

*Kershaw*

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State Auditor & Inspector

RECEIPT #

16630

# AUDIT REPORT

## CITY OF LEHIGH, OKLAHOMA

### JUNE 30, 2011



#### KERSHAW CPA & ASSOCIATES, PC

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CITY OF LEHIGH, OKLAHOMA  
JUNE 30, 2011

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CITY OF LEHIGH, OKLAHOMA  
JUNE 30, 2011

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CITY OF LEHIGH, OKLAHOMA  
LIST OF PRINCIPAL OFFICIALS  
JUNE 30, 2011

BOARD OF TRUSTEES

<u>NAME</u>	<u>POSITION</u>
EARNEST COTTRELL	MAYOR
WANDA CALVERT	VICE-MAYOR
CHERYL YOUNG	BOARD MEMBER
GUY KNIGHT	BOARD MEMBER
JESSE HORN	BOARD MEMBER

CITY TREASURER

KAY YARBROUGH

WATER SUPERVISOR

DAVID TOWNSEND

Unaudited

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Lehigh, Oklahoma

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Lehigh, Oklahoma, as of and for the fiscal year ended June 30, 2011, which collectively comprise the City of Lehigh, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lehigh, Oklahoma's management. My responsibility is to express an opinion 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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the City has not maintained accurate capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available for my review. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental & Business-Type Activities is not readily determinable.

Until October 2006, the City recorded its business-type activities within the governmental funds, primarily the General Fund. Accounting principles generally accepted in the United States of America requires the City to report, in a financial statement format, its business-type activities separate from its governmental activities. Although the City now has separate accounts for the PWA and IDA, funds are still being commingled.

In my opinion, except for the effects, if any, on the financial statements of improper capital asset recordkeeping and the lack of segregation of its business-type activities described in the preceding paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the City of Lehigh, Oklahoma, as of June 30, 2011, and the changes in

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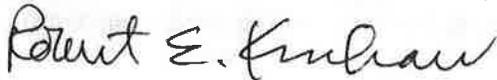
financial position thereof for the year then ended in conformity with the basis of accounting described above.

In accordance with Government Auditing Standards, I have also issued my report dated September 21, 2011, on my consideration of the City of Lehigh, Oklahoma's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 compliance with Government Auditing Standards and should be considered in assessing the results of my audit.

The budgetary comparison information and the notes to the budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

The City of Lehigh has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However, the City has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the City. Such additional information has not been subjected to the auditing procedures applied in my audit of the basic financial statements, and accordingly, I do not express an opinion thereon.



Robert E. Kershaw  
Certified Public Accountant

September 21, 2011

CITY OF LEHIGH, OKLAHOMA  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
JUNE 30, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>2011 Total</u>
<b><u>ASSETS</u></b>			
<b><u>Current Assets:</u></b>			
Cash and cash equivalents	\$ 376,246	\$ 86,550	\$ 462,796
Investments	-	-	-
<b>Total Current Assets</b>	<b>376,246</b>	<b>86,550</b>	<b>462,796</b>
<b><u>Other Assets:</u></b>			
Cash and cash equivalents - Restricted	-	34,694	34,694
<b>Total Other Assets</b>	<b>-</b>	<b>34,694</b>	<b>34,694</b>
<b><u>Capital Assets:</u></b>			
Capital Assets, net of Accum. Depreciation	261,167	3,275,616	3,536,783
<b>Total Capital Assets</b>	<b>261,167</b>	<b>3,275,616</b>	<b>3,536,783</b>
<b>TOTAL ASSETS</b>	<b>637,414</b>	<b>3,396,860</b>	<b>4,034,273</b>
<b><u>LIABILITIES</u></b>			
<b><u>Current Liabilities:</u></b>			
Accounts Payable	-	-	-
<b>Total Current Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b><u>Long-Term Liabilities:</u></b>			
Capital Lease Obligations	-	-	-
Revenue Bonds Payable	-	-	-
Notes Payable	-	679,278	679,278
<b>Total Long-Term Liabilities</b>	<b>-</b>	<b>679,278</b>	<b>679,278</b>
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>679,278</b>	<b>679,278</b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	261,167	2,596,338	2,857,506
Restricted for:			-
Debt Service	-	34,694	34,694
Other Purposes	-	-	-
Unrestricted	376,246	86,550	462,796
<b>TOTAL NET ASSETS</b>	<b>\$ 637,414</b>	<b>\$ 2,717,582</b>	<b>\$ 3,354,996</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF LEHIGH, OKLAHOMA  
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities:</b>					
<b>General Govt. &amp; Public Safety:</b>					
Personal Services	\$ 30,601	\$ -	\$ -	\$ -	\$ (30,601)
Maintenance & Operations	47,204	-	221,894	9,359	184,049
M&O: Community Development	36,000	-	-	-	(36,000)
Debt Service - Interest	-	-	-	-	-
<b>Total Governmental Activities</b>	<b>113,805</b>	<b>-</b>	<b>221,894</b>	<b>9,359</b>	<b>117,448</b>
<b>Business-type activities:</b>					
Water, Sewer & Sanitation	287,917	143,587	-	12,000	(132,330)
<b>Total Business-type Activities</b>	<b>287,917</b>	<b>143,587</b>	<b>-</b>	<b>12,000</b>	<b>(132,330)</b>
<b>Total</b>	<b>\$ 401,722</b>	<b>\$ 143,587</b>	<b>\$ 221,894</b>	<b>\$ 21,359</b>	<b>\$ (14,882)</b>

