

CITY OF HAILEYVILLE, OKLAHOMA

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

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

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Board of Trustees
Town of Haileyville, Oklahoma

I have audited the accompanying modified cash basis financial statements of the governmental activities, 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

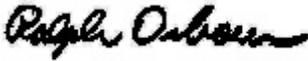
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Haileyville, Oklahoma as of June 30, 2016, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note A.

Basis of Accounting

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 3, 2016, on my consideration of Town of Haileyville'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 in considering Town of Haileyville, Oklahoma's* internal control over financial reporting and compliance.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
October 3, 2016

CITY OF HAILEYVILLE, OKLAHOMA
 HAILEYVILLE, OKLAHOMA
 STATEMENT OF NET POSITION - MODIFIED CASH BASIS
 JUNE 30, 2016

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 198,706	\$ 57,227	\$ 255,933
Due from other funds	19,167	(19,167)	-
Capital assets:			
Land	-	32,306	32,306
Other capital assets net of accumulated depreciation	<u>204,791</u>	<u>1,459,112</u>	<u>1,663,903</u>
Total assets	<u>422,664</u>	<u>1,529,478</u>	<u>1,952,142</u>
LIABILITIES:			
Customer deposits	-	24,238	24,238
Long-term liabilities:			
Due within one year	-	3,308	3,308
Due in more than one year	<u>-</u>	<u>37,746</u>	<u>37,746</u>
Total liabilities	<u>-</u>	<u>65,292</u>	<u>65,292</u>
NET POSITION			
Invested in capital assets, net of related debt	204,791	1,450,364	1,655,155
Unrestricted	<u>217,873</u>	<u>13,822</u>	<u>231,695</u>
Total net position	<u>\$ 422,664</u>	<u>\$1,464,186</u>	<u>\$1,886,850</u>

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

CITY OF HAILEYVILLE, OKLAHOMA
 HAILEYVILLE, OKLAHOMA
 STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

FUNCTION/PROGRAMS	<u>Expenses</u>	Program Revenue			<u>Revenue</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities					
General Government	\$ 75,319	\$ -	\$ 6,041	\$ 624	\$ (68,654)
Public Safety	117,662	67,851	4,290	-	(45,521)
Street	52,079	-	5,699	233,443	187,063
Total Governmental Activities	<u>245,060</u>	<u>67,851</u>	<u>16,030</u>	<u>224,067</u>	<u>72,888</u>
Business-type Activities					
Public Works	<u>433,392</u>	<u>452,368</u>	<u>-</u>	<u>-</u>	<u>18,976</u>
Total Business-Type Activities	<u>433,392</u>	<u>452,368</u>	<u>-</u>	<u>-</u>	<u>18,976</u>
Total Primary Government	<u>\$ 678,452</u>	<u>\$ 520,219</u>	<u>\$ 16,030</u>	<u>\$ 224,067</u>	<u>\$ 91,864</u>
Primary Government					
Business					
Governmental					
Activities					
Business					
Type					
Activities					
Total					
CHANGES IN NET POSITION					
Net (expense) Revenue			\$ 72,888	\$ 18,976	\$ 91,864
General Revenues					
Taxes					
Sales/Use Tax			52,012	-	52,012
Franchise			15,855	-	15,855
Cigarette Tax			605	-	605
Gas Tax			1,427	-	1,427
Royalties			12,835	-	12,835
Donations			5,556	-	5,556
Loss on Sale of Assets			(6,812)	-	(6,812)
Other			5,058	-	5,058
Interest			12	341	353
Transfers			(6,000)	6,000	-
Total General Revenue and Transfers			<u>80,548</u>	<u>6,341</u>	<u>86,889</u>
Change in Net Position			153,436	25,317	178,753
Net Position - Beginning			<u>269,228</u>	<u>1,438,869</u>	<u>1,708,097</u>
Net Position - Ending			<u>\$ 422,664</u>	<u>\$ 1,464,186</u>	<u>\$ 1,886,850</u>

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

CITY OF HAILEYVILLE, OKLAHOMA
 HAILEYVILLE, OKLAHOMA
 BALANCE SHEET - GOVERNMENTAL FUNDS
 MODIFIED CASH BASIS
 JUNE 30, 2016

