

CITY OF LONE GROVE, OKLAHOMA
Financial Statements
June 30, 2011

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City of Lone Grove, Oklahoma
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 For the Fiscal Year Ended June 30, 2011

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INTRODUCTORY

City of Lone Grove, Oklahoma
List of Elected and Appointed Officials
June 30, 2011

Elected Officials

Mayor
Vice Mayor
Council Member
Council Member
Council Member

J.L. Self
Chris Young
Eileen Duvall
Mickey Davis
Jeff Matthews

Appointed Officials

City Manager
City Clerk
City Treasurer

Ian O'Neal
Theresa Downs
Flora Copeland

FINANCIAL



INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Lone Grove, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lone Grove, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I(B) the City of Lone Grove prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions - modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lone Grove, Oklahoma, as of June 30, 2011, and the respective changes in financial positions - modified cash basis, and where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note I(B).

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In accordance with *Government Auditing Standards*, we have issued our report dated May 15, 2012, on our consideration of City of Lone Grove, Oklahoma 's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lone Grove, Oklahoma's financial statements as a whole. The introductory section, combining nonmajor fund financial statements, and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor fund financial statements and budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
May 15, 2012

BASIC FINANCIAL STATEMENTS

City of Lone Grove, Oklahoma
Government-Wide Statement of Assets, Liabilities and Net Assets – Modified Cash Basis
June 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalent	\$ 2,334,343	\$ 769,885	\$ 3,104,228
Restricted Cash and Cash Equivalent	-	82,132	82,132
Total Current Assets	<u>2,334,343</u>	<u>852,017</u>	<u>3,186,360</u>
Noncurrent Assets			
Capital Assets			
Land, Land Improvements and Construction in Progress	116,500	542,483	658,983
Other Capital Assets, Net of Depreciation	688,821	1,068,157	1,756,978
Total Noncurrent Assets	<u>805,321</u>	<u>1,610,640</u>	<u>2,415,961</u>
Total Assets	<u>3,139,664</u>	<u>2,462,657</u>	<u>5,602,321</u>
LIABILITIES AND NET ASSETS			
Current Liabilities			
Bonds Pending Court	\$ 18,858	\$ -	\$ 18,858
Refundable Meter Deposits	-	70,595	70,595
Capital Lease Obligations - Current	14,022	-	14,022
Notes Payable - Current	-	10,182	10,182
Total Current Liabilities	<u>32,880</u>	<u>80,777</u>	<u>113,657</u>
Noncurrent Liabilities			
Notes Payable	-	44,935	44,935
Total Noncurrent Liabilities	<u>-</u>	<u>44,935</u>	<u>44,935</u>
Total Liabilities	<u>32,880</u>	<u>125,712</u>	<u>158,592</u>
Net Assets			
Invested in Capital Assets	791,299	1,555,523	2,346,822
Restricted			
Public Safety	365,786	-	365,786
Streets	9,015	-	9,015
Capital Improvements	33,476	-	33,476
Sewer	1,237,899	-	1,237,899
Cemetery	11,037	-	11,037
Unrestricted	658,272	781,422	1,439,694
Total Net Assets	<u>\$ 3,106,784</u>	<u>\$ 2,336,945</u>	<u>\$ 5,443,729</u>

The notes to the financial statements are an integral part of this statement

City of Lone Grove, Oklahoma
Government-Wide Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis
For the Year Ended June 30, 2011

<i>Functions/Programs</i>	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
<i>Primary Government</i>						
<i>Governmental Activities</i>						
General Government	\$ 237,211	\$ 209,109	\$ 42,661	\$ -	\$ 14,559	\$ 14,559
Highways and Streets	303,004	-	8,624	-	(294,380)	(294,380)
Public Safety	630,357	119,612	75,643	-	(435,102)	(435,102)
Culture and Recreation	70,028	-	-	-	(70,028)	(70,028)
Cemetery / Parks	7,980	7,950	-	-	(30)	(30)
Interest	908	-	-	-	(908)	(908)
Total Governmental Activities	<u>1,249,488</u>	<u>336,671</u>	<u>126,928</u>	<u>-</u>	<u>(785,889)</u>	<u>(785,889)</u>
<i>Business-Type Activities</i>						
Water	334,547	475,638	-	84,855	-	225,946
Sewer	76,255	87,108	-	-	-	10,853
Sanitation	291,982	376,213	-	-	-	84,231
General Government	158,177	-	-	-	(158,177)	(158,177)
Interest Expense	2,923	-	-	-	(2,923)	(2,923)
Total Business Type Activities	<u>863,884</u>	<u>938,959</u>	<u>-</u>	<u>84,855</u>	<u>-</u>	<u>159,930</u>
Total Primary Government	<u>\$ 2,113,372</u>	<u>\$ 1,275,630</u>	<u>\$ 126,928</u>	<u>\$ 84,855</u>	<u>\$ (785,889)</u>	<u>\$ 159,930</u>
<i>General Revenues</i>						
Taxes				1,196,848	-	1,196,848
Interest				14,445	3,945	18,390
Rent				-	16,940	16,940
Miscellaneous				-	15,497	15,497
Transfers				(236,197)	236,197	-
Total General Revenues and Transfers				<u>975,096</u>	<u>272,579</u>	<u>1,247,675</u>
Change in Net Assets				189,207	432,509	621,716
Net Assets - Beginning				2,917,577	1,904,436	4,822,013
Net Assets - Ending				<u>\$ 3,106,784</u>	<u>\$ 2,336,945</u>	<u>\$ 5,443,729</u>