## Changes in Net Assets:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ 117,448	\$ (132,330)	\$ (14,882)
<b>General revenues:</b>			
<b>Taxes:</b>			
Sales Tax	6,633	-	6,633
Use Tax	1,174	-	1,174
Cigar Tax	89	-	89
Franchise Tax	4,270	-	4,270
<b>Intergovernmental:</b>			
Alcoholic Beverage Tax	5,322	-	5,322
Gasoline Excise Tax	564	-	564
Motor Vehicle Tax	2,170	-	2,170
Lease Income/Rent	4,064	-	4,064
Oil & Gas Lease Income	20,127	-	20,127
Licenses & Permits	-	-	-
Donations	350	-	350
Fund Raisers	4,659	-	4,659
Miscellaneous Income	1,458	-	1,458
Interest Income	489	156	646
Transfers - Internal Activity	-	-	-
<b>Total general revenues &amp; transfers</b>	<b>51,368</b>	<b>156</b>	<b>51,524</b>
Changes in net assets	168,816	(132,174)	36,642
Net assets - beginning	463,473	2,849,756	3,313,228
Net assets - transfer to PWA & IDA from Gen. Fund	-	-	-
Net assets - prior year adjustment	5,125	-	5,125
<b>Net assets - ending</b>	<b>\$ 637,414</b>	<b>\$ 2,717,582</b>	<b>\$ 3,354,996</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**CITY OF LEHIGH, OKLAHOMA  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2011**

	General Fund	Volunteer Fire Fund	Housing Project Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 156,059	\$ 20,958	\$ 185,894	\$ 13,335	\$ 376,246
Investments	-	-	-	-	-
Accounts Receivable	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b><u>\$ 156,059</u></b>	<b><u>\$ 20,958</u></b>	<b><u>\$ 185,894</u></b>	<b><u>\$ 13,335</u></b>	<b><u>\$ 376,246</u></b>
<b>LIABILITIES &amp; FUND EQUITY</b>					
<b>LIABILITIES:</b>					
Accounts Payable	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL LIABILITIES</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>FUND BALANCES:</b>					
Unreserved	156,059	20,958	185,894	-	362,912
Unreserved, reported in nonmajor special revenue funds	-	-	-	13,335	13,335
<b>TOTAL FUND BALANCES</b>	<b><u>156,059</u></b>	<b><u>20,958</u></b>	<b><u>185,894</u></b>	<b><u>13,335</u></b>	<b><u>376,246</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$ 156,059</u></b>	<b><u>\$ 20,958</u></b>	<b><u>\$ 185,894</u></b>	<b><u>\$ 13,335</u></b>	

**Reconciliation to Statement of Net Assets:**

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

Capital assets used in governmental activities of \$261,167, net of accumulated depreciation of \$0, are not financial resources and, therefore, are not reported in the funds. 261,167

Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds. -

**Net Assets of Governmental Activities** **\$ 637,414**

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**CITY OF LEHIGH, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	General Fund	Volunteer Fire Fund	Housing Project Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
Taxes:					
Sales Tax	\$ 6,633	\$ -	\$ -	\$ -	\$ 6,633
Use Tax	1,174	-	-	-	1,174
Cigar Tax	89	-	-	-	89
Franchise Tax	4,270	-	-	-	4,270
Intergovernmental:					
Alcoholic Beverage Tax	5,322	-	-	-	5,322
Gasoline Excise Tax	-	-	-	564	564
Motor Vehicle Tax	-	-	-	2,170	2,170
Grants	-	4,398	221,894	4,961	231,253
Lease Income/Rent	4,064	-	-	-	4,064
Oil & Gas Lease Income	20,127	-	-	-	20,127
Water Revenue	-	-	-	-	-
Licenses & Permits	-	-	-	-	-
Donations	-	250	-	100	350
Fund Raisers	-	4,659	-	-	4,659
Miscellaneous Income	1,333	125	-	-	1,458
Interest Income	445	41	-	3	489
<b>TOTAL REVENUES</b>	<b>43,457</b>	<b>9,473</b>	<b>221,894</b>	<b>7,797</b>	<b>282,621</b>
<b>EXPENDITURES:</b>					
Current:					
Personal Services	25,286	1,300	-	4,015	30,601
Maintenance & Operations:					
Maintenance & Operations - General	16,588	10,428	-	3,419	30,436
Community Development	-	-	36,000	-	36,000
Debt Service	-	-	-	-	-
Capital Outlay	11,807	-	-	4,961	16,768
<b>TOTAL EXPENDITURES</b>	<b>53,682</b>	<b>11,728</b>	<b>36,000</b>	<b>12,396</b>	<b>113,805</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(10,225)</b>	<b>(2,255)</b>	<b>185,894</b>	<b>(4,598)</b>	<b>168,816</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating Transfers In	-	3,559	-	13,559	17,119
Operating Transfers Out	(17,119)	-	-	-	(17,119)
Capital Debt Proceeds - CRG	-	-	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(17,119)</b>	<b>3,559</b>	<b>-</b>	<b>13,559</b>	<b>-</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(27,344)</b>	<b>1,304</b>	<b>185,894</b>	<b>8,961</b>	<b>168,816</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>183,403</b>	<b>14,529</b>	<b>-</b>	<b>4,374</b>	<b>202,305</b>
<b>FUND BALANCE - PRIOR YEAR ADJUSTMENT</b>	<b>-</b>	<b>5,125</b>	<b>-</b>	<b>-</b>	<b>5,125</b>
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 156,059</b>	<b>\$ 20,958</b>	<b>\$ 185,894</b>	<b>\$ 13,335</b>	<b>376,246</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**CITY OF LEHIGH, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