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 198,706	\$ 198,706
Due from other funds	<u>19,167</u>	<u>19,167</u>
TOTAL ASSETS	<u>\$ 217,873</u>	<u>\$ 217,873</u>
LIABILITIES AND FUND BALANCES:		
LIABILITIES:		
Due to other funds	<u>\$ -</u>	<u>\$ -</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>
FUND BALANCES:		
Unrestricted	<u>217,873</u>	<u>217,873</u>
TOTAL FUND BALANCES	<u>217,873</u>	217,873
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 217,873</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	<u>204,791</u>
Net position of governmental activities	<u>\$ 422,664</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
 MODIFIED CASH BASIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	Total Governmental Funds
Revenues:		
Sales tax	\$ 49,012	\$ 49,012
Use tax	3,000	3,000
Franchise tax	15,855	15,855
Alcoholic beverage tax	6,041	6,041
Cigarette tax	605	605
Gas tax	1,427	1,427
Motor vehicle tax	5,699	5,699
Fines and court fees	67,851	67,851
Investment income	12	12
Royalties	12,835	12,835
Grant	238,357	238,357
Sale of asset	6,000	6,000
Donations	5,556	5,556
Miscellaneous	5,058	5,058
Total revenues	417,308	417,308
Expenditures:		
Administration	72,824	72,824
Street and alley	50,345	50,345
Public Safety	103,812	103,812
Total expenditures	226,981	226,981
Excess (deficiency) of revenues over expenditures	190,327	190,327
Transfers out	(6,000)	(6,000)
Total transfers	(6,000)	(6,000)
Net change in fund balance	184,327	184,327
Fund balances, beginning	33,546	
Fund balances, ending	\$ 217,873	

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

Sale of fixed assets	(12,812)	
Depreciation expense	(18,079)	(30,891)

Change in net position of governmental activities \$ 153,436

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

CITY OF HAILEYVILLE, OKLAHOMA
 HAILEYVILLE, OKLAHOMA
 STATEMENT OF FUND NET POSITION - PROPRIETARY FUND
 MODIFIED CASH BASIS
 JUNE 30, 2016

	<u>Haileyville Public Works Authority</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 57,227
Total current assets	<u>57,227</u>
Non-current assets:	
Land	32,306
Capital assets, net of depreciation	<u>1,459,112</u>
Total non-current assets	<u>1,491,418</u>
Total assets	<u>1,548,645</u>
LIABILITIES:	
Current liabilities:	
Customer deposits	24,238
Due to other funds	19,167
Notes payable - current portion	<u>3,308</u>
Total current liabilities	<u>46,713</u>
Non-current liabilities:	
Notes payable	<u>37,746</u>
Total non-current liabilities	<u>37,746</u>
Total liabilities	<u>84,459</u>
Invested in capital assets, net of related debt	1,450,364
Unrestricted	<u>13,822</u>
Total net position	<u>\$ 1,464,186</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 POSITION
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Haileyville Public Works Authority</u>
OPERATING REVENUES:	
Water	\$ 220,027
Sewer	89,831
Sanitation	76,444
User fees	50,883
Penalties	13,170
Miscellaneous	<u>2,013</u>
Total operating revenues	<u>452,368</u>
OPERATING EXPENSES:	
Wages	68,076
Payroll taxes	3,333
Water Purchases	110,079
Sanitation	67,348
Insurance	26,469
Maintenance & operations	54,044
Professional fees	11,135
Office and postage	28,628
Depreciation	<u>62,856</u>
Total operating expenses	<u>431,968</u>
Operating income (loss)	<u>20,400</u>
NON-OPERATING REVENUE (EXPENSES):	
Interest income	341
Interest expense	<u>(1,424)</u>
Total non-operating revenue (expenses)	<u>(1,083)</u>
Income/(loss) before transfers	19,317
Transfer in	<u>6,000</u>
Total transfers	<u>6,000</u>
Change in net position of business type activities	25,317
Total net position, beginning	<u>1,438,869</u>
Total net position, ending	<u>\$ 1,464,186</u>

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

CITY OF HAILEYVILLE, OKLAHOMA
 HAILEYVILLE, OKLAHOMA
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Haileyville Public Works Authority</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 453,020
Payments to suppliers	(301,036)
Payments to employees	<u>(68,076)</u>
Net Cash Provided by Operating Activities	<u>83,908</u>
CASH FLOWS FROM NON-OPERATING ACTIVITIES	
Transfers from other funds	6,000
Changes in Due to/From	<u>(9,126)</u>
Net Cash Provided by Non-Operating Activities	<u>(3,126)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of fixed assets	(70,399)
Proceeds from debt	41,294
Principal paid on capital debt	(63,128)
Interest paid on capital debt	<u>(1,424)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(93,657)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	341
Transferred from investments	<u>35,856</u>
Net Cash Provided by Investing Activities	<u>36,197</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	23,322
Cash and Cash Equivalents, Beginning	<u>33,905</u>
Cash and Cash Equivalents, Ending	<u>\$ 57,227</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income (loss)	\$ 20,400
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	62,856
Changes in assets and liabilities:	
Change in customer deposits	<u>652</u>
Net Cash Provided by Operating Activities	<u>\$ 83,908</u>

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

CITY OF HAILEYVILLE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The City of Haileyville, Oklahoma, was incorporated under the provisions of the laws of the State of Oklahoma. The financial statements of the City have been prepared in conformity with the modified cash basis. The significant accounting policies of the government are described below.

