

CITY OF HAILEYVILLE, OKLAHOMA

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

Ralph Osborn
Certified Public Accountant
500 South Chestnut
P.O. Box 1015
Bristow, Oklahoma 74010-1015

CITY OF HAILEYVILLE, OKLAHOMA
JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

The Honorable Members of the City Council
City of Haileyville, Oklahoma

I was engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Haileyville, Oklahoma as of and for the year ended June 30, 2011, which collectively comprise the City of Haileyville, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Haileyville, Oklahoma's management. My responsibility is to express opinions on these financial statements based on my audit.

City of Haileyville, Oklahoma did not maintain adequate financial records pertaining to revenue of City of Haileyville, Oklahoma or City of Haileyville, Oklahoma Public Works Authority stated in the accompanying financial statements as of June 30, 2011. City of Haileyville, Oklahoma records do not permit the application of other auditing procedures to revenue.

Since the City of Haileyville, Oklahoma did not maintain adequate accounting records for revenue and I am not able to satisfy myself as to revenue amounts, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on these financial statements.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 10, 2012, on my consideration of City of Haileyville, Oklahoma's internal control over financial reporting and my 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* and should be considered in assessing the results of my audit.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
May 10, 2012

CITY OF HAILEYVILLE, OKLAHOMA
 HAILEYVILLE, OKLAHOMA
 STATEMENT OF NET ASSETS
 JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 31,282	\$ 126,514	\$ 157,796
Investments	-	34,663	34,663
Accounts receivable	7,554	73,189	80,743
Due from other funds	33,592	-	33,592
Prepaid insurance	-	-	-
Capital assets:			
Land	-	32,306	32,306
Other capital assets net of accumulated depreciation	286,911	1,312,240	1,599,151
 Total assets	 359,339	 1,578,912	 1,938,251
 LIABILITIES:			
Accounts payable and accrued liabilities	-	30,091	30,091
Customer deposits	-	38,829	38,829
Due to other funds	-	33,592	33,592
Long-term liabilities:			
Due within one year	2,818	22,922	25,740
Due in more than one year	2,685	127,832	130,517
 Total liabilities	 5,503	 253,266	 258,769
 NET ASSETS			
Nonspendable	281,408	1,193,792	1,475,200
Assigned	-	131,854	131,854
Unassigned	72,428	-	72,428
 Total net assets	 \$ 353,836	 \$1,325,646	 \$1,679,482

The accompanying notes are an integral part of this financial statement.

CITY OF HAILEYVILLE, OKLAHOMA
 HAILEYVILLE, OKLAHOMA
 STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011.

<u>Function/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants</u>	Net (Expense) Revenue and Changes in Net Assets		
				Primary Government		
				<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary Government:						
Governmental activities:						
Administration	\$ 102,289	\$ -	\$ -	\$ (102,289)	\$ -	\$ (102,289)
Community Services	128,776	92,244	10,500	(26,032)	-	(26,032)
Total governmental activities	<u>231,065</u>	<u>92,244</u>	<u>10,500</u>	<u>(128,321)</u>	<u>-</u>	<u>(128,321)</u>
Business-type activities:						
Utilities	<u>348,953</u>	<u>323,169</u>	<u>69,174</u>	<u>-</u>	<u>43,390</u>	<u>43,390</u>
Total business-type activities	<u>348,953</u>	<u>323,169</u>	<u>69,174</u>	<u>-</u>	<u>43,390</u>	<u>43,390</u>
Total primary government	<u>\$ 580,018</u>	<u>\$ 415,413</u>	<u>\$ 79,674</u>	<u>\$ (128,321)</u>	<u>\$ 43,390</u>	<u>\$ (84,931)</u>
General revenues						
Taxes:						
Sales and use taxes				\$ 64,578	\$ -	\$ 64,578
Franchise taxes				3,048	-	3,048
Cigarette Taxes				777	-	777
Liquor taxes				1,208	-	1,208
Gasoline taxes				872	-	872
Commercial vehicle taxes				1,048	-	1,048
Royalty & Rents				44,219	-	44,219
Investment income				102	337	439
Miscellaneous				<u>12,400</u>	<u>-</u>	<u>12,400</u>
Total general revenue				<u>128,252</u>	<u>337</u>	<u>128,589</u>
Change in net assets				(69)	43,727	43,658
Net assets - beginning				<u>353,905</u>	<u>1,281,919</u>	<u>1,635,824</u>
Net assets - ending				<u>\$ 353,836</u>	<u>\$1,325,646</u>	<u>\$1,679,482</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HAILEYVILLE, OKLAHOMA
 HAILEYVILLE, OKLAHOMA
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 31,282	\$ -	\$ 31,282
Receivables:			
Net accounts receivable	7,554	-	7,554
Due from other funds	33,592	-	33,592
Prepaid insurance	<u>-</u>	<u>-</u>	<u>-</u>
 TOTAL ASSETS	 <u>\$ 72,428</u>	 <u>\$ -</u>	 <u>\$ 72,428</u>
 LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable and accrued liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 TOTAL LIABILITIES	 <u>-</u>	 <u>-</u>	 <u>-</u>
 FUND BALANCES:			
Unassigned	<u>72,428</u>	<u>-</u>	<u>72,428</u>
 TOTAL FUND BALANCES	 <u>72,428</u>	 <u>-</u>	 <u>72,428</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$ 72,428</u>	 <u>\$ -</u>	

