CITY OF HEAVENER, OKLAHOMA

FINANCIAL STATEMENTS

JUNE 30, 2013

CITY OF HEAVENER, OKLAHOMA
JUNE 30, 2013
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BEALL BARCLAY
Beall Barclay & Company, PLC

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Detailed capital asset records and certain other prior year supporting data were not available for our audit. Therefore, we were unable to satisfy ourselves about the amounts at which property and equipment (and related accumulated depreciation) are recorded in the accompanying financial statements as of June 30, 2013, and the amount of depreciation expense for the year then ended.

Further, evidence supporting the amounts at which accounts payable is reported as of June 30, 2013 was not available for our audit.

We also 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 matters 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, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 456,105	$ 335,224	$ 791,329
Certificates of deposit	87,684	125,139	212,823
Receivables			
Accounts receivable	23,295	215,991	239,286
Due from other governments	65,921	8,817	74,738
Internal balances	176,745	(176,745)	-
Restricted assets			
Cash and cash equivalents	441,576	1,140,791	1,582,367
Certificates of deposit	196,454	42,391	238,845
Deferred bond cost, net of accumulated amortization	23,167	-	23,167
Capital assets			
Construction in progress	-	3,417,285	3,417,285
Depreciable assets, net of accumulated depreciation	3,719,289	4,221,322	7,940,611
Total assets	5,190,236	9,330,215	14,520,451
LIABILITIES			
Accounts payable	152,188	52,644	204,832
Accrued expenses	23,182	3,621	26,803
Compensated absences	38,749	29,152	67,901
Customer deposits	-	140,446	140,446
Long-term liabilities			
Due within one year	94,010	141,379	235,389
Due in more than one year	962,401	7,804,504	8,766,905
Total liabilities	1,270,530	8,171,746	9,442,276
NET POSITION			
Net investment in capital assets	2,662,878	-	2,662,878
Restricted for:			
Other	43,925	147,903	191,828
Grants	196,454	-	196,454
Debt service	387,450	1,010,566	1,398,016
Unrestricted	628,999	-	628,999
Total net position	$ 3,919,706	$ 1,158,469	$ 5,078,175

See Independent Auditors' Report and Notes to Financial Statements.

CITY OF HEAVENER, OKLAHOMA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Expenses	Program Revenues: Charges for Services	Primary Government Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Business-type Activities	Total
Governmental activities:					
General government	$ 217,362	$ -	$ (217,362)	$ -	$ (217,362)
Police department	655,718	-	(655,718)	-	(655,718)
Fire department	100,990	-	(100,990)	-	(100,990)
Culture and recreation	107,397	-	(107,397)	-	(107,397)
Public works	293,817	-	(293,817)	-	(293,817)
Interest and fees on long-term debt	45,567	-	(45,567)	-	(45,567)
Total governmental activities	1,420,851	-	(1,420,851)	-	(1,420,851)
Business-type activities:					
Utility Authority	3,653,807	3,477,855	-	(175,952)	(175,952)
Total primary government	$ 5,074,658	$ 3,477,855	(1,420,851)	(175,952)	(1,596,803)
General revenues:					
Intergovernmental			6,365	-	6,365
Taxes			752,695	105,131	857,826
Franchise fees			143,714	-	143,714
Fines and fees			288,567	57,928	346,495
Investment income			1,392	5,286	6,678
Rent			20,214	-	20,214
Miscellaneous			37,839	9,149	46,988
Total general revenues			1,250,786	177,494	1,428,280
Changes in net position			(170,065)	1,542	(168,523)
Net position - beginning of year			4,089,771	1,156,927	5,246,698
Net position - end of year			$ 3,919,706	$ 1,158,469	$ 5,078,175

See Independent Auditors' Report and Notes to Financial Statements.

