

CITY OF HAILEYVILLE, OKLAHOMA

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

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CITY OF HAILEYVILLE, OKLAHOMA  
JUNE 30, 2012

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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, 2012, 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, 2012. City of Haileyville, Oklahoma records do not permit the application of other auditing procedures to revenue and expenditures.

Since the City of Haileyville, Oklahoma did not maintain adequate accounting records for revenue and expenditures and I am not able to satisfy myself as to revenue and expenditure 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 June 2, 2014, 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  
June 2, 2014

**CITY OF HAILEYVILLE**  
**Haileyville, Oklahoma**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 20,583	\$ 42,579	\$ 63,162
Restricted assets:			
Cash and cash equivalents		13,252	13,252
Investments		34,663	34,663
Accounts receivable, net	7,554	39,566	47,120
Due from other funds	33,592	-	33,592
Capital assets:			
Land		32,306	32,306
Other capital assets, net of depreciation	305,998	1,620,979	1,926,977
 Total assets	367,727	1,783,345	2,151,072
<b>LIABILITIES:</b>			
Accounts payable and accrued liabilities	3,090	11,402	14,492
Customer deposits		41,457	41,457
Due to other funds		33,592	33,592
Long-term liabilities:			
Due within one year		23,000	23,000
Due in more than one year		107,926	107,926
 Total liabilities	3,090	217,377	220,467
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	305,998	1,522,359	1,828,357
Restricted for:			
Restricted-meter deposits	-	13,252	13,252
Unrestricted	58,639	30,357	88,996
 Total net assets	\$ 364,637	\$ 1,565,968	\$ 1,930,605

See accompanying notes to the basic financial statements.

**CITY OF HAILEYVILLE**  
**Haileyville, Oklahoma**  
**STATEMENT OF ACTIVITIES**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Functions/Programs	Expenses	Charges for Services	Capital Grants	Net (Expense) Revenue and Changes in Net Assets		
				Governmental Activities	Business-Type Activities	Total
<b>Primary Government:</b>						
Governmental activities:						
General government	\$ 159,771	\$ -		\$ (159,771)	\$ -	\$ (159,771)
Community services	98,062	-	-	(98,062)	-	(98,062)
Total governmental activities	<u>257,833</u>	<u>-</u>	<u>-</u>	<u>(257,833)</u>	<u>-</u>	<u>(257,833)</u>
Business-type activities:						
Utilities	314,692	330,239	234,287	-	249,834	249,834
Total business-type activities	<u>314,692</u>	<u>330,239</u>	<u>234,287</u>	<u>-</u>	<u>249,834</u>	<u>249,834</u>
<b>Total primary government</b>	<b><u>\$572,525</u></b>	<b><u>\$ 330,239</u></b>	<b><u>\$234,287</u></b>	<b><u>(257,833)</u></b>	<b><u>249,834</u></b>	<b><u>(7,999)</u></b>
General revenues:						
Taxes:						
Sales and use taxes				70,070	-	70,070
Franchise taxes				3,048	-	3,048
Cigarette taxes				1,014	-	1,014
Liquor taxes				2,831	-	2,831
Gasoline taxes				909		909
Commercial vehicle				3,593		3,593
Fines and court fees				103,675	-	103,675
Royalties & Rents				7,128	-	7,128
Investment income				59	221	280
Miscellaneous				54,807		54,807
Total general revenues				<u>247,134</u>	<u>221</u>	<u>247,355</u>
Change in net assets				(10,699)	250,055	239,356
Net assets - beginning				<u>375,336</u>	<u>1,315,913</u>	<u>1,691,249</u>
Net assets - ending				<u>\$ 364,637</u>	<u>\$ 1,565,968</u>	<u>\$1,930,605</u>

See accompanying notes to the basic financial statements.