The notes to the financial statements are an integral part of this statement

City of Lone Grove, Oklahoma
Statement of Assets, Liabilities and Fund Balances – Modified Cash Basis
Governmental Funds
June 30, 2011

	General Fund	Special Sales Tax Fund	Sales Tax Sewer Fund	Other Governmental Funds	Total
Assets					
Cash	\$ 665,604	\$ 399,262	\$ 1,246,878	\$ 22,600	\$ 2,334,344
Due from (to) Other Funds	(657)	-	657	-	-
Total Assets	\$ 664,947	\$ 399,262	\$ 1,247,535	\$ 22,600	\$ 2,334,344
Liabilities					
Employee Payroll Taxes Withheld	\$ -	\$ -	\$ -	\$ -	\$ -
Bonds Pending Court	18,859	-	-	-	18,859
Total Liabilities	18,859	-	-	-	18,859
Fund Balances					
Restricted	-	399,262	1,237,899	22,600	1,659,761
Assigned	-	-	9,636	-	9,636
Unassigned	646,088	-	-	-	646,088
Total Fund Balances	646,088	399,262	1,247,535	22,600	2,315,485
Total Liabilities and Fund Balances	\$ 664,947	\$ 399,262	\$ 1,247,535	\$ 22,600	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.					805,321
Long term liabilities are not due and payable in the current period and, therefore, are not reported in the funds					(14,022)
Net assets of governmental activities.					\$ 3,106,784

The notes to the financial statements are an integral part of this statement

City of Lone Grove, Oklahoma
Statement of Revenues, Expenditures and
Changes in Fund Balances – Modified Cash Basis – Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Special Sales Tax Fund	Sales Tax Sewer Fund	Other Governmental Funds	Total
REVENUE					
Taxes	\$ 615,776	\$ 275,475	\$ 275,475	\$ 30,122	\$ 1,196,848
Interest	4,809	-	9,636	-	14,445
Cemetery	6,275	-	-	1,675	7,950
License and Permits	42,472	-	-	-	42,472
Fines	119,612	-	-	-	119,612
Franchise Fees	166,086	-	-	-	166,086
Grants	-	84,267	-	-	84,267
Miscellaneous	43,212	-	-	-	43,212
Total Revenue	<u>998,242</u>	<u>359,742</u>	<u>285,111</u>	<u>31,797</u>	<u>1,674,892</u>
EXPENDITURES					
Current					
General Government	163,052	39,901	1	-	202,954
Highways and Streets	151,328	77,886	-	37,327	266,541
Public Safety	563,470	54,675	-	-	618,145
Cemetery / Parks	4,011	-	-	3,000	7,011
Culture and Recreation	70,029	-	-	-	70,029
Capital Outlay					
General Government	-	66,473	-	-	66,473
Debt Service					
Principal	-	14,596	-	-	14,596
Interest	-	908	-	-	908
Total Expenditures	<u>951,890</u>	<u>254,439</u>	<u>1</u>	<u>40,327</u>	<u>1,246,657</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	46,352	105,303	285,110	(8,530)	428,235
Other Financing Sources					
Transfers Out	(12,622)	-	(223,575)	-	(236,197)
Total Other Financing Sources	<u>(12,622)</u>	<u>-</u>	<u>(223,575)</u>	<u>-</u>	<u>(236,197)</u>
Net Change in Fund Balances	33,730	105,303	61,535	(8,530)	192,038
Fund Balances - Beginning	<u>612,358</u>	<u>293,959</u>	<u>1,186,000</u>	<u>31,130</u>	<u>2,123,447</u>
Fund Balances - Ending	<u>\$ 646,088</u>	<u>\$ 399,262</u>	<u>\$ 1,247,535</u>	<u>\$ 22,600</u>	<u>\$ 2,315,485</u>

The notes to the financial statements are an integral part of this statement

City of Lone Grove, Oklahoma
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances – Modified Cash Basis – Governmental Funds
 to the Statement of Revenue, Expenses and Changes in Net Assets – Modified Cash Basis
 For the Year Ended June 30, 2011

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

Net change in fund balances - total governmental funds	\$ 192,038
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	(17,430)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>14,599</u>
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Change in net assets of governmental activities.	<u><u>\$ 189,207</u></u>
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The notes to the financial statements are an integral part of this statement

City of Lone Grove, Oklahoma
Statement of Assets, Liabilities, Net Assets – Modified Cash Basis – Proprietary Fund
June 30, 2011

