

INDEPENDENT AUDITOR'S REPORT

CITY OF HEALDTON

JUNE 30, 2013

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Healdton, 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 the City of Healdton, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements. We were engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. As discussed in Note 1, the City prepares its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter(s) described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Disclaimer of Opinion on the Financial Statements

We were unable to obtain sufficient records supporting financial statement amounts because of discrepancies in the records. The inability to resolve this condition was due at least in part to the conditions noted in the State Auditor's Report date January 22, 2014.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Financial Statements" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements. Accordingly, we do not express an opinion on these financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5, 6 and 7 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Stanfield & Brim, P.C.

Lawton, Oklahoma

June 3, 2016

CITY OF HEALDTON, OKLAHOMA
Management Discussion and Analysis
June 30, 2013

Management's Discussion and Analysis ("MD&A") provides an overview of the City of Healdton's ("City") activities and financial performance for the fiscal's year ended June 30, 2013. Readers are encouraged to read the MD&A in conjunction with the basic financial statement that immediately follow, along with the letter of transmittal at the beginning of this presentation and with other portions of this financial report. All amounts have been rounded to the nearest dollar.

FINANCIAL HIGHLIGHTS

Below is the City's comparative summary statement of net assets for the years ended June 30, 2013 and 2012:

	City of Healdton		
	Summary Statement of Net Assets		
	For the year ended June 30,		
	2013	2012	% Change
<u>Assets</u>			
Current Assets			
Cash and Cash Equivalents	\$ 1,534,083	\$ 1,145,647	33.9%
Restricted Cash	285,921	287,738	-0.6%
Inventory	15,010	15,010	0.0%
Noncurrent Assets			
Land & Improvements & Construction in Progress	1,866,471	1,311,535	42.3%
Other Assets, Net of Depreciation	3,911,402	4,014,027	-2.6%
Total Asset	<u>7,612,887</u>	<u>6,773,957</u>	11.0%
<u>Liabilities</u>			
Current Liabilities			
Interest payable	62,546	-	100.0%
Bank Overdrafts	-	-	0.0%
Due to Landfill	-	-	0.0%
Bonds Pending Court	10,203	10,203	0.0%
Refundable Meter Deposits	65,716	65,716	0.0%
Bonds and Notes Payable-Current	139,608	235,794	-40.8%
Long-Term Liabilities			
Bonds and Notes Payable	2,372,796	2,319,160	2.3%
Total Liabilities	<u>2,650,869</u>	<u>2,630,873</u>	0.8%
<u>Net Position</u>			
Invested in Capital, Net of Related Debt	3,266,903	2,755,494	18.6%
Restricted	495,954	590,760	-16.0%
Unrestricted	1,199,161	796,830	50.5%
Total Net Position	<u>4,962,018</u>	<u>4,143,084</u>	19.8%
Total Liabilities and Net Position	<u>\$ 7,612,887</u>	<u>\$ 6,773,957</u>	12.4%

CITY OF HEALDTON, OKLAHOMA
Management Discussion and Analysis
June 30, 2013

FINANCIAL HIGHLIGHTS (Continued)

The net position of the City of Healdton improved by 20%, totaling \$4,962,018 in 2013 as compared to \$4,143,084 in 2012. This is a significant change in the city's net position from June 30, 2012. We believe the increase in cash and cash equivalents is a result of the necessity of re-creating the asset list for the City. The City also increased its Land and Construction in Progress during the year while decreasing Restricted Cash. Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or legal requirements—changed from a \$796,830 at the end of 2012 to a \$1,199,161 at the end of 2013. The City of Healdton's financial health and financial position are very sound.

The capital assets account predominantly consists of the water plant, sewer plant and equipment required and construction in progress related to the airport.

Next, the City's summary statement of activities is shown, below:

	City of Healdton		
	Summary of Activities		
	for the year ended June 30,		
	2013	2012	% change
Governmental Activities			
Charges for Services	383,942	391,187	-2%
Capital Grants and Contributions	624,909	-	100%
(Expenses)	<u>(960,528)</u>	<u>(964,464)</u>	0%
Net revenue (loss) from governmental activities	48,323	(573,277)	-108%
Business-type Activities			
Charges for Services	850,943	1,115,339	-24%
Capital grants and contributions	81,744	83,899	-3%
(Expenses)	<u>(1,195,231)</u>	<u>(1,477,279)</u>	-19%
Gain (loss) as a result of business-type activities.	(262,544)	(278,041)	-6%
General Revenue			
Taxes	1,640,445	932,821	76%
Investment Income	1,238	418	196%
Miscellaneous	46,171	64,030	-28%
Prior period error	-	194,987	-100%
Transfers (net)	<u>(654,699)</u>	<u>-</u>	100%
Total general revenue	<u>1,033,155</u>	<u>1,192,256</u>	-13%
Change in net position	818,934	340,938	140%
Net position June 30. 2012, 2011	<u>4,143,084</u>	<u>3,802,146</u>	9%
Net position June 30. 2012, 2013	<u><u>4,962,018</u></u>	<u><u>4,143,084</u></u>	20%

CITY OF HEALDTON, OKLAHOMA
Management Discussion and Analysis
June 30, 2013

FUTURE PLANS

City of Healdton's elected and appointed officials considered many factors when setting the fiscal-year 2013 budget, tax rates, and fees that will be charged for the business-type activities. The City of Healdton does not expect the sales tax revenue to decrease in the 2014 budget year given the lower unemployment rate in 2013 – 2014. Given these economic factors we still expect the city financial position to be sound.

