

CITY OF HOLLIS, OKLAHOMA

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2011

**CITY OF HOLLIS, OKLAHOMA
CITY OFFICIALS
JUNE 30, 2011**

CITY COUNCIL

Mayor	Kendall Williams
Vice-Mayor	Darrell Hanks
Member	Dennis Goolsby
Member	Charles Paxton
Member	Tammy Worthen

CITY MANAGER

Bob Copeland

CITY CLERK

Dee Phillips

CITY TREASURER

Monica Mingura

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McCulley



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McCulley

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Hollis, 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 Hollis, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The basic financial statements do not include the capital assets or infrastructure assets in the governmental activities and, accordingly, has not recorded depreciation expense or accumulated depreciation on those assets. Accounting principles generally accepted in the United States of America require that those general capital and infrastructure assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which

this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the City of Hollis, Oklahoma, as of June 30, 2011, and the changes in financial position thereof for the year then ended.

The City's enterprise fund, Hollis Public Works Authority, does not capitalize nor maintain a detail list of its capital assets. The amount that should be recorded on the financial statements as capital assets, depreciation expense and accumulated depreciation is not determinable. Accounting principles generally accepted in the United States of America require that these capital assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the business-type activities.

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and cash flows, where applicable, of the business-type activities of the City of Hollis, Oklahoma, as of June 30, 2011, and the changes in financial position thereof for the year then ended.

Additionally, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, except for the Hollis Public Works Authority as noted above, and the aggregate remaining fund information of the City of Hollis, Oklahoma, at June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated April 17, 2012, on our consideration of the City of Hollis, Oklahoma, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

The City has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements. The

budgetary comparison information on pages 29 - 30 are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying financial information presented in the Other Supplemental Information section is presented for purposes of additional analysis and is not a required part of the basic financial statements of the City of Hollis, Oklahoma. For reasons stated in the third paragraph above, the financial statements referred to above do not present fairly in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities and the changes in financial position. Accordingly, we do not express an opinion on the accompanying combining and individual nonmajor fund financial statements.

McCulley & McCulley

Weatherford, Oklahoma

April 17, 2012

CITY OF HOLLIS, OKLAHOMA
STATEMENT OF NET ASSETS
June 30, 2011

PRIMARY GOVERNMENT

ASSETS	PRIMARY GOVERNMENT		
	GOVERN- MENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
Cash on Hand	\$ 200	\$ 150	\$ 350
Cash in Bank, Including Time Deposits	627,455	590,530	1,217,985
Accounts Receivable:			
Services	8,471	121,646	130,117
Taxes	48,660		48,660
Intergovernmental	24,619		24,619
Less Allowance for Bad Debts		(42,849)	(42,849)
Prepaid Expenses	9,204		9,204
Due from (to) Other Funds	8,196	1,093	9,289
Restricted Assets:			
Cash in Bank, Including Time Deposits	175,321	70,470	245,791
Accrued Interest Receivable	1,276		1,276
Capital Assets			
Net of Accumulated Depreciation		43,504	43,504
TOTAL ASSETS	903,402	784,544	1,687,946
LIABILITIES			
Accounts Payable	8,390	6,142	14,532
Accrued Payroll Liabilities	2,239	1,223	3,462
Customer Deposits		67,706	67,706
Long-term Liabilities:			
Due Within One Year	11,910	17,699	29,609
Due in More Than One Year	18,612	18,702	37,314
TOTAL LIABILITIES	41,151	111,472	152,623
NET ASSETS			
Investment in Capital Assets, Net of Related Debt		18,474	18,474
Restricted Net Assets			
Restricted for Debt Service		2,764	2,764
Restricted for Permanent Fund	176,597		176,597
Unrestricted Net Assets	685,654	651,834	1,337,488
TOTAL NET ASSETS	\$ 862,251	\$ 673,072	\$ 1,535,323