	Lone Grove Water Trust
ASSETS	
Current Assets	
Cash and Cash Equivalent	\$ 769,885
Restricted Cash and Cash Equivalent	82,132
Total Current Assets	852,017
Noncurrent Assets	
Capital Assets	
Land	102,499
Construction in Progress	439,984
Other Capital Assets, Net of Depreciation	1,068,157
Total Noncurrent Assets	1,610,640
Total Assets	\$ 2,462,657
LIABILITIES AND EQUITY	
Current Liabilities	
Refundable Meter Deposits	\$ 70,595
Notes Payable - Current	10,182
Total Current Liabilities	80,777
Noncurrent Liabilities	
Notes Payable	44,935
Total Liabilities	125,712
Net Assets	
Invested in Capital Assets, Net of Related Debt	1,555,523
Unrestricted	781,422
Total Net Assets	\$ 2,336,945

The notes to the financial statements are an integral part of this statement

City of Lone Grove, Oklahoma
Statement of Revenue, Expenses and Changes in Net Assets – Modified Cash Basis – Proprietary Fund
For the Year Ended June 30, 2011

	Lone Grove Water Trust
Operating Revenues:	
Water	\$ 433,941
Sewer	87,108
Sanitation	376,213
Water and Sewer Taps	14,700
Penalties	26,997
Grants	84,855
Rent	16,940
Miscellaneous	15,497
Total Operating Revenue	1,056,251
Operating Expenses:	
Water	334,547
Sewer	76,255
Trustees	158,177
Sanitation	291,982
Total Operating Expenses	860,961
Operating Income (Loss)	195,290
Nonoperating Revenues (Expenses):	
Transfers	236,197
Interest Income	3,945
Interest Expense	(2,923)
Total Nonoperating Revenues (Expenses)	237,219
Net Change in Net Assets	432,509
Total Net Assets - Beginning	1,904,436
Total Net Assets - Ending	\$ 2,336,945

The notes to the financial statements are an integral part of this statement

City of Lone Grove, Oklahoma
Statement of Cash Flows – Modified Cash Basis – Proprietary Fund
For the Year Ended June 30, 2011

	Lone Grove Water Trust
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 1,060,609
Payments to Employees for Services	(241,154)
Payments to Vendors for Goods and Services	(569,058)
Net Cash Provided by Operating Activities	<u>250,397</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(269,525)
Interfund Transfer for Capital Assets	236,197
Principal Paid on Capital Debt	(9,698)
Interest Paid on Capital Debt	(2,923)
Net Cash Used by Capital Financing Activities	<u>(45,949)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	3,945
Net Cash Provided by Investing Activities	<u>3,945</u>
Net Increase in Cash and Cash Equivalents	208,393
Cash and Cash Equivalents, Beginning of Year	643,624
Cash and Cash Equivalents, End of Year	<u>\$ 852,017</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 195,290
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	50,748
Increase in Payroll Liabilities Withheld	(74)
Increase in Refundable Meter Deposits	4,433
Total Adjustments	<u>55,107</u>
Net Cash Provided by Operating Activities	<u>\$ 250,397</u>

The notes to the financial statements are an integral part of this statement

NOTES TO FINANCIAL STATEMENTS

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City of Lone Grove, Oklahoma, (the City) is a charter city operating under a Council-Manager form of government authorized by the charter and Title 11 of the Oklahoma statutes. The governing body of the City is the City Council comprised of five elected members. The appointed City Manager is the administrative head of the City.

The accompanying financial statements present the City of Lone Grove and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended Component Unit

The Lone Grove Water Trust Authority (Authority) serves all the citizens of the government and is governed by a board comprised of the government's elected council and two appointed members. The rates for user charges and bond issuance authorizations are approved by the government's council and the legal liability for the general obligation portion of the Authority's debt remains with the government. The Authority is presented as an Enterprise fund.

B. Government-wide and fund financial statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of assets, liabilities and net assets and the statement of revenues, expenses and changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

B. Government-wide and fund financial statements (continued)

The statement of revenues, expenses and changes in net assets demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The government-wide financial statements of the City are prepared on a modified cash basis of accounting. Under this basis, cash receipts are recognized as revenue at the date of receipt and cash payments are recognized as expenditures at date of payment with the following modifications:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

B. Government-wide and fund financial statements (continued)

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in each fund-type financial statements.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The modified cash basis of accounting is used. However, the governmental funds focus on a current financial resources measurement thus capital assets and debt is not recorded.

The City reports the following major government funds:

General Fund - is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Sales Tax Fund - is a capital project fund which accounts for a one percent dedicated sales tax to be used for capital expenditures.

Sewer Sales Tax Fund - is a capital project fund which accounts for one percent dedicated sales tax to be used for sewer improvements.

Nonmajor Governmental Funds are the Cemetery Care, and Street and Alley funds.

The City reports the Authority as a major proprietary fund. The Authority accounts for the activities related to the provision of water and sewer services to businesses and residents. It operates the water and sewer treatment plants, water distribution system, sewer collections systems and pump stations.