CITY OF HEAVENER, OKLAHOMA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Other Governmental Funds	Total
ASSETS			
Cash and cash equivalents	$ 456,105	$ -	$ 456,105
Certificates of deposit	87,684	-	87,684
Accounts receivable	23,295	-	23,295
Due from other governments	44,861	21,060	65,921
Due from other funds	621,104	86,160	707,264
Restricted assets			
Cash and cash equivalents	43,925	397,651	441,576
Certificates of deposit	-	196,454	196,454
Total assets	$ 1,276,974	$ 701,325	$ 1,978,299
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	$ 152,188	$ -	$ 152,188
Accrued expenses	19,499	3,683	23,182
Due to other funds	121,526	408,993	530,519
Total liabilities	293,213	412,676	705,889
FUND BALANCE			
Restricted	43,925	583,904	627,829
Unrestricted			
Unassigned	939,836	(295,255)	644,581
Total fund balance	983,761	288,649	1,272,410
Total liabilities and fund balance	$ 1,276,974	$ 701,325	$ 1,978,299

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, 2013

Amounts reported for governmental activities in the statement of net position are different because:	
Total fund balance - governmental funds	$ 1,272,410
Capital assets, net of accumulated depreciation used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	3,719,289
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.	(234,516)
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.	(38,749)
Assets related to long-term debt are deferred, and therefore, are not reported in the funds.	23,167
Bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(821,895)
Total net position - governmental activities	$ 3,919,706

CITY OF HEAVENER, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General Fund	Other Governmental Funds	Total
REVENUES			
Intergovernmental revenues	$ -	$ 6,365	$ 6,365
Taxes	577,477	175,218	752,695
Franchise fees	143,714	-	143,714
Fines and fees	288,567	-	288,567
Investment income	802	590	1,392
Rent	20,214	-	20,214
Miscellaneous	37,839	-	37,839
Total revenues	1,068,613	182,173	1,250,786
EXPENDITURES			
Current			
General government	192,606	-	192,606
Police department	625,434	-	625,434
Fire department	70,093	-	70,093
Culture and recreation	52,351	-	52,351
Public works	-	231,736	231,736
Capital outlay	251,197	16,976	268,173
Debt Service			
Principal	52,403	50,000	102,403
Interest and fiscal charges	13,029	32,538	45,567
Total expenditures	1,257,113	331,250	1,588,363
(DEFICIENCY) OF REVENUES OVER EXPENDITURES	(188,500)	(149,077)	(337,577)
OTHER FINANCING SOURCES			
Capital financing	213,625	-	213,625
NET CHANGES IN FUND BALANCE	25,125	(149,077)	(123,952)
TOTAL FUND BALANCE, BEGINNING OF YEAR	958,636	437,726	1,396,362
TOTAL FUND BALANCE, END OF YEAR	$ 983,761	$ 288,649	$ 1,272,410

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, 2013

Net changes in fund balance, governmental funds	$ (123,952)
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.	77,708
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.	(76,597)
Certain liabilities for compensated absences are recognized as expenditures in the governmental funds when the amounts are liquidated with expendable available financial resources. However, they are reported as expenses in the statement of activities when the liability is incurred.	(12,599)
Capital financing provides current financial resources to governmental funds but is not recorded as revenue in the government wide statement of activities.	(34,625)
Change in net position of governmental activities	$ (170,065)

CITY OF HEAVENER, OKLAHOMA
STATEMENT OF NET POSITION - PROPRIETARY FUND
JUNE 30, 2013

	Business-Type Activities Utility Authority Fund
ASSETS	
Current assets	
Cash and cash equivalents	$ 335,224
Certificates of deposit	125,139
Accounts receivable	215,991
Due from other governments	8,817
Due from other funds	353,788
Total current assets	1,038,959
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	1,140,791
Certificates of deposit	42,391
Capital assets	
Construction in progress	3,417,285
Depreciable assets, less accumulated depreciation	4,221,322
Total noncurrent assets	8,821,789
Total assets	9,860,748
LIABILITIES	
Current liabilities	
Accounts payable	52,644
Accrued expenses	3,621
Due to other funds	530,533
Compensated absences	29,152
Customer deposits	140,446
Total current liabilities	756,396
Long-term liabilities	
Due within one year	141,379
Due in more than one year	7,804,504
Total noncurrent liabilities	7,945,883
Total liabilities	8,702,279
NET POSITION	
Restricted for other purposes	147,903
Restricted for debt service	1,010,566
Total net position	$ 1,158,469

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, 2013

	Business-Type Activities Utility Authority Fund
OPERATING REVENUES	
Charges for services	$ 3,477,855
Taxes	105,131
Penalties and fees	57,928
Miscellaneous	9,149
Total operating revenues	3,650,063
OPERATING EXPENSES	
Water	1,584,998
Sewer	139,545
Industrial sewer	1,133,242
Garbage	151,746
Depreciation	336,633
Total operating expenses	3,346,164
NET OPERATING INCOME	303,899
NON-OPERATING REVENUES (EXPENSES)	
Investment income	5,286
Interest and fiscal charges	(307,643)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(302,357)
CHANGE IN NET POSITION	1,542
NET POSITION, BEGINNING OF YEAR	1,156,927
NET POSITION, END OF YEAR	$ 1,158,469

See Independent Auditors' Report and Notes to Financial Statements.