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CON- TRIBUTIONS	CAPITAL GRANTS AND CON- TRIBUTIONS	PRIMARY GOVERNMENT	
					GOVERN- MENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES
PRIMARY GOVERNMENT						
Governmental Activities:						
General Government	\$ 275,042	\$	\$	\$	\$ (275,042)	\$ (275,042)
Civic Center	5,877	4,210			(1,667)	(1,667)
Police Department	393,847	25,309			(368,538)	(368,538)
Fire Department	43,431	26,284	4,398		(12,749)	(12,749)
Cemetery	8,245	6,978			(1,267)	(1,267)
Airport	21,093	15,602			(5,491)	(5,491)
Street Department	29,647		21,346		(8,301)	(8,301)
Community Work Center	63,748	91,387			27,639	27,639
Parks Department	13,040	6,676			(6,364)	(6,364)
Animal Control	2,902				(2,902)	(2,902)
Library	7,131				(7,131)	(7,131)
Capital Improvements	468,006	6,252		468,943	7,189	7,189
TOTAL GOVERNMENTAL ACTIVITIES	1,332,009	182,698	25,744	468,943	(654,624)	0
Business-type Activities:						
General Government	27,718				(27,718)	(27,718)
Water and Sewer Department	319,913	640,935			321,022	321,022
Sanitation Department	191,035	207,561			16,526	16,526
Rental Operations	19,270	32,775			13,505	13,505
Capital Improvements	81,149				(81,149)	(81,149)
Interest Expense	2,312				(2,312)	(2,312)
Cemetery	79	2,076			1,997	1,997
TOTAL BUSINESS-TYPE ACTIVITIES	641,476	883,347	0	0	0	241,871
TOTAL PRIMARY GOVERNMENT	\$ 1,973,485	\$ 1,066,045	\$ 25,744	\$ 468,943	(654,624)	241,871
General Revenues						
Sales and Use Taxes					248,000	248,000
Tobacco Taxes					3,334	3,334
Intergovernmental Revenue					45,695	45,695
Franchise Taxes					83,363	83,363
Interest Income					9,594	7,795
License, Permits, and Inspections					735	735
Donations						11,544
Loss on Disposition of Property						(181)
Other Income					2,830	15,140
Transfers					275,000	(275,000)
Total General Revenues and Transfers					668,551	(240,702)
Change in Net Assets					13,927	1,169
NET ASSETS						
Beginning of Year					848,324	671,903
Prior Period Adjustment					0	0
End of Year					\$ 862,251	\$ 673,072
						\$ 1,535,323

The accompanying notes are an integral part of these statements.

CITY OF HOLLIS, OKLAHOMA
BALANCE SHEET - GOVERNMENTAL FUNDS -
MODIFIED ACCRUAL BASIS
June 30, 2011

	GENERAL FUND	FAA 3-40- 0042-001-2010 GRANT	FIRE CAPITAL IMPROVE- MENT FUND	FAIRMOUNT CEMETERY TRUST FUND	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
ASSETS						
Cash on Hand	\$ 200	\$	\$	\$	\$	\$ 200
Cash in Bank, Including Time Deposits	67,990	23,793	220,955		314,717	627,455
Due from Other Funds	9,717				29,137	38,854
Prepaid Expenses	7,004				2,200	9,204
Accounts Receivable:						
Services			717		7,754	8,471
Taxes	48,660				0	48,660
Intergovernmental	3,385				21,234	24,619
Restricted Assets:						
Cash in Bank, Including Time Deposits				175,321		175,321
Accrued Interest Receivable				1,276		1,276
TOTAL ASSETS	\$ 136,956	\$ 23,793	\$ 221,672	\$ 176,597	\$ 375,042	\$ 934,060
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts Payable	\$ 458	\$ 4,034	\$	\$	\$ 3,898	\$ 8,390
Accrued Payroll Liabilities	2,239					2,239
Due to Other Funds	10,899	19,759				30,658
TOTAL LIABILITIES	13,596	23,793	0	0	3,898	41,287
FUND BALANCES						
Nonspendable	7,004			102,761	2,200	111,965
Restricted				73,836	48,241	122,077
Committed			124,477		234,700	359,177
Assigned			97,195		86,003	183,198
Unassigned	116,356					116,356
TOTAL FUND BALANCES	123,360	0	221,672	176,597	371,144	892,773
TOTAL LIABILITIES AND FUND BALANCES	\$ 136,956	\$ 23,793	\$ 221,672	\$ 176,597	\$ 375,042	

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

Long-term accrued compensated absences are reported in the General Long-term Debt Account Group and therefore are not reported in the funds.	(30,522)
Net Assets of Governmental Activities	\$ 862,251

The accompanying notes are an integral part of these statements.

