

City of Healdton, Oklahoma  
Financial Statements  
Year-End June 30, 2011

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

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## INDEPENDENT AUDITOR'S REPORT

Members of the City Council  
City of Healdton, Oklahoma

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Healdton, 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.

We were unable to obtain sufficient records supporting financial statement amounts because of discrepancies in the records. The resolution of these discrepancies is not presently determinable.

Because of the significance of the matter discussed in the preceding paragraph, we are unable, and we do not express, an opinion on the financial statements referred to in the first paragraph

As discussed in Note I(B), the City of Healdton, Oklahoma 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 accordance with *Government Auditing Standards*, we have issued our report dated August 18, 2012, on our consideration of City of Healdton, 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.

Ardmore, Oklahoma  
August 18, 2012

*Rahhal Henderson Johnson, PLLC*

## **BASIC FINANCIAL STATEMENTS**

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalent	\$ 660,096	\$ 416,173	\$ 1,076,269
Inventory	-	68,300	68,300
Restricted Cash	-	290,732	290,732
<b>Capital Assets</b>			
Land, Land Improvements and Construction in Progress	659,168	69,016	728,184
Other Capital Assets, Net of Depreciation	1,495,189	2,857,218	4,352,407
<b>Total Assets</b>	<b>\$ 2,814,453</b>	<b>\$ 3,701,439</b>	<b>\$ 6,515,892</b>
<b>LIABILITIES AND EQUITY</b>			
Due to the Landfill	\$ 43,406	\$ -	\$ 43,406
Bonds Pending Court	10,202	-	10,202
Refundable Meter Deposits	-	65,716	65,716
<b>Long-term Liabilities</b>			
Due Within One Year	8,483	133,000	141,483
Due In More Than One Year	1,434	2,451,505	2,452,939
<b>Total Liabilities</b>	<b>\$ 63,525</b>	<b>\$ 2,650,221</b>	<b>\$ 2,713,746</b>
<b>Net Assets</b>			
Invested in Capital Assets	\$ 2,144,440	\$ 341,729	\$ 2,486,169
<b>Restricted</b>			
Streets	38,724	-	38,724
911 Emergency Service	9,606	-	9,606
Debt Service and Capital Projects	202,459	290,732	493,191
Other	63	-	63
Cemetery	3,346	-	3,346
Unrestricted	352,290	418,757	771,047
<b>Total Net Assets</b>	<b>\$ 2,750,928</b>	<b>\$ 1,051,218</b>	<b>\$ 3,802,146</b>

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

City of Healdton, 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>	Program Revenues				Net (Expense) Revenue and Changes in Net Assets Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<i>Primary Government</i>							
<i>Governmental Activities</i>							
General Government	\$ 195,950	\$ 110,401	\$ 2,389	\$ -	\$ (83,160)	\$ -	\$ (83,160)
Highways and Streets	211,184	-	-	-	(211,184)	-	(211,184)
Public Safety	424,824	32,460	-	-	(392,364)	-	(392,364)
Culture and Recreation	98,266	-	77,002	-	(21,264)	-	(21,264)
Cemetery	13,733	950	-	-	(12,783)	-	(12,783)
Garbage	224,233	294,651	-	-	70,418	-	70,418
Interest	1,454	-	-	-	(1,454)	-	(1,454)
Total Governmental Activities	\$ 1,169,644	\$ 438,462	\$ 79,391	\$ -	\$ (651,791)	\$ -	\$ (651,791)
<i>Business-Type Activities</i>							
General Government	\$ 205,632	\$ -	\$ -	\$ -	\$ -	\$ (205,632)	\$ (205,632)
Water	430,178	582,668	-	121,751	-	274,241	274,241
Sewer	214,468	243,315	-	-	-	28,847	28,847
Cable	282,490	172,028	-	-	-	(110,462)	(110,462)
Garage	6,082	-	-	-	-	(6,082)	(6,082)
Interest Expense	118,086	-	-	-	-	(118,086)	(118,086)
Total Business Type Activities	\$ 1,256,936	\$ 998,011	\$ -	\$ 121,751	\$ -	\$ (137,174)	\$ (137,174)
Total Primary Government	\$ 2,426,580	\$ 1,436,473	\$ 79,391	\$ 121,751	\$ (651,791)	\$ (137,174)	\$ (788,965)
<i>General Revenues</i>							
Taxes					\$ 921,305	\$ -	\$ 921,305
Interest					791	479	1,270
Rent					9,200	-	9,200
Miscellaneous					7,482	-	7,482
Transfers					(223,841)	223,841	-
Total General Revenues and Transfers					\$ 714,937	\$ 224,320	\$ 939,257
Change in Net Assets					\$ 63,146	\$ 87,146	\$ 150,292
Net Assets - Beginning					2,687,782	964,072	3,651,854
Net Assets - Ending					\$ 2,750,928	\$ 1,051,218	\$ 3,802,146