CONTACT INFORMATION

For question and concern regarding Management's Discussion and Analysis or other sections of the report, please contact Gregory Parker, City Manager or a member of City Council at City Hall.

Phone Number: 580-229-1283

Address: 167 Franklin St., Healdton, Oklahoma 73438

BASIC FINANCIAL STATEMENTS

CITY OF HEALDTON, OKLAHOMA
Government-Wide Statement of Assets, Liabilities and Net Position – Modified Accrual Basis
For the Year Ended June 30, 2013

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 1,091,869	\$ 442,214	\$1,534,083
Inventory	-	15,010	15,010
Restricted Cash	-	285,921	285,921
Capital Assets			
Land, Land Improvements and Construction in Progress	1,272,662	593,809	1,866,471
Other Capital Assets, Net of Depreciation	1,439,428	2,471,974	3,911,402
Total Assets	\$ 3,803,959	\$ 3,808,928	\$7,612,887
LIABILITIES			
Interest Payable	-	62,546	62,546
Bonds Pending Court	10,203	-	10,203
Due to Other Funds	-	-	-
Refundable Meter Deposits	-	65,716	65,716
Long-term Liabilities			
Due Within One Year	1,434	138,174	139,608
Due in More than One Year	-	2,372,796	2,372,796
Total Liabilities	\$ 11,637	\$ 2,639,232	\$2,650,869
NET POSITION			
Invested in Capital Assets (net of related debt)	\$ 2,712,090	\$ 554,813	\$3,266,903
Restricted			
Streets	117,467	-	117,467
911 Emergency Service	4,557	-	4,557
Debt Service and Capital Projects	132,810	234,880	367,690
Cemetery	6,240	-	6,240
Unrestricted	819,158	380,003	1,199,161
Total Net Position	\$ 3,792,322	\$ 1,169,696	\$4,962,018
Total Liabilities and Net Position	\$ 3,803,959	\$ 3,808,928	\$7,612,887

The accompanying notes are an integral part of these financial statements.

CITY OF HEALDTON, OKLAHOMA
Government-Wide Statement of Revenues, Expenses, and Changes in Net Position – Modified Accrual Basis
For the Year ended June 30, 2013

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activity	Total
<i>Functions/Programs</i>							
Primary Government							
Governmental Activities							
General Government	\$ 106,531	\$ 43,994	\$ -	\$ 624,909	\$ 562,372	\$ -	\$ 562,372
Highways and Streets	157,338	-	-	-	(157,338)	-	(157,338)
Public Safety	424,665	36,719	-	-	(387,946)	-	(387,946)
Culture and Recreation	36,219	-	-	-	(36,219)	-	(36,219)
Cemetery	1,052	7,076	-	-	6,024	-	6,024
Garbage	234,723	296,153	-	-	61,430	-	61,430
Total Governmental Activities	\$ 960,528	\$ 383,942	\$ -	\$ 624,909	\$ 48,323	\$ -	\$ 48,323
Business-Type Activities							
General Government	\$ 254,526	\$ -	\$ -	\$ 81,744	\$ -	\$ (172,782)	\$ (172,782)
Water	531,461	600,091	-	-	-	68,630	68,630
Sewer	239,791	235,277	-	-	-	(4,514)	(4,514)
Cable	94,502	15,575	-	-	-	(78,927)	(78,927)
Garage	3,170	-	-	-	-	(3,170)	(3,170)
Interest Expense	71,781	-	-	-	-	(71,781)	(71,781)
Total Business-Type Activities	\$ 1,195,231	\$ 850,943	\$ -	\$ 81,744	\$ -	\$ (262,544)	\$ (262,544)
Total Primary Government	\$ 2,155,759	\$ 1,234,885	\$ -	\$ 706,653	\$ 48,323	\$ (262,544)	\$ (214,221)
General Revenues							
Taxes					\$ 798,746	\$ 296,983	\$ 1,095,729
Interest					767	471	\$ 1,238
Rent					-	-	\$ -
Miscellaneous					9,278	36,893	\$ 46,171
Transfers					(15,230)	(48,275)	\$ (63,505)
Total General Revenues and Transfers					\$ 793,561	\$ 286,072	\$ 1,079,633
Change in Net Position					\$ 841,884	\$ 23,528	\$ 865,412
Net Position - Beginning					2,950,438	1,146,168	4,096,606
Net Position - Ending					\$ 3,792,322	\$ 1,169,696	\$ 4,962,018

The accompanying notes are an integral part of these financial statements.

