on this loan totaling approximately \$485,000 during the year ended June 30, 2012. The balance of this loan at June 30, 2012 was approximately \$452,000 and is included in the business-type activities notes payable balance. The remaining draws on these loans were taken subsequent to year end. See Note 12.

Each Rural Development loan requires the Authority to make deposits equal to 10% of its monthly installment into a reserve account until a balance equivalent to the annual debt service has been accumulated. At June 30, 2012, the Rural Development annual debt service requirement totaled approximately \$461,000. The Authority held a reserve cash account with a balance of approximately \$426,000, however; the Authority was not required to make installment payments until October 2011. The reserve balance covered the earlier loans as well as the installment requirements on the loans obtained during the year ended June 30, 2012.

**CITY OF HEAVENER, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 7: LONG-TERM LIABILITIES - CONTINUED**

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 50,000	\$ 32,542	\$ 82,542
2014	50,000	30,184	80,184
2015	50,000	27,825	77,825
2016	50,000	25,467	75,467
2017	50,000	23,109	73,109
2018-2022	250,000	80,175	330,175
2023-2025	190,000	19,808	209,808
	<u>\$ 690,000</u>	<u>\$ 239,110</u>	<u>\$ 929,110</u>

Annual debt service requirements to maturity for notes payable are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 192,029	\$ 268,831	\$ 460,860
2014	199,466	261,394	460,860
2015	207,200	253,660	460,860
2016	215,182	245,678	460,860
2017	223,608	237,252	460,860
2018-2022	963,065	1,063,537	2,026,602
2023-2027	670,783	916,608	1,587,391
2028-2032	764,934	774,185	1,539,119
2033-2037	939,399	599,721	1,539,120
2038-2042	1,116,018	385,376	1,501,394
2043-2047	1,146,060	146,013	1,292,073
2048	84,186	1,005	85,191
	<u>\$ 6,721,930</u>	<u>\$ 5,153,260</u>	<u>\$ 11,875,190</u>

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 8: EMPLOYEES RETIREMENT PLANS**

Description of the Plans

The City participates in a defined contribution plan with the Oklahoma Public Employees Retirement System (OPERS). The defined contribution plan is available to all full time employees not already participating in another plan. Depending on employee classification, the City is required to withhold between 10% and 12.1% of participating employees' gross wages from each payroll. Additionally, the City is required to contribute between 14% and 18.1% of participating employees' gross wages from each payroll.

The City's volunteer firemen are covered by a separate plan. This noncontributory plan is operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS). The Oklahoma Firefighters Pension and Retirement System issues a publicly available financial report that included financial statements and required supplementary information for the fund. That report may be obtained by writing directly to OFPRS at 4545 North Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414, or by calling (800) 525-7461.

Funding Policy

For the OPERS plan, contributions of employee and employer contributions are made to the plan throughout the year.

The City is required to make annual contributions of \$60.00 per active volunteer fireman to OFPRS. This contribution covers a portion of the cost and benefits that will be paid to vested volunteer firemen. The City's contributions to OFPRS during the year ended June 30, 2012 totaled \$1,080.

Annual Pension Cost

For the fiscal year 2012, the City's annual pension cost of \$118,592 was equal to the City's required contributions.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	\$ 89,045	100%	\$ -
June 30, 2011	89,045	100%	-
June 30, 2012	118,592	100%	-

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 9: RISK MANAGEMENT**

The City is exposed to various risks of loss from tort, theft of, damage to and destruction of assets, business interruption, errors and omissions, natural disasters, employee injuries and illnesses, workers compensation claims, and employee health benefits. Commercial insurance coverage is purchased to cover these and other risks. There were no significant reductions in insurance coverage in the major categories of risk from coverage in the prior year.

**NOTE 10: COMMITMENTS AND CONTINGENCIES**

**Commitments**

Principal and interest on the General Obligation Bonds of 2007 is paid from ad valorem taxes. See Note 7.

The City levies a three and one-half cent sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following the receipt by Tax Commission. The sales tax received is allocated as follows: 1/2 of one cent to the Utility Authority for the retirement of sewer debt, 1/3 of one cent to the Street and Alley fund for repairs and maintenance of the City's streets, and 1/2 of one cent to the Bond fund for retirement of the General Obligation Bonds of 2007.

**Contingencies**

The City is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the assets, liabilities, fund balances or net position where applicable, revenues, expenditures, and changes in fund balances or net position, and cash flows, where applicable, of the City.