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

City of Healdton, Oklahoma  
Statement of Assets, Liabilities and Net Assets – Modified Cash Basis  
Governmental Funds  
June 30, 2011

	General Fund	Water Plant Sales Tax Fund	Other Governmental Funds	Total
<b>Assets</b>				
Cash	\$ 314,031	\$ 202,803	\$ 143,263	\$ 660,097
Due from Other Funds	-	-	238	238
Total Assets	\$ 314,031	\$ 202,803	\$ 143,501	\$ 660,335
<b>Liabilities</b>				
Bonds Pending Court	\$ 10,201	\$ -	\$ -	\$ 10,201
Due to Other Funds	238	-	-	238
Due to Landfill	43,406	-	-	43,406
Total Liabilities	\$ 53,845	\$ -	\$ -	\$ 53,845
<b>Fund Balances</b>				
Restricted	\$ -	\$ 202,459	\$ 51,739	\$ 254,198
Assigned	775	344	91,762	92,881
Unassigned	259,411	-	-	259,411
Total Fund Balances	\$ 260,186	\$ 202,803	\$ 143,501	259,411
Total Liabilities and Fund Balances	\$ 314,031	\$ 202,803	\$ 143,501	

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. 2,154,357

Long term liabilities are not due and payable in the current period and, therefore, are not reported in the funds (9,921)

Net assets of governmental activities. \$ 2,403,847

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

City of Healdton, Oklahoma  
Statement of Revenues, Expenditures and  
Changes in Net Assets – Modified Cash Basis – Governmental Funds  
For the Year Ended June 30, 2011

	General Fund	Water Plant Sales Tax Fund	Other Governmental Funds	Total
<b>REVENUE</b>				
Taxes	\$ 719,885	107,776	\$ 199,231	\$ 1,026,892
Charges for Services	13,776	-	12,108	25,884
Interest	487	344	1	832
Garbage Fees	294,651	-	-	294,651
License and Permits	2,397	-	-	2,397
Fines	21,491	-	-	21,491
Intergovernmental	-	-	76,936	76,936
Miscellaneous	8,302	-	-	8,302
Total Revenue	<u>\$ 1,060,989</u>	<u>\$ 108,120</u>	<u>\$ 288,276</u>	<u>\$ 1,457,385</u>
<b>EXPENDITURES</b>				
Current				
General Government	\$ 43,971	\$ -	\$ 107,778	\$ 151,749
Highways and Streets	92,202	-	-	92,202
Public Safety	365,223	-	10,253	375,476
Public Health and Welfare	750	-	-	750
Culture and Recreation	3,213	-	7,290	10,503
Cemetery	4,187	-	5,881	10,068
Airport	-	-	6	6
Garbage	328,124	-	-	328,124
Capital Outlay				
Culture and Recreation	-	-	69,644	69,644
Public Safety	2,368	-	17,295	19,663
Highways and Streets	-	-	113,326	113,326
Debt Service				
Principal	8,064	-	-	8,064
Interest	727	-	-	727
Total Expenditures	<u>\$ 848,829</u>	<u>\$ -</u>	<u>\$ 331,473</u>	<u>\$ 1,180,302</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 212,160</u>	<u>\$ 108,120</u>	<u>\$ (43,197)</u>	<u>\$ 277,083</u>
Other Financing Sources				
Transfers In	\$ 42,000	\$ -	\$ -	\$ 42,000
Transfers Out	(265,841)	-	-	(265,841)
Total Other Financing Sources	<u>\$ (223,841)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (223,841)</u>
Net Change in Fund Balances	\$ (11,681)	\$ 108,120	\$ (43,197)	\$ 53,242
Fund Balances - Beginning	<u>271,867</u>	<u>94,683</u>	<u>186,698</u>	<u>553,248</u>
Fund Balances - Ending	<u>\$ 260,186</u>	<u>\$ 202,803</u>	<u>\$ 143,501</u>	<u>\$ 606,490</u>

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

City of Healdton, Oklahoma  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Net Assets – 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	\$	53,242
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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 depreciation expense exceeded capital outlays in the current period.		1,840
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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>8,064</u>
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Change in net assets of governmental activities.	\$	<u><u>63,146</u></u>
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The notes to the financial statements are an integral part of this statement