Proprietary funds are accounted for using the modified cash basis of accounting modified as follows:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

B. Government-wide and fund financial statements (continued)

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, liabilities, and net assets or equity

1. *Deposits and investments*

For purposes of the statement of cash flows, the City considers short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents

Oklahoma Statutes authorize the City to invest in direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposits of financial institutions located in the state of Oklahoma or fully-insured certificates of deposits of financial institutions located outside the state; savings accounts, and county, municipal or school district general obligation debt.

Public trusts created under Oklahoma Statutes Title 60 are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

2. *Interfund transactions*

Interfund receivables and payables arise from interfund transactions and are recorded in the period transacted. The balances result from the time lag between the dates that interfund reimbursable expenditures occur and the payments between funds are made. Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to move unrestricted revenue collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

3. *Restricted assets*

Customer utility deposits are reported as restricted cash.

4. *Capital assets*

Capital assets which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Infrastructure	50
System infrastructure	30
Vehicles, Office and computer equipment	5
Machinery and equipment	10

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

5. *Governmental fund balances*

Beginning July 1, 2010, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent.

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the entity is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. City of Lone Grove did not have any nonspendable resources as of June 30, 2011.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. City of Lone Grove has restricted resources by state law and from grants as of June 30, 2011.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal ordinance or resolution of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned: This classification includes amounts that are constrained by City of Lone Grove's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the council delegating this responsibility to the manager through the budgetary process.

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

As of June 30, 2011, fund balances are composed of the following:

	General Fund	Special Sales Tax Fund	Sales Tax Sewer Fund	Other Governmental Funds	Total Governmental Funds
Restricted					
Public Safety	\$ -	\$ 365,786	\$ -	\$ -	\$ 365,786
Streets	-	-	-	9,015	9,015
Capital Improvements	-	33,476	-	-	33,476
Sewer	-	-	1,237,899	-	1,237,899
Cemetery	-	-	-	11,037	11,037
Assigned					
Sewer	-	-	9,636	-	9,636
Unassigned	646,088	-	-	2,548	648,636
	<u>\$ 646,088</u>	<u>\$ 399,262</u>	<u>\$ 1,247,535</u>	<u>\$ 22,600</u>	<u>\$ 2,315,485</u>

The City would typically use restricted fund balances first, followed by committed resources and the assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

6. Government-wide Net Assets

Government-wide net assets are divided into three components:

- Invested in capital assets, net of related debt – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net assets – consist of net assets that are restricted by creditors, by the state enabling legislation, by grantors (both federal and state), and by other contributors.
- Unrestricted – all other net assets are reported in this category.

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation of the \$791,299 difference between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets.

One element of that reconciliation is capital assets used in governmental activities that are not financial resources.

Capital assets, not being depreciated	\$ 116,500
Capital assets, being depreciated	3,442,496
Less Accumulated Depreciation	<u>(2,753,675)</u>
	<u><u>\$ 805,321</u></u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances, and the government-wide statement of activities

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the \$2,831 difference between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities.

One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures.” However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$ 69,473
Depreciation Expense	<u>(86,903)</u>
	<u><u>\$ (17,430)</u></u>

Another element of the reconciliation explains the repayment of debt does affect net assets. Total repayments for the year were \$14,599.

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

III. BUDGETARY INFORMATION

The city manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. In June the City Council adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personnel services, materials and supplies, other services and charges, capital outlay, debt services and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

IV. DEPOSITS AND INVESTMENTS

Deposit Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City follows state statutes regarding custodial credit risk which requires collateral for all deposits in excess of Federal Deposit Insurance. At June 30, 2011, the bank balance was \$3,218,537. This amount was insured and collateralized.

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.

Credit Risk: Credit risk is the risk that an issuer of a debt-type investment will not fulfill its obligation to the holder of the investment. The City does not have a formal investment policy limiting the types of investments measured by assignment of a credit rating by a nationally recognized rating organization.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The City does not have a formal policy limiting the amount that may be invested with one issuer.

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

V. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2011 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<u>Due to/from other funds</u>		
General Fund	Sales Tax Sewer Fund	657
		<u>\$ 657</u>

Interfund transfers:

		<u>Transfer From</u>		
		<u>General Fund</u>	<u>Sales Tax Sewer Fund</u>	<u>Total</u>
T r a n s f e	Lone Grove Water Authority	\$ 12,622	\$ 223,575	\$ 236,197
	Total	<u>\$ 12,622</u>	<u>\$ 223,575</u>	<u>\$ 236,197</u>

VI. LONG-TERM LIABILITIES

A summary of long-term liability activity for the year ended June 30, 2011, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Primary Government					
Governmental Activities					
Capital Lease Obligations	\$ 28,618	\$ -	\$ 14,596	\$ 14,022	\$ 14,022
Business-Type Activities					
Notes Payable	64,816	-	9,698	55,118	10,182
	<u>\$ 93,434</u>	<u>\$ -</u>	<u>\$ 24,294</u>	<u>\$ 69,140</u>	<u>\$ 24,204</u>