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

Lease Obligation	(5,503)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	<u>286,911</u>
 Net assets of governmental activities	 <u>\$ 353,836</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HAILEYVILLE, OKLAHOMA
 HAILEYVILLE, OKLAHOMA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES - GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>General Fund</u>	<u>Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes	\$ 72,625	\$ -	\$ 72,625
Fines and court fees	92,244	-	92,244
Investment income	102	-	102
Royalties	44,219	-	44,219
Grants	-	-	-
Miscellaneous	11,306	-	11,306
Total revenues	<u>220,496</u>	<u>-</u>	<u>220,496</u>
Expenditures:			
Administration	99,794	-	99,794
Community Services	116,998	-	116,998
Total expenditures	<u>216,792</u>	<u>-</u>	<u>216,792</u>
Net change in fund balance	3,704	-	3,704
Fund balances, beginning	<u>68,724</u>	<u>-</u>	
Fund balances, ending	<u>\$ 72,428</u>	<u>\$ -</u>	
 Amounts reported for governmental activities in the Statement of Activities are different because:			
Debt Payments			2,704
Fixed Assets Donated			10,500
Depreciation expense			<u>(16,977)</u>
Change in net assets of governmental activities			<u>\$ (69)</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HAILEYVILLE, OKLAHOMA
 HAILEYVILLE, OKLAHOMA
 STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND
 JUNE 30, 2011

	Haileyville Public Works <u>Authority</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 126,514
Investments	34,663
Accounts receivable, net	<u>73,189</u>
Total current assets	<u>234,366</u>
Non-current assets:	
Land	32,306
Capital assets, net of depreciation	<u>1,312,240</u>
Total non-current assets	<u>1,344,546</u>
Total assets	<u>1,578,912</u>
LIABILITIES:	
Current liabilities:	
Accounts payable and accrued liabilities	30,091
Customer deposits	38,829
Due to other funds	33,592
Notes payable - current portion	<u>22,922</u>
Total current liabilities	<u>125,434</u>
Non-current liabilities:	
Notes payable	<u>127,832</u>
Total non-current liabilities	<u>127,832</u>
Total liabilities	<u>253,266</u>
Nonspendable	1,193,792
Assigned	<u>131,854</u>
Total net assets	<u>\$ 1,325,646</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HAILEYVILLE, OKLAHOMA
 HAILEYVILLE, OKLAHOMA
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Haileyville Public Works Authority
OPERATING REVENUES:	
Water	\$ 90,900
Sewer	77,410
Sanitation	75,630
Water & Sewer taps	300
Miscellaneous	17,065
User Fees	<u>61,864</u>
Total operating revenues	<u>323,169</u>
OPERATING EXPENSES:	
Wages	61,387
Payroll taxes	2,735
Contract Labor	333
Insurance	-
Maintenance & Supplies	17,143
Miscellaneous	4,784
Office	3,403
Professional fees	7,604
Sanitation	75,396
Utilities	13,767
Water Purchases	95,986
Depreciation	<u>52,271</u>
Total operating expenses	<u>334,809</u>
Operating income (loss)	<u>(11,640)</u>
NON-OPERATING REVENUE (EXPENSES):	
Interest income	337
Grant income	69,174
Interest expense	<u>(14,144)</u>
Total non-operating revenue (expenses)	<u>55,367</u>
Change in net assets of business type activities	43,727
Total net assets, beginning	<u>1,281,919</u>
Total net assets, ending	<u>\$ 1,325,646</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HAILEYVILLE, OKLAHOMA
 HAILEYVILLE, OKLAHOMA
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Haileyville Public Works <u>Authority</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 323,170
Payments to suppliers	(209,299)
Payments to employees	<u>(61,387)</u>
Net Cash Provided by Operating Activities	<u>52,484</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Investments	-
Grant income	69,174
Principal paid on capital debt	(23,535)
Fixed asset purchases	(5,000)
Interest paid on capital debt	<u>(14,144)</u>
Net Cash Used by Capital and Related Financing Activities	<u>26,495</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	<u>337</u>
Net Cash Provided by Investing Activities	<u>337</u>
Net Decrease in Cash and Cash Equivalents	76,316
Cash and Cash Equivalents, Beginning	<u>47,198</u>
Cash and Cash Equivalents, Ending	<u>\$ 126,514</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income (loss)	\$ (11,640)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	52,271
Changes in assets and liabilities:	
Accounts receivable	-
Accounts payable	11,853
Customer deposits	<u>-</u>
Net Cash Provided by Operating Activities	<u>\$ 52,484</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HAILEYVILLE
 HAILEYVILLE, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE - CASH BASIS
 GENERAL FUND
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original	Final	Actual	Variance with Final Budget
Revenues	<u>Budget</u>	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative)</u>
Sales and Use Tax	\$ 47,424	\$ 47,424	\$ 64,578	\$ 17,154
Franchise Tax	7,263	7,263	3,048	(4,215)
Cigarette Tax	630	630	776	146
Liquor Tax	4,029	4,029	1,208	(2,821)
Gas Tax	2,048	2,048	871	(1,177)
Vehicle Reg	4,738	4,738	1,048	(3,690)
Fines	73,778	73,778	92,244	18,466
Royalties	30,265	30,265	42,658	12,393
Misc	14,694	14,694	12,401	(2,293)
Rent	22,500	22,500	1,562	(20,938)
Interest	58	58	102	44
Total Revenues	<u>207,427</u>	<u>207,427</u>	<u>220,496</u>	<u>13,069</u>
Expenses				
Council General	\$ 1,500	\$ 1,500	\$ 1,296	\$ 204
City Clerk-Personal Services	17,000	17,000	16,822	178
Treasurer-Personal Services	7,000	6,600	-	6,600
City Attorney-M&O	3,600	3,600	3,600	-
Municipal Judge-M&O	3,000	3,400	3,400	-
Police-Personal Services	75,000	75,000	74,474	526
Police M&O	20,000	20,000	12,048	7,952
Police Capital	8,000	2,318	-	2,318
Fire-PS	600	16	16	-
Fire-M&O	2,000	3,150	3,150	-
Street Dept-Personal Services	15,000	19,814	19,814	-
Street Dept-M&O	1,000	4,096	4,096	-
General Gov-M&O	90,794	88,000	87,565	435
General Gov-Capital	-	-	-	-
Total Expenditures	<u>244,494</u>	<u>244,494</u>	<u>226,281</u>	<u>18,213</u>
Net Income	(37,067)	(37,067)	(5,785)	31,282
Beginning Cash Balance	<u>37,067</u>	<u>37,067</u>	<u>37,067</u>	<u>-</u>
Ending Cash Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,282</u>	<u>\$ (31,282)</u>

CITY OF HAILEYVILLE
HAILEYVILLE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as discussed in Note 1.C., the City complies with accounting principles generally accepted in the United States of America (GAAP). These accounting principles (GAAP) include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For business-type activities and enterprise funds, GASB Statement Nos. 20 and 34 provide the City the option of electing to apply FASB pronouncements issued after November 30, 1989. The City has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note. For the fiscal year ended June 30, 2006, the City implemented the new financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments* and GASB Statement No. 37, an omnibus amendment to GASB Statements 21 and 34.

1.A. FINANCIAL REPORTING ENTITY

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

Primary Government:	City of Haileyville
Blended Component Unit	City of Haileyville Public Works Authority

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, The Financial Reporting Entity, and includes all component units of which the City is fiscally accountable.

The component unit is a Public Trust established pursuant to Title 60 of Oklahoma State Law. A public Trust (Authority) has no taxing power. The Authority is generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the Board of Trustees to delegate certain functions to the governing body (Trustees) of the Authority debt or other Authority generated resources. In addition, in most cases, the City has leased certain existing assets at the creation of the Authority to the Trustees on a long-term basis. The City, as beneficiary of the Public Trust, receives title to any residual assets when a Public Trust is dissolved.

CITY OF HAILEYVILLE
 HAILEYVILLE, OKLAHOMA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2011

BLENDED COMPONENT UNITS

Blended component units are separate legal entities that meet the GASB 14 component unit criterial and whose governing body is the same or substantially the same as the Board of Trustees or the component unit provides services entirely to the City. The component units' funds are blended into the City's by appropriate fund type to comprise the primary government presentation. The component unit that is blended into the primary government's fund types of the City's report is present below:

<u>Component Unit</u>	<u>Brief Description/Inclusion Criteria</u>	<u>Included Funds</u>
Haileyville Public Works Authority (HPWA)	Created to finance, develop and operate the water, sewer, and solid waste activities of the City. Current Board of Trustees serves as entire governing body (Trustees) of the Authority.	HPWA Enterprise Fund

1.B. BASIS OF PRESENTATION

Government-Wide Financial Statements:

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all financial activities of the reporting entity except for fiduciary activities. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The statement of activities presents a comparison between the expenses and program revenues directly associated with the different governmental functions and business-type activities to arrive at the net revenue or expense of the function or activity prior to the use of taxes and other general revenues. Program revenues include (1) fees, fines, and service charges generated by the program or activity, (2) operating grants and contributions that are restricted to meeting the operational requirements of the program or activity, and (3) capital grants and contributions that are restricted to meeting the capital requirements of the program or activity.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories.

CITY OF HAILEYVILLE
HAILEYVILLE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

GOVERNMENTAL FUNDS

General Fund

The General Fund is the primary operating fund of the City. It is used to account for all activities except those legally or administratively required to be accounted for in other funds. The General Fund is reported as a major governmental fund.

ENTERPRISE FUNDS

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund, which is reported as major fund:

<u>Fund</u>	<u>Brief Description</u>
Haileyville Public Works Authority Fund	Accounts for the activities of the public trust in providing water, sewer, and solid waste services to the public.

Measurement Focus

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

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Government-Wide, Proprietary and Fiduciary Fund Financial Statements

In the government-wide Statement of Net Assets and the Statement of Activities, and the proprietary and fiduciary fund statements the "economic resources" measurement focus is applied. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported.

CITY OF HAILEYVILLE
HAILEYVILLE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Governmental Fund Financial Statements

In the governmental fund financial statements, a "current financial resources" measurement focus is applied. Under this focus, only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transaction are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are recorded when due. All proprietary and fiduciary funds utilize the accrual basis of accounting.

1.D. ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents

Cash and cash equivalents include all demand accounts, savings accounts, money market investment in trust accounts, certificates of deposit and short-term investments with an original maturity of three months or less. Investments in open-ended mutual fund shares are also considered cash.

Investments

Investments classified on the balance sheet consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost. Additional cash and investment disclosures are presented in Note 2.B. and Note 3.A.

CITY OF HAILEYVILLE
HAILEYVILLE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants and fines. Business-type activities report utilities and interest earnings as its major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, fines and grants and other similar intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings comprise the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inter-fund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that result in amounts being owed between funds. Those related to goods and services type transaction are classified as "due to and from other funds." Short-term inter-fund loans are reported as "inter-fund receivables and payables". Long-term inter-fund loans (non-current portion) are reported as "advances from and to other funds."

Inventories

Inventories are valued at average cost. The cost of governmental funds inventories are recorded as expenditures when consumed rather than when purchased. This practice is consistent with previous years and does not have a material impact on the financial statements.

Restricted Assets

Restricted assets reported in the fund financial statements include current assets of enterprise funds and similar discretely presented component units that are legally restricted as to their use. The primary restricted assets are related to debt reserves and revenue bond trustee accounts.

CITY OF HAILEYVILLE
HAILEYVILLE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Capital Assets and Depreciation

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

For the year ended June 30, 2006, the City changed its basis of accounting from a modified cash basis to generally accepted accounting principles. As a result, estimated capital asset balances, net of estimated accumulated depreciation, are now included, where applicable, in the financial statements.

Government-Wide Financial Statements:

In the government-wide financial statements, property, plant and equipment are accounted for as capital assets. There are no available detail capital asset records for the governmental activities or the business-type activities that contain a complete detail of all property and equipment still in service. Therefore, the capital assets reported in the financial statements represent estimates of cost assets still in service. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

The City's governmental activities' infrastructure assets were not capitalized. These assets are not reported on the statement of net assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

The range of estimated useful lives by type of asset is as follows:

<u>Assets</u>	<u>Life</u>
Buildings	40 years
Building improvements	40 years
Vehicles	5-10 years
Machinery and equipment	10-20 years
Computer equipment	3-10 years

In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures.

Governmental Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund acquisition. Capital assets used in proprietary fund operations are accounted for as assets and depreciated the same as in the government-wide statements.

CITY OF HAILEYVILLE
HAILEYVILLE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Long-Term Debt

Accounting treatment of long-term debt varies depending upon the source of repayment and whether the debt is reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources and business-type and similar discretely presented component unit resources are reported as liabilities in the government-wide statements. The long-term debt consists of notes payable.

Equity Classifications

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. The reservations include reserves for encumbrances. Proprietary fund equity is classified the same as in the government-wide statements.

1.E. REVENUES, EXPENDITURES AND EXPENSES

Sales Tax

The City presently levies a three-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 receipt by the Oklahoma Tax Commission. The Oklahoma Tax Commission receives the sales tax approximately one month after collection by vendors.

CITY OF HAILEYVILLE
HAILEYVILLE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Property Tax

At the present time, the City levies no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

Program Revenues

In the Statement of Activities, revenues are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues in each activity:

General Government	Licenses and permits, royalties and rental income.
Public Safety	Fine revenue operating and capital grants and contributions.
Street & Public Works	Commercial vehicle and gasoline excise tax shared by the State.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds and similar discretely presented component unit are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are reported on the accrual basis and are classified by function for both governmental and business-type activities. In the fund financial statements, expenditures/expenses are classified as follows:

Governmental Funds - By Character: Current (further classified by activity)
Capital outlay
Debt service
Proprietary funds - By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

1.F. USE OF ESTIMATES

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

CITY OF HAILEYVILLE
HAILEYVILLE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

1.G. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

In the process of aggregating the financial information for the government-wide statement of net assets and statement of activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements:

Inter-fund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Inter-fund loans - amounts provided with a requirement for repayment are reported as inter-fund receivables and payables.
2. Inter-fund services - sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
3. Inter-fund reimbursements - repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
4. Inter-fund transfers - flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the City and its component units are subject to various federal, state and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows:

2.A. FUND ACCOUNTING REQUIREMENTS

The City complies, in all material respects, with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include the following:

<u>Fund</u>	<u>Required By</u>
Public Works Authority	Loan Agreement

CITY OF HAILEYVILLE
HAILEYVILLE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

2.B. DEPOSITS AND INVESTMENTS LAW AND REGULATION

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. As reflected in Note 3.A., all deposits were fully insured or collateralized. Investment of a City (excluding Public Trusts) are limited by State Law to the following:

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 of Oklahoma is pledged.
2. Certificates of deposit or savings accounts 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 banker's 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 Administrator and debentures issued by the Federal Housing Administrator, 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 a., b., c. and d.

Public trusts created under O.S. Title 60, are not subject to the above noted investment limitations and are primarily governed by and restrictions in their trust or bond indentures. For the year ended June 30, 2011, the City and its public trusts complied, in all material respects, with these investment restrictions.

2.C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Gasoline Excise	Street & Alley Purposes
Commercial Vehicle Tax	Street & Alley Purposes
Water & Sewer Revenue	Debt Service & Utility Operations

CITY OF HAILEYVILLE
HAILEYVILLE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

General Long-Term Debt

Article 10, Sections 26 and 27 of the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10% of net assessed valuation. For the year ended June 30, 2011, the City had no general obligation debt outstanding.

Other Long-Term Debt

As required by the Oklahoma State Constitution, the City (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval.

Revenue Bond Debt

The loan agreement relating to the revenue from the Oklahoma Water Resources Board, loans of the Haileyville Public Works Authority contain a number of restrictions or covenants that are financial related.

Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund.

2.C. BUDGETARY COMPLIANCE

The City prepares its annual operating budget under the provision of the Municipal Budget Act (the "Budget Act"). In accordance with those provisions, the following process is used to adopt the annual budget:

- a. Prior to June 1, a proposed budget is submitting to the Board of Trustee's for the fiscal year commencing the following July 1.
- b. Public hearings are conducted to obtain citizens comments. At least one public hearing must be held no later than 15 days prior to July 1.
- c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is adopted by resolution of the Board of Trustee's.
- d. The adopted budget is filed with the Office of State Auditor and Inspector within 30 days of the start of the year.