CITY OF HEAVENER, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 3,627,582	
Other cash receipts	9,149	
Cash payments for goods, services, and employees	(3,047,281)	
Net cash from operating activities		$ 589,450
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	5,286	
Net cash from investing activities		5,286
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Net change in due to/from other funds	159,840	
Change in due from other governments	1,247	
Change in restricted assets	(108,407)	
Net cash from noncapital financing activities		52,680
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,392,263)	
Note proceeds	1,377,170	
Principal payments on notes payable	(153,217)	
Other cash payments	(307,645)	
Net cash (used for) capital and related financing activities		(475,955)
NET CHANGE IN CASH AND CASH EQUIVALENTS		171,461
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		163,763
CASH AND CASH EQUIVALENTS, END OF YEAR		$ 335,224
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income		$ 303,899
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	$ 336,633	
Change in:		
Accounts receivable	(13,332)	
Deposits	10,269	
Accounts payable	(49,117)	
Accrued expenses	1,098	
Total adjustments		285,551
Net cash from operating activities		$ 589,450

See Independent Auditors' Report and Notes to Financial Statements.

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

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.

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.

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.

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.

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.

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.

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.

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.

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.

Current Accounting Developments

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.

In April 2013, the GASB issued Statement Number 70 (GASB 70), *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for periods beginning after June 15, 2013. GASB 70 requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Current Accounting Developments - Continued

In November 2013, the GASB issued Statement Number 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date* – an Amendment of GASB Statement No. 68, effective for fiscal years beginning after June 15, 2014. GASB 71 is intended to improve the accounting and financial reporting for public employee pensions by state and local governments. GASB 71 amends GASB Statement No. 68 as it relates to initial recognition of deferred inflows of resources and deferred outflows of resources related to pension plans.

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

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, 2013, the City held deposits of approximately $2,958,000 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.

NOTE 2: DEPOSITS IN FINANCIAL INSTITUTIONS - CONTINUED

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.
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.

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	$ 2,373,696
Certificates of deposit	451,668
	$ 2,825,364

Included in the following fund financial statement captions:

Cash and cash equivalents	$ 791,329
Certificates of deposit	212,823
Restricted assets:	
Cash and cash equivalents	1,582,367
Certificates of deposit	238,845
	$ 2,825,364

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.

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, 2013:

	Due From	Due To	Net Internal Balances
Governmental activities			
General Fund			
Street and Alley	$ 24,227	$ 10,888	
Utility Authority	530,533	35,366	
Bond Fund	66,344	75,272	
	621,104	121,526	$ 499,578
Street and Alley			
General Fund	10,888	24,227	
Utility Authority	-	318,422	
	10,888	342,649	(331,761)
Bond Fund			
General Fund	75,272	66,344	8,928
			$ 176,745
Business-type activities			
Utility Authority			
Street and Alley	318,422	-	
General Fund	35,366	530,533	
	353,788	530,533	$ (176,745)

NOTE 5: CAPITAL ASSETS

Governmental capital asset balances and activity were as follows:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets, not depreciated				
Land	$ 353,407	$ -	$ -	$ 353,407
Total capital assets, not depreciated	353,407	-	-	353,407
Capital assets, depreciated				
Buildings	1,932,356	11,413	-	1,943,769
Improvements	139,413	184,270	-	323,683
Street system	3,359,788	1,226	-	3,361,014
Street improvements	1,242,780	13,310	-	1,256,090
Furniture and fixtures	104,013	-	-	104,013
Machinery and equipment	587,894	19,146	-	607,040
Vehicles	795,271	38,808	-	834,079
Total capital assets, depreciated	8,161,515	268,173	-	8,429,688
Less accumulated depreciation	4,873,341	190,465	-	5,063,806
Net capital assets, depreciated	3,288,174	77,708	-	3,365,882
Total capital assets, net	$ 3,641,581	$ 77,708	$ -	$ 3,719,289

Depreciation expense was charged to governmental activities as follows:

General government	$ 19,314
Police Department	25,204
Fire Department	30,453
Culture and recreation	54,815
Public works	60,679
	$ 190,465

NOTE 5: CAPITAL ASSETS - CONTINUED

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

The City's active construction project at June 30, 2013 consisted of a Wastewater Treatment Facility Improvements project. The remaining commitment at June 30, 2013 was approximately $561,000. The project was completed in August 2014.

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets, not depreciated				
Land	$ 229,622	$ -	$ -	$ 229,622
Construction in progress	2,040,115	1,377,170	-	3,417,285
Total capital assets, not depreciated	2,269,737	1,377,170	-	3,646,907
Capital assets, depreciated				
Buildings	4,913,225	-	-	4,913,225
Improvements	2,000	8,416	-	10,416
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	668,032	6,677	-	674,709
Vehicles	67,699	-	-	67,699
Total capital assets, depreciated	10,115,022	15,093	-	10,130,115
Less accumulated depreciation	5,801,782	336,633	-	6,138,415
Net capital assets, depreciated	4,313,240	(321,540)	-	3,991,700
Total capital assets, net	$ 6,582,977	$ 1,055,630	$ -	$ 7,638,607

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:

	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital lease obligations	$ 252,294	$ 34,625	$ 52,403	$ 234,516

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2013 were as follows:

Years Ending June 30,	
2014	$ 50,405
2015	45,090
2016	37,649
2017	28,165
2018	28,165
2019-2022	84,494
Total minimum lease payments	273,968
Less amount representing interest	(39,452)
Present value of minimum lease payments	$ 234,516

NOTE 7: LONG-TERM LIABILITIES

Long-term liability balances and activity were as follows:

	Balance June 30, 2012	Increases	Decreases	Balance June 30, 2013	Amounts Due in One Year
Primary Government					
Governmental Activities					
Bonds payable					
General obligation bonds, net	$ 690,000	$ -	$ 50,000	$ 640,000	$ 50,000
Tax increment revenue note	-	179,000	-	179,000	5,305
Less deferred issuance premiums (discounts)	2,895	-	-	2,895	-
Bonds payable, net	692,895	179,000	50,000	821,895	55,305
Capital leases	252,294	34,625	52,403	234,516	38,705
Governmental activities long-term liabilities	$ 945,189	$ 213,625	$ 102,403	$ 1,056,411	$ 94,010
Business-type Activities					
Notes payable	$ 6,721,930	$ 1,377,170	$ 153,217	$ 7,945,883	$ 141,379

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, 2013 was $640,000.

During the year ended June 30, 2013, 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 repayments of bonds begin in November 2013. The bond is an obligation of the City and is payable from ad valorem taxes. The bond matures in November 2032. The loan was for $179,000 at 4.25% interest, to be repaid over twenty years with annual payments of principal and interest of $13,507. The balance of this loan at June 30, 2013 was approximately $179,000 and is included in the governmental activities notes payable balance.

NOTE 7: LONG-TERM LIABILITIES - CONTINUED

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, 2013 was approximately $824,000 and is included in the business-type activities notes payable balance.

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, 2013 was approximately $3,287,000 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, 2013 was approximately $1,409,000 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 balance of this loan at June 30, 2013 was approximately $1,959,000 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 balance of this loan at June 30, 2013 was approximately $467,000 and is included in the business-type activities notes payable balance.

Each Rural Development loan requires the Heavener Utility 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, 2013, the Rural Development annual debt service requirement totaled approximately $461,000. The Heavener Utility Authority held a reserve cash account with a balance of approximately $426,000. The reserve balance was not sufficient to meet annual debt service requirements at June 30, 2013.