**CITY OF HAILEYVILLE**  
**Haileyville, Oklahoma**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2012**

	<b>General</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 20,583	\$ -	\$ 20,583
Receivables:			
Net accounts receivable	7,554	-	7,554
Due from other funds	33,592	-	33,592
<b>Total assets</b>	<b>\$ 61,729</b>	<b>\$ -</b>	<b>\$ 61,729</b>
<b>LIABILITIES AND FUND BALANCES:</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 3,090	\$ -	3,090
Due to other funds	-	-	-
Total liabilities	3,090	-	3,090
Fund Balances:			
Reserved for:			
Unreserved	58,639	-	58,639
Total fund balances	58,639	-	58,639
<b>Total liabilities and fund balances</b>	<b>\$ 61,729</b>	<b>\$ -</b>	

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

Lease Obligation

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund

305,998

Net assets of governmental activities

\$ 364,637

See accompanying notes to the basic financial statements.

**CITY OF HAILEYVILLE**  
**Haileyville, Oklahoma**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>General</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<b>Revenues:</b>			
Taxes	\$ 81,465	\$ -	\$ 81,465
Fines and court fees	103,675	-	103,675
Investment income	59	-	59
Royalties	7,128	-	7,128
Grants	-	-	-
Miscellaneous	54,807	-	54,807
Total revenues	<u>247,134</u>	<u>-</u>	<u>247,134</u>
<b>Expenditures:</b>			
Administration	159,771	-	159,771
Community services	98,062	-	98,062
Total expenditures	<u>257,833</u>	<u>-</u>	<u>257,833</u>
Excess of revenues over expenditures	(10,699)	-	(10,699)
Fund balances - beginning	<u>68,724</u>	<u>-</u>	<u>68,724</u>
Fund balances - ending	<u>\$ 58,025</u>	<u>\$ -</u>	<u>\$ 58,025</u>
Net change in fund balances - total governmental funds			\$ (10,699)
Amounts reported for governmental activities in the Statement of Activities are different because:			
Debt Payments			-
Fixed Asset Purchases			-
Change in net assets of governmental activities			<u>\$ (10,699)</u>

See accompanying notes to the basic financial statements.

**CITY OF HAILEYVILLE**  
**Haileyville, Oklahoma**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2012**

	<u>Haileyville Public Works Authority</u>
<b>ASSETS:</b>	
Current Assets:	
Cash and cash equivalents	\$ 55,831
Investments	34,663
Accounts receivable, net	39,566
Total current assets	<u>130,060</u>
Noncurrent Assets:	
Land	32,306
Capital assets, net of depreciation	1,620,979
Total noncurrent assets	<u>1,653,285</u>
Total assets	<u>1,783,345</u>
<b>LIABILITIES:</b>	
Current Liabilities:	
Accounts payable and accrued liabilities	11,402
Customer deposits	41,457
Due to other funds	33,592
Notes payable - current portion	23,000
Total current liabilities	<u>109,451</u>
Noncurrent liabilities:	
Notes payable	107,926
Total noncurrent liabilities	<u>107,926</u>
Total liabilities	<u>217,377</u>
Invested in capital assets, net of related debt	1,522,359
Unrestricted	43,609
Total net assets	<u>\$ 1,565,968</u>
Calculation of invested in capital assets:	
Net book value	\$ 1,653,285
Current and noncurrent debt	(130,926)
Invested in capital assets, net of related debt	<u>\$ 1,522,359</u>

See accompanying notes to the basic financial statements.

**CITY OF HAILEYVILLE**  
**Haileyville, Oklahoma**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Haileyville Public Works Authority</u>
<b>Operating Revenues:</b>	
Water	\$ 111,062
Sewer	88,280
Sanitation	85,432
Water & Sewer taps	0
Miscellaneous	11,023
User Fees	34,442
Total operating revenues	<u>330,239</u>
<b>Operating Expenses:</b>	
Wages	21,236
Contract labor	26,596
Insurance	2,022
Maintenance & supplies	61,002
Miscellaneous	5,670
Office	3,480
Sanitation	63,549
Utilities	13,467
Water Purchases	103,670
Depreciation	
Total operating expenses	<u>300,692</u>
Net Operating Income (Loss)	<u>29,547</u>
<b>Non-Operating Revenues (Expenses):</b>	
Interest income	221
Grant Income	234,287
Interest expense	(14,000)
Total non-operating revenues (expenses)	<u>220,508</u>
Change in net assets	250,055
Total net assets - beginning	<u>1,315,913</u>
Total net assets - ending	<u>\$ 1,565,968</u>

See accompanying notes to the basic financial statements.