Capital Leases

The City has entered into a lease agreement for financing the acquisition of equipment. The lease agreement qualifies as a capital lease. Equipment and the related accumulated depreciation under capital lease is as follows:

Equipment	\$ 57,152
less accumulated depreciation	(22,861)
	<u>\$ 34,291</u>

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

VI. LONG-TERM LIABILITIES

As of June 30, 2011, capital lease annual amortization is as follows:

	2012	\$ 14,306
Present value of future minimum lease payments	\$	14,306
less: Interest		(284)
Net Minimum lease payments	\$	14,022
Current portion		(14,022)
Long-term portion	\$	<u><u>-</u></u>

Business-type activities long-term liabilities at June 30, 2011, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Installments	Original Issue Amount	Outstanding at June 30, 2011
<u>Business-Type Activities</u>					
American National Bank (financed costs of land and equipment purchase)	May, 2016	4.75%	\$ 12,624	\$ 99,999	\$ 55,118

As of June 30, 2011, annual debt service requirements of the business-type activities to maturity are as follows:

Year Ending June 30	Principal	Interest
2012	\$ 10,182	\$ 2,440
2013	10,690	1,932
2014	11,230	1,399
2015	11,768	854
2016	11,248	275
	<u>\$ 55,118</u>	<u>\$ 6,900</u>

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

VII. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Government Activities:				
Capital assets, not being depreciated				
Land	\$ 116,500	\$ -	\$ -	\$ 116,500
Total capital assets, not being depreciated	<u>116,500</u>	<u>-</u>	<u>-</u>	<u>116,500</u>
Capital assets, being depreciated				
Buildings	360,416	4,601	-	365,017
Computers and Electronics	122,935	-	-	122,935
Vehicles	983,497	27,000	-	1,010,497
Machinery and Equipment	740,679	37,872	-	778,551
Infrastructure	1,165,496	-	-	1,165,496
Total capital assets, being depreciated	<u>3,373,023</u>	<u>69,473</u>	<u>-</u>	<u>3,442,496</u>
Less Accumulated Depreciation	<u>2,666,772</u>	<u>86,903</u>	<u>-</u>	<u>2,753,675</u>
Total capital assets, being depreciated, net	<u>706,251</u>	<u>(17,430)</u>	<u>-</u>	<u>688,821</u>
Governmental activities capital assets, net	<u>822,751</u>	<u>(17,430)</u>	<u>-</u>	<u>805,321</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated				
Land, Lagoons, Construction	\$ 318,908	\$ 223,575	\$ -	\$ 542,483
Total capital assets, not being depreciated	<u>318,908</u>	<u>223,575</u>	<u>-</u>	<u>542,483</u>
Capital assets, being depreciated				
Buildings	212,000	-	-	212,000
Computers and Electronics	60,613	-	-	60,613
Vehicles	130,638	-	-	130,638
Machinery and Equipment	137,684	45,950	-	183,634
Infrastructure	13,891,860	-	-	13,891,860
Total capital assets, being depreciated	<u>14,432,795</u>	<u>45,950</u>	<u>-</u>	<u>14,478,745</u>
Less Accumulated Depreciation	<u>13,359,840</u>	<u>50,748</u>	<u>-</u>	<u>13,410,588</u>
Total capital assets, being depreciated, net	<u>1,072,955</u>	<u>(4,798)</u>	<u>-</u>	<u>1,068,157</u>
Business activities capital assets, net	<u>1,391,863</u>	<u>218,777</u>	<u>-</u>	<u>1,610,640</u>
Total Primary Government	<u>\$ 2,214,614</u>	<u>\$ 201,347</u>	<u>\$ -</u>	<u>\$ 2,415,961</u>

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

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

VII. CAPITAL ASSETS (continued)

Government activities:	
General government	\$ 24,602
Public safety	17,471
Highways and streets	40,860
Cemetery/Parks	3,970
Total depreciation expense - governmental activities	<u>\$ 86,903</u>
Business-type activities	
Water	\$ 28,142
Sewer	12,272
General government	<u>10,334</u>
Total depreciation expense - business-type activities	<u>\$ 50,748</u>

VIII. PENSION PLANS

Municipal Retirement Plan

The City of Lone Grove and its employees participate in the Oklahoma Municipal Retirement Fund (OMRF) as a defined contribution plan. All regular full-time employees, except those covered under another retirement system are eligible. Employees are vested at 7 years. The OMRF issues a publicly available financial report that includes financial statements and the required supplementary information that can be obtained by requesting a copy at City Hall.

Funding Policy: The contribution requirements are established and may be amended by the OMRF board. Employees are required to contribute 2 percent of their annual covered salary after tax. The City's required contribution rate is five percent.

Annual Pension Cost: For the year ended June 30, 2011, the City and the Authority's annual pension cost of \$20,341 and \$7,124, respectively, was equal to the required contributions.