**Reconciliation to Statement of Activities:**

**Net change in fund balances - total governmental funds** **\$ 168,816**

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

**Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:**

**Capital debt obligation principal payments** -

**Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Assets:**

**Capital Debt Proceeds** -

**Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:**

**Capital asset purchases capitalized** -

**Depreciation expense** -

**Change in Net Assets of Governmental Activities** **\$ 168,816**

**See Accountant's Audit Report & Notes Which Accompany These Financial Statements**

CITY OF LEHIGH, OKLAHOMA  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
JUNE 30, 2011

	Lehigh Public Works Authority	Lehigh Industrial Development Authority	Total Enterprise Funds
<b><u>ASSETS</u></b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 83,255	\$ 3,295	\$ 86,550
Investments	-	-	-
<b>Total Current Assets</b>	<b>83,255</b>	<b>3,295</b>	<b>86,550</b>
<b>Noncurrent Assets:</b>			
Restricted cash, including time deposits	-	34,694	34,694
Capital assets, net of accumulated depreciation	208,262	3,067,354	3,275,616
<b>Total Noncurrent Assets</b>	<b>208,262</b>	<b>3,102,048</b>	<b>3,310,310</b>
<b>TOTAL ASSETS</b>	<b>291,516</b>	<b>3,105,343</b>	<b>3,396,860</b>
<b><u>LIABILITIES &amp; FUND EQUITY</u></b>			
<b>Current Liabilities:</b>			
Accounts Payable	-	-	-
<b>Total Current Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Noncurrent Liabilities:</b>			
Notes Payable	-	679,278	679,278
<b>Total Noncurrent Liabilities</b>	<b>-</b>	<b>679,278</b>	<b>679,278</b>
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>679,278</b>	<b>679,278</b>
<b>NET ASSETS:</b>			
Invested in capital assets, net of related debt	208,262	2,388,076	2,596,338
Restricted for debt service	-	-	-
Restricted for other purposes	-	34,694	34,694
Unrestricted	83,255	3,295	86,550
<b>TOTAL NET ASSETS</b>	<b>\$ 291,516</b>	<b>\$ 2,426,066</b>	<b>\$ 2,717,582</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF LEHIGH, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
- MODIFIED CASH BASIS -  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Lehigh Public Works Authority	Lehigh Industrial Development Authority	Total Enterprise Funds
<b>OPERATING REVENUES:</b>			
Water, Sewer and Sanitation Charges	\$ 143,137	\$ -	\$ 143,137
Grant Income - USDA RD	-	-	-
Grant Income	12,000	-	12,000
Oil & Gas Lease Income	-	-	-
Miscellaneous	450	-	450
<b>TOTAL OPERATING REVENUES</b>	<b>155,587</b>	<b>-</b>	<b>155,587</b>
<b>OPERATING EXPENSES:</b>			
Current:			
Personal Services	63,019	-	63,019
Trash Service Expense	28,224	-	28,224
Electricity	15,996	-	15,996
Maintenance & Operations	35,589	-	35,589
Depreciation	10,302	105,771	116,073
<b>TOTAL OPERATING EXPENSES</b>	<b>153,130</b>	<b>105,771</b>	<b>258,901</b>
<b>NET OPERATING INCOME (LOSS)</b>	<b>2,457</b>	<b>(105,771)</b>	<b>(103,314)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Interest Income	152	4	156
Interest Expense	-	(29,016)	(29,016)
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>152</b>	<b>(29,011)</b>	<b>(28,859)</b>
<b>NET INCOME (LOSS) BEFORE CONTRIBUTIONS &amp; TRANSFERS</b>	<b>2,609</b>	<b>(134,782)</b>	<b>(132,174)</b>
Capital Contributions	-	-	-
Transfers in	-	-	-
Transfers out	-	-	-
<b>CHANGE IN NET ASSETS</b>	<b>2,609</b>	<b>(134,782)</b>	<b>(132,174)</b>
<b>TOTAL NET ASSETS - BEGINNING</b>	<b>288,908</b>	<b>2,560,848</b>	<b>2,849,756</b>
<b>TOTAL NET ASSETS - ADJUSTMENTS</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL NET ASSETS - ENDING</b>	<b>\$ 291,516</b>	<b>\$ 2,426,066</b>	<b>\$ 2,717,582</b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF LEHIGH, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
PROPRIETARY FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Lehigh Public Works Authority	Lehigh Industrial Development Authority	Total Enterprise Funds
<b><u>Net Cash Flows from Operating Activities:</u></b>			
Cash Receipts from Customers	\$ 143,587	\$ -	\$ 143,587
Cash Receipts from Granting Agencies/Other	12,000	-	12,000
Payments to Suppliers, Employees & Laborers	(142,828)	-	(142,828)
Net Cash Provided (Used) by Operating Activities	<u>12,759</u>	<u>-</u>	<u>12,759</u>
<b><u>Net Cash Flows from Non-Capital Financing Activities:</u></b>			
Operating Transfers in	-	-	-
Operating Transfers Out	-	-	-
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>			
Additions to Capital Assets	(16,877)	-	(16,877)
Decrease (Increase) in Restricted Cash	-	36,756	36,756
Loan Proceeds received	-	-	-
Principal paid	-	(7,740)	(7,740)
Interest paid	-	(29,016)	(29,016)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(16,877)</u>	<u>-</u>	<u>(16,877)</u>
<b><u>Net Cash Flows from Investing Activities:</u></b>			
Interest Earned	152	4	156
Net Cash Provided (Used) by Investing Activities	<u>152</u>	<u>4</u>	<u>156</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(3,966)	4	(3,962)
Cash & Cash Equivalents, Beginning of Year	87,221	3,291	90,512
Cash & Cash Equivalents, Adjustments	-	-	-
Cash & Cash Equivalents, End of Year	<u>\$ 83,255</u>	<u>\$ 3,295</u>	<u>\$ 86,550</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>			
Net Operating Income (Loss)	\$ 2,457	\$ (105,771)	\$ (103,314)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation Expense	10,302	105,771	116,073
(Increase)Decrease in Due from Other Funds	-	-	-
Increase(Decrease) in Payroll Taxes Payable	-	-	-
Increase(Decrease) in Due to Other Funds	-	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 12,759</u>	<u>\$ -</u>	<u>\$ 12,759</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF LEHIGH, OKLAHOMA  
 STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
 FIDUCIARY FUND TYPES  
 JUNE 30, 2011