**CITY OF HAILEYVILLE**  
**Haileyville, Oklahoma**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	<u>Haileyville Public Works Authority</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 332,869
Payments to suppliers	(298,147)
Payments to employees	(21,236)
Net Cash Provided by Operating Activities	<u>13,486</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Investments	-
Grant Income	234,287
Principal paid on capital debt	(19,828)
Fixed asset purchases	(284,849)
Interest paid on capital debt	(14,000)
Net Cash Used by Capital and Related Financing Activities	<u>(84,390)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
CD's	0
Interest Income	221
Net Cash Provided by Investing Activities	<u>221</u>
Net Decrease in Cash and Cash Equivalents	(70,683)
Cash and Cash Equivalents - beginning of the year	<u>126,514</u>
Cash and Cash Equivalents - end of the year	<u>\$ 55,831</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>	
Operating income (loss)	\$ 29,547
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	0
Change in assets and liabilities:	
Accounts receivable	0
Accounts payable	(18,689)
Customer deposits	2,628
Net Cash Provided by Operating Activities	<u>\$ 13,486</u>

See accompanying notes to the basic financial statements.

**CITY OF HAILEYVILLE**  
**Budgetary Comparison Schedule - Cash Basis**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2012**

	Original Budget	Final Budget	Actual	1/21/2013 Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Sales and Use Tax	58,120	70,070	\$ 70,070	\$ -
Franchise Tax	2,743	3,048	3,048	-
Cigarette Tax	698	1,014	1,014	-
Liquor Tax	1,087	2,831	2,831	-
Gas Tax	784	909	909	-
Vehicle Reg	943	3,593	3,593	-
Fines	83,020	83,020	103,675	20,655
Royalties	34,126	34,126	7,128	(26,998)
Misc	11,161	26,676	54,807	28,131
Rent	1,172	1,172	-	(1,172)
Interest	92	92	59	(33)
<b>Total Revenues</b>	<b>193,946</b>	<b>226,551</b>	<b>247,134</b>	<b>20,583</b>
<b>Expenses</b>				
Council General	1,500	1,142	\$ 1,142	\$ -
City Clerk-Personel Services	17,000	6,329	6,329	-
Treasurer-Personel Services	-	6,329	6,329	-
City Attorney-M&O	3,600	3,600	3,600	-
Municipal Judge-M&O	3,400	1,800	1,800	-
Police-Personel Services	75,000	79,378	79,378	-
Police M&O	12,000	14,614	14,614	-
Police Capital	-	-	-	-
Fire-PS	500	400	400	-
Fire-M&O	2,500	3,670	3,670	-
Street Dept-Personel Services	20,000	30,114	30,114	-
Street Dept-M&O	4,000	6,880	6,880	-
General Gov-M&O	85,728	103,577	103,577	-
General Gov-Capital	-	-	-	-
<b>Total Expenditures</b>	<b>225,228</b>	<b>257,833</b>	<b>257,833</b>	<b>-</b>
Net Income	(31,282)	(31,282)	(10,699)	20,583
Beg Cash Bal	31,282	31,282	31,282	-
End Cash Bal	-	-	20,583	(20,583)

CITY OF HAILEYVILLE  
HAILEYVILLE, OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012

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, 2012

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, 2012

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, 2012

*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, 2012

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, 2012

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  
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JUNE 30, 2012

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.

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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  
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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

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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, 2012, 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

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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, 2012, 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.

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, 2012

3.A. DEPOSITS AND INVESTMENTS

Schedule of Deposit and Investments by type as of June 30, 2012:

Primary Government <u>Type</u>	Fair <u>Value</u>	<u>Maturities in Years</u>		
		<u>On Demand</u>	<u>Less Than One</u>	<u>More Than One</u>
Demand Accounts	\$ 76,414	\$ 76,414	\$ -	\$ -
Subtotal	\$ 76,414	\$ 76,414	\$ -	\$ -
Certificates of Deposit	<u>34,663</u>			
Total Investments & Deposits	<u>\$ 111,077</u>			

Reconciliation to Statement of Net Assets:

Cash & Cash Equivalents	\$ 63,162
Investments	-
Assigned:	
Cash & Cash Equivalents	13,252
Investments	<u>34,663</u>
Total	<u>\$ 111,077</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, 2012 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.