NOTE 7: LONG-TERM LIABILITIES - CONTINUED

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

Years Ending June 30,	Principal	Interest	Total
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	50,000	20,751	70,751
2019-2023	250,000	68,385	318,385
2024-2025	140,000	10,847	150,847
	$ 640,000	$ 206,568	$ 846,568

Annual debt service requirements to maturity for the Tax Increment Revenue Note are as follows:

Years Ending June 30,	Principal	Interest	Total
2014	$ 5,305	$ 8,202	$ 13,507
2015	6,125	7,382	13,507
2016	6,386	7,121	13,507
2017	6,657	6,850	13,507
2018	6,940	6,567	13,507
2019-2023	39,382	28,154	67,536
2024-2028	48,493	19,043	67,536
2029-2033	59,712	7,826	67,538
	$ 179,000	$ 91,145	$ 270,145

NOTE 7: LONG-TERM LIABILITIES - CONTINUED

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

Years Ending June 30,	Principal	Interest	Total
2014	$ 141,379	$ 319,481	$ 460,860
2015	146,139	314,721	460,860
2016	151,631	309,229	460,860
2017	157,340	303,520	460,860
2018	163,274	297,586	460,860
2019-2023	913,875	1,390,425	2,304,300
2024-2028	926,987	1,210,175	2,137,162
2029-2033	1,056,422	1,012,858	2,069,280
2034-2038	1,297,604	771,676	2,069,280
2039-2043	1,509,613	477,254	1,986,867
2044-2048	1,481,619	147,090	1,628,709
	$ 7,945,883	$ 6,554,015	$ 14,499,898

NOTE 8: 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 9: 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 12.6% 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.

NOTE 9: EMPLOYEES RETIREMENT PLANS - CONTINUED

Description of the Plans - Continued

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, 2013 totaled $2,220.

Annual Pension Cost

For the fiscal year 2013, the City's annual pension cost of $76,330 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, 2011	$ 89,045	100%	$ -
June 30, 2012	118,592	100%	-
June 30, 2013	76,330	100%	-

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.

Principal and interest on the Tax Incremental Revenue Note, Series 2012 Bond (Recreational Improvements Project) is paid from ad valorem taxes collected by the City and paid over to the Heavener Economic Development Authority. See Note 7.

NOTE 10: COMMITMENTS AND CONTINGENCIES - CONTINUED

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, 2013. 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.

NOTE 11: TAXES AND INTERGOVERNMENTAL REVENUES

Tax revenues during the year ended June 30, 2013 were as follows:

	Taxes		
	Governmental activities		Business-type activities
	General Fund	Other Governmental Funds	Utility Authority
Sales tax	$ 456,936	$ 175,218	$ 105,131
Use tax	83,720	-	-
Alcohol tax	27,223	-	-
Tobacco tax	9,598	-	-
	$ 577,477	$ 175,218	$ 105,131

NOTE 11: TAXES AND INTERGOVERNMENTAL REVENUES - CONTINUED

Intergovernmental revenues during the year ended June 30, 2013 were as follows:

	Intergovernmental
	Other Governmental Funds
Street and Alley Fund	
Gasoline tax	$ 6,365

NOTE 12: SUBSEQUENT EVENTS

Subsequent to June 30, 2012 the City received a notice from the United States Department of Agriculture (USDA) 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 renovation was completed and approved by the USDA in March 2015 as a cost of $9,250.

Subsequent to June 30, 2013, the City took additional draws on the Rural Development Construction Loan #5 totaling approximately $191,000.

Subsequent to June 30, 2013, 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, 2013, 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.

NOTE 13: DEFICIT FUND BALANCES

The following individual fund had a deficit balance as of June 30, 2013:

Street and Alley	$ (295,255)

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.

NOTE 14: RELATED PARTY TRANSACTIONS

The City entered into an agreement with the Oklahoma Department of Tourism and Recreation (ODTR) to allow the City to take over operations of Heavener Runestone State Park (the Park). All real and certain personal property owned by ODTR was transferred to the City on June 30, 2011 and the City was responsible for staffing and operation of the Park as of July 1, 2011.

On July 1, 2012, the City entered into a services contract with the Friends of Heavener Runestone Inc. (FHR), an Oklahoma not-for-profit corporation, for the purpose of operating and maintaining the Park as a public park and historical site for the benefit of the public. The term of the contract is indefinite. The City agreed to maintain the property and liability insurance on the Park, provide water and wastewater utilities to the park and maintain lift stations for both, authorize and provide copying and reproduction services from the city hall copy machine at cost, provide mowing, trimming, trash disposal, and various improvement projects for the Park, as well as maintain the FHR website linked to the City's website for marketing the City and the Park. The contract also indicates that requests by FHR for funding assistance are made to the City Manager to consider and take action on.