	<u>Meter Fund</u>
<b><u>ASSETS</u></b>	
Cash and cash equivalents	\$ 9,214
Investments	<u>5,716</u>
<b>TOTAL ASSETS</b>	<u>14,930</u>
<b><u>LIABILITIES &amp; FUND EQUITY</u></b>	
Meter Deposit Payable	<u>13,709</u>
<b>TOTAL LIABILITIES</b>	<u>13,709</u>
<b>NET ASSETS:</b>	
Invested in capital assets, net of related debt	-
Restricted for debt service	-
Unrestricted	<u>1,221</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ 1,221</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

CITY OF LEHIGH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lehigh, Oklahoma (City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the City are discussed below:

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
  - a. A Management Discussion and Analysis (MD&A) section providing analysis of the City's overall financial position and results of operations. However, the City has chosen not to present the required MD&A for the current year.
  - b. Financial statements prepared using full accrual accounting for all of the City's activities, except for including the General capital assets or infrastructure (roads, bridges, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement the general provisions of the Statement and report infrastructure acquired after July 1, 2003 as provided by GASB standards.

The significant accounting policies followed by the City of Lehigh, Oklahoma are summarized below.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity.

The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various

CITY OF LEHIGH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

funds are grouped in the financial statements in this report, into three generic fund types and three broad fund categories as follows:

GOVERNMENTAL FUND TYPES

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Street and Alley, Volunteer Fire, OWRB REAP Grant and Cemetery

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

For the current fiscal year, the City has a new Special Revenue Fund, the Housing Project Fund. This fund was created as a Rehabilitation Project for five homes located in the City. The improvements provided by this fund are not owned by the City itself but by the individual homeowners. Income for this project is received from OHFA and HUD.

PROPRIETARY FUND TYPES

Enterprise Funds - Lehigh Public Works Authority and Lehigh Industrial Development Authority

Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheets.

FIDUCIARY FUND TYPES

Trust and Agency Funds - Meter Deposit Fund

Trust and Agency funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments and/or other funds. These include meter deposit funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement or results of operations.

Basis of Accounting

Basis of accounting refers to the time when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting is

CITY OF LEHIGH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

related to the timing of the measurement made, regardless of the measurement focus applied.

The cash basis of accounting is followed by all funds of the City, which is not in accordance with generally accepted accounting principles. Under this cash basis of accounting, revenues are recorded when received and expenditures are recorded when paid. In accordance with generally accepted accounting principles, governmental fund types would utilize the modified accrual basis of accounting while proprietary type funds would use the accrual basis of accounting.

If the books of the governmental fund types and the similar trust fund were maintained on the basis of accounting required by generally accepted accounting principles, revenues would be recorded when susceptible to accrual (i.e. both measurable) and available and expenditures would be recorded when the current liability is incurred. If the books of the proprietary fund types and similar trust funds were maintained on the basis of accounting required by generally accepted accounting principles, revenues would be recognized when earned and expenses would be recorded when the liability is incurred.

The City does not maintain adequate records for capital assets of the governmental and proprietary fund types; therefore Capital Assets are not reported as required by generally accepted accounting principles. Until 2005, capital assets were not capitalized but instead charged to current expenditures when purchased. Depreciation accounting is not considered applicable. Beginning in 2005, capital assets purchases in excess of \$400 are being capitalized.

This basis of accounting follows the budgetary laws of the State of Oklahoma as applied to Cities and Towns.

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

Budgetary Comparison Schedule presents comparisons of the legally adopted budget with actual data on a budgetary basis. Accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles.

Total Columns on Combined Statements - Overview

Total Columns on the Combined Statements - Overview are captioned "totals - (memorandum only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

CITY OF LEHIGH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

Custodial Credit Risk

At June 30, 2011, the City held deposits of approximately \$497,490 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name.