CITY OF HEALDTON, OKLAHOMA

Government-Wide Statement of Net Position – Modified Cash Basis
 Governmental Funds
 June 30, 2013

	General Fund	Water Plant Sales Tax Fund	Other Governmental Funds	Total
Assets				
Cash and Cash Equivalents	\$ 441,607	\$ 488,906	\$ 161,356	\$ 1,091,869
Total Assets	<u>\$ 441,607</u>	<u>\$ 488,906</u>	<u>\$ 161,356</u>	<u>\$ 1,091,869</u>
Liabilities				
Bonds Pending Court	\$ 10,203	\$ -	\$ -	\$ 10,203
Current Portion Long-Term Debt	1,434	-	-	1,434
Total Liabilities	<u>11,637</u>	<u>-</u>	<u>-</u>	<u>11,637</u>
Fund Balances				
Restricted	132,810	-	128,264	261,074
Assigned	251,292	488,906	-	740,198
Unassigned	45,868	-	33,092	78,960
Total Fund Balances	<u>429,970</u>	<u>488,906</u>	<u>161,356</u>	<u>1,080,232</u>
Total Liabilities and Fund Balances	<u>\$ 441,607</u>	<u>\$ 488,906</u>	<u>\$ 161,356</u>	<u>\$ 1,091,869</u>

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

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

\$ 2,712,090

Net position of governmental activities

\$ 3,803,959

The accompanying notes are an integral part of these financial statements.

CITY OF HEALDTON, OKLAHOMA

Statement of Revenues, Expenditures and Changes in Net Assets – Modified Cash Basis
 Governmental Funds
 For the Year Ended June 30, 2013

	General Fund	Water Plant Sales Tax Fund	Other Governmental Funds	Total
REVENUE				
Taxes	\$ 527,487	\$ 122,657	\$ 148,602	\$ 798,746
Charges for Services	46,960	-	1,713	48,673
Interest	195	429	143	767
Garbage Fees	296,153	-	-	296,153
License and Permits	39,116	-	-	39,116
Fines	9,273	-	-	9,273
Intergovernmental	-	-	624,909	624,909
Miscellaneous	-	-	5	5
Total Revenue	<u>\$ 919,184</u>	<u>\$ 123,086</u>	<u>\$ 775,372</u>	<u>\$ 1,817,642</u>
EXPENDITURES				
Current				
General Government	\$ 106,392	\$ 73	\$ -	\$ 106,465
Highways and Streets	-	-	156,138	156,138
Public Safety	422,198	-	-	422,198
Public Health and Welfare	-	-	15,704	15,704
Culture and Recreation	3,294	-	-	3,294
Cemetery	-	-	1,052	1,052
Airport	-	-	66	66
Garbage	234,723	-	-	234,723
Capital Outlay				
Culture and Recreation	-	-	-	-
Public Safety	2,467	-	-	2,467
REAP Grant	-	-	112,747	112,747
Highways and Streets	-	-	1,200	1,200
Airport	-	-	543,574	543,574
Total Expenditures	<u>\$ 769,074</u>	<u>\$ 73</u>	<u>\$ 830,481</u>	<u>\$ 1,599,628</u>
Excess (Deficiency) of Revenues (Over) Under Expenditures	<u>\$ 150,110</u>	<u>\$ 123,013</u>	<u>\$ (55,109)</u>	<u>\$ 218,014</u>
Other Financial Services				
Transfers In	\$ -	\$ 182	\$ 58,026	\$ 58,208
Transfers Out	(73,384)	-	-	(73,384)
Total Other Financing Sources	<u>(73,384)</u>	<u>182</u>	<u>58,026</u>	<u>(15,176)</u>
Net Change in Fund Balances	\$ 76,726	\$ 123,195	\$ 2,917	\$ 202,838
Fund Balances - Beginning	<u>\$ 353,244</u>	<u>\$ 365,711</u>	<u>\$ 158,439</u>	<u>\$ 877,394</u>
Fund Balances - Ending	<u><u>\$ 429,970</u></u>	<u><u>\$ 488,906</u></u>	<u><u>\$ 161,356</u></u>	<u><u>\$ 1,080,232</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF HEALDTON, OKLAHOMA
Statement of Net Position – Modified Accrual Basis
Proprietary Fund
June 30, 2013