Firefighters' Retirement Plan

Fire department employees in Oklahoma participate in a state administered pension program established under legislative authority, Oklahoma Firefighters' Pension Fund, which is a cost-sharing multiple-employer public employee retirement system (PERS). Under this program, contributions are made by each of three parties - the City, the State of Oklahoma, and the participating employees. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

VIII. PENSION PLANS (continued)

A participant with twenty years of service may retire with a normal retirement allowance. The normal retirement allowance paid monthly for life and then to beneficiaries equal to 2.5% of the average compensation of the highest 30 months of the last 60 months of contributory service multiplied by the number of years of credited service up to the maximum of 30 years. The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% per the year June 30, 2011. Participating members are required to contribute 8%.

The Oklahoma State Legislature has the authority to grant percentage increases or special one-time payments to persons receiving benefits from the System and is required by statute to make appropriations as necessary to insure benefit payments are made.

Trend Information:

Year	Covered	Pension		Employee	On-Behalf
Ending	Payroll	Cost	City Share	Share	Payments
June 30					
2011	\$ 63,369	\$ 13,840	\$ 8,568	\$ 5,272	\$ 15,589
2010	65,271	16,743	8,508	8,235	14,229
2009	64,772	13,640	8,443	5,197	19,400

Additional information can be obtained by writing Oklahoma Firefighters Pension and Retirement Board, 4545 N. Lincoln Blvd., Suite 165, Oklahoma City, OK 73105.

IX. CONTINGENCIES

Federal Programs

The City participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The final acceptance of the audits of these programs including the year ended June 30, 2011, has not been given. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, the City expects such amounts, if any, to be immaterial.

City of Lone Grove, Oklahoma
Notes to Financial Statements
June 30, 2011

IX. CONTINGENCIES (continued)

DEQ Consent Order

On June 30, 2010, the Department of Environmental Quality issued a consent order assessing the City a total penalty of \$30,000. The City made a cash payment of \$5,000 within sixty days. Payment of the remaining \$25,000 was deferred pending full compliance with the terms and conditions of the consent order. If the City fails to perform any task set forth in the order by the task's due date, the full deferred penalty will become due and payable.

X. RISK MANAGEMENT

The City is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

SUPPLEMENTAL INFORMATION

City of Lone Grove, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis
Budget to Actual
General Fund
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Taxes	\$ 527,500	\$ 527,500	\$ 615,776	\$ 88,276
Interest	4,000	4,000	4,809	809
Cemetery	4,000	4,000	6,275	2,275
License and Permits	29,200	29,200	42,472	13,272
Fines	95,000	95,000	119,612	24,612
Franchise Fees	162,000	162,000	166,086	4,086
Grants	-	-	-	-
Miscellaneous	19,000	19,200	43,212	24,012
Total Revenue	<u>840,700</u>	<u>840,900</u>	<u>998,242</u>	<u>157,342</u>
EXPENDITURES				
Current				
General Government	178,610	178,610	126,769	51,841
Highways and Streets	170,171	170,171	133,938	36,233
Public Safety	642,097	642,097	552,652	89,445
Cemetery / Parks	18,566	18,566	4,311	14,255
Culture and Recreation	59,054	59,054	54,990	4,064
Total Expenditures	<u>1,068,498</u>	<u>1,068,498</u>	<u>872,660</u>	<u>195,838</u>
Excess (Deficiency) of Revenues				
Over Expenditures	<u>(227,798)</u>	<u>(227,598)</u>	<u>125,582</u>	<u>353,180</u>
Transfers Out	<u>-</u>	<u>-</u>	<u>(12,622)</u>	<u>(12,622)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(12,622)</u>	<u>(12,622)</u>
Net Change in Fund Balances	(227,798)	(227,598)	112,960	340,558
Fund Balance - Beginning	612,358	612,358	612,358	-
Fund Balance - Ending	<u>\$ 384,560</u>	<u>\$ 384,760</u>	<u>\$ 725,318</u>	<u>\$ 340,558</u>
Reconciliation with Statement of Assets, Liabilities and Fund Balance				
			<u>(79,230)</u>	
			<u>\$ 646,088</u>	

**COMBINING NONMAJOR FUND
STATEMENTS AND SCHEDULES**

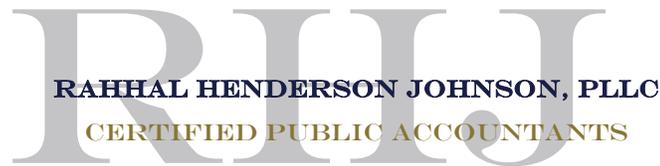
City of Lone Grove, Oklahoma
Combining Statement of Assets, Liabilities and Fund Balances – Modified Cash Basis
Nonmajor Governmental Funds
June 30, 2011

	<u>Street and Alley</u>	<u>Cemetery Care</u>	<u>Total</u>
Assets			
Cash	\$ 11,563	\$ 11,037	\$ 22,600
Total Assets	<u>11,563</u>	<u>11,037</u>	<u>22,600</u>
Liabilities			
Fund Balances			
Restricted	<u>11,563</u>	<u>11,037</u>	<u>22,600</u>
Total Fund Balances	<u>11,563</u>	<u>11,037</u>	<u>22,600</u>
Total Liabilities and Fund Balances	<u>\$ 11,563</u>	<u>\$ 11,037</u>	<u>\$ 22,600</u>