Investment Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The City has no policy that limits its investment choices other than the limitation of state law as follows:

Investments of the City are limited by O.S., Title 62, Section 348.1 to the following:

- a. Direct obligations of the U.S. Government or its agencies or 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.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. Negotiable certificates of deposits, prime bankers acceptance prime commercial paper and repurchase agreements with certain limitations. Any investments mentioned in the previous paragraphs a. and b., where the collateral has been deposited with a trustee in an irrevocable trust or escrow account.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trust whose beneficiary is a county, municipality of school district.

For the year ended June 30, 2011 the City complies with the above noted investment restrictions.

CITY OF LEHIGH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Accumulated unpaid vacation and sick leave benefits have not been shown as a liability in the financial statements. The City's position is that any accrued benefits are not significant and would not materially affect the financial statements.

PENSION PLAN

The City does not maintain or contribute to any type of pension plan.

SALES TAX COLLECTIONS

The City of Lehigh has a two cent sales tax. One cent sales tax is earmarked for cemetery maintenance and one cent sales tax is earmarked for the Volunteer Fire Department. Sales tax is deposited to the General Fund, and then transferred to the Cemetery and Volunteer Fire checking accounts. Purchase orders are prepared and approved by the City Council for expenditures from both accounts.

ACCOUNTS RECEIVABLE

The City of Lehigh's basis of accounting only reflects revenue when received.

APPROPRIATIONS

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. Unused appropriations for all of the above annually budgeted funds lapse at the end of year.

LEHIGH DEVELOPMENT AUTHORITY

In August, 2001, the City of Lehigh established and created a Trust entitled "Lehigh Development Authority: for the use and benefit of the Beneficiary for the public purposes set forth under the provisions of Title 60, Oklahoma Statutes 1991, Sections 176 to 180.4, inclusive, as amended and supplemented, the Oklahoma Trust act and other applicable statutes and laws of the State of Oklahoma. The Trust is to have and hold such property and the proceeds, rents, profits, and increases unto said Trustees and said Trustees' successors and assigns, but nevertheless in trust, for the use and benefit of the City of Lehigh, State of Oklahoma, such City being designated as "Beneficiary."

The purpose of this Trust are to assist the Beneficiary, the State of Oklahoma, Governmental Agencies, municipalities and private entities, agencies and citizens in making the most efficient use of all of their economic resources and powers in accord with the needs and benefit of the State of Oklahoma and the Beneficiary in order to lessen the burdens of government and to stimulate economic growth and development.

CITY OF LEHIGH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

RISK MANAGEMENT

The City's risk management of loss consists of commercial insurance for property and liability losses, an employee's bond for employee dishonesty, and worker's compensation through the State Insurance Fund. There have been no significant reductions in insurance coverage during the year ended June 30, 2011.

ESTIMATES

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

PARTICIPATION IN PUBLIC ENTITY RISK POOL

The City of Lehigh participated in the Oklahoma Municipal Assurance Group (OMAG) for insurance purposes. The Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan) became effective October 1, 1984. The purpose of the Plan is to provide workers' compensation coverage through the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing and legal defense for any and all claims submitted to it during the Plan year. A plan year normally begins at 12:01 a.m. July 1, in any year and ends at Midnight June 30, of the following calendar year. The Plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

A municipality may apply and enter into agreement with the Plan to participate in the coverage's and services that the Plan offers as outlined above. Upon acceptance into the Plan, a participant has the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, a participant in the Plan is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. Participants have a right to the return of any Loss Funds set aside for claims which have not been paid out as benefits.

These funds represent both current and past plan year participation with the Loss Fund balances in respect to worker's compensation retention. The State Insurance Fund provides coverage in excess of these respective retention levels so each participant's liability for claim losses is limited to these retention levels. Failure of the State Insurance Fund to honor its obligation could result in losses to the Plan. However, OMAG's evaluation of the financial condition of the State Insurance Fund indicates that the State Insurance Fund is presently financially sound and will be able to meet its contractual obligations.

CITY OF LEHIGH, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2011

RESTRICTED ASSETS

The loan agreements with the United States Department of Agriculture Rural Development (USDA) require the District to set aside into a Reserve Account the sum of the annual installment for each loan (\$27,492 for 92-01 and \$9,264 for 92-04, total of \$36,756), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of June 30, 2011, the account balance for the reserve account was \$34,694.49, which exceeds the required balance of \$3,675.60.

NOTE 2 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2011, was as follows:

City of Lehigh:

	Balance at July 1, 2010	Additions	Retirements	Balance at June 30, 2011
<b>PRIMARY GOVERNMENT:</b>				
<i>Governmental Activities:</i>				
Other capital assets:				
Capital Assets	\$ 261,168	\$ -	\$ -	\$ 261,168
Total Other Capital Assets at Historical Cost	261,168	-	-	261,168
Less: Accum. Depreciation for:				
Capital Assets	-	-	-	-
Total Accumulated Depreciation	-	-	-	-
Governmental Activities Capital Assets, net	\$ 261,168	\$ -	\$ -	\$ 261,168

Lehigh Public Works Authority:

	Balance at July 1, 2010	Additions	Retirements	Balance at June 30, 2011
<i>Business-Type Activities:</i>				
Capital Assets not being Depreciated:				
Land and Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total Capital Assets not being Depreciated	-	-	-	-
Other capital assets:				
Sewer Improvements	201,687	16,224	-	217,911
Machinery & Equipment	-	653	-	653
Total Other Capital Assets at Historical Cost	201,687	16,877	-	218,564
Less: Accum. Depreciation for:				
Sewer Improvements	-	10,084	-	10,084
Machinery & Equipment	-	218	-	218
Total Accumulated Depreciation	-	10,302	-	10,302
Other Capital Assets, Net	201,687	6,575	-	208,262
Business-Type Activities Capital Assets, net	\$ 201,687	\$ 6,575	\$ -	\$ 208,262

CITY OF LEHIGH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

Lehigh Industrial Development Authority:

	Balance at July 1, 2010	Additions	Retirements	Balance at June 30, 2011
<i>Business-Type Activities:</i>				
Capital Assets not being Depreciated:				
Land and Construction in Progress	\$ -	\$ -	\$ -	\$ -
Total Capital Assets not being Depreciated	-	-	-	-
Other capital assets:				
Sewer Improvements	3,173,125	-	-	3,173,125
Total Other Capital Assets at Historical Cost	3,173,125	-	-	3,173,125
Less: Accum. Depreciation for:				
Sewer Improvements	-	105,771	-	105,771
Total Accumulated Depreciation	-	105,771	-	105,771
Other Capital Assets, Net	3,173,125	(105,771)	-	3,067,354
Business-Type Activities Capital Assets, net	\$ 3,173,125	\$ (105,771)	\$ -	\$ 3,067,354

NOTE 3 - LONG-TERM DEBT

ENTERPRISE FUND DEBT

NOTE PAYABLE:

Terms and Collateral

Outstanding Debt  
June 30, 2011

Promissory Note to USDA Rural Development (#01) in the amount of \$517,000.00 with an interest rate of 4.25%, monthly payments of \$2,291 and maturing in 2048. The note was used to finance a sewer project.

\$510,408.36

Promissory Note to USDA Rural Development (#04) in the amount of \$171,000.00 with an interest rate of 4.375%, monthly payments of \$772 and maturing in 2048. The note was used to finance a sewer project.

\$168,869.33

Total Notes Payable Outstanding

\$679,277.69

The following is a summary of long-term debt additions and deductions for the year ended June 30, 2011

	Balance 7/1/2010	Additions	Deductions	Balance 6/30/2011
Note Payable - RD #1	\$ 516,256	\$ -	\$ (5,847)	\$ 510,408
Note Payable - RD #4	170,762	-	(1,893)	168,869
	<u>\$ 687,018</u>	<u>\$ -</u>	<u>\$ (7,740)</u>	<u>\$ 679,278</u>

CITY OF LEHIGH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of June 30, 2011, are as follows:

RD #92-01

Year Ended June 30,	Principal	Interest	Annual Payment
2012	\$ 5,906	\$ 21,586	\$ 27,492
2013	6,162	21,330	27,492
2014	6,429	21,063	27,492
2015	6,707	20,785	27,492
2016	6,998	20,494	27,492
2017-2021	39,812	97,648	137,460
2022-2026	49,219	88,241	137,460
2027-2031	60,850	76,610	137,460
2032-2036	75,229	62,231	137,460
2037-2041	93,005	44,455	137,460
2042-2046	114,983	22,477	137,460
2047-2048	45,108	1,935	47,043
Total	<u>\$ 510,408</u>	<u>\$ 498,855</u>	<u>\$ 1,009,263</u>

RD #92-04

Year Ended June 30,	Principal	Interest	Annual Payment
2012	\$ 1,911	\$ 7,353	\$ 9,264
2013	1,997	7,267	9,264
2014	2,086	7,178	9,264
2015	2,179	7,085	9,264
2016	2,276	6,988	9,264
2017-2021	12,998	33,322	46,320
2022-2026	16,169	30,151	46,320
2027-2031	20,115	26,205	46,320
2032-2036	25,024	21,296	46,320
2037-2041	31,130	15,190	46,320
2042-2046	38,727	7,593	46,320
2047-2048	14,257	9,863	24,120
Total	<u>\$ 168,869</u>	<u>\$ 179,491</u>	<u>\$ 348,360</u>

NOTE 4 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

The City's restricted net assets are described in Note 1 above.

CITY OF LEHIGH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 5 - COMMITMENTS AND CONTINGENCIES

GRANT PROGRAMS

The City participates in certain federal and state grant programs as available, currently the City is not participating in any ongoing programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. The amount of expenditures that may be disallowed by the granting agency cannot be determined at this time, although it is believed by the City that the amount, if any, would not be significant.

LITIGATION

The financial statements do not include accrual or provision for loss contingencies resulting from litigation. Under applicable Oklahoma statutes, such judgments may become liabilities only of the Debt Service Fund and only in the year in which tax revenue is specifically assessed for payment of the claim, and only to the extent of the taxes so specifically assessed in that year. Such claims are generally paid through special tax assessments over a three-year period.

NOTE 6 - ENTERPRISE FUNDS

During the fiscal year ending June 30, 2007, the Lehigh Industrial Development Authority and the Lehigh Public Works Authority opened bank accounts separate from the City's General Fund. Until 2007, all PWA financial activity was accounted for in the general fund and the IDA did not have any activity. Since all activity was previously commingled in the General Fund, prior year adjustments to Net Assets were required to show the Capital Assets and Debt that actually belonged to the Enterprise Funds.