CITY OF HOLLIS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS - MODIFIED ACCRUAL
YEAR ENDED JUNE 30, 2011

	GENERAL FUND	FAA 3-40- 0042-001-2010 GRANT	FIRE CAPITAL IMPROVE- MENT FUND	FAIRMOUNT CEMETERY TRUST FUND	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
REVENUES						
Sales and Use Tax	\$ 248,000	\$	\$	\$	\$	\$ 248,000
Cigarette Tax	3,334					3,334
Intergovernmental Revenue	43,626	277,043			219,713	540,382
Franchise Tax	83,363					83,363
Interest	1,322		2,649	2,150	3,473	9,594
Charges for Services			8,374		127,412	135,786
Donations					610	610
Short-term Rental of Facilities					10,020	10,020
Property Sales					134	134
Fines	19,680					19,680
Airplane Fuel					9,792	9,792
Swimming Pool	6,676					6,676
Licenses, Permits & Inspections	735					735
Other Income	2,830					2,830
TOTAL REVENUES	<u>409,566</u>	<u>277,043</u>	<u>11,023</u>	<u>2,150</u>	<u>371,154</u>	<u>1,070,936</u>
EXPENDITURES						
General Government	273,542					273,542
Civic Center	5,809				68	5,877
Police Department	397,104					397,104
Fire Department	33,741				9,690	43,431
Cemetery					8,245	8,245
Airport					21,093	21,093
Street Department	7,800				21,847	29,647
Community Work Center					63,748	63,748
Parks Department	13,040					13,040
Animal Control	2,902					2,902
Library	7,131					7,131
Capital Outlays	17,400	244,024	0		206,582	468,006
TOTAL EXPENDITURES	<u>758,469</u>	<u>244,024</u>	<u>0</u>	<u>0</u>	<u>331,273</u>	<u>1,333,766</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	<u>(348,903)</u>	<u>33,019</u>	<u>11,023</u>	<u>2,150</u>	<u>39,881</u>	<u>(262,830)</u>
OTHER FINANCING SOURCES (USES)						
Operating Transfers In	311,000	14,581			2,482	328,063
Operating Transfers (Out)				(800)	(52,263)	(53,063)
TOTAL OTHER FINANCING	<u>311,000</u>	<u>14,581</u>	<u>0</u>	<u>(800)</u>	<u>(49,781)</u>	<u>275,000</u>
NET CHANGE IN FUND BALANCES	<u>(37,903)</u>	<u>47,600</u>	<u>11,023</u>	<u>1,350</u>	<u>(9,900)</u>	<u>12,170</u>
FUND BALANCE						
Beginning of Year	146,999		210,649	175,247	333,444	866,339
Prior Period Adjustment	14,264	(47,600)			47,600	14,264
End of Year	<u>\$ 123,360</u>	<u>\$ 0</u>	<u>\$ 221,672</u>	<u>\$ 176,597</u>	<u>\$ 371,144</u>	<u>\$ 892,773</u>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 12,170
Amounts reported for governmental activities in the Statement of Activities are different because:	
Changes in Accrued Compensated Absences are reported in the Government-wide Statement of Activities as an expense. They are not reported in the funds.	1,757
Governmental capital outlays are not capitalized, auditor's report modified.	<u>0</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 13,927</u>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF NET ASSETS
ALL ENTERPRISE FUNDS -
PROPRIETARY FUND TYPE
JUNE 30, 2011**