City of Lone Grove, Oklahoma
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	<u>Street and Alley</u>	<u>Cemetery Care</u>	<u>Total</u>
REVENUE			
Taxes	\$ 30,122	\$ -	\$ 30,122
Cemetery	-	1,675	1,675
Total Revenue	<u>30,122</u>	<u>1,675</u>	<u>31,797</u>
EXPENDITURES			
Current			
Highways and Streets	37,327	-	37,327
Cemetery / Parks	-	3,000	3,000
Total Expenditures	<u>37,327</u>	<u>3,000</u>	<u>40,327</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(7,205)</u>	<u>(1,325)</u>	<u>(8,530)</u>
Net Change in Fund Balances	(7,205)	(1,325)	(8,530)
Fund Balances - Beginning	18,768	12,362	31,130
Fund Balances - Ending	<u>\$ 11,563</u>	<u>\$ 11,037</u>	<u>\$ 22,600</u>

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL AND COMPLIANCE**



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

City Council
City of Lone Grove
Lone Grove, Oklahoma 73446

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lone Grove, Oklahoma as of and for the year ended June 30, 2011, and have issued our report thereon dated May 15, 2012. Our report on the financial statements disclosed that, as described in Note I(B) to the financial statements, the City prepares its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Lone Grove, Oklahoma is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered City of Lone Grove, Oklahoma's internal control over financial reporting as a basis for our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Lone Grove, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lone Grove, Oklahoma's internal control over financial reporting.

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

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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. We consider the deficiencies 2011-1 through 2011-10, described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Lone Grove, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2011-8 through 2011-10.

City of Lone Grove, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of Lone Grove, Oklahoma's response and, accordingly, we express no opinion on it.

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

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
May 15, 2012

City of Lone Grove, Oklahoma
Schedule of Findings and Responses
June 30, 2011

2011-1 Financial Reporting

Condition – The internal control structure of the City has focused primarily on operations. Internal controls are in place and operating to provide financial information that is accurate and complete. As part of the audit, management has engaged the auditors to assist in the preparation of the year-end financial statements. As auditing standards for auditor independence have changed, the City needs to enhance its year-end financial reporting control system to detect and correct misstatements in the year-end financial statement that have traditionally been considered an audit function. In addition the determination of appropriate financial statement disclosures is a management function that can be assisted by the auditors but needs to have a designated person within the City that can take responsibility for the completeness of the disclosures.

Criteria – Effective internal control over financial reporting includes the identification and analysis of the risk of material misstatements in the financial statements. The responsibility for the financial statements remains with management even when the preparation of the financial statements is transferred to a service provider. An individual with sufficient awareness of or experience in accounting principles and disclosure requirements should be designated to oversee the preparation of the financial statements. The Council must weigh the costs and benefits of having an individual available, whether internally or externally, to allow for an appropriately designed system.

Context – Material year-end adjustments were necessary that were identified as part of the audit process.

Cause – City staff have not been trained in the year-end reporting process related to entries that are needed.

Recommendation – We recommend that the City evaluate the cost of engaging a third party or designating and training an employee with sufficient awareness of or experience in accounting principles related to municipalities to allow for the improvement in the financial reporting internal control system.

Management Response – Management will continue to focus on improving financial reporting process.

City of Lone Grove, Oklahoma
Schedule of Findings and Responses
June 30, 2011

2011-2 Payroll

Condition – Pay rates were not properly documented as authorized.

Criteria – Adequate design of internal controls provides for the authorization of pay rates by management and the appropriate documentation in employee files.

Context – 3 of 25 employees tested did not have proper pay rate authorizations.

Cause – Inadequate controls over payroll information.

Recommendation – We recommend that the City have proper pay rate authorizations for all employees. Pay rates entered into the payroll system need to be reviewed annually and agreed to signed authorizations.

Management Response - Management will continue to strengthen procedures surrounding the payroll process.

2011-3 Utility Collection Policy

Condition – A council member’s billing was identified as past due and cutoff ordered. The meter deposit was not applied and the service was not cut off.

Criteria – An effective internal control system over billings includes specific policies for handling collection of past due utility bills. These policy needs to be applied consistently to all accounts.

Context – One of nineteen employee and council accounts was identified as past due and cutoff ordered. The meter deposit was not applied and the service was not cutoff.

Cause – The City does not have a defined policy for procedures to be followed in collecting past due accounts once service is cutoff. In addition, the current practice of service cutoff has not been consistently applied to council member’s account.

Recommendation – We recommend that the utility billing clerk run an aged billing receivable report monthly and provide to the City manager for review. We also recommend that the Council develop a standard collection policy that is enforced for all accounts.

City of Lone Grove, Oklahoma
Schedule of Findings and Responses
June 30, 2011

2011-3 Utility Collection Policy - (continued)

Management Response – Management will continue to improve procedures to be followed in collecting past due accounts.

2011-4 Sanitation Contract

Condition – The utility system software does not generate accurate reports for use in determining amounts due to Southern Oklahoma Regional Disposal (SORD).