The City was the recipient of Federal awards during the year ended June 30, 2012. These awards are subject to audit by the Federal government or their representatives, the purpose of which is to ensure compliance with award restrictions. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

**CITY OF HEAVENER, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 11: TAXES AND INTERGOVERNMENTAL REVENUES**

Tax revenues during the year ended June 30, 2012 were as follows:

	Taxes		
	Governmental activities		Business-type activities
	General Fund	Other Governmental Funds	Utility Authority
		General Fund	
Sales tax	\$ 449,177	\$ 172,760	\$ 103,656
Use tax	64,999	-	-
Alcohol tax	25,044	-	-
Tobacco tax	10,345	-	-
	\$ 549,565	\$ 172,760	\$ 103,656

Intergovernmental revenues during the year ended June 30, 2012 were as follows:

	Intergovernmental
	Other Governmental Funds
Street and Alley Fund	
Commercial vehicle licenses	\$ 15,271
Gasoline tax	6,106
	\$ 21,377

**NOTE 12: SUBSEQUENT EVENTS**

Subsequent to June 30, 2012 the City received a notice from the United States Department of Agriculture regarding the results of a compliance review finding the City in non-compliance with certain requirements under applicable Civil Rights laws, specifically related to Section 504 of the Rehabilitation Act of 1973 covering requirements as contained in the Uniform Federal Accessibility Standards (UFAS) and/or the Americans with Disabilities Act of 1990 pertaining to handicapped accessibility. The City must renovate City Hall to provide for a handicapped accessible restroom facility. The exact cost has not been determined as of the date of the independent auditors' report.

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 12: SUBSEQUENT EVENTS - CONTINUED**

Subsequent to June 30, 2012, the City entered into a lease with Ford Motor Corporation for the acquisition of a Police vehicle at a cost of \$34,625. The City will make four annual payments of \$9,484 beginning in March 2013.

Subsequent to June 30, 2012, the City entered into a lease with Ford Motor Corporation for the acquisition of a Police utility vehicle at a cost of \$35,516. The City will make four annual payments of \$9,844, beginning in December 2014.

Subsequent to June 30, 2012, the City entered into a lease with Ford Motor Corporation for the acquisition of a Dump Truck at a cost of \$78,054. The City will make six annual payments of \$14,958, beginning in April 2015.

Subsequent to June 30, 2012, the Heavener Economic Development Authority secured a \$179,000 Tax Increment Revenue Note, Series 2012 Bond (Recreational Improvements Project) for the purpose of constructing a skate park within the City. Annual repayment of bonds will begin in November 2013. The bonds mature in November 2032.

Subsequent to June 30, 2012, the City took additional draws on the Rural Development Construction Loans #4 and #5 totaling approximately \$1,568,000. See Note 7.

**NOTE 13: DEFICIT FUND BALANCES**

The following individual fund had deficit balance as of June 30, 2012:

Street and Alley	<u>\$ (123,042)</u>
------------------	---------------------

The City intends to reduce this deficit by evaluating expenditures in future periods as well as working to stay in compliance with audit requirements in order that they receive all tax revenues the City is entitled to.

**CITY OF HEAVENER, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012**

**NOTE 14: PRIOR PERIOD ADJUSTMENTS**

When comparing the beginning balances between the previous year's audited financial statements and the City's books and records, it was apparent that audit adjustments for previous years had not be reversed, some adjustments had not been made, and capital assets and related depreciation had not been updated in the general ledger. It was also apparent that the allocation of various employee withholdings and other payroll related expenses were not being recorded and reduced in the liability accounts properly, thereby creating erroneous balance information presented in the previous year's audited financial statements. Additionally, the City had previously reported their books on the cash basis of accounting and the previous year's audited financial statements did not provide for any accrual entries to adjust to the modified accrual basis of accounting. Finally, some account balances could not be supported by the City's books and records. Based on the above, adjustments to beginning fund balances were required.

The following summarizes the prior period adjustment to fund balance in the governmental funds:

	General fund	Other Governmental	Total
Fund balance at June 30, 2011, as previously stated	<u>\$ 228,109</u>	<u>\$ 719,277</u>	<u>\$ 947,386</u>
Prior period adjustment:			
Accrual based entries	60,816	15,521	76,337
Unsupported balances	492,235	(98,819)	393,416
CD balance	87,683	(87,092)	591
Cash adjustments	161,471	-	161,471
Voided expenditures	<u>6,565</u>	<u>-</u>	<u>6,565</u>
Total prior period adjustment	<u>808,770</u>	<u>(170,390)</u>	<u>638,380</u>
Fund balance at June 30, 2011, as restated	<u><u>\$ 1,036,879</u></u>	<u><u>\$ 548,887</u></u>	<u><u>\$ 1,585,766</u></u>

**CITY OF HEAVENER, OKLAHOMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012**

**NOTE 14: PRIOR PERIOD ADJUSTMENTS - CONTINUED**

The following summarizes the prior period adjustment to fund balance in the other governmental funds:

	Street and Alley fund	Grant fund	Bond fund	Capital Improvement fund	Total
Fund balance at June 30, 2011, as previously stated	\$ (552)	\$ 193,340	\$ 439,397	\$ 87,092	\$ 719,277
Prior period adjustment:					
Accrual based entries	6,740	-	8,781	-	15,521
Unsupported balances	4,510	-	(103,329)	-	(98,819)
CD balance	-	-	-	(87,092)	(87,092)
Total prior period adjustment	11,250	-	(94,548)	(87,092)	(170,390)
Fund balance at June 30, 2011, as restated	<u>\$ 10,698</u>	<u>\$ 193,340</u>	<u>\$ 344,849</u>	<u>\$ -</u>	<u>\$ 548,887</u>