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

	Healdton Municipal Authority
<b>ASSETS</b>	
Current Assets	
Cash and Cash Equivalent	\$ 350,888
Restricted Cash and Cash Equivalent	65,284
Cable Inventory	68,300
Total Current Assets	\$ 484,472
Noncurrent Assets	
Restricted Cash	290,732
Capital Assets	
Land and Construction in Progress	69,016
Other Capital Assets, Net of Depreciation	2,857,218
Total Noncurrent Assets	\$ 3,216,966
Total Assets	\$ 3,701,438
<b>LIABILITIES AND EQUITY</b>	
Current Liabilities	
Refundable Meter Deposits	\$ 65,716
Bonds and Notes Payable - Current	133,000
Total Current Liabilities	\$ 198,716
Noncurrent Liabilities	
Bonds and Notes Payable	2,451,505
Total Liabilities	\$ 2,650,221
Net Assets	
Invested in Capital Assets, Net of Related Debt	\$ 341,729
Restricted for Debt Service (nonexpendable)	290,732
Unrestricted	418,756
Total Net Assets	\$ 1,051,217

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

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

	Healdton Municipal Authority
Operating Revenues:	
Water	\$ 582,668
Sewer	243,315
Cable	172,028
Total Operating Revenue	<u>\$ 998,011</u>
Operating Expenses:	
Administration	\$ 221,476
Water	414,335
Sewer	214,468
Garage	5,782
Cable	282,790
Total Operating Expenses	<u>\$ 1,138,851</u>
Operating Income (Loss)	<u>\$ (140,840)</u>
Nonoperating Revenues (Expenses):	
Interest Income	479
Interest Expense	(118,086)
Total Nonoperating Revenues (Expenses)	<u>\$ (117,607)</u>
Income (Loss) before Contributions and Transfers	(258,447)
Capital Contributions	121,751
Transfer In	<u>223,841</u>
Net Change in Net Assets	\$ 87,145
Total Net Assets - Beginning	964,072
Total Net Assets - Ending	<u><u>\$ 1,051,217</u></u>

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

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

	Healdton Municipal Authority
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 998,231
Payments to Employees for Services	(316,010)
Payments to Vendors for Goods and Services	(643,369)
Net Cash Provided by Operating Activities	<u>\$ 38,852</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of Capital Assets	\$ (388,750)
Capital Contributions	121,751
Interfund Transfers from Other Funds for Capital purposes	223,841
Proceeds from Capital Debt	191,043
Principal Paid on Capital Debt	(169,763)
Interest Paid on Capital Debt	(118,086)
Net Cash Used by Capital Financing Activities	<u>\$ (139,964)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Income	\$ 479
Net Cash Provided by Investing Activities	<u>\$ 479</u>
Net Decrease in Cash and Cash Equivalents	\$ (100,633)
Cash and Cash Equivalents, Beginning of Year	<u>807,537</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 706,904</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating Loss	\$ (140,840)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	176,702
Loss on Disposal of Assets	2,770
Increase in Refundable Meter Deposits	220
Total Adjustments	<u>179,692</u>
Net Cash Provided by Operating Activities	<u><u>\$ 38,852</u></u>

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

City of Healdton, Oklahoma  
Notes to Financial Statements  
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**A. The Reporting Entity**

The City of Healdton, 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 Healdton 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 Healdton Municipal Authority was created for the use and benefit of the beneficiary, City of Healdton, to furnish, construct, administer and finance any public works facilities or improvements for public purposes under the laws of the State of Oklahoma. The City Council of the City of Healdton acts as the Board of Trustees of the Healdton Municipal Authority. The rates for user charges and bond issuance authorizations are approved by the government council and the legal liability for the general obligation portion of the Authority's debt remains with the government. The Authority is reported as an enterprise fund.

Discretely Component Unit

The Healdton Industrial Authority (HIA) was established to promote industrial development in the Healdton area. The City collects a ¼ cent sales tax dedicated to HIA. HIA has not been included in these financial statements

**B. Government-wide and fund financial statements**

*Government-Wide Financial Statements*

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) 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 Healdton, 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 activities 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.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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 Healdton, 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. The special hospital and library account funds have been included as part of the General Fund.

Water Plant Sales Tax Fund – is a special revenue fund that accounts for dedicated sales tax to be used for repayment of debt by the Healdton Municipal Authority.

The City reports the Healdton Municipal Authority (HMA) as a major proprietary fund. HMA 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.
- Inventory is recorded as an asset when purchased and expensed as consumed.
- 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 Healdton, 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.