NOTE 7 - LEASE INCOME

Oil & Gas Lease

The City entered into an Oil and Gas Lease dated December 7, 2006 through Lowry Land Co., Inc. The lease is for Sec. 16-1S-10E which is 40 acres in Coal County, Oklahoma. The lease calls for \$2,200 per acre for a term of 2 years, with a royalty of 3/16.

The City entered into a second Oil and Gas Lease dated December 7, 2006 through Lowry Land Co., Inc. The lease is for Sec. 21-1S-10E which is 160 acres in Coal County, Oklahoma. The lease calls for \$2,200 per acre for a term of 2 years, with a royalty of 3/16.

The City entered into an Oil and Gas Lease dated April 26, 2007 through Texhoma Land Consultants, Inc. with Antero Resources. The lease is for Sec. 11-1S-10E which is 21.2 acres in Coal County, Oklahoma. The lease calls for \$2,268 per acre.

CITY OF LEHIGH, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011

Grass Lease

The City accepted the following grass leases:

Keith Horn \$805.00 on the 80 acres  
Danny West \$759.00 on the 40 acres  
Bob Thomas \$1,665.00 on the 160 acres

NOTE 8 - INTERFUND TRANSACTIONS

Interfund operating transfers for the year ended June 30, 2011, were as follows:

OPERATING TRANSFERS:	TRANSFERS IN	TRANSFERS OUT
<b>GENERAL:</b>		
Fire Department Fund	\$ -	\$ 3,559.29
Street & Alley Fund	-	10,000.00
Cemetery Fund	-	3,559.29
Lehigh Industrial Development Authority	-	-
Lehigh Public Works Authority	-	-
Total General Fund	\$ -	\$ 17,118.58
<b>SPECIAL REVENUE FUNDS:</b>		
Fire Department Fund:		
General Fund	\$ 3,559.29	\$ -
Street & Alley Fund:		
General Fund	10,000.00	-
Cemetery Fund:		
General Fund	3,559.29	-
Housing Project Fund:		
Lehigh Public Works Authority	-	-
Total Special Revenue Funds	\$ 17,118.58	\$ -
<b>ENTERPRISE FUNDS</b>		
Lehigh Public Works Authority:		
General Fund	\$ -	\$ -
Housing Project Fund	-	-
Lehigh Industrial Development Authority:		
General Fund	-	-
Total Enterprise Funds	\$ -	\$ -
	\$ 17,118.58	\$ 17,118.58

NOTE 9 - SUBSEQUENT EVENTS

The City did not have any subsequent events through September 21, 2011, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2011.

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
Beginning Budgetary Fund Balance:	\$183,403	\$183,403	\$183,403	\$ -
<b>Resources (Inflows):</b>				
Taxes:				
Sales Tax	5,549	5,549	6,633	1,083
Use Tax	906	906	1,174	268
Cigar Tax	79	79	89	10
Franchise Tax	3,226	3,226	4,270	1,045
Intergovernmental:				
Alcoholic Beverage Tax	4,626	4,626	5,322	695
Grant Income	-	-	-	-
Lease Income/Rent	4,959	4,959	4,064	(895)
Oil & Gas Lease Income	25,519	25,519	20,127	(5,392)
Water Revenue	-	-	-	-
Licenses & Permits	36	36	-	(36)
Miscellaneous Income	5,827	5,827	1,333	(4,494)
Interest Income	816	816	445	(371)
Other Financing Sources:				
Operating Transfers In	-	-	-	-
Amounts available for appropriation	<u>234,946</u>	<u>234,946</u>	<u>226,859</u>	<u>(8,087)</u>
<b>Charges to Appropriations (Outflows):</b>				
Personal Services	30,000	30,000	25,286	4,714
Maintenance & Operations	70,000	70,000	16,588	53,412
Debt Service	-	-	-	-
Capital Outlay	60,000	60,000	11,807	48,193
Transfers	<u>74,946</u>	<u>74,946</u>	<u>17,119</u>	<u>57,828</u>
Total Charges to Appropriations	<u>234,946</u>	<u>234,946</u>	<u>70,800</u>	<u>164,146</u>
Adjustments to Fund Balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending Budgetary Fund Balance	<u>-</u>	<u>-</u>	<u>156,059</u>	<u>156,059</u>

Unaudited

CITY OF LEHIGH, OKLAHOMA  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
JUNE 30, 2011

The City's annual operating budget represents appropriations as authorized by the Board of Trustees and County Excise Board in accordance with the provisions of Title 68 of the Oklahoma Statutes. The City's budget is limited by law to 90% of the amount of revenue collected in the prior year plus unreserved fund balance. In addition, revisions may be made to the budget throughout the year as authorized by the Board of Trustees and County Excise Board. The legal level of control of the budget is the expenditures category within a department. The expenditure categories required by the applicable State Statutes are:

1. Personal Services;
2. Maintenance and Operations; and
3. Capital Outlay

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## 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 Lehigh, Oklahoma

I have audited the financial statements of the governmental activities and each major fund and the aggregate remaining funds of the City of Lehigh, State of Oklahoma, as of June 30, 2011, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles, which collectively comprise the City's basic financial statements and have issued my report thereon dated September 21, 2011, which was qualified for the effect on the basic financial statements for the improper capital asset recordkeeping and the lack of segregation of its business-type activities. The City has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that it has not presented an MD&A. I conducted my audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and in accordance with Oklahoma Statutes.