The legal level of control at which expenditures may not legally exceed appropriations is the department level within a fund.

All transfers of appropriations between departments and supplemental appropriations require Board of Trustee's approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.

NOTE 3. DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues and expenditures/expenses.

CITY OF HAILEYVILLE
 HAILEYVILLE, OKLAHOMA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2011

3.A. DEPOSITS AND INVESTMENTS

Schedule of Deposit and Investments by type as of June 30, 2011:

Primary Government Type	Fair Value	Maturities in Years		
		On Demand	Less Than One	More Than One
Demand Accounts	\$ 157,796	\$ 157,796	\$ -	\$ -
Subtotal	\$ 157,796	<u>\$ 157,796</u>	<u>\$ -</u>	<u>\$ -</u>
Certificates of Deposit	<u>34,663</u>			
Total Investments & Deposits	<u>\$ 192,459</u>			

Reconciliation to Statement of Net Assets:

Cash & Cash Equivalents	\$ 70,021
Investments	-
Assigned:	
Cash & Cash Equivalents	87,775
Investments	<u>34,663</u>
Total	<u>\$ 192,459</u>

Primary Government Deposits

Investment Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have a formal investment policy to manage exposure to fair value losses arising from increasing interest rates. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various instruments.

Custodial Credit Risk:

Exposure to custodial credit risk related to deposits exists when the City holds deposits that are uninsured and uncollateralized; collateralization with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name, or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the City holds investments that are uninsured and unregistered, with securities held by the counterpart or by its trust department or agent but not in the City's name.

At June 30, 2011 the City was exposed to custodial credit risk. As required by the Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee.

CITY OF HAILEYVILLE
 HAILEYVILLE, OKLAHOMA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2011

Concentration or Investment Credit Risk:

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represents a significant percent or total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration.

At June 30, 2011, the City had no concentration of credit risk as defined above.

3.B. RECEIVABLES

Accounts receivable of the business-type activities consist of customer utilities services provided, both billed and unbilled, due at year end, reported net of allowance for uncollectible amounts. The governmental activities receivables include taxes and miscellaneous receivables.

3.C. LONG-TERM DEBT

The City's long-term debt is segregated between the amounts to be repaid from governmental type funds (General Long-Term Debt) and the amounts to be repaid from proprietary type funds (Enterprise Fund Debt).

Governmental type funds

Current portion of long-term debt	\$ 2,818
Non-Current portion of long-term debt	<u>2,685</u>
Total debt	<u>\$ 5,503</u>

Enterprise Fund Long-Term Debt

As of June 30, 2011, the long-term debt payable from business-type activities resources consisted of the following:

Note payable with OERB dated March 15, 1998, original Note of \$419,000 with an annual interest rate of 3.056%, due in semi-annual installments, for twenty years.	<u>\$ 150,754</u>
Current Portion	\$ 22,922
Non-Current Portion	<u>127,832</u>
Total Notes Payable	<u>\$ 150,754</u>

Debt Service Requirements to Maturity:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 22,922	\$ 5,253	\$ 28,175
2013	23,771	4,404	28,175
2014	24,637	3,538	28,175
2015	25,535	2,640	28,175
2016	26,460	1,715	28,175
2017	27,429	746	28,175
Total	<u>\$ 150,754</u>	<u>\$ 18,296</u>	<u>\$ 169,050</u>

CITY OF HAILEYVILLE
 HAILEYVILLE, OKLAHOMA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2011

3.D. CAPITAL ASSETS

Changes in capital assets.

The following table provides a summary of changes in capital assets:

	CAPITAL ASSETS, DEPRECIATED				Capital Assets Not Depreciated Land
	Buildings	Infrastructure & Improvements Other Than Buildings	Furniture, Machinery, And Equipment	Totals	
PRIMARY GOVERNMENT					
Governmental activities					
Balance, June 30, 2010	\$ 252,000	\$ -	\$ 313,685	\$ 565,685	\$ -
Increases	-	-	10,500	10,500	-
Decreases	-	-	-	-	-
Balance, June 30, 2011	<u>252,000</u>	<u>-</u>	<u>324,185</u>	<u>576,185</u>	<u>-</u>
Accumulated Depreciation					
Balance, June 30, 2010	162,400	-	109,897	272,297	
Increase	3,360	-	13,617	16,977	
Decreases	-	-	-	-	
Balance, June 30, 2011	<u>165,760</u>	<u>-</u>	<u>123,514</u>	<u>289,274</u>	
Governmental activities					
Capital Assets, Net	<u>\$ 86,240</u>	<u>\$ -</u>	<u>\$ 200,671</u>	<u>\$ 286,911</u>	<u>\$ -</u>
Business-type activities					
Balance, June 30, 2010	\$ 64,000	\$ 1,955,418	\$ 36,497	\$ 2,055,915	\$ 32,306
Increases	-	5,000	-	5,000	-
Decreases	-	-	-	-	-
Balance, June 30, 2011	<u>64,000</u>	<u>1,960,418</u>	<u>36,497</u>	<u>2,060,915</u>	<u>32,306</u>
Accumulated Depreciation					
Balance, June 30, 2010	52,000	616,615	27,789	696,404	
Increase	1,600	49,386	1,285	52,271	
Decreases	-	-	-	-	
Balance, June 30, 2011	<u>53,600</u>	<u>666,001</u>	<u>29,074</u>	<u>748,675</u>	
Business-type Activities					
Capital Assets, Net	<u>\$ 10,400</u>	<u>\$ 1,294,417</u>	<u>\$ 7,423</u>	<u>\$ 1,312,240</u>	<u>\$ 32,306</u>
PRIMARY GOVERNMENT					
Capital Assets, Net	<u>\$ 96,640</u>	<u>\$ 1,294,417</u>	<u>\$ 208,094</u>	<u>\$ 1,599,151</u>	<u>\$ 32,306</u>

DEPRECIATION EXPENSE

Depreciation expense was charged to functions of the primary government as follows:

GOVERNMENT ACTIVITIES

BUSINESS-TYPE ACTIVITIES

Administration	\$ 2,495	Public works	\$ 52,271
Community Service	14,482		

CITY OF HAILEYVILLE
HAILEYVILLE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4. OTHER NOTES

Contingencies:

Grant Program Involvement

In the normal course of operations, the City participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

Litigation

The City and the Public Works Authority are parties to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provision for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City. This statutory taxing ability is not available to the City's public trusts (Authorities).

While the outcome of the above proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Pension Obligation

Oklahoma Firefighter's Pension and Retirement System

The City participates in this statewide, cost-sharing, multiple-employer benefit plan on behalf of firefighters. The system is administered by an agency of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

Eligibility to Participate	All full-time or voluntary Firefighters of a Participating Municipality hired before age 45
Authority establishing contribution obligations and benefit provisions	State Statute
Plan members' contribution rate	8% of covered payroll
City's contribution rate	13% of covered payroll/\$60 per volunteer
Period required to vest	10 years

CITY OF HAILEYVILLE
 HAILEYVILLE, OKLAHOMA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2011

Benefits and eligibility for distribution full time)	20 years credited service, 2 ½% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; If vested, at or after age 50, or After 10 but before 20 years of credited service with reduced benefits
Benefits and eligibility for distribution (Volunteer)	20 years credited service equal to \$5.46 per month per year of service with a maximum of 30 years considered
Deferred retirement option	Yes, 20 years credited service with Continued service for 30 or more years
Provisions for:	
Cost of living adjustments (normal retirement)	Yes, if vested by 5/83
Death (duty, non-duty, post-retirement)	Yes
Disability	Yes
Cost of living allowances	Yes

The City is required to contribute \$60 per year per volunteer firefighter. For those years in which the City General Fund revenue falls below a statutory amount, the City is not required to make a contribution.

Contributions required by State Statue:

<u>Fiscal</u> <u>Year</u>	<u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2009	\$ 480	100%
2010	\$ 600	100%
2011	\$ 600	100%

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the City Council
City of Haileyville, Oklahoma
Haileyville, Oklahoma

I was engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Haileyville, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City of Haileyville, Oklahoma's basic financial statements, and have issued my report thereon dated May 10, 2012 which has a disclaimed opinion. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered City of Haileyville, Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Haileyville, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of City of Haileyville, Oklahoma's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I consider to be significant deficiencies.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described as 2011-3, 2011-4, and 2011-5 in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weaknesses, yet important enough to merit attention by those charged with governance. I consider the deficiencies described as 2011-1 and 2011-2 in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Haileyville, Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Sincerely,

A handwritten signature in cursive script that reads "Ralph Osborn".