Healdton
Municipal Authority

ASSETS	
Current Assets	
Cash and Cash Equivalent	\$ 442,214
Restricted Cash and Cash Equivalent	285,921
Cable Inventory	15,010
Total Current Assets	743,145
Noncurrent Assets	
Capital Assets	
Land and Construction in Progress	593,809
Other Capital Assets, Net of Depreciation	2,471,974
Total Noncurrent Assets	3,065,783
Total Assets	\$ 3,808,928
LIABILITIES AND EQUITY	
Current Liabilities	
Refundable Meter Deposits	\$ 65,716
Accrued Interest	62,546
Bonds and Notes Payable - Current	138,174
Total Current Liabilities	266,436
Noncurrent Liabilities	
Bonds and Notes Payable	2,372,796
Total Liabilities	2,639,232
Net Position	
Invested in Capital Assets, Net of Related Debt	554,813
Restricted of Debt Service (nonexpendable)	234,880
Unrestricted	380,003
Total Net Position	1,169,696
Total Net Position and Liabilities	\$ 3,808,928

The accompanying notes are an integral part of these financial statements.

CITY OF HEALDTON, OKLAHOMA
Statement of Revenue, Expenses and Changes in Net Assets – Modified Accrual Basis
Proprietary Fund
For the Year Ended June 30, 2013

	Healdton Municipal Authority
Operating Revenues:	
Water	\$ 600,091
Sewer	235,277
Cable	15,575
Total Operating Revenue	850,943
Operating Expenses:	
Administration	254,526
Water	531,461
Sewer	239,791
Garage	3,170
Cable	94,502
Total Operating Expenses	1,123,450
Operating Income (Loss)	(272,507)
Nonoperating Revenue (Expenses):	
Tax Income	841,699
Miscellaneous Income	36,893
Interest Income	471
Interest Expense	(71,781)
Total Nonoperating Revenues (Expenses)	807,282
Income (Loss) before Contributions and Transfers	534,775
Capital Contributions	81,744
Transfer In	-
Transfer Out	(639,469)
Net Change in Net Assets	(22,950)
Total Net Assets - Beginning	1,192,646
Total Net Assets - Ending	\$ 1,169,696

The accompanying notes are an integral part of these financial statements.

CITY OF HEALDTON, OKLAHOMA
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2013

	Healdton Municipal Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 850,943
Payments to Employees for Services	(300,357)
Payments to Vendors for Goods and Services	(645,451)
Net Cash Provided by Operating Activities	<u>(94,865)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	(4,400)
Capital Contributions	36,893
Interfund Transfers from Other Funds for Capital purposes	296,983
Proceeds from Capital Debt	81,744
Principal Paid on Capital Debt	(123,072)
Interest Paid on Capital Debt	(23,467)
Net Cash Used by Capital Financing Activities	<u>264,681</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	471
Net Cash Provided by Investing Activities	<u>471</u>
Net Decrease in Cash and Cash Equivalents	170,287
Cash and Cash Equivalents, Beginning of Year	<u>557,848</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 728,135</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Loss	\$ (272,507)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	177,642
Loss on Disposal of Assets	-
Increase in Refundable Meter Deposits	-
Total Adjustments	<u>177,642</u>
Net Cash Provided by Operating Activities	<u><u>\$ (94,865)</u></u>

The accompanying notes are an integral part of these financial statements.

City of Healdton
Notes to the Financial Statements
June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. 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.

2. 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 non-fiduciary 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 are normally 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
Notes to the Financial Statements
June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. 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 financials 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 the 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
Notes to the Financial Statements
June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. 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 statement.

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 governmental 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 system 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 related to compensation paid are recorded as liabilities.

City of Healdton
Notes to the Financial Statements
June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Government-wide and Fund Financial Statements (Continued)

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* 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 non-operating 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.

3. Assets, Liabilities, and Net Assets or Equity

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.

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
Notes to the Financial Statements
June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Assets, Liabilities, and Net Assets or Equity (Continued)

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 future deficiencies, or to meet unexpected contingencies or to fund asset renewals and replacements. Customer utility deposits are reported as restricted cash.

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

Fund Equity

Beginning July 1, 2010, the City implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.”

City of Healdton
Notes to the Financial Statements
June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Assets, Liabilities, and Net Assets or Equity (Continued)

This Statement more clearly defines 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.

Fund Balance Classification

The government 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 the 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:

Non-spendable – 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 had \$234,880 in non-spendable resources in the proprietary fund as of June 30, 2013.

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, 2013.

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.

City of Healdton
Notes to the Financial Statements
June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. 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, 2013, fund balances are composed of the following:

	General Fund	Water Plant Sales Tax Fund	Other Governmental	Total Governmental
Restricted				
Cemetery	\$ -	\$ -	\$ 6,001	\$ 6,001
Streets	132,810	-	58,047	190,857
911 Emergency Services	-	-	4,562	4,562
Grants	-	-	12,497	12,497
Airport	-	-	19,087	19,087
Capital Projects	-	-	28,070	28,070
Assigned				
Municipal Court	5,552	-	-	5,552
Capital Projects	61,077	488,906	33,092	583,075
Hospital	12	-	-	12
Landfill	184,184	-	-	184,184
Library	567	-	-	567
Unassigned	45,768	-	-	45,768
	<u>\$ 429,970</u>	<u>\$ 488,906</u>	<u>\$ 161,356</u>	<u>\$ 1,080,232</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.