	BUSINESS- TYPE ACTIVITIES		TOTALS
	PUBLIC WORKS AUTHORITY	HOLLIS ECON. DEV. AUTHORITY	
ASSETS			
Current Assets:			
Cash on Hand	\$ 150	\$	\$ 150
Cash in Bank	578,654	11,876	590,530
Due from Other Funds	1,273		1,273
Accounts Receivable - Services	121,646		121,646
Allowance for Bad Debts	(42,849)		(42,849)
Total Current Assets	<u>658,874</u>	<u>11,876</u>	<u>670,750</u>
Noncurrent Assets:			
Restricted Cash	66,746	3,724	70,470
Capital Assets			
Net of Accumulated Depreciation		43,504	43,504
Total Noncurrent Assets	<u>66,746</u>	<u>47,228</u>	<u>113,974</u>
TOTAL ASSETS	<u>725,620</u>	<u>59,104</u>	<u>784,724</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	6,142		6,142
Accrued Payroll Liabilities	1,223		1,223
Due to Other Funds	180		180
Customer Refundable Deposits	66,746	960	67,706
Accrued Compensated Absences	6,563		6,563
Current Capital Lease Obligation	10,342		10,342
Current Mortgage Payable		794	794
Total Current Liabilities	<u>91,196</u>	<u>1,754</u>	<u>92,950</u>
Noncurrent Liabilities			
Mortgage Payable		13,894	13,894
Capital Lease Obligations			0
Accrued Compensated Absences	4,808		4,808
Total Noncurrent Liabilities	<u>4,808</u>	<u>13,894</u>	<u>18,702</u>
TOTAL LIABILITIES	<u>96,004</u>	<u>15,648</u>	<u>111,652</u>
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	(10,342)	28,816	18,474
Restricted Net Assets			
Restricted for Debt Service		2,764	2,764
Unrestricted Net Assets	<u>639,958</u>	<u>11,876</u>	<u>651,834</u>
TOTAL NET ASSETS	<u>\$ 629,616</u>	<u>\$ 43,456</u>	<u>\$ 673,072</u>

The accompanying notes are an integral part of these statements.

CITY OF HOLLIS, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS - ALL ENTERPRISE FUNDS
PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2011

	BUSINESS- TYPE ACTIVITIES		TOTALS
	PUBLIC WORKS AUTHORITY	HOLLIS ECON. DEV. AUTHORITY	
OPERATING REVENUES			
Water Sales	\$ 466,301	\$	\$ 466,301
Garbage Collections	207,561		207,561
Sewer Sales	174,634		174,634
Rental Income		3,594	3,594
Rental and Other Subsidies		29,181	29,181
Sale of Cemetery Lots			0
Cemetery Fees	2,076		2,076
Donation	11,544		11,544
Other Miscellaneous Revenue	10,190	4,950	15,140
TOTAL OPERATING REVENUES	<u>872,306</u>	<u>37,725</u>	<u>910,031</u>
OPERATING EXPENSES			
General Government	27,718		27,718
Water and Sewer Department	319,913		319,913
Sanitation Department	191,035		191,035
Rental Operations		19,270	19,270
Capital Improvements	81,149		81,149
Cemetery	79		79
TOTAL OPERATING EXPENSES	<u>619,894</u>	<u>19,270</u>	<u>639,164</u>
INCOME (LOSS) FROM OPERATIONS	<u>252,412</u>	<u>18,455</u>	<u>270,867</u>
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental Revenue			0
Interest Income	7,781	14	7,795
Loss on Disposition of Property		(181)	(181)
Interest Expense	(1,350)	(962)	(2,312)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>6,431</u>	<u>(1,129)</u>	<u>5,302</u>
INCOME BEFORE OPERATING TRANSFERS	<u>258,843</u>	<u>17,326</u>	<u>276,169</u>
OPERATING TRANSFERS IN (OUT)			
Operating Transfers (Out)	(275,000)		(275,000)
TOTAL OPERATING TRANSFERS	<u>(275,000)</u>	<u>0</u>	<u>(275,000)</u>
CHANGE IN NET ASSETS	(16,157)	17,326	1,169
NET ASSETS			
Beginning of Year	645,773	26,130	671,903
End of Year	<u>\$ 629,616</u>	<u>\$ 43,456</u>	<u>\$ 673,072</u>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF CASH FLOWS
ALL ENTERPRISE FUNDS - PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2011**