The City does not have a specific policy limiting the concentration amount that may be invested with one issuer. The City has no formal policy on managing credit risk.

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.

**2. Interfund transactions**

Interfund receivables and payables arise from interfund transactions and are recorded in the period transacted. 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.

City of Healdton, Oklahoma  
Notes to Financial Statements  
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

**3. *Restricted assets***

Certain proceeds of the Authority's revenue bonds as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable loan covenants. The debt service reserve accounts are used to report resources set aside to make up potential futures deficiencies, or to meet unexpected contingencies or to fund asset renewals and replacements. 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 \$2,500 (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
Infrastructure	25
System infrastructure	30
Vehicles	5
Machinery and equipment	10

**5. *Fund equity***

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. Changes to the fund presentation have been made to comply with this Statement.

City of Healdton, Oklahoma  
Notes to Financial Statements  
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

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 Healdton, Oklahoma 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 Healdton, Oklahoma, 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 Healdton, Oklahoma'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.

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.

City of Healdton, Oklahoma  
Notes to Financial Statements  
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

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

	General Fund	Water Plant Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
Restricted				
Cemetery	\$ -	\$ -	\$ 3,346	\$ 3,346
Streets			38,724	38,724
911 Emergency Services	-	-	9,606	9,606
Grants	-	-	3	3
Airport	-	-	60	60
HMA Debt Service	-	202,459	-	202,459
Assigned				
HMA Debt Service	-	344	-	344
Capital Projects	-	-	91,762	91,762
Hospital	209	-	-	209
Library	566	-	-	566
Unassigned	259,411	-	-	259,411
	<u>\$ 260,186</u>	<u>\$ 202,803</u>	<u>\$ 143,501</u>	<u>\$ 606,490</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 Healdton, 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 \$2,144,436 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 explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.”

Capital leases	\$(9,921)
----------------	-----------

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

Capital assets, not being depreciated	\$ 659,168
Capital assets, being depreciated	5,940,289
Less Accumulated Depreciation	<u>(4,445,100)</u>
	<u><u>\$ 2,154,357</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 \$9,904 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	\$ 115,664
Depreciation Expense	<u>(113,824)</u>
	<u><u>\$ 1,840</u></u>

City of Healdton, Oklahoma  
Notes to Financial Statements  
June 30, 2011

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

**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. (continued)**

Another element of that reconciliation explains that “repayment of principal of long-term debt consumes the current financial resources of governmental funds.”

Capital lease proceeds	\$ -
Capital lease principal payments	8,064
	\$ 8,064

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

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 \$1,230,831. Uninsured and uncollateralized deposits were \$220,160.

City of Healdton, Oklahoma  
Notes to Financial Statements  
June 30, 2011

V. CAPITAL ASSETS

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

**Primary Government**

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Government Activities:</i>				
<i>Capital assets, not being depreciated</i>				
Land	\$ 659,168	\$ -	\$ -	\$ 659,168
Total capital assets, not being depreciated	<u>659,168</u>	<u>-</u>	<u>-</u>	<u>659,168</u>
<i>Capital assets, being depreciated</i>				
Buildings	1,601,844	4,157	-	1,606,001
Computers and Electronics	62,569	5,880	-	68,449
Vehicles	431,511	59,617	15,000	476,128
Furniture and Fixtures	158,685	1,755	-	160,440
Equipment	256,459	44,261	-	300,720
Infrastructure	3,328,551	-	-	3,328,551
Total capital assets, being depreciated	<u>5,839,619</u>	<u>115,670</u>	<u>15,000</u>	<u>5,940,289</u>
Less Accumulated Depreciation	<u>4,346,276</u>	<u>113,824</u>	<u>15,000</u>	<u>4,445,100</u>
Total capital assets, being depreciated, net	<u>1,493,343</u>	<u>1,846</u>	<u>-</u>	<u>1,495,189</u>
Governmental activities capital assets, net	<u>2,152,511</u>	<u>1,846</u>	<u>-</u>	<u>2,154,357</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-type Activities:</i>				
<i>Capital assets, not being depreciated</i>				
Land	\$ 13,000	\$ -	\$ -	\$ 13,000
Construction in Progress	811,245	-	755,229	56,016
Total capital assets, not being depreciated	<u>824,245</u>	<u>-</u>	<u>755,229</u>	<u>69,016</u>
<i>Capital assets, being depreciated</i>				
Buildings	24,589	3,751	-	28,340
Vehicles	261,559	1,500	-	263,059
Equipment	462,216	57,224	27,745	491,695
Computers	2,800	930	-	3,730
Cable System	1,224,750	12,880	-	1,237,630
Water System	12,940,465	999,274	-	13,939,739
Sewer System	7,203,536	68,418	-	7,271,954
Total capital assets, being depreciated	<u>22,119,915</u>	<u>1,143,977</u>	<u>27,745</u>	<u>23,236,147</u>
Less Accumulated Depreciation	<u>20,227,202</u>	<u>176,702</u>	<u>24,975</u>	<u>20,378,929</u>
Total capital assets, being depreciated, net	<u>1,892,713</u>	<u>967,275</u>	<u>2,770</u>	<u>2,857,218</u>
Business activities capital assets, net	<u>2,716,958</u>	<u>967,275</u>	<u>757,999</u>	<u>2,926,234</u>
<b>Total Primary Government</b>	<b><u>\$ 4,869,469</u></b>	<b><u>\$ 969,121</u></b>	<b><u>\$ 757,999</u></b>	<b><u>\$ 5,080,591</u></b>

City of Healdton, Oklahoma  
Notes to Financial Statements  
June 30, 2011

V. CAPITAL ASSETS (CONTINUED)

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

Government activities:		
General government	\$	40,988
Public safety		36,653
Culture and recreation		21,326
Highways and streets		5,655
Cemetery		9,202
Total depreciation expense - governmental activities	\$	113,824
Business-type activities		
Water	\$	89,416
Sewer		36,301
Cable		49,908
Administration		1,077
Total depreciation expense - business-type activities	\$	176,702

VI. INTERFUND TRANSFERS

Interfund transfers as of June 30 consisted of the following:

		Transfer From			
		<u>General Fund</u>	<u>Healdton Municipal Authority</u>	<u>All Others</u>	<u>Total</u>
T r a n s f e r  T o	General Fund	\$ -	\$ -	\$ -	\$ -
	Healdton Municipal Authority	223,841	-	-	223,841
	All Others	-	-	-	-
	Total	\$ 223,841	\$ -	\$ -	\$ 223,841

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.

City of Healdton, Oklahoma  
Notes to Financial Statements  
June 30, 2011

VII. 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	\$ 17,981	\$ -	\$ 8,064	\$ 9,917	\$ 8,483
Business-Type Activities					
Bonds Payable	2,205,000	-	85,000	2,120,000	90,000
Notes Payable	<u>354,318</u>	<u>191,043</u>	<u>80,856</u>	<u>464,505</u>	<u>43,000</u>
	<u>\$ 2,577,299</u>	<u>\$ 191,043</u>	<u>\$ 173,920</u>	<u>\$ 2,594,422</u>	<u>\$ 141,483</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
Utility System Revenue Bonds (Advance refund the 2003 Series Utility Revenue Bonds which financed costs of water and wastewater system improvements and costs of construction of a cable system)	January, 2027	4.80%	Variable	\$ 2,385,000	\$ 2,120,000
Oklahoma Water Resources Board (Construct improvements to water system)	March, 2040	3.35%	Variable	1,700,000	464,505
					<u>\$ 2,584,505</u>

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	\$ 133,000	\$ 115,881
2013	138,000	110,120
2014	143,000	104,000
2015	148,000	97,759
2016	153,000	91,159
2017-2021	845,000	349,346
2022-2026	839,505	155,246
2027-2030	<u>185,000</u>	<u>6,720</u>
	<u>\$ 2,584,505</u>	<u>\$ 1,030,231</u>

As of the date of this report, the City had drawn additional funds on the Oklahoma Water Resources Board Note.

City of Healdton, Oklahoma  
Notes to Financial Statements  
June 30, 2011

VIII. LONG-TERM LIABILITIES (continued)

The Utility System and Sales Tax Revenue Bonds 2007 are secured by the fixed assets and the service revenues of the HMA. The HMA receives a special sales tax approved for the purpose of assisting the HMA in meeting principal, interest, and debt service requirements on its authorized indebtedness. The HMA must maintain net revenues available for debt service equal to at least 120% of the maximum annual amount required for debt service.

Governmental Activities Capital Lease Obligations

The City has entered into lease agreements as lessee for financing the acquisition of certain equipment. The lease agreements qualify as capital leases for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments. The lease contains a cancellation clause which gives the City the ability to terminate the lease agreement at the end of each fiscal year.