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
May 10, 2012

CITY OF HAILEYVILLE, OKLAHOMA
HAILEYVILLE, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2011

2011-1 Receipt Books

Finding: We examined certain receipt books used during the year. We noted some receipts were not issued. These receipts appear in the receipt book between other receipts that were used. We were unable to determine a valid reason for skipping receipts. We also noted receipts which had the original receipt removed, but the carbon copies kept in the book were blank.

Recommendation: The City should require all receipt books be maintained intact with all receipts issued in alpha/numeric order. Any receipts which are voided or not issued should show the reason for that action.

2011-2 Bank Deposits

Finding: Cash receipts were not deposited on a daily basis. We noted, for example, a deposit in the Public Works Account was made June 17, 2011. The next deposit was on June 29, 2011. The bank statement shows two deposits made on this date. Failure to make bank deposits on a daily basis increases the risk of loss or misuse of cash.

Recommendation: The City should require cash deposits be made daily.

2011-3 Public Works Revenue

Finding: The statement of revenues, expenditures, and changes in fund net assets reports the revenue by source for Haileyville Public Works Authority. Water revenue is reported at \$90,900 while water purchase was reported at \$95,986. Sanitation revenue and expense are \$75,630 and \$75,396 respectively. The general ledger for Haileyville Public Works Authority has large unexplained adjusting entries. It does not appear revenue was correctly posted by source.

We obtained a sales and receivables report from the computer billing software used by Haileyville Public Works Authority. The report did not have information for December 2010. The software vendor was not able to provide a reason as to why the month was missing. The average monthly revenue for Public Works in the financial statements is \$26,930. The average monthly revenue on the sales report for eleven months is \$28,746. This would result in a difference in annual income of \$21,792. We were not able to obtain a valid reason for December missing from the report.

Recommendation: The City should take steps to insure all revenue for City of Haileyville and Haileyville Public Works Authority are properly classified in the accounting records. Without adequate accounting records, the City Council and Board of Trustees are not able to determine the true source of revenue and if an increase in a rate is required.

The City should attempt to determine the reason December 2010 was missing from accounting records. We recommend you contact the software provider and have their representative examine the computer.

CITY OF HAILEYVILLE, OKLAHOMA
HAILEYVILLE, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2011

2011-4 Accounts Receivable

Finding: Accounts receivable for the Public Works Authority are reported as \$73,189. The sales and receivables report for the year indicates the balance in accounts receivable is \$98,621. The average monthly revenue for the Authority shown in the financial statements is \$26,930. The Authority has 2.72 months revenue in accounts receivable. I examined accounts receivable records of the Authority and noted the Authority has a number of past due accounts, including large accounts receivable owed by current and former city officials through August 15, 2011. One account I looked at subsequent to the balance sheet date had a balance reported owed as of August 15, 2011 of \$4,381. The account was reportedly a person who had moved out of town. However, the audit history for the account shows various amounts of water used during the period from December 14, 2010 through August 12, 2011.

Recommendation: The Authority should adopt and enforce cut-off procedures. The Authority reportedly has these procedures, but it appears the procedures are not followed. Haileyville Public Works Authority purchases the water it sells. Any water lost by leaks or any accounts that are allowed to go unpaid result in revenue from other customers having to cover the charge.

The Authority should request a representative from the billing software vendor examine the computer to determine, if possible, why the month of December is missing from the sales and receivables report.

2011-5 Fines and Fees

Finding: We attempted to test court fines and fees by tracing fifty tickets to the court docket and deposit in the bank account. We were able to trace these to the court docket and determine the amount of the fine. However, bank deposit slips do not list checks separately. The amount from checks is shown as a total.

We noted the average fine and fee for the tickets we traced to the court docket was \$207. We compared the average monthly deposits shown as fines to the number of fees collected reported on state reports. The average fine based on deposits and the number of fees reported was \$184. Based on reported revenue in the general ledger and the number of fees reported to the state, the May 2011 fine collected averaged \$111.

Recommendation: The City should obtain the deposit records for the bank account and determine what checks were deposited. The Council should determine if they wish to have further testing of the police fines.

Summary: I recommend the City of Haileyville, Oklahoma consider requesting the Office of the Oklahoma State Auditor and Inspector conduct an investigative audit of the financial records.