During and for the year ended June 30, 2013, the president of FHR was also the City Manager. Two members of the City council were also board members of FHR, with one being the treasurer for FHR.

The City did not provide any funding directly to FHR during the year ended June 30, 2013.

CITY OF HEAVENER, OKLAHOMA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2013

	Street and Alley Fund	Grant Fund	Bond Fund	Total
ASSETS				
Due from other governments	$ 12,243	$ -	$ 8,817	$ 21,060
Due from other funds	10,888	-	75,272	86,160
Restricted assets				
Cash and cash equivalents	27,946	-	369,705	397,651
Certificates of deposit	-	196,454	-	196,454
Total assets	$ 51,077	$ 196,454	$ 453,794	$ 701,325
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	$ -	$ -	$ -	$ -
Accrued expenses	3,683	-	-	3,683
Due to other funds	342,649	-	66,344	408,993
Total liabilities	346,332	-	66,344	412,676
FUND BALANCE				
Restricted	-	196,454	387,450	583,904
Unrestricted				
Unassigned	(295,255)	-	-	(295,255)
Total fund balance	(295,255)	196,454	387,450	288,649
Total liabilities and fund balance	$ 51,077	$ 196,454	$ 453,794	$ 701,325

CITY OF HEAVENER, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	Street and Alley Fund	Grant Fund	Bond Fund	Total
REVENUES				
Intergovernmental revenues	$ 6,365	$ -	$ -	$ 6,365
Taxes	70,087	-	105,131	175,218
Investment income	47	-	543	590
Total revenues	76,499	-	105,674	182,173
EXPENDITURES				
Current				
Public works	231,736	-	-	231,736
Capital outlay	16,976	-	-	16,976
Debt Service				
Principal	-	-	50,000	50,000
Interest and fiscal charges	-	-	32,538	32,538
Total expenditures	248,712	-	82,538	331,250
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(172,213)	-	23,136	(149,077)
NET CHANGES IN FUND BALANCE	(172,213)	-	23,136	(149,077)
TOTAL FUND BALANCE, BEGINNING OF YEAR	(123,042)	196,454	364,314	437,726
TOTAL FUND BALANCE, END OF YEAR	$ (295,255)	$ 196,454	$ 387,450	$ 288,649

CITY OF HEAVENER, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2013

Grantor/Program Title	Federal CFDA Number	Expenditures
Federal Awards		
U. S. Department of Agriculture		
Rural Development		
Water and Waste Disposal Systems for Rural Communities		
Direct Loans	10.760	$ 2,426,168
Total Expenditures of Federal Awards		$ 2,426,168

NOTE 1:

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.

NOTE 2:

Of the Federal awards presented in this schedule, $1,377,170 represents the value of new loans received during the fiscal year. The remaining amount represents the balance of loans from previous years for which the Federal government imposes continuing compliance requirements.

BEALL BARCLAY
Beall Barclay & Company, PLC

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, 2013, 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 2013-001 through 2013-006, 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 2013-007.

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

BEALL BARCLAY
Beall Barclay & Company, PLC

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, 2013. 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, 2013.

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 2013-008 through 2013-011 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, 2013

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:

Cluster/Program	CFDA Number
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, 2013

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

2013-001: 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, 2013, 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.

- 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.

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.

2013-002: 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.

2013-003: 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, 2013. 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 2013-002)
    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.

- 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 prepared manual checks outside of the accounting system and did not record them in the general ledger.

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

- The City recorded bond proceeds in one general ledger cash account on October 17, 2012. On March 29, 2013, the City recorded the balance of the original cash account into another general ledger cash account by also crediting revenue in the same amount. This resulted in the cash balance being duplicated.

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.

2013-004: 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.

- 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, 2013.

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.

2013-005: 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 2013-004.

- The City recorded some of the loan and bond proceeds they received as revenue, rather than as a liability.

- 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 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.

2013-006: 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 $11,350,000 and current depreciation expense of more than $527,000. These amounts are material to the financial statements.

CITY OF HEAVENER, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

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 June 30, 2013, 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.

- 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.

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.

2013-007: 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, 2013

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD

2013-008: 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.