The assets under capital lease are as follows;

Vehicles	\$	45,393
less accumulated depreciation		(45,393)
	\$	-

The schedule of future minimum lease payments under the capital lease and the present value of the net minimum lease payments at June 30 are as follows:

	Year Ending	
	June 30	
	2012	\$ 8,791
	2013	1,466
Present value of future minimum lease payments		\$ 10,257
less: Interest		(340)
Net Minimum lease payments		\$ 9,917
Current portion		(8,483)
Long-term portion		\$ 1,434

City of Healdton, Oklahoma  
Notes to Financial Statements  
June 30, 2011

IX. RESTRICTED ASSETS

Restricted cash as of June 30, 2011 is as follows:

Funds restricted for debt service reserves	
Utility Revenue Bond	\$ 290,732
	<u>                    </u>
Funds restricted for other purposes	
Meter deposits	\$ 65,284
	<u>                    </u>

X. PENSION PLANS

Municipal Retirement Plan

The City of Healdton and its employees participate in the Oklahoma Municipal Retirement Fund. All regular full-time employees, except those covered under another retirement system are eligible. Employees are vested at 10 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 of City of Healdton and Healdton Municipal Authority and employees are established and may be amended by the OMRF board. Employees are required to contribute 3.75 percent of their annual covered salary after tax.

City of Healdton and Healdton Municipal Authority are required to contribute at an actuarially determined rate.

Annual Pension Cost: The required contribution was determined as part of the January 1, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial report was not available.

Trend Information:

Year Ending June 30	Cost (APC)
2011	\$ 26,720
2010	24,042
2009	29,931

City of Healdton, Oklahoma  
Notes to Financial Statements  
June 30, 2011

XI. 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.

XII. 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.

HMA has been issued a current order concerning water system quality (10-325). The construction of the new water treatment plant has been undertaken to respond to order.

## **SUPPLEMENTARY INFORMATION**

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

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 630,124	\$ 639,043	\$ 719,885	\$ 80,842
Charges for Services	14,500	14,500	13,776	(724)
Fines	25,000	25,000	21,491	(3,509)
License and Permits	1,800	1,800	2,397	597
Interest	-	-	249	249
Miscellaneous	550	550	5,333	4,783
Total Revenue	<u>\$ 671,974</u>	<u>\$ 680,893</u>	<u>\$ 763,131</u>	<u>\$ 82,238</u>
<b>EXPENDITURES</b>				
Current				
General Government	\$ 49,000	\$ 49,060	\$ 43,971	\$ 5,089
Highways and Streets	93,864	95,064	92,202	2,862
Public Safety	329,199	365,599	365,223	376
Culture and Recreation	2,650	2,815	3,213	(398)
Park & Cemetery	36,864	4,364	4,187	177
Capital Outlay	2,368	2,368	2,368	-
Debt Service	8,791	8,791	8,791	-
Total Expenditures	<u>\$ 522,736</u>	<u>\$ 528,061</u>	<u>\$ 519,955</u>	<u>\$ 8,106</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 149,238</u>	<u>\$ 152,832</u>	<u>\$ 243,176</u>	<u>\$ 90,344</u>
Other Financing Sources (Uses)				
Transfers In	\$ 42,000	\$ 42,000	\$ 42,000	\$ -
Transfers Out	(187,438)	(191,032)	(265,843)	(74,811)
Total Other Financing Sources (Uses)	<u>\$ (145,438)</u>	<u>\$ (149,032)</u>	<u>\$ (223,843)</u>	<u>\$ (74,811)</u>
Net Change in Fund Balances	\$ 3,800	\$ 3,800	\$ 19,333	\$ 15,533
Fund Balance - Beginning	-	-	270,387	270,387
Fund Balance - Ending	<u>\$ 3,800</u>	<u>\$ 3,800</u>	<u>\$ 289,720</u>	<u>\$ 285,920</u>

City of Healdton, Oklahoma  
 Supplemental Schedule  
 Combining Statement of Assets, Liabilities and Net Assets – Modified Cash Basis  
 Nonmajor Governmental Funds  
 June 30, 2011

	<u>Special Street</u>	<u>911 Emergency</u>	<u>REAP Grant</u>	<u>Airport</u>	<u>Capital Improvement s</u>	<u>Cemetery</u>	<u>Total</u>
<b>Assets</b>							
Cash	\$ 38,724	\$ 9,606	\$ 3	\$ 60	\$ 91,762	\$ 3,108	\$ 143,263
Due from Other Funds	-	-	-	-	-	238	238
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 38,724</u>	<u>\$ 9,606</u>	<u>\$ 3</u>	<u>\$ 60</u>	<u>\$ 91,762</u>	<u>\$ 3,346</u>	<u>\$ 143,501</u>
<b>Liabilities</b>							
<b>Fund Balances</b>							
Restricted	\$ 38,724	\$ 9,606	\$ 3	\$ 60	-	\$ 3,346	\$ 51,739
Assigned	-	-	-	-	91,762	-	91,762
Unassigned	-	-	-	-	-	-	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>\$ 38,724</u>	<u>\$ 9,606</u>	<u>\$ 3</u>	<u>\$ 60</u>	<u>\$ 91,762</u>	<u>\$ 3,346</u>	<u>\$ 143,501</u>
Total Liabilities and Fund Balances	<u>\$ 38,724</u>	<u>\$ 9,606</u>	<u>\$ 3</u>	<u>\$ 60</u>	<u>\$ 91,762</u>	<u>\$ 3,346</u>	<u>\$ 143,501</u>