	BUSINESS- TYPE ACTIVITIES		TOTALS
	PUBLIC WORKS AUTHORITY	HOLLIS ECON. DEV. AUTHORITY	
	\$	\$	
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 856,080	\$ 8,544	\$ 864,624
Cash Received from Other Sources		29,341	29,341
Cash Paid to Suppliers	(384,494)	(14,654)	(399,148)
Cash Paid to Employees	(223,249)		(223,249)
Net Cash Provided by Operating Activities	<u>248,337</u>	<u>23,231</u>	<u>271,568</u>
Cash Flows from Noncapital Financing Activities			
Increase in Due from Other Funds	(1,273)		(1,273)
Operating Transfers (Out)	(275,000)		(275,000)
Net Cash (Used for) Noncapital Financing Activities	<u>(276,273)</u>	<u>0</u>	<u>(276,273)</u>
Cash Flows from Capital and Related Financing Activities			
Principal Paid on Capital Lease Obligations	(9,689)		(9,689)
Interest Paid on Capital Lease Obligations	(1,350)		(1,350)
Interest Paid on Mortgage Payable		(962)	(962)
Principal Paid on Mortgage Payable		(746)	(746)
Net Cash (Used for) Capital and Related Financing Activities	<u>(11,039)</u>	<u>(1,708)</u>	<u>(12,747)</u>
Cash Flows from Investing Activities			
Interest Received on Deposits	7,781	(13,230)	(13,230)
Net Cash Provided by (Used for) Investing Activities	<u>7,781</u>	<u>(13,216)</u>	<u>(5,435)</u>
Increase (Decrease) in Cash and Cash Equivalents	(31,194)	8,307	(22,887)
Balance of Cash and Cash Equivalents			
Beginning of Year	676,744	7,293	684,037
End of Year	<u>\$ 645,550</u>	<u>\$ 15,600</u>	<u>\$ 661,150</u>
Reconciliation of Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:			
Operating Income	\$ 252,412	\$ 18,455	\$ 270,867
Adjustments to Reconcile Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:			
Depreciation Expense		4,616	4,616
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	(18,846)	160	(18,686)
Increase in Allowance for Bad Debt	7,053		7,053
Increase in Due to Other Funds	180		180
Increase in Accounts Payable	3,235		3,235
Increase in Accrued Payroll Liabilities	1,223		1,223
Increase in Accrued Expenses Payable	460		460
Increase in Customer Deposits	2,620		2,620
Total Adjustments	<u>(4,075)</u>	<u>4,776</u>	<u>701</u>
Net Cash and Cash Equivalents Provided by Operating Activities	<u>\$ 248,337</u>	<u>\$ 23,231</u>	<u>\$ 271,568</u>

The accompanying notes are an integral part of these statements.

CITY OF HOLLIS, OKLAHOMA
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2011

ASSETS	<u>AGENCY FUNDS</u>
Cash in Bank, Including Time Deposits	\$ 12,884
Due from Other Funds	<u>1,822</u>
TOTAL ASSETS	\$ <u>14,706</u>
LIABILITIES	
Accounts Payable	\$ 3,595
Due to Other Funds	<u>11,111</u>
TOTAL LIABILITIES	\$ <u>14,706</u>
NET ASSETS	

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1. Summary of Significant Accounting Policies.

The accounting policies of the City of Hollis, Oklahoma, (the City) conform to accounting principles generally accepted in the United States of America as applicable to governments. These standards are set by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies.

A. Reporting Entity.

The City of Hollis, Oklahoma, is an incorporated municipality under the provisions of the State of Oklahoma. It operates under the Council - Manager form of government. The City provides the following services: public safety (fire & police), streets, parks and recreation, water and sewer utilities, sanitation and general administrative services.

The City, for financial purposes, includes all of the funds and account groups relevant to the operations of the City of Hollis. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Hollis.

The financial statements of the City include those of any separately administered organization that is within the scope of public service of the City or whose exclusion from a reporting entity's financial statements would be misleading. Scope of public service include those who benefit from the activity and whether it is conducted within the entity's geographic boundaries. Other criteria considered in determining which activities to report include the degree of oversight responsibility exercised by the Mayor or City Council members.

Based on the foregoing criteria, the operations of the Hollis Public Works Authority and the Hollis Economic Development Authority are included in these financial statements. The Trustees of these Authorities are the same persons who are currently the members of the City Council of the City of Hollis and as such, they continue to hold office until their successors are elected to the governing board of the City of Hollis. The Hollis Public Works Authority was created on January 1, 1981, for the use and benefit of the City. The Hollis Economic Development Authority (the Authority) was officially created and approved by the Hollis City Council on April 2, 2001. It was created to promote the economic growth and development of the City of Hollis. Operations of the Hollis Public Works Authority and Hollis Economic Development Authority are reported as enterprise funds within the proprietary fund type.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1. Summary of Significant Accounting Policies (continued).

B. Basic Financial Statements.

Basic financial statements include a Statement of Net Assets and Statement of Activities for the government-wide and business-type activities. The government-wide financial statements report on the City as a whole. 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. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations, except as noted below. The government-wide financial statements focus more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Generally, the effects of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

The government-wide Statement of Net Assets reports all financial and capital resources of the City. It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are required to be displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted. Invested in capital assets, net of related debt are capital assets net of accumulated depreciation and reduced by the outstanding balances of any mortgages or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use by either: 1) externally imposed by creditors (such as through debt covenants, grantors, contributors, or laws or regulations of other governments), or 2) imposed by law through constitutional provision or enabling legislation. All net assets not otherwise classified as restricted are shown as unrestricted, including amounts designated by management for a particular purpose. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1. Summary of Significant Accounting Policies (continued).

B. Basic Financial Statements (continued).

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a functional category or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or activity. 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 activity, 2) grant and contributions that are restricted to meeting the operational requirements of a particular function or activity, and 3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported instead as general revenues. General revenues normally support the net costs of the functions and programs not covered by program revenues.

Basic financial statements also include fund financial statements for the governmental and proprietary funds. The focus of the fund financial statements is on major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds based upon a percentage of assets, liabilities, revenues, or expenditures/expenses of fund category and of the governmental and enterprise funds combined, it also gives governments the option of displaying other funds as major funds. Other nonmajor funds are combined in a single column on the fund financial statements.

Governmental Funds.

General Fund - The General Fund is the general operating fund of the City. It is used to account and report all financial resources not accounted and reported in another fund. The general fund is required to always be reported as a major fund.

FAA 3-40-0042-001-2010 Grant Fund - This fund is a special revenue fund used to account for all financial resources relating to the airport grant received by the City.

Fire Capital Improvement Fund - This fund is used to account for construction and acquisition of capital facilities for the fire department. Resources are provided from utility user charges on the City's utility bills.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1. Summary of Significant Accounting Policies (continued).

B. Basic Financial Statements (continued).

Fairmount Cemetery Trust Fund - This fund is presented as a permanent fund. Permanent funds are used to account and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs. Prior to July 1, 1995, this fund was not audited and total assets were \$99,821. The amounts for nonexpendable and expendable assets is not known, but management considers it all to be corpus. After July 1, 1995, the expendable portion of this fund is \$73,836 and non expendable portion is \$2,940. This fund is managed by the Hollis Fairmount Cemetery Perpetual Care Trust. Trustees are appointed by the majority vote of the City Council for a six year term.

The above governmental funds are presented as major funds for the City.

Other Governmental Funds - This column is the summarization of all the nonmajor governmental funds. These were known as special revenue funds and capital improvement funds under the previous reporting model. Special revenue funds were used to account and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital improvement. Capital improvement funds are used to account and report financial resources that are restricted, committed, or assigned to expenditures for the construction or acquisition of capital facilities and other capital assets. Resources are provided from user charges on their utility bills.

Proprietary Funds.

The City has two enterprise funds, the Hollis Public Works Authority and the Hollis Economic Development Authority. Enterprise Funds are used to account for operations: (a) that are financed and operated in a manner similar to private business enterprises (ie. where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges); or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Hollis Public Works Authority provides water, sewer, and sanitation services to the City's citizens.

CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. **Summary of Significant Accounting Policies (continued)**.

B. Basic Financial Statements (continued).

Proprietary Funds (continued).

The Hollis Economic Development Authority owns and manages a low-income apartment complex.

Both enterprise funds are presented as major funds.

Fiduciary Funds.

Fiduciary funds are trust or agency funds used to account for assets held by the City in a trustee capacity or as an agent. As such, these funds are not included in the government-wide financial statements. Agency Funds are custodial in nature and do not involve measurement of results of operations.

The City has two agency funds which are presented in these financial statements (bond and penalty assessment funds).

C. Measurement Focus and Basis of Accounting.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period (normally within 60 days). Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1. Summary of Significant Accounting Policies (continued).

D. Capital Assets.

Generally accepted accounting principles of the United States of America require that all purchased capital assets be valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at the estimated fair market value at the time of donation. Depreciation on capital assets are computed using the straight line method over the estimated useful life of the related asset.

Governmental capital assets are shown in the governmental funds as capital outlay expenditures. Under GASB 34 reporting model, they should be shown as assets in the government-wide financial statements under governmental activities and depreciated. Infrastructure assets (roads, sidewalks, bridges, etc) were previously not reported in the financial statements but now are required to be reported as assets and depreciated. According to GASB statement 34, retroactively reporting of infrastructure assets is not required by the City. The City does not report its governmental capital assets in these financial statements resulting in an adverse opinion on the governmental activities. The City does plan to report its infrastructure assets in the future.

Capital Assets, net of accumulated depreciation, for the proprietary fund type consists only of the capital assets for the Hollis Economic Development Authority. It does not include the capital assets for the Hollis Public Works Authority. The amount that should be recorded for the Hollis Public Works Authority is not determinable resulting in a qualification of the opinion for the business-type activities.

Capital assets for the Hollis Economic Development Authority is recorded at cost and depreciated over the estimated useful life of the related asset. Buildings, including improvements are depreciated from 10 to 30 years. Equipment is depreciated from 5 to 10 years.

E. Allowance for Bad Debts.

Management periodically reviews its accounts receivable to determine if an account is collectible. An allowance for bad debt is established for those accounts where collection is deemed to be uncertain. Once an account is deemed to be uncollectible, then that account is written off.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1. Summary of Significant Accounting Policies (continued).

F. Compensated Absences.

Full-time City of Hollis and Hollis Public Works Authority employees earn vacation leave at the various rates depending upon their length of service. Upon resignation or termination, the employees can receive payment for their unused accumulated vacation leave, unless the termination is based upon the misconduct of the employee. The government-wide financial statements report the accrued compensated absences as a long-term liability. The current portion of this debt is estimated to be the amount earned within the past year. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources as they are considered matured, ie. when an employee resigns or retires. The proprietary funds report the liability as it is incurred. Full-time employees can also accrue and accumulate sick leave benefits, but the payment of those benefits depend upon various factors that lead to uncertainty about whether or not they will be paid. No accumulated sick leave is paid upon the employee's resignation or termination. Consequently, accumulated sick leave has not been accrued in these financial statements.

G. Policy Regarding Use of Financial Accounting Standard Board (FASB) Pronouncements - Government-wide Business-Type Activities Financial Statements and Proprietary Fund Statements.

The City applies all applicable Government Accounting Standards Board (GASB) pronouncements as well as the pronouncements issued on or before November 30, 1989, by the FASB or predecessor Boards, unless those pronouncements conflict with or contradict GASB pronouncements.

H. Operating Revenues and Expenses.

Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the respective enterprise funds. Operating revenues consist primarily of charges for services. Nonoperating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities and result from nonexchange transactions or ancillary activities.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

1. Summary of Significant Accounting Policies (continued).

I. Fund Balance Classifications.

The following fund balance classifications have been required by the Governmental Accounting Standards Board:

Nonspendable - Amounts that are not in a spendable form or are required to be maintained intact.

Restricted - Amounts that can be spent only for the specific purposes stipulated by external resource providers, or through enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of resource providers.

Committed - Amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Commitments may be changed or lifted only by the government taking the same formal action that imposed the constraint originally.

Assigned - Amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned - residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another governmental fund has a fund balance deficit, then it will be reported as a negative amount in the unassigned classification in that fund. Positive unassigned amounts will be reported only in the general fund.

Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

2. Cash in Bank, including Time Deposits.

The City of Hollis maintains a common cash pool for use by all funds except the cemetery maintenance fund, trust and agency funds, and certain other activities that require separate bank accounts with Federal Deposit Insurance Corporation insured banks. Federal Deposit Insurance has permanently increased to \$250,000 on July 21, 2010. Certificates of deposit for the City of Hollis and Hollis Fairmount Cemetery Trust fund is also included in the cash in bank classification.

The City has custodial credit risk which is defined as the risk that in the event of a bank failure, the City's deposits may not be returned to it. At June 30, 2011, the carrying amount of the City's deposits was \$1,476,660 and the bank balance was \$1,545,751. Of the bank balance, \$425,320 was covered by Federal Depository Insurance and \$1,120,431 was covered by collateral pledged to secure the deposits and held by