The accompanying financial statements present the activities of the City of Haileyville. The City has considered all potential component units for which the City is financially accountable and other organizations for which the nature and significance of their relationships with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City.

Component Units

Component units are legally separate organizations for which the City is financially accountable as described above. A blended component unit is a separate legal entity that meets the component unit criteria above. In addition, the blended component units provide services that almost exclusively benefit the City even though they do not provide services directly to the City. These component units are blended into those of the City by appropriate fund type to constitute the primary government presentation. A discretely presented component unit is reported separate from City fund types in the financial statements.

Blended Component Units

Haileyville Public Works Authority - The Authority provides water, sewer, and sanitation services in the City. Trustees of the Authority are made up of the mayor and City Council of Haileyville. Financial transactions occur between the City and Authority on a regular basis.

CITY OF HAILEYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities such as employee pension plans. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A functional program is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services with report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions on these programs uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements of the City are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for nonmajor funds.

Measurement Focus and Basis of Accounting

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.

Measurement Focus

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

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

CITY OF HAILEYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

- A. All governmental funds utilize a "current financial resources" measurement 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 during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- B. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current, financial, or non-financial) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements of proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Fund Types and Major Funds

The City reports the following major governmental funds:

General Fund - The general fund reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

The City reports the following major enterprise funds:

Public Works Authority - The Authority provides certain utility services for the City.

CITY OF HAILEYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Budgetary Accounting and Control

The Mayor submits an annual budget to the City Council in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the City Council for review. Public hearings are held to address priorities and allocation of resources. In June, the City Council adopts the subsequent fiscal year budgets for the City operating funds. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Public trusts submit budget and other planning documents to their respective governing bodies.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by sources. Expenditures are budgeted by department and class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. Budget revisions at this level are subject to final review by the City Council. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without Council approval.

The budgets for the governmental funds and proprietary fund operations are prepared on the cash basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be paid. Budgetary comparison financial statements are reported on this basis. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Investments

The City follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The City considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investments reported in the financial statements consist of Certificates of Deposits, government bonds, U.S. government notes and securities. Money held by trustee banks for use in retiring bonds is usually held in United States government securities.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year end are cancelled under the modified cash basis. The encumbrance is added to the subsequent year expenses when paid.

CITY OF HAILEYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary funds and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis. The City has not maintained inventory records, however, the value of inventory on hand at June 30, 2016 is not believed to be material.

Prepaids recording payments to vendors that benefit future reporting periods are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements. Under the modified cash basis, prepaids are not reported. The expense is included in the period the liability is paid.

Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported and comprehensively reported in the government-wide financial statements. The City maintains infrastructure assets records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$2,500 or more as purchase and construction outlays occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	40
Improvements, other than buildings	02-50
Mobile equipment	05-10
Furniture, machinery, and equipment	10-20
Utility system	05-60

Compensated Absences

Full-time, permanent employees are granted personal leave in varying amounts to specified maximums depending on tenure with the City. The City does not record a liability for accrued compensated absences. The amount paid for compensated absences is expensed as paid.

CITY OF HAILEYVILLE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

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.

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 & Alley	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; or Debt service
Proprietary funds - By Operating and Non-Operating

CITY OF HAILEYVILLE
HAILEYVILLE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the City will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the City, and are held by counterparty or the counterparty's trust department but not in the name of the City. The City's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2016, all of the City's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The City had deposits at financial institutions with a carrying amount of approximately 255,933 at June 30, 2016. The bank balance of the deposits at June 30, 2016 was approximately \$272,038.

Credit Risk

Fixed-income securities are subject to credit risk. However, the City did not have fixed income securities at June 30, 2016.

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 Council monitors the investment performance on an ongoing basis to limit the City's interest rate risk. As of June 30, 2016, the City's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

CITY OF HAILEYVILLE
 HAILEYVILLE, OKLAHOMA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE C - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at June 30, 2016 are as follows:.

<u>Amount</u>	<u>Due To Other Funds</u>	<u>Due From Other Funds</u>
19,167	Public Works	General fund
<u>\$ 19,167</u>		