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
Notes to the Financial Statements
June 30, 2013

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation of the \$2,712,090 difference between *fund balance – total government 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.” This would include the long term portion of Capital lease payments. There are no long term Capital lease payments due at this time.

Another element of that reconciliation is capital assets used in governmental activities that are not financial resources. The net value of these assets is \$2,712,090.

Capital Assets, Land & Construction	\$	1,272,662
Capital Assets		6,103,040
Less Accumulated Depreciation		(4,663,612)
	\$	<u>2,712,090</u>

2. 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 \$639,046 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.

Depreciation expense related to the governmental operations for the year ended June 30, 2013 was \$121,606.

City of Healdton
Notes to the Financial Statements
June 30, 2013

NOTE C – 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.

NOTE D – DEPOSITS

Deposit 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 federally insured limits, but was out of compliance with that statute, holding \$1,271,622 in excess of federally insured limits with no corresponding collateral at June 30, 2013.

City of Healdton
Notes to the Financial Statements
June 30, 2013

NOTE E – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Government Activities:				
Capital assets, not being depreciated				
Construction in Progress	58,558	554,936	-	613,494
Land	<u>659,168</u>	<u>-</u>	<u>-</u>	<u>659,168</u>
Total capital assets, not being depreciated	717,726	554,936	-	1,272,662
Capital assets, being depreciated				
Buildings	1,606,001	-	-	1,606,001
Computers and electronics	71,743	-	-	71,743
Vehicles	482,128	-	-	482,128
Furniture and fixtures	160,440	-	-	160,440
Equipment	307,019	7,090	-	314,109
Infrastructure	<u>3,269,993</u>	<u>198,626</u>	<u>-</u>	<u>3,468,619</u>
Total capital assets, being depreciated	5,897,324	205,716	-	6,103,040
Less accumulated depreciation	<u>4,542,006</u>	121,606	-	<u>4,663,612</u>
Total capital assets, being depreciated, net	<u>1,355,318</u>			<u>1,439,428</u>
Governmental activities capital assets, net	2,073,044			2,712,090
Business-type activities:				
Capital assets, not being depreciated				
Land	13,000	-	-	13,000
Construction in progress	<u>580,809</u>	<u>-</u>	<u>-</u>	<u>580,809</u>
Total capital assets, not being depreciated	593,809	-	-	593,809
Capital assets, being depreciated				
Buildings	28,340	-	-	28,340
Vehicles	268,959	-	-	268,959
Equipment	514,146	4,399	-	518,545
Computers	3,730	-	-	3,730
Cable System	1,237,630	-	-	1,237,630
Water System	13,873,964	5,472	-	13,879,436
Sewer System	<u>7,271,957</u>	<u>-</u>	<u>-</u>	<u>7,271,957</u>
Total capital assets, being depreciated	23,198,726	9,871	-	23,208,597
Less accumulated depreciation	<u>20,558,980</u>	177,642	-	<u>20,736,622</u>
Total capital assets, being depreciated, net	<u>2,639,746</u>			<u>2,471,975</u>
Business activities capital assets, net	<u>2,926,234</u>			<u>3,233,552</u>
Total Primary Government	<u>4,999,278</u>			<u>5,945,642</u>

City of Healdton
Notes to the Financial Statements
June 30, 2013

NOTE E – CAPITAL ASSETS (Continued)

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

Government activities:	
General government	\$ 37,609
Public safety	33,029
Culture and recreation	-
Highways and streets	50,968
Cemetery	-
	<hr/>
Total depreciation expense - governmental activities	<u>\$ 121,606</u>
Business-type activities:	
Water	\$ 86,577
Sewer	41,011
Cable	48,843
Administration	1,212
	<hr/>
Total depreciation expense - business-type activities	<u>\$ 177,643</u>

NOTE F – INTERFUND TRANSFERS

Interfund transfers as of June 30, 2013 consisted of the following:

	Transfers from			<u>Total</u>
	<u>General Fund</u>	<u>Healdton Municipal Authority</u>	<u>All Others</u>	
Transfers to:				
General Fund	\$ -	\$ 48,275	\$ -	\$ 48,275
Healdton Municipal Authority	15,176	-	-	15,176
All Others	58,208	-	-	58,208
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>\$ 73,384</u>	<u>\$ 48,275</u>	<u>\$ -</u>	<u>\$ 121,659</u>

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
Notes to the Financial Statements
June 30, 2013