Criteria – The computer software should be able to provide accurate reports for use in preparing and supporting financial amounts.

Context – Differences were noted in the rates used on the payments when compared to the contract resulting in overpayment to SORD.

Cause – The utility clerk prepares the payments using manual calculations because the system will not provide accurate reports.

Recommendation – We recommend the City contact the software company for assistance in resolving the problem.

Management Response – Management has contacted the software company which is working on program updates to improve the reporting process.

2011-5 Utility Adjustments

Condition – Utility account adjustments are made by the utility billing clerk without review or approval.

Criteria – An effective internal control system for billings includes segregation of duties among those who authorize write-offs and those who maintain the billing.

Context – 19 of 25 utility billing adjustments tested were prepared by the utility billing clerk without review or approval.

Cause – The City does not have controls to require review and approval of write-offs, adjustments and abatements greater than a specified amount.

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2011-5 Utility Adjustments - (continued)

Recommendation – We recommend procedures be put into place to provide for review and approval of utility account adjustments over an amount specified by policy. This review process needs to be documented.

Management Response – Management will continue to improve and strengthen procedures for utility adjustments.

2011-6 Utility Billing

Condition – Client software is not calculating sewer charges correctly.

Criteria – Sewer is billed based on the prior winter months of December, January, and February average usage, not the current usage.

Context – 12 of 60 sewer billings were not calculated correctly by the software. Sewer usage was being calculated based on current usage rather than the average.

Cause – Utility billing software error.

Recommendation – We recommend that the City contact the software company and have the computation problem within the software corrected.

Management Response - Management has contacted the software company which is working on program updates to correct calculation errors.

2011-7 Segregation of Duties

Condition – The utility billing clerk collects money, posts to customer accounts, makes deposits and utility account adjustments.

Criteria – A reliable internal control structure provides for adequate segregation of duties among those who have custody, access, recordkeeping and oversight of assets.

Cause – Lack of segregation of incompatible duties.

Recommendation – We recommend that the City evaluate segregating duties for deposits and oversight to someone who does not have access to collection. In addition, we recommend any customer complaints be handled by someone other than the utility billing clerk.

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2011-7 Segregation of Duties - (continued)

Management Response – Management will continue to review and strengthen internal control procedures.

2011-8 Daily Cash Deposits

Condition – Cash receipts are not being deposited the next banking day and Daily Cash Receipt Journals are not generated daily.

Criteria – Title 61 Section 517.3 of the Oklahoma Statutes requires “...The treasurer of every public entity shall deposit daily not later than the immediately next banking day, all funds in either state or county depositories within Oklahoma...”

Context – 62 of 135 deposits were not made by the next banking day. 18 of 92 Daily Cash Receipt Journals were not generated.

Cause – Inadequate control system for cash receipts.

Recommendation – We recommend the City develop a system of review to determine that deposits are being made as required by statute and that Daily Cash Receipt Journals are prepared daily.

Management Response – Management will improve procedures surrounding cash collections to be in compliance with state statutes.

2011-9 Investment Policy

Condition – The City does not have a written investment policy, ordinance or resolution authorizing the treasurer to make investments without specific council approval.

Criteria – Title 62 section 348.1 of the Oklahoma Statutes state “...treasurer of any city or town, when authorized by the appropriate governing body by a written investment policy, ordinance or resolution, shall invest...”

Context – The City treasurer has been investing excess funds in certificates of deposit without specific council approval.

Cause – The City does not have a written investment policy, ordinance or resolution authorizing the treasurer to make investments.

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2011-9 Investment Policy - (continued)

Recommendation – We recommend the City develop a written investment policy to authorize and direct the treasurer for making investments.

Management Response – Management will adopt a written investment policy.

2011-10 Expenditures

Condition – Purchases occurred prior to proper written approval of the purchasing officer through the issuance of a purchase order. In addition, purchases were approved for payment without invoices and a required non-kickback affidavit was missing.

Criteria – Oklahoma Statute Title 62 Sec. 310.1:310.9 – “Purchase orders shall have written approval of a purchasing officer and an encumbering clerk prior to release. Invoices are required, after satisfactory delivery, and shall be itemized.”

Oklahoma Statute Title 74 Sec. 109 – “Every contract with an architect, contractor, engineer or supplier of materials for \$25,000 or more shall be accompanied by a sworn statement.”

Context – 1 of 29 purchase orders tested was dated after the invoice date; 1 of 29 purchase orders tested lacked a supporting invoice; 1 of 2 purchase orders tested lacked the required non-kickback affidavit.

Cause – Purchase orders have not been issued until the date the invoice is presented for payment. Invoices are not always attached to the purchase orders.

Recommendation – Purchases should not be committed until a purchase order is issued. All documents such as invoices, delivery tickets, or packing slips should be signed and dated by the appropriate person indicating satisfactory receipt. Non-kickback agreements should accompany contracts for \$25,000 or more.

Management Response – Management is aware of the requirements for purchasing and will continue to focus on compliance.