The following summarizes the prior period adjustment to net position in the business-type funds:

	Business-type fund
Net position at June 30, 2011, as previously stated	<u>\$ 12,378,749</u>
Prior period adjustment:	
Accrual based entries	184,571
Unsupported balances	(6,100,464)
Compensated absences	(29,152)
Cash adjustments	98,046
Capital assets adjustments	(5,364,181)
Note payable adjustments	66,344
Total prior period adjustment	<u>(11,144,836)</u>
Net position at June 30, 2011, as restated	<u>\$ 1,233,913</u>

**CITY OF HEAVENER, OKLAHOMA**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2012**

	<u>Street and Alley Fund</u>	<u>Grant Fund</u>	<u>Bond Fund</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Due from other governments	\$ 6,709	\$ -	\$ 10,064	\$ 16,773
Due from other funds	9,450	-	63,575	73,025
Restricted assets				
Cash and cash equivalents	21,125	-	290,675	311,800
Certificates of deposit	-	196,454	-	196,454
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 37,284</u>	<u>\$ 196,454</u>	<u>\$ 364,314</u>	<u>\$ 598,052</u>
 <b><u>LIABILITIES AND FUND BALANCE</u></b>				
<b><u>LIABILITIES</u></b>				
Accrued expenses	\$ 3,622	\$ -	\$ -	\$ 3,622
Due to other funds	156,704	-	-	156,704
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>160,326</u>	<u>-</u>	<u>-</u>	<u>160,326</u>
 <b><u>FUND BALANCE</u></b>				
Restricted	-	196,454	364,314	560,768
Unrestricted				
Unassigned	(123,042)	-	-	(123,042)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balance	<u>(123,042)</u>	<u>196,454</u>	<u>364,314</u>	<u>437,726</u>
Total liabilities and fund balance	<u>\$ 37,284</u>	<u>\$ 196,454</u>	<u>\$ 364,314</u>	<u>\$ 598,052</u>

See Independent Auditors' Report.

**CITY OF HEAVENER, OKLAHOMA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2012**

	<u>Street and Alley Fund</u>	<u>Grant Fund</u>	<u>Bond Fund</u>	<u>Total</u>
<b>REVENUES</b>				
Intergovernmental revenues	\$ 21,377	\$ -	\$ -	\$ 21,377
Taxes	69,104	-	103,656	172,760
Investment income	64	3,114	697	3,875
	<u>90,545</u>	<u>3,114</u>	<u>104,353</u>	<u>198,012</u>
<b>EXPENDITURES</b>				
Current				
Public works	194,873	-	-	194,873
Capital outlay	29,412	-	-	29,412
Debt Service				
Principal	-	-	50,000	50,000
Interest and fiscal charges	-	-	34,888	34,888
	<u>224,285</u>	<u>-</u>	<u>84,888</u>	<u>309,173</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(133,740)</u>	<u>3,114</u>	<u>19,465</u>	<u>(111,161)</u>
<b>NET CHANGES IN FUND BALANCE</b>	(133,740)	3,114	19,465	(111,161)
<b>TOTAL FUND BALANCE, BEGINNING OF YEAR, AS RESTATED</b>	<u>10,698</u>	<u>193,340</u>	<u>344,849</u>	<u>548,887</u>
<b>TOTAL FUND BALANCE, END OF YEAR</b>	<u>\$ (123,042)</u>	<u>\$ 196,454</u>	<u>\$ 364,314</u>	<u>\$ 437,726</u>

See Independent Auditors' Report.

**CITY OF HEAVENER, OKLAHOMA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2012**

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<b><u>Federal Awards</u></b>		
U. S. Department of Agriculture Rural Development Water and Waste Disposal Systems for Rural Communities Direct Loans	10.760	\$ <u>1,232,287</u>
<b>Total Expenditures of Federal Awards</b>		<u>\$ 1,232,287</u>

**NOTE:**

The schedule of expenditures of Federal awards includes the Federal award activity of the City of Heavener and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



**INDEPENDENT AUDITORS' 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**

City Council  
**City of Heavener**  
Heavener, Oklahoma

We were engaged to 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the **City of Heavener, Oklahoma** (the "City") as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 4, 2015. The scope of our work was not sufficient to enable us to express, and we did not express an opinion on the basic financial statements, *Governmental Auditing Standards* issued by the Comptroller General of the United States require reporting on internal control over financial reporting and compliance and other matters based on any procedures that were performed.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the City's internal control over financial reporting 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs as items 2012-001 through 2012-006, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City'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. As described above, we identified certain deficiencies in internal control that we consider to be material weaknesses.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-007.

### ***The City's Responses to Findings***

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinions on them.

### ***Purpose of this Report***

The purpose of 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Beall Barclay & Company, PLC*

BEALL BARCLAY & COMPANY, PLC  
Certified Public Accountants

Fort Smith, Arkansas  
June 4, 2015



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

City Council  
**City of Heavener**  
Heavener, Oklahoma

**Report on Compliance for Each Major Federal Awards Program**

We have audited the compliance of the **City of Heavener, Oklahoma** (the "City") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major Federal programs for the year ended June 30, 2012. The City's major Federal program is identified in the summary of auditors' 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 major Federal program.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for the City's major Federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations." 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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major Federal program. However, our audit does not provide a legal determination of the City's compliance.

### ***Opinion on Each Major Federal Program***

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

### ***Report on Internal Control Over Compliance***

Management of the City 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, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of 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 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 consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-008 through 2012-010 to be material weaknesses.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

***Purpose of this Report***

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 communication is not suitable for any other purpose.

*Beall Barclay & Company, PLC*

**BEALL BARCLAY & COMPANY, PLC**  
Certified Public Accountants

Fort Smith, Arkansas  
June 4, 2015

**CITY OF HEAVENER, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012**

**I. SUMMARY OF INDEPENDENT AUDITORS' FINDINGS**

1. The opinions expressed in the independent auditors' report were:

Unmodified       Qualified       Adverse       Disclaimer

2. The independent auditors' report on internal control over financial reporting disclosed:

Significant deficiency(ies)?                       Yes               None reported  
Material weakness(es)?                               Yes               No

3. Noncompliance considered material to the financial statements was disclosed by the audit?     Yes               No

4. The independent auditors' report on internal control over compliance with requirements that could have a direct and material effect on each major federal awards program disclosed:

Significant deficiency(ies)?                       Yes               None reported  
Material weakness(es)?                               Yes               No

5. The opinions expressed in the independent auditors' report on compliance with requirements that could have a direct and material effect on each major federal awards program were:

Unmodified       Qualified       Adverse       Disclaimer

6. The audit disclosed findings required to be reported by OMB Circular A-133?     Yes               No

7. The City's major programs were:

<u>Cluster/Program</u>	<u>CFDA Number</u>
U.S Department of Agriculture Rural Development Water and Waste Disposal Systems for Rural Communities Direct Loans	10.760

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The City qualified as a low-risk auditee as that term is defined in OMB Circular A-133?     Yes               No

**CITY OF HEAVENER, OKLAHOMA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2012**

**II. FINDINGS RELATED TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS**

**2012-001: Internal Controls Over Financial Statement Preparation**

**Criteria/Specific Requirement:** The City is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The City's internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge and expertise to prepare and/or thoroughly review GAAP based financial statements to ensure that they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

**Condition:** For the year ended June 30, 2012, auditors disclaimed an opinion of the financial statements of the City. The City does not have sufficient internal controls over the processing of most accounting transactions. There are inadequate controls over the preparation/review of GAAP based financial statements. During the normal course of performing their assigned functions or duties, management may fail to prevent or detect financial statement and disclosure errors and omissions. For example, auditors, in their audit of the City's accounting records, noted the following:

- The City did not have adequate controls over the maintenance of complete records of cash by fund, accounts receivable, capital assets, accounts payable, or accrued payroll and other liabilities.
- The City did not have adequate controls in place to ensure that all assets, liabilities, and revenues were properly recorded in the general ledger.
- The City did not have adequate controls in place to ensure that all transactions were properly authorized, recorded in the proper period, and correctly allocated between funds.
- Numerous entries were required to adjust beginning fund balance amounts to agree to prior year audited financial statements. Additionally, significant prior period adjustments were required as a result of the prior year's balances being unsupported by the City's books and records.
- Interfund balances did not eliminate (repeated finding) and interfund transfers were incorrectly used in order to balance journal entries. Numerous adjustments were required to balance the interfund activity.
- Regarding payroll and related liabilities, the City's liability accounts have been consistently accruing erroneous debit balances, thereby materially understating liabilities in the financial statements. (See Finding 2012-004)

**CITY OF HEAVENER, OKLAHOMA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2012**

**Effect:** Management or employees in the normal course of performing their assigned functions may not prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

**Cause:** The City operates on the cash basis of accounting and does not maintain a system of controls over the preparation of financial statements in accordance with GAAP. City personnel are unfamiliar with policies, procedures and necessary internal controls over the financial reporting process.

**Auditors' Recommendation:** As a part of its internal control over the preparation of financial statements, including disclosures, the City should implement comprehensive preparation and/or review procedures to ensure the financial statements, including disclosures, are complete and accurate. Such procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable GAAP, GASB pronouncements, and knowledge of the City's activities and operations.

Additionally, the City of Heavener should design and implement a system of processes and controls that will ensure complete records are maintained, all assets and revenues are recorded in the general ledger, and all transactions are properly authorized, recorded in the proper period, and correctly allocated between funds.

**2012-002: Lack of Segregation of Duties**

**Criteria/Specific Requirement:** A proper segregation of duties is an integral part of any internal control system. Ideally, duties should be segregated to prevent one person from being in a position to authorize, execute, and record the same transaction.

**Condition:** One individual maintained the books and records, prepared disbursements and reconciled the bank statements. This same individual prepared and recorded all general ledger journal entries without review and approval by a member of management.

**Effect:** The lack of proper segregation of duties increases the risk that errors or fraud may occur and not be detected in a timely manner.

**Cause:** The City did not maintain a proper segregation of duties related to its financial transactions.

**Auditors' Recommendation:** The City should determine a way to strengthen controls, including improving segregation of duties over key financial transactions.

**CITY OF HEAVENER, OKLAHOMA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2012**

**2012-003: Inadequate Controls Over Cash**

**Criteria/Specific Requirement:** The City is responsible for the safeguarding of assets and maintaining an adequate system of internal controls over accounting transactions to prevent error or fraud. The City should ensure that all cash and cash equivalents are recorded in the general ledger and bank reconciliations should be performed on a regular basis. All differences between the bank balance and the general ledger balance should be investigated and resolved.

**Condition:** During our audit, we noted the following deficiencies related to its internal control over cash:

- The City did not have an accurate general ledger cash balance or accurate bank reconciliations as of June 30, 2012. Some reconciliations did not account for deposits in transit or outstanding checks. There does not appear to be a review and approval process in place once bank reconciliations are prepared by the city clerk/deputy clerk.
- While it is the policy of the City that disbursement checks contain dual signatures, the following issues prevent this from being an adequate control:
  1. There are three authorized signatures on the bank account. One of the authorized signers maintains the books, prepares disbursements and reconciles the bank statements. (See Finding 2012-002)
  2. One of the authorized signers maintains a signature stamp of another authorized signer. The stamp was not kept in a locked location.
  3. One of the signers on the bank account was not bonded.
- Cash transferred from one account at year-end was not recorded in the receiving fund until after year-end.
- The City held a certificate of deposit that was not recorded in the general ledger.
- The City did not record interest income for certain cash accounts and certificates of deposit.
- The City did not have adequate controls over Rural Development loan receipts and disbursements, including the recording of receipts in its cash account, recording duplicate payments to contractors, recording payments to contractors as transfers, and preventing duplicate journal entries. Additionally, the City maintained two general ledger accounts for the same bank account.

**CITY OF HEAVENER, OKLAHOMA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2012**

**Effect:** Without effective internal controls in place, assets can be misappropriated or otherwise used for unauthorized purposes. Additionally, without adequate segregation of duties and lack of management oversight in the reconciliation process, instances of errors or fraud within the accounting system may not be detected and corrected in a timely manner.

**Cause:** The City believed that by having dual signatures on their checks they were implementing a better internal control system than that which a single authorized check system provides. They did not consider the lack of segregation of duties or the signature stamp as weaknesses in the control. The City's certificates of deposit are held at the bank. They do not have a system of internal control in place to ensure that all cash and investments held by the City are included in the general ledger.

The City did not have a clear understanding of how loan proceeds and disbursements should be processed in the general ledger.

**Auditors' Recommendation:** The City should implement proper controls for the safeguarding of assets and maintain an adequate system of internal controls over accounting transactions to prevent error or fraud. The City should ensure all cash and investment accounts are recorded in the general ledger.

Bank reconciliations should be prepared monthly and all differences between the bank balance and the general ledger balance should be investigated and resolved. All bank reconciliations should be reviewed and approved by a member of management who is independent of the receipt and disbursement process.

The City should ensure that the employee who maintains the books, prepares disbursements and reconciles the bank statements is not also an authorized check signer.

If a signature stamp is considered necessary, it should be secured and maintained by individuals who do not have check signing authority or maintain the books and records of the City.

**2012-004: Internal Controls Over Payroll and Other Liabilities**

**Criteria/Specific Requirement:** Internal controls should be in place to provide reasonable assurance that payroll is properly recorded, properly allocated to funds based on time and effort spent and related liabilities are properly recorded.

**Condition:** During the course of the audit, we noted the following deficiencies related to payroll and other liabilities:

- General ledger account allocation was set-up in a manner that caused employee withholdings to be credited to the salaries account rather than the related liability.

**CITY OF HEAVENER, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012**

- The City lacks a system of internal control to allocate salaries and benefits related to the Street and Alley employees to the proper governmental fund. All salaries and benefits paid to the Street and Alley employees are incorrectly allocated to the proprietary fund.
- The City lacks a system of internal controls to identify and record accrued payroll and related liabilities at year-end.
- The City lacks a system of internal control over customer deposits. When City personnel receive deposits from customers, they record it as revenue and when they apply or repay deposits, they record it as an expense. Additionally, the customer deposit listing only goes back to 2007 with no record of previous periods. The City has no way to determine whether the customer deposit liability is complete at June 30, 2012.

**Effect:** The absence of a sound system of internal controls over payroll and other liabilities can result in inaccurate or incomplete reporting of liabilities, payroll and other expenditures in the financial statements and/or within specific funds.

**Cause:** The City did not have a system of internal control in place to provide reasonable assurance that payroll is properly recorded, properly allocated to funds based on time and effort spent and related liabilities are properly recorded and complete.

**Auditors' Recommendation:** The City should implement a system of internal controls to provide reasonable assurance that payroll is properly recorded, properly allocated to funds based on time and effort spent and related liabilities are properly recorded and complete.

**2012-05: Internal Controls Over Revenues**

**Criteria/Specific Requirement:** The City should have a system in place to account for all revenues, both collected and uncollected.

The City levies a three and one-half cent sales tax on taxable sales within the City. The sales tax received is allocated as follows: 1/2 of one cent to the Utility, 1/3 of one cent to the Street and Alley fund, and 1/2 of one cent to the Bond. The City should have a system of internal controls in place to ensure that sales tax is allocated appropriately.

**Condition:** During our audit of revenue and receivables, we noted the following:

- The City does not have a system in place to identify and record receivables and amounts due from other governments at year-end.
- The City recorded customer deposits as revenue when received. See Finding 2012-004.

**CITY OF HEAVENER, OKLAHOMA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2012**

- The City recorded the entire amount of sales tax receipts as revenue in the general fund. When allocating the portions of sales tax to the other funds, the City used an allocation method other than the one specified above. When the general fund transferred the allocated amount to the other funds, it did not reduce the amount of sales tax revenue recorded in the general fund. The other funds recorded the allocation as sales tax revenue when received causing sales tax revenue to be overstated.
- The City recorded some of the loan proceeds they received as revenue, rather than as a liability.
- The City did not have a proper understanding of double entry bookkeeping and was under the impression that at least four entries were required for each entry. Because of this, when transferring cash between accounts within the same fund, they posted a journal entry to debit and credit the two cash accounts but they also debited an expense/expenditure account and credited a revenue account by the same amount. This caused revenue and expenses/expenditures to be overstated in the funds.
- The City cannot confirm that all non-exchange revenues have been recorded in the general ledger.

**Effect:** Without a sound system of internal control in place, revenues may not be recorded in the proper amount, account, and/or period.

**Cause:** The City did not have a system in place to properly record revenue in the general ledger or account for all revenues that had not yet been collected.

**Auditors' Recommendation:** The City should put an internal control system in place that allows them to monitor revenues that have not been collected and accurately record revenues in the general ledger.

**2012-006: Internal Control over Capital Assets**

**Criteria/Specific Requirement:** Sound internal controls require that policies and procedures over capital assets should cover acquisition, recording and reporting, depreciation (as applicable), transfers and dispositions, and annual physical inventory, and they should be formally documented and consistently applied.

Asset acquisitions, dispositions, and related depreciation (where applicable) should be recorded in the general ledger in a timely manner.

**Condition:** The City holds capital assets with a net book value of approximately \$10,225,000 and current depreciation expense of more than \$460,000. These amounts are material to the financial statements.

**CITY OF HEAVENER, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012**

The following deficiencies were noted in the City's internal control over capital assets:

- The City does not have a formal capital asset policy in place that defines what a capital asset is, capitalization thresholds, methods of depreciation, and useful lives.
- Prior to the June 30, 2012 audit, asset additions, dispositions, transfers, and related depreciation had not been updated in the City's general ledger. The City updates the asset management module of their accounting software; however, the module was not being updated to the general ledger.
- The City does not have a system in place to identify and record capital asset acquisitions and dispositions. Upon request for capital asset information by the auditors, City personnel had the former City Manager come in and review all purchase orders for the current year and update the asset management module of the City's software.
- While auditing capital asset additions and the related purchase orders, it was noted that allocation across funds may contain errors. For example, an item may have been entered into the asset management system as a General fund asset, but it may have been originally recorded as capital outlay in the Street and Alley fund.
- While auditing capital asset additions and the related purchase orders, it was noted that an asset may be entered into the asset management system at the purchase order amount, rather than the amount actually paid by the City.
- While auditing leases, it was noted that capital lease transactions and the related capital asset had not been recorded by the City. Depreciation on the capital lease assets had also not been calculated and recorded.
- Upon audit of construction in progress, it was noted that the construction in progress balance reported on the prior years' audited financial statements had actually been placed in service and was included in depreciable assets. This resulted in the beginning capital asset balance being overstated by approximately \$4.8 million. See Note 14 to the financial statements.
- When inquiring of the former City Manager the policies used to determine when an expense should be capitalized, he indicated that it was his job to improve the net worth of the City and that it was in the City's best interest to capitalize as much as possible.

**CITY OF HEAVENER, OKLAHOMA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2012**

**Effect:** The absence of a sound system of internal controls over capital assets can result in inaccurate reporting of capital assets and inadequate physical control for equipment items. An incomplete capital asset listing does not provide an adequate basis for physical control and losses may occur without being detected. Asset additions, disposals and/or transfers may not be entered in the proper account, proper amount, and/or proper period.

**Cause:** The City did not implement proper controls over capital asset inventory, purchases and disposals and did not have a policy in place for tracking additions, disposals and calculating depreciation expense (where applicable). The City did not have adequately trained personnel available to manage the asset module of the City's books and records.

**Auditors' Recommendation:** The City should implement a capital asset policy that defines what a capital asset is, capitalization thresholds, methods of depreciation, and useful lives. The City should implement proper controls over capital assets, including maintaining a current inventory of all assets, properly documenting all additions, including assets that qualify under capital lease provision, and deletions, as well as calculating and recording depreciation expense (as applicable.) The City should ensure that the general ledger is updated with all information entered into the asset module of its accounting software. The City's control system should include processes to prevent cross posting of assets across funds and assets should be entered at actual cost rather than the amount of the purchase order.

Finally, the City should monitor all ongoing construction in progress projects and when the asset is placed in service, take care to transfer the cost from construction in progress to depreciable assets and depreciate as appropriate.

**2012-007: Compliance with Laws and Regulations**

**Criteria/Specific Requirement:** As part of ensuring that the financial statements are free from material misstatement, the City is required to comply with certain provisions of law and regulations.

**Condition:** During our tests of compliance with provisions of law and regulations, auditors noted several instances of noncompliance with Oklahoma State Statutes.

**Effect:** The City did not comply with multiple statutory requirements.

**Cause:** The City did not have a clear understanding of certain provision of statutes related to Oklahoma Municipal Accounting and Finance.

**Auditors' Recommendation:** The City should review and understand statutory requirements related to Oklahoma Municipal Accounting and Finance.

**CITY OF HEAVENER, OKLAHOMA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012**

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**2012-008: Preparation of Schedule of Expenditures of Federal Awards**

**U.S. Department of Agriculture Rural Development Water and Waste Disposal Systems for Rural Communities Direct Loans (CFDA 10.760)**

**Criteria/Specific Requirement:** Internal control over financial reporting includes management's control over the preparation of the Schedule of Expenditures of Federal Awards and related footnotes. An auditor can assist in assembling or drafting the Schedule of Expenditures of Federal Awards and related footnotes; however, an auditor cannot be a part of the City's internal control.

**Condition:** As part of the engagement, we assisted management in the preparation of the City's Schedule of Expenditures of Federal Awards. Although management reviewed and approved the Schedule of Expenditures of Federal Awards and related footnotes, management's current system of internal control lacks adequate controls to ensure the completeness of the information in the Schedule of Expenditures of Federal Awards, including disclosure in the related footnotes.

**Effect:** Errors or omission in the Schedule of Expenditures of Federal Awards and related footnote disclosures might not be prevented or detected and corrected on a timely basis by the City's management.

**Cause:** Management does not have internal controls in place to ensure the propriety and completeness of the information in the Schedule of Expenditures of Federal Awards, including disclosure in the related footnotes.

**Auditors' Recommendation:** Management should evaluate the current system of internal controls over financial reporting, including control over the preparation of the Schedule of Expenditures of Federal Awards and implement additional controls as considered necessary.

**2012-009: Lack of Segregation of Duties**

**U.S. Department of Agriculture Rural Development Water and Waste Disposal Systems for Rural Communities Direct Loans (CFDA 10.760)**

**Criteria/Specific Requirement:** A proper segregation of duties is an integral part of any internal control system. Ideally, duties should be segregated to prevent one person from being in a position to authorize, execute, and record the same transaction.

**CITY OF HEAVENER, OKLAHOMA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2012**

**Condition:** One individual maintained the books and records, prepared disbursements and reconciled the bank statements. This same individual prepared and recorded all general ledger journal entries without review and approval by a member of management.

**Effect:** The lack of proper segregation of duties increases the risk that errors or fraud may occur and not be detected in a timely manner.

**Cause:** The City did not maintain a proper segregation of duties related to its financial transactions.

**Auditors' Recommendation:** The City should determine a way to strengthen controls, including improving segregation of duties over key financial transactions.

**2012-010: Inadequate Controls Over Cash**

**U.S. Department of Agriculture Rural Development Water and Waste Disposal Systems for Rural Communities Direct Loans (CFDA 10.760)**

**Criteria/Specific Requirement:** The City is responsible for the safeguarding of assets and maintaining an adequate system of internal controls over accounting transactions to prevent error or fraud. The City should ensure that all cash and cash equivalents are recorded in the general ledger and bank reconciliations should be performed on a regular basis. All differences between the bank balance and the general ledger balance should be investigated and resolved.

**Condition:** During our audit, we noted the following deficiencies related to its internal control over cash:

- The City did not have adequate controls over Rural Development loan receipts and disbursements, including the recording of receipts in its cash account, recording duplicate payments to contractors, recording payments to contractors as transfers, and preventing duplicate journal entries. Additionally, the City maintained two general ledger accounts for the same bank account.

**Effect:** Without effective internal controls in place, assets can be misappropriated or otherwise used for unauthorized purposes and may not be detected and corrected in a timely manner.

**Cause:** The City did not have a clear understanding of how loan proceeds and disbursements should be processed in the general ledger.

**CITY OF HEAVENER, OKLAHOMA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED JUNE 30, 2012**

**Auditors' Recommendation:** The City should implement proper controls for the safeguarding of assets and maintain an adequate system of internal controls over accounting transactions to prevent error or fraud. Bank reconciliations should be prepared monthly and all differences between the bank balance and the general ledger balance should be investigated and resolved. All bank reconciliations should be reviewed and approved by a member of management who is independent of the receipt and disbursement process.

**CITY OF HEAVENER, OKLAHOMA**  
**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**YEAR ENDED JUNE 30, 2012**

**Prior Year Finding No. 11-01: Accounting Software (as presented by previous auditor)**

**Condition:** The City and the Utility Authority's computer hardware and software were replaced during the previous fiscal year. New or different account balances entered into the system were improperly recorded for a significant number of accounts.

**Criteria and Cause:** The City pays all of its bills from the General Fund and then reimburses the General Fund for other funds bills. The interfund receivables and payables cannot be reconciled and the balance keeps getting larger each year. Also, the City has a limited number of personnel performing accounting functions that are able to monitor such accounting transactions.

**Effect:** Audit adjustments corrected these except for interfund balances. The balances for interfund receivables and payables in the financial statements could not be reconciled. However, there is no effect on the entity-wide financial statements.

**Recommendation:** The City was advised that all interfund debits should have a corresponding credit.

**Status:** See Schedule of Findings and Questioned Costs reference 2012-001.

**Prior Year Finding No. 11-02: Bank reconciliation (as presented by previous auditor)**

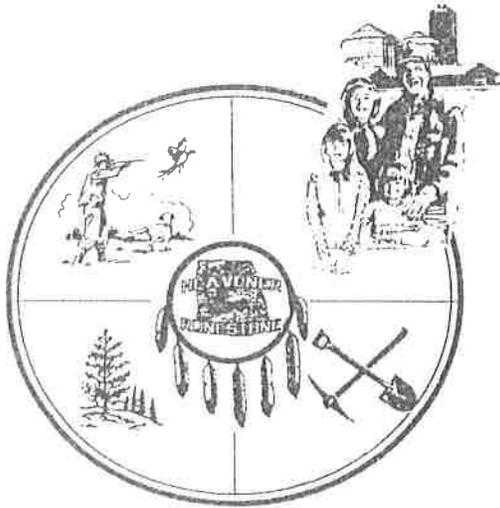
**Condition:** Personnel of the City did not consistently and accurately perform monthly bank reconciliation during the audit year.

**Criteria and Cause:** Internal control refers to the methods and procedures used to provide reasonable assurance regarding the achievement of objectives in the following categories safeguarding assets, ensuring validity of financial records and reports, promoting adherence to policies, procedures, laws and regulations, and promoting effectiveness of operations. The City did not have an effective system of internal control in place.

**Effect:** The financial statements contain misstatements and omit financial information.

**Recommendation:** Monthly bank reconciliations need to be performed on each bank account and the balance agree with that reflected in the financial statements.

**Status:** See Schedule of Findings and Questioned Costs reference 2012-003.



## City of Heavener

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Heavener, Oklahoma 74937  
918-653-2217  
Fax 918-653-7224

June 4, 2015

### MANAGEMENT CORRECTIVE ACTION PLAN

Larry Jones, City Manager of Heavener, Oklahoma, respectfully submits the following management correction action plan for the year ended June 30, 2012.

Name and address of the Independent public accounting firm: Beall Barclay & Company, PLC, 3101 South 70<sup>th</sup> Street, Fort Smith, Arkansas 72917.

Audit period: July 1, 2011 through June 30, 2012

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned on the schedule.

#### **2012-001: Internal Controls over Financial Statement Preparation**

##### **Management's Response:**

The City is working to make the changes recommended by the auditors. We have already enacted some of the management controls recommended.

#### **2012-002: Lack of Segregation of Duties**

##### **Management's Response:**

The City has separated duties of administrative staff. There are now designated clerks specifically for water and court operations. We will also separate the accounts payable and receivable operations starting the 2015-2016 fiscal year.

#### **2012-003: Inadequate Controls Over Cash**

##### **Management's Response:**

The City will retain a financial consultant to help establish proper procedures for handling cash and posting to the general ledger.

**2012-004: Internal Controls Over Payroll and Other Liabilities**

**Management's Response:**

The City will retain a financial consultant to help develop proper procedures and internal controls.

**2012-005: Internal Controls Over Revenues**

**Management's Response:**

The City will retain a financial consultant to assist in developing procedures to ensure that revenues are properly recorded.

**2012-006: Internal Control over Capital Assets**

**Management's Response:**

The City will retain a financial consultant to assist in the development of guidelines to ensure proper internal controls of capital assets.

**2012-007: Compliance with Laws and Regulations**

**Management's Response:**

City staff will attend training from Oklahoma Municipal League and similar organizations to ensure compliance with laws and regulations.

**2012-008: Preparation of Schedule of Expenditures of Federal Awards**

**Management's Response:**

City staff will work with USDA and a financial consultant to develop proper procedures for handling expenditures of federal awards.

**2012-009: Lack of Segregation of Duties**

**Management's Response:**

The City has separated duties of staff and will utilize a financial consultant to recommend other segregation of duties.

**2012-010: Inadequate Controls Over Cash**

**Management's Response:**

The City has developed bookkeeping procedures to ensure proper accounting of USDA loan proceeds and project receipts.

Sincerely,



Larry Jones  
City Manager  
Heavener, Oklahoma