NOTE G – LONG-TERM LIABILITIES

A summary of long-term liability activity for the year ended June 30, 2013 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities					
Capital Lease Obligations	\$ 1,434	\$ -	\$ -	\$ 1,434	\$ 1,434
Business-type Activities					
Bonds Payable	2,030,000	-	95,000	1,935,000	100,000
Notes Payable	522,298	81,744	28,072	575,970	38,174
	<u>\$ 2,553,732</u>	<u>\$ 81,744</u>	<u>\$ 123,072</u>	<u>\$ 2,512,404</u>	<u>\$ 139,608</u>

Business-type activities long-term liabilities at June 30, 2013 consisted of the following:

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Installments	Original Issue Amount	Outstanding at June 30, 2013
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	\$ 1,935,000
Oklahoma Water Resource Board (Construct improvements to water system)	March 2040	3.35%	Variable	1,700,000	<u>575,970</u>
					<u>\$ 2,510,970</u>

As of June 30, 2013, annual debt service requirements of the business-type activities to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 143,000	\$ 109,852
2015	148,000	104,353
2016	153,000	97,850
2017	158,000	91,182
2018	163,000	84,106
Thereafter	1,745,970	386,498
	<u>\$ 2,510,970</u>	<u>\$ 873,841</u>

City of Healdton
Notes to the Financial Statements
June 30, 2013

NOTE G – LONG-TERM LIABILITIES (Continued)

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

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.

NOTE H – RESTRICTED ASSETS

Restricted cash as of June 30, 2013 is as follows:

Funds restricted for debt service reserves	
Utility Revenue Bond	<u>\$ 193,840</u>
Funds restricted for other purposes	
Meter deposits	<u>\$ 92,081</u>

NOTE I – PENSION PLANS

Municipal Retirement Plan

The City of Healdton and its employees participate in the Oklahoma Municipal Retirement Fund (OMRF). 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.

City of Healdton
Notes to the Financial Statements
June 30, 2013

NOTE I – PENSION PLANS (Continued)

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:

<u>Year Ending June 30,</u>	<u>Cost (APC)</u>
2013	\$ 38,721
2012	32,042
2011	26,720
2010	24,042

NOTE J – 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, 2013 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.

NOTE K – 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 the order.

SUPPLEMENTARY INFORMATION

CITY OF HEALDTON, OKLAHOMA

General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
(Modified Cash Basis)
For the year ended June 30, 2013

	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
REVENUE			
Taxes	481,350	527,487	10%
Charges for Services	13,515	46,960	247%
Interest	-	195	
Garbage Fees	-	296,153	
License and Permits	4,600	39,116	750%
Fines	62,450	9,273	-85%
Miscellaneous	28,100	-	-100%
Total Revenue	<u>590,015</u>	<u>919,184</u>	56%
EXPENDITURES			
Current			
General Government	111,450	106,392	-5%
Highways and Streets	172,800	-	-100%
Public Safety	367,000	422,197	15%
Culture and Recreation	3,200	3,294	3%
Cemetery	2,500	-	-100%
Garbage	-	234,723	
Capital Outlay			
Public Safety	-	2,468	100%
Total Expenditures	<u>656,950</u>	<u>769,074</u>	17%
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(66,935)	150,110	-324%
Other Financing Sources			
Transfers In	-	-	0%
Transfers Out	-	(73,384)	100%
Total Other Financing Sources	<u>-</u>	<u>(73,384)</u>	
Net Change in Fund Balances			
Fund Balances - Beginning	(66,935)	76,726	-215%
Fund Balances - Beginning	<u>353,244</u>	<u>353,244</u>	0%
Fund Balances - Ending	<u><u>286,309</u></u>	<u><u>429,970</u></u>	50%

CITY OF HEALDTON, OKLAHOMA

Non-Major Governmental Funds
 Statement of Assets, Liabilities, and Net Assets
 (Modified Cash Basis)
 June 30, 2013

	<u>Special Street</u>	<u>911 Emergency</u>	<u>REAP Grant</u>	<u>Airport</u>	<u>Capital Improvements</u>	<u>Cemetery</u>	<u>Total</u>
Assets							
Cash	58,047	4,562	12,497	19,087	61,162	6,001	161,356
Total Assets	<u>58,047</u>	<u>4,562</u>	<u>12,497</u>	<u>19,087</u>	<u>61,162</u>	<u>6,001</u>	<u>161,356</u>
Liabilities	-	-	-	5,438	-	-	5,438
Fund balances							
Restricted	58,047	4,562	12,497	19,087	28,070	6,001	128,264
Assigned	-	-	-	-	33,092	-	33,092
Unassigned	-	-	-	-	-	-	-
Total fund balances	<u>58,047</u>	<u>4,562</u>	<u>12,497</u>	<u>19,087</u>	<u>61,162</u>	<u>6,001</u>	<u>161,356</u>
Total liabilities and fund balances	<u>58,047</u>	<u>4,562</u>	<u>12,497</u>	<u>24,525</u>	<u>61,162</u>	<u>6,001</u>	<u>166,794</u>

CITY OF HEALDTON, OKLAHOMA

Non-Major Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 (Modified Cash Basis)
 For the year ended June 30, 2013

	<u>Special Street</u>	<u>911 Emergency</u>	<u>REAP Grant</u>	<u>Airport Grant</u>	<u>Capital Improvement</u>	<u>Cemetery</u>	<u>Total</u>
REVENUE							
Taxes	22,841	-	-	-	2,923	122,838	148,602
Interest	54	-	-	33	56	-	143
Charges for services	5	-	-	-	-	1,713	1,718
Intergovernmental	-	-	45,414	579,495	-	-	624,909
Total revenue	<u>22,900</u>	<u>-</u>	<u>45,414</u>	<u>579,528</u>	<u>2,979</u>	<u>124,551</u>	<u>775,372</u>
EXPENDITURES							
Current							
General government	-	-	-	-	-	-	-
Highways and streets	156,138	-	-	-	-	-	156,138
Public safety	-	-	-	-	-	-	-
Public health and welfare	-	-	15,704	-	-	-	15,704
Culture and recreation	-	-	-	-	-	-	-
Airport	-	-	-	-	-	-	-
Capital outlay							
Airport	-	-	-	543,640	-	-	543,640
Highways and streets	1,200	-	-	-	-	-	1,200
Culture and recreation	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Public health and welfare	-	-	112,747	-	-	1,052	113,799
Cemetery	-	-	-	-	-	-	-
Total expenditures	<u>157,338</u>	<u>-</u>	<u>128,451</u>	<u>543,640</u>	<u>-</u>	<u>1,052</u>	<u>830,481</u>
Transfers							
Transfers in	96,666	6	95,528	-	-	-	192,200
Transfers out	-	-	-	(11,363)	(1,025)	(121,786)	(134,174)
	<u>96,666</u>	<u>6</u>	<u>95,528</u>	<u>(11,363)</u>	<u>(1,025)</u>	<u>(121,786)</u>	<u>58,026</u>
Net change in fund balances	(37,772)	6	12,491	24,525	1,954	1,713	2,917
Fund balances - beginning	<u>95,819</u>	<u>4,556</u>	<u>6</u>	<u>(5,438)</u>	<u>59,208</u>	<u>4,288</u>	<u>158,439</u>
Fund balances - ending	<u>58,047</u>	<u>4,562</u>	<u>12,497</u>	<u>19,087</u>	<u>61,162</u>	<u>6,001</u>	<u>161,356</u>

CITY OF HEALDTON, OKLAHOMA

802 SW A Avenue
Lawton, Oklahoma 73501
580.353.2376 tel 580.355.7569 fax



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

To the City Council
City of Healdton, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Healdton, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Healdton, Oklahoma basic financial statements and have issued our report thereon dated June X, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Healdton, Oklahoma's internal control over financial reporting (internal control) and the City of Healdton Investigative Report from Oklahoma State Auditor and Inspector's report dated January 22, 2014 to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Healdton, Oklahoma internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Healdton, Oklahoma's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, which we obtained from the Oklahoma State Auditor and Inspector, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

CITY OF HEALDTON, OKLAHOMA

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 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Healdton, Oklahoma's financial statements are free from material misstatement, we did not perform 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. We relied on the Oklahoma State Auditor and Inspector's report. 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 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 questioned costs as items.

City of Healdton, Oklahoma's Response to Findings

City of Healdton, Oklahoma's response to the findings identified in the State Auditor's report date January 22, 2014, is described in the accompanying schedule of findings and questioned costs. City of Healdton, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Stanfield & Brim, P.C.

Lawton, Oklahoma
June 3, 2016

CITY OF HEALDTON, OKLAHOMA

**Schedule of Findings and Questions Cost from the State Auditors Report
Dated January 22, 2014**

Finding #1: Funds were misappropriated through the former City Treasurer's office.

Conditions: There were ineffective controls in place for cash receipts and so the controls were easily circumvented so that cash could be removed.

Effects:

- A method often used to misappropriate funds was identified. This method is usually referred to as a check-for-cash substitution scheme. The amount of alleged misappropriation identified was \$42,704.57.
- A second method of misappropriation was identified. The second method was a simple cash larceny scheme. Cash, which had been received, was apparently taken and not deposited. The amount of alleged misappropriation identified was \$37,053.39.
- Some daily receipt reports were missing.
- Out of 214 receipt numbers that were missing from the daily receipt reports reviewed, only twenty could be accounted for.
- A printed receipt that conflicts with the amounts recorded on the computer system was found, indicating the potential for additional unreliable records.

Cause: A lack of proper segregation of duties allowed the treasurer to circumvent the limited controls in place.

Criteria: When handling cash the duties of collecting, recording and depositing should be segregated appropriately to reduce the likelihood of theft.