NOTE 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, 2015	\$ 252,000	\$ -	\$ 319,707	\$ 571,707	\$ -
Increases	-	-	-	-	-
Decreases	-	-	(30,000)	(30,000)	-
Balance, June 30, 2016	<u>252,000</u>	<u>-</u>	<u>289,707</u>	<u>541,707</u>	<u>-</u>
Accumulated Depreciation					
Balance, June 30, 2015	179,200	-	156,825	336,025	
Increase	3,360	-	14,719	18,079	
Decreases	-	-	(17,188)	(17,188)	
Balance, June 30, 2016	<u>182,560</u>	<u>-</u>	<u>154,356</u>	<u>336,916</u>	
Governmental activities Capital Assets, Net	<u>\$ 69,440</u>	<u>\$ -</u>	<u>\$ 135,351</u>	<u>\$ 204,791</u>	<u>\$ -</u>
Business-type activities					
Balance, June 30, 2015	\$ 64,000	\$ 2,336,898	\$ 36,497	\$ 2,437,395	\$ 32,306
Increases	-	-	70,399	70,399	-
Decreases	-	-	-	-	-
Balance, June 30, 2016	<u>64,000</u>	<u>2,336,898</u>	<u>106,896</u>	<u>2,507,794</u>	<u>32,306</u>
Accumulated Depreciation					
Balance, June 30, 2015	60,000	891,612	34,214	985,826	
Increase	1,600	58,798	2,458	62,856	
Decreases	-	-	-	-	
Balance, June 30, 2016	<u>61,600</u>	<u>950,410</u>	<u>36,672</u>	<u>1,048,682</u>	
Business-type Activities Capital Assets, Net	<u>\$ 2,400</u>	<u>\$ 1,386,488</u>	<u>\$ 70,224</u>	<u>\$ 1,459,112</u>	<u>\$ 32,306</u>
PRIMARY GOVERNMENT Capital Assets, Net	<u>\$ 71,840</u>	<u>\$ 1,386,488</u>	<u>\$ 205,575</u>	<u>\$ 1,663,903</u>	<u>\$ 32,306</u>

CITY OF HAILEYVILLE, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

DEPRECIATION EXPENSE

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

GOVERNMENT ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
Administration	\$ 2,495	Public works	\$ 62,856
Public Safety	13,850		
Street and Alley	1,734		

NOTE E - LONG-TERM DEBT

The Authority has incurred indebtedness for the expansion of system facilities and for acquisition of equipment. The following is a summary of note payable transactions for the year ended June 30, 2016:

	<u>Payable at</u> <u>July 1, 2015</u>	<u>Addition/</u> <u>Retirements</u>	<u>Balance at</u> <u>June 30, 2016</u>
Water Resources Board	\$ 53,888	\$ (53,888)	\$ -
First National Bank	9,000	(9,000)	-
First National Bank	<u>-</u>	<u>41,054</u>	<u>41,054</u>
	<u>\$ 62,888</u>	<u>\$ (21,834)</u>	<u>\$ 41,054</u>

A brief description of the outstanding notes payable at June 30, 2016 is set forth below:

<u>Outstanding</u>	<u>Amount</u>
First National Bank loan for purchase of backhoe dated May 12, 2016, original loan amount of \$41,294, interest rate 5%, 59 regular payments of \$438.26, final payment of \$23,658.35 on May 15, 2021.	<u>41,054</u>
Total	<u>\$ 41,054</u>

The annual principal payments due over the next five years and thereafter are as follows. Actual debt service requirements will vary depending on the variable interest rate in effect at the time of payment.

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,308	\$ 1,948	\$ 5,256
2018	3,451	1,805	5,256
2019	3,626	1,630	5,256
2020	3,813	1,443	5,256
2021	<u>26,856</u>	<u>1,591</u>	<u>28,447</u>
Total	<u>\$ 41,054</u>	<u>\$ 8,417</u>	<u>\$ 49,471</u>

The Authority incurred interest and fees of \$1,424 on long-term debt during the year. Future year interest payments will depend on the interest rate at the time of payment.

CITY OF HAILEYVILLE
 HAILEYVILLE, OKLAHOMA
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2016

NOTE F - PENSION

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
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 Statute:

Fiscal Year	Required Contribution	Percentage Contributed
2016	\$ 720	100%
2015	\$ 900	100%
2014	\$ 660	100%

CITY OF HAILEYVILLE
HAILEYVILLE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE G - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE H - FEDERAL STATE GRANTS

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE I - SUBSEQUENT EVENTS

The City has evaluated subsequent events and contingencies through October 3, 2016, the date which financial statements were available. The City is not aware of any items which need disclosure.

INDEPENDENT AUDITOR'S 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 Honorable Members of the Board of Trustees
Town of Haileyville
Haileyville, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Haileyville, Oklahoma, modified cash basis, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Town of Haileyville's basic financial statements and have issued my report thereon dated October 3, 2016 which did not include Management's Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Town of Haileyville's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Haileyville's internal control. Accordingly, I do not express an opinion of the effectiveness of Town of Haileyville's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

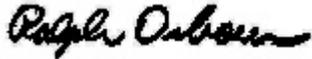
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. The general fund actual expenses exceeded the approved expenditure budget. The town failed to approve a supplemental budget for the additional expenditures when they had sufficient revenue to do so.

Purpose of the Report

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

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
October 3, 2016