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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, 2012, 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 the amounts to be repaid from proprietary type funds (Enterprise Fund Debt).

Enterprise Fund Long-Term Debt

As of June 30, 2012, 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>\$ 130,926</u>
Current Portion	\$ 23,771
Non-Current Portion	<u>107,155</u>
Total Notes Payable	<u>\$ 130,926</u>

Debt Service Requirements to Maturity:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	<u>30,523</u>	<u>746</u>	<u>31,269</u>
Total	<u>\$ 130,926</u>	<u>\$ 13,043</u>	<u>\$ 143,969</u>

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3.D. CAPITAL ASSETS

Changes in capital assets.

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

	<u>CAPITAL ASSETS, DEPRECIATED</u>				Capital Assets Not Depreciated Land
	<u>Buildings</u>	<u>Infrastructure &amp; Improvements Other Than Buildings</u>	<u>Furniture, Machinery, And Equipment</u>	<u>Totals</u>	
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental activities</b>					
Balance, June 30, 2011	\$ 252,000	\$ -	\$ 345,272	\$ 597,272	\$ -
Increases	-	-	-	-	-
Decreases	-	-	-	-	-
Balance, June 30, 2012	<u>252,000</u>	<u>-</u>	<u>345,272</u>	<u>597,272</u>	<u>-</u>
<b>Accumulated Depreciation</b>					
Balance, June 30, 2011	167,760	-	123,514	291,274	
Increase	-	-	-	-	
Decreases	-	-	-	-	
Balance, June 30, 2012	<u>167,120</u>	<u>-</u>	<u>123,514</u>	<u>291,274</u>	
<b>Governmental activities</b>					
Capital Assets, Net	<u>\$ 84,240</u>	<u>\$ -</u>	<u>\$ 221,758</u>	<u>\$ 305,998</u>	<u>\$ -</u>
<b>Business-type activities</b>					
Balance, June 30, 2011	\$ 64,000	\$ 1,984,308	\$ 36,497	\$ 2,084,805	\$ 32,306
Increases	-	284,849	-	284,849	-
Decreases	-	-	-	-	-
Balance, June 30, 2012	<u>64,000</u>	<u>2,269,157</u>	<u>36,497</u>	<u>2,369,654</u>	<u>32,306</u>
<b>Accumulated Depreciation</b>					
Balance, June 30, 2011	53,600	666,001	29,074	748,675	
Increase	-	-	-	-	
Decreases	-	-	-	-	
Balance, June 30, 2012	<u>53,600</u>	<u>666,001</u>	<u>29,074</u>	<u>748,675</u>	
<b>Business-type Activities</b>					
Capital Assets, Net	<u>\$ 10,400</u>	<u>\$ 1,603,156</u>	<u>\$ 7,423</u>	<u>\$ 1,620,979</u>	<u>\$ 32,306</u>
<b>PRIMARY GOVERNMENT</b>					
Capital Assets, Net	<u>\$ 94,640</u>	<u>\$ 1,603,156</u>	<u>\$ 229,181</u>	<u>\$ 1,926,977</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	\$ -	Public works	\$ -
Community Service	-		

CITY OF HAILEYVILLE  
HAILEYVILLE, OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012

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  
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 JUNE 30, 2012

Benefits and eligibility for distribution full time)	20 years credited service, 2 ¼% 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 Statute:

<u>Fiscal</u> <u>Year</u>	<u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2010	\$ 600	100%
2011	\$ 600	100%
2012	\$ 840	100%

Note 5 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 2, 2014, the date on which the financial statements were available to be issued. The City does not believe there are any events requiring disclosure.

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, 2012, which collectively comprise the City of Haileyville, Oklahoma's basic financial statements, and have issued my report thereon dated June 2, 2014 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 2012-1 in the accompanying schedule of findings to be a material weakness.

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,



Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
June 2, 2014

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

2012-1 General Ledger

Finding: The City failed to maintain a general ledger. Without adequate accounting records, the City Council and Board of Trustees are not able to determine the true account balances, revenues, and expenses.

Recommendation: A general ledger is a requirement for the City. The City should take steps to insure the general ledger is being accurately maintained.