Recommendation: We recommend the duties be segregated and monitored to ensure the continued adherence to the proper policy. This includes issuing a sequentially numbered receipt record for every payment and using a second person to make the deposit timely while reconciling the deposit to the receipt records.

Management Response:

As of 9/8/2015: - The City Council has enacted financial internal control policy that identifies risks and implements control procedures. These control procedures focus on segregation of incompatible duties to increase accountability and reduces the risk that any employees will be able to carry out and conceal errors or fraud in the normal course of their duties without being

CITY OF HEALDTON, OKLAHOMA

**Schedule of Findings and Questions Cost from the State Auditors Report
Dated January 22, 2014**

detected. There are three categories of duties or responsibilities that are adhered to within the city's segregation of duties:

- Custody of assets
- Authorization or approval of transactions affecting those assets
- Recording or reporting of related transactions.
-

City employees performing any one of the above functions will not also have responsibilities in either of the other two functions. The objective of the city's segregation of duties is to prevent one person from having access to assets and responsibility for maintaining the accountability or authorizing transactions affecting those assets. To ensure these control procedures are effective, city treasurer and or the city manager will regularly review available documentation and accounting records to confirm that controls are being executed as designed.

Finding #2: The City Council and or the management ignored the prior findings in the City's annual audit report.

Condition: Those charged with governance ignored their obligation to investigate and resolve these ongoing issues reported to them.

Effect: No effort was made to monitor or change the management of City funds and resources. The misappropriation of funds continued for an undetermined period of time without resolution.

Criteria: The City Charter, Section 2-4 outlines the powers of the Council. These include:

“Determinations of all matters of policy and to inquire into the conduct of any office, department or agency of the city government and investigate municipal affairs; and for this purpose to subpoena witnesses, take testimony and require production of evidence.

All members of the governing board also have a fiduciary responsibility to act in the best interest of the citizens and the municipality as a whole.”

Recommendation: We recommend that the City Council and the Mayor review the annual audit make inquiries as necessary to understand the results and take any action needed to resolve the findings appropriately including continued ongoing monitoring of changes made to ensure that new policy are being adhered to.

CITY OF HEALDTON, OKLAHOMA

**Schedule of Findings and Questions Cost from the State Auditors Report
Dated January 22, 2014**

Management Response:

As of 9/8/2015: - The City of Healdton is committed to protecting its financial assets for the benefit of our citizens. The City is also committed to integrity, to diligence in investigating discrepancies and fraud. Proper financial practices are very important in preventing and detect errors and fraud; they also assure our citizens that we are using their tax revenue for the purposes for which it was intended. To that end, the City of Healdton will display its commitment by:

- 1) Enacting a Code of Conduct that will be given to and signed by all employees.
- 2) Enacting financial internal control policy that will be given to and signed by all employees.
- 3) Timely investigate any and all allegations of noncompliance of its code of conduct and or internal control policy by employees.
- 4) Sending employees, that deal with or that are exposed to city funds, to ethics training at least once every three years. This includes but not limited to; the mayor, each city council member, city treasurer, deputy treasurer, city *clerk*, *payment clerks*.

Finding #3: Checks were cashed for employees, some of which were drawn on accounts with insufficient funds and one personal check from 2002 was found still un-deposited during the 2011 audit.

Condition: In spite of the fact that the city hall shares an alleyway with a local bank, City employees were allowed to cash personal checks as well as two-party checks at city hall. Some of these were returned as uncollectible.

Effect: Cash was improperly removed from the City's funds in what appears to be a "loan" arrangement where employees would cash checks when they had no funds in their personal bank.

Criteria: The City Treasurer has a fiduciary responsibility to care for any money that belongs to the City. There should be clearly documented rules prohibiting allowing anyone to remove cash from the office. All money collected should be deposited into the City's bank account.

According to the City Charter, Article IV, Sec 4-1:

"...the city treasurer or personnel under his supervision and control shall collect or receive revenue and other money for the city; shall be responsible for its custody, safekeeping, deposit, and disbursement; shall maintain a general accounting system for the city government..."

CITY OF HEALDTON, OKLAHOMA

**Schedule of Findings and Questions Cost from the State Auditors Report
Dated January 22, 2014**

Recommendation: There should be clearly documented policies and procedures on the handling of cash designed to prevent misappropriation. The adherence to these procedures should be monitored and enforced.

Management Response:

As of 9/8/2015: - The City Council has enacted financial internal control policy that identifies risks and implements control procedures. These control procedures focus clearly state that NO personal or payroll checks will be cashed from moneys in cash drawers. Further, cash is deposited daily and cash receipts are intact. City Treasurer performs bank reconciliation and is the final custodian of all deposit slips. To ensure these control procedures are effective, the city manager will regularly review available documentation and accounting records to confirm that these controls are being executed as designed.