2013-009: 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.

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.

2013-010: 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.

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.

2013-011: Internal Control over Cash Reserve Compliance Requirements

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

Criteria/Specific Requirement: Each Rural Development loan requires the Heavener Utility 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.

Condition: The annual debt service requirement at June 30, 2013 totaled approximately $461,000. The Utility Authority held a reserve cash account with a balance of approximately $426,000.

Effect: The reserve balance was not sufficient to meet annual debt service requirements at June 30, 2013.

Cause: The Utility Authority did not make any additional payments into its reserve cash account during the year ended June 30, 2013.

Auditors' Recommendation: The Utility Authority should make additional payments into its reserve cash account sufficient to comply with Rural Development loan requirements. Additionally, the Utility Authority should have a system of internal control in place to ensure compliance with all federal award requirements.

CITY OF HEAVENER, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013

Prior Year Finding No. 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)

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.

Status: See Schedule of Findings and Questioned Costs reference 2013-001.

Prior Year Finding No. 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.

Status: See Schedule of Findings and Questioned Costs reference 2013-002.

CITY OF HEAVENER, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013

Prior Year Finding No. 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.

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.

Status: See Schedule of Findings and Questioned Costs reference 2013-003.

Prior Year Finding No. 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.

CITY OF HEAVENER, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013

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.

- 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.

Status: See Schedule of Findings and Questioned Costs reference 2013-004.

Prior Year Finding No. 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.

CITY OF HEAVENER, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013

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.

- 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.

Status: See Schedule of Findings and Questioned Costs reference 2013-005.

CITY OF HEAVENER, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013

Prior Year Finding No. 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.

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.

CITY OF HEAVENER, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013

- 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.

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.

Status: See Schedule of Findings and Questioned Costs reference 2013-006.

CITY OF HEAVENER, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013

Prior Year Finding No. 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.

Status: See Schedule of Findings and Questioned Costs reference 2013-007.

Prior Year Finding No. 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.

CITY OF HEAVENER, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013

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.

Status: See Schedule of Findings and Questioned Costs reference 2013-008.

Prior Year Finding No. 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.

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.

Status: See Schedule of Findings and Questioned Costs reference 2013-009.

Prior Year Finding No. 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.

CITY OF HEAVENER, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2013

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

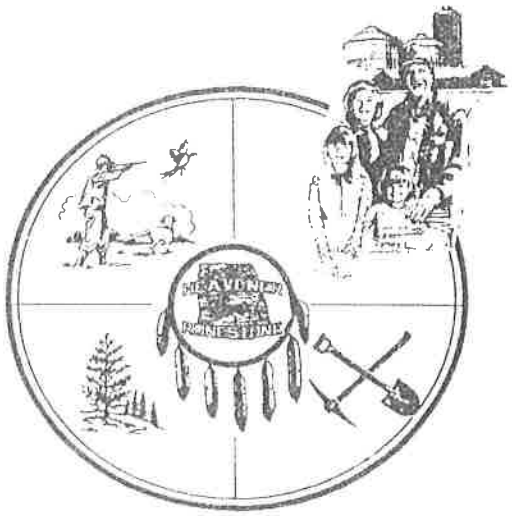
- The City did not have adequate controls over Rural Development loan receipts and disbursements, including the recording of receipts in its cash account, recording duplicate payments to contractors, recording payments to contractors as transfers, and preventing duplicate journal entries. Additionally,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

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.

Status: See Schedule of Findings and Questioned Costs reference 2013-010.



City of Heavener
103 E. Ave. B
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, 2013.

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

Audit period: July 1, 2012 through June 30, 2013

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.

2013-001: 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.

2013-002: 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.

2013-003: 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.

2013-004: 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.

2013-005: 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.

2013-006: 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.

2013-007: 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.

2013-008: 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.

2013-009: 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.

2013-010: Inadequate Controls Over Cash

Management's Response:
The City has developed bookkeeping procedures to ensure proper accounting of USDA loan proceeds and project receipts.

2013-011: Internal Control over Cash Reserve Compliance Requirements

Management's Response:
The Utility Authority will make additional payments into its reserve cash account during the year 2015-2016 which begins July 01, 2015.

Sincerely,

Larry Jones
City Manager
Heavener, Oklahoma