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

	Special Street	911 Emergency	HIA	REAP Grant	Airport Grant	Improvement	Cemetery	Total
<b>REVENUE</b>								
Taxes	\$ 58,033	\$ -	\$ 107,776	\$ -	\$ -	\$ 33,422	\$ -	\$ 199,231
Interest	-	-	1	-	-	-	-	1
Charges for Services	-	11,804	-	-	66	-	238	12,108
Intergovernmental	-	-	-	76,936	-	-	-	76,936
Total Revenue	<u>\$ 58,033</u>	<u>\$ 11,804</u>	<u>\$ 107,777</u>	<u>\$ 76,936</u>	<u>\$ 66</u>	<u>\$ 33,422</u>	<u>238</u>	<u>\$ 288,276</u>
<b>EXPENDITURES</b>								
<b>Current</b>								
General Government	\$ -	\$ -	107,778	\$ -	\$ -	\$ -	\$ -	\$ 107,778
Highways and Streets	-	-	-	-	-	-	-	-
Public Safety	-	10,253	-	-	-	-	-	10,253
Public Health and Welfare	-	-	-	-	-	-	-	-
Culture and Recreation	-	-	-	7,290	-	-	-	7,290
Airport	-	-	-	-	6	-	-	6
<b>Capital Outlay</b>								
Highways and Streets	113,326	-	-	-	-	-	-	113,326
Culture and Recreation	-	-	-	69,644	-	-	-	69,644
Public Safety	-	-	-	-	-	17,295	-	17,295
Cemetery	-	-	-	-	-	-	5,881	5,881
Total Expenditures	<u>\$ 113,326</u>	<u>\$ 10,253</u>	<u>\$ 107,778</u>	<u>\$ 76,934</u>	<u>\$ 6</u>	<u>\$ 17,295</u>	<u>5,881</u>	<u>\$ 331,473</u>
Net Change in Fund Balances	\$ (55,293)	\$ 1,551	\$ (1)	\$ 2	\$ 60	\$ 16,127	(5,643)	\$ (43,197)
Fund Balances - Beginning	94,017	8,055	1	1	-	75,635	8,989	186,698
Fund Balances - Ending	<u>\$ 38,724</u>	<u>\$ 9,606</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 60</u>	<u>\$ 91,762</u>	<u>\$ 3,346</u>	<u>\$ 143,501</u>



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 Healdton  
Healdton, Oklahoma 73446

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Healdton, Oklahoma as of and for the year ended June 30, 2011, which collectively comprise the City of Healdton, Oklahoma's basic financial statements and have issued our report thereon dated August 18, 2012. We did not express an opinion on the financial statements because of discrepancies in the accounting records. Except as discussed in the preceding sentence, 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

In planning and performing our audit, we considered City of Healdton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Healdton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Healdton'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 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.

100 E Street S.W., Suite 200 | Ardmore, OK 73401

Telephone (580) 223-6454 | FAX 1-800-858-9329

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 deficiencies 2011-1 through 2011-6 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 Healdton'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* which are described in the accompanying schedule of findings and responses as item 2011-1, 2011-5 and 2011-6.

City of Healdton's response to findings were not available at time of report issuance.

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  
August 18, 2012

City of Healdton, Oklahoma  
Schedule of Findings and Responses  
June 30, 2011

**Purchasing**

**2011-1 Condition** – Expenditures did not meet purchasing requirements of State Law.

**Criteria** – Oklahoma Statute Title 62 Sections 310.1 – 310.9 cover purchases of goods and services.

**Context** – (1) 4 of 25 invoices examined had purchase orders dated after the invoice date. (2) 6 of 25 purchase orders did not have written approval (3) 1 of 25 expenditures did not have supporting documentation.

**Effect** – Purchases occurred without meeting the requirements.

**Cause** – Lack of staff training related to purchase requirements.

**Recommendation** – The City should strengthen internal controls surrounding disbursements to ensure all purchases are properly approved before the purchase occurs and all required documentation is obtained.

**Past Due Utility Receivables**

**2011-2 Condition** – No collection process is occurring for past due accounts once the service is cut off.

**Criteria** – Accounting policies and procedures should specify the appropriate treatment for uncollectible accounts.

**Effect** – No attempt to collect past due accounts once service is ceased.

**Cause** – Inadequate design of policies and procedures

**Recommendation** – We recommend that a utility aging report be provided monthly to the City Manager for review. We also recommend that a collection policy be developed.

**Billing Adjustments**

**2011-3 Condition** – Utility account adjustments are processed by the City treasurer without approval.

**Criteria** – Accounting policies and procedures should specify the appropriate segregation of duties over billing adjustments. The authorization for write-offs and corrections should be separate from the processing of the adjustments to customer accounts.

**Context** – 6 of 25 utility account adjustments were prepared and entered without approval.

**Effect** – The possibility for unauthorized adjustments exists.

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**Cause** – Inadequate design of policies and procedures

**Recommendation** – We recommend that all utility account adjustments be approved by the City Manager.

**Financial Reporting**

**2011-4 Condition** – Material adjustments were necessary to prepare the financial statements. In addition, the City does not have a financial reporting system in place to ensure that the trial balances used in the year-end financial statement preparation process is final, contains all valid journal entries, and that all relevant information is disclosed in the appropriate accounting period and in accordance with the basis of accounting used to prepare the financial statements.

**Criteria** - Effective internal control over financial reporting includes the identification and analysis of the risk of material misstatements in the financial statements. Management is responsible for designing a system to manage the risks even if the preparation 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 year-end financial statements.

**Effect** – Material adjustments were necessary.

**Cause** – The internal control structure of the City focuses primarily on daily operations. The City does not currently have a control system in place to determine that the trial balances used in the financial statement preparation process at year-end are final when prepared on the modified cash basis or to determine appropriate financial statement disclosures.

**Recommendation** – The City needs to 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 ensure that all journal entries are recorded and that supporting financial records agree with the general ledger for all accounts as needed at year-end to report on the modified cash basis. In addition, this person would be responsible for determining year-end financial disclosures are adequate..

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***Cash Receipts***

**2011-5 Condition** – Daily receipts could not be reconciled to bank deposits. Deposits are not being made within one business day. The same individual was involved in cashier duties, making utility adjustments, preparing and depositing cash.

**Criteria** – Accounting policies and procedures should specify the appropriate segregation of duties over cash receipts. There should be adequate segregation of duties among those who: open mail and collect cash, prepare deposits, deposit cash receipts, post cash receipts to customer accounts, authorize adjustments and process customer complaints. Individual cashiers should be assigned their own cash drawers and should close out and balance their drawer daily. Cash receipts should be deposited intact promptly and reconciled to daily receipt summary report as to cash and checks received.

**Context** – Daily cash receipts could not be reconciled to bank deposits.

**Effect** – Completeness of revenue transactions can not be determined.

**Cause** – Inadequate design of policies and procedures

**Recommendation** – We recommend the following.

1. All cashiers need to be assigned separate cash draws. Multiple individuals should not use the same cash drawer.
2. Each cashier needs to issue pre-numbered receipts for each transaction and maintain documentation of the receipt sequence issued, accounting for any voided receipts with the daily deposit.
3. Each cashier needs to reconcile their drawer at the end of each day to the receipt report for their transactions and account for the receipt sequence used.
4. Mail receipts need to be opened and posted by someone other than a cashier if possible. Otherwise, the mail needs to be opened by a non-cashier and a tape or other listing of items received prepared. The mail receipts can then given to a cashier to post. Those postings need to be compared to the listing of items received by someone other than the cashier.
5. Bank reconciliations need to be prepared and reviewed in a timely fashion. We recommend that this process be completed by the outside consultant as a strengthening of segregation of duties.
6. Daily cash receipts need to be reconciled to general ledger postings daily by a non-cashier.

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***Cemetery Care Fund***

**2011-6 Condition** – The City did not make the required deposit of cemetery care funds from lot sales and interments.

**Criteria** – Oklahoma Statutes Title 11 Section 26-109 requires that 12.5% of all revenue from lot sales and interments from municipally owned cemeteries should be deposited in the Cemetery Care Fund.

**Effect** – The required funds have not been deposited

**Recommendation** – We recommend a monthly review be instituted to determine that the required funds are deposited in the Cemetery Care Fund when lots are sold or interments occur.