### Internal Control Over Financial Reporting

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

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 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.

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weakness, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that I consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Items 11-01 and 11-02. 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.

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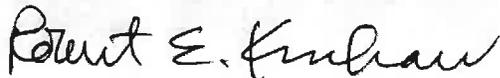
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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Lehigh's financial statements are free of material misstatement, I performed tests of 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 that is required to be reported under *Government Auditing Standards*, which is included in the Schedule of Findings as Item 11-03. The results of my tests disclosed no instances of other matters that are required to be reported under *Government Auditing Standards*.

City of Lehigh's response to the findings identified in my audit is described in the accompanying Schedule of Findings. I did not audit City of Lehigh's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the board of trustees and management of the City of Lehigh, Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw, CPA

September 21, 2011

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

INTERNAL CONTROL FINDINGS:

Item 11-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the City's major areas of internal control, that would be prevalent in a larger City, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the City.

Item 11-02: Meter Deposits

Criteria: It is the responsibility of the City to properly report and account for the financial information.

Condition: The Meter Deposit Control Account has not been accurately posted with all transactions during past years.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: All deposit refunds and final bills should be accurately posted to reconcile the account at yearend. A Meter Deposit Ledger should be maintained so that an accurate liability amount can be reported.

Response: The City has developed a meter deposit ledger in its WaterWorks program and also keeps a handwritten ledger of current year activity. However, the balance in the program does not reconcile to the balance in the financial statements and the handwritten ledger only includes current year activity.

COMPLIANCE FINDINGS:

Item 11-03: Water and Sewer Recordkeeping

Criteria: The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the Authority to maintain income and expense records for water and sewer systems separately.

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

Condition: The Authority maintains separate billing records for water and sewer income. However, the Authority does not maintain separate income and expense accounts for the water and sewer systems.

Cause/Effect: This leaves the Authority out of compliance with the Rural Development loan agreement as the USDA will no longer be accepting audits that do not have Water and/or Sewer Records broken out separately.

Response: The Authority was not aware of the requirement.

CITY OF LEHIGH, OKLAHOMA  
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2011

	<u>SPECIAL REVENUE FUNDS</u>		Total Nonmajor Governmental Funds
	<u>Street &amp; Alley Fund</u>	<u>Cemetery Fund</u>	
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 10,705	\$ 2,629	\$ 13,335
Accounts Receivable	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 10,705</u>	<u>\$ 2,629</u>	<u>\$ 13,335</u>
<b><u>LIABILITIES &amp; FUND EQUITY</u></b>			
<b>LIABILITIES:</b>			
Accounts Payable	\$ -	\$ -	\$ -
<b>TOTAL LIABILITIES</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES:</b>			
Unreserved, reported in nonmajor special revenue funds	10,705	2,629	13,335
<b>TOTAL FUND BALANCES</b>	<u>10,705</u>	<u>2,629</u>	<u>13,335</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 10,705</u>	<u>\$ 2,629</u>	<u>\$ 13,335</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**CITY OF LEHIGH, OKLAHOMA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE - MODIFIED CASH BASIS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	<u>SPECIAL REVENUE FUNDS</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Street &amp; Alley Fund</u>	<u>Cemetery Fund</u>	
<b><u>REVENUES:</u></b>			
Taxes:			
Sales Tax	\$ -	\$ -	\$ -
Franchise Tax	-	-	-
Intergovernmental:			
Alcoholic Beverage Tax	-	-	-
Gasoline Excise Tax	564	-	564
Motor Vehicle Tax	2,170	-	2,170
Grants	4,961	-	4,961
Donations	-	100	100
Fund Raisers	-	-	-
Reimbursements	-	-	-
Miscellaneous	-	-	-
Interest Income	1	2	3
<b>TOTAL REVENUES</b>	<b><u>7,696</u></b>	<b><u>102</u></b>	<b><u>7,797</u></b>
<b><u>EXPENDITURES:</u></b>			
Current:			
Personal Services	540	3,475	4,015
Maintenance & Operations	3,219	200	3,419
Capital Outlay	4,961	-	4,961
Debt Service - Principal & Interest	-	-	-
<b>TOTAL EXPENDITURES</b>	<b><u>8,720</u></b>	<b><u>3,675</u></b>	<b><u>12,396</u></b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,025)</b>	<b>(3,574)</b>	<b>(4,598)</b>
<b><u>OTHER FINANCING SOURCES (USES):</u></b>			
Operating Transfers In	10,000	3,559	13,559
Operating Transfers Out	-	-	-
Capital Debt Proceeds	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b><u>10,000</u></b>	<b><u>3,559</u></b>	<b><u>13,559</u></b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>8,975</b>	<b>(15)</b>	<b>8,961</b>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<b>1,730</b>	<b>2,644</b>	<b>4,374</b>
<b>FUND BALANCE - PRIOR YEAR ADJUSTMENT</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCE - END OF YEAR</b>	<b><u>\$ 10,705</u></b>	<b><u>\$ 2,629</u></b>	<b><u>\$ 13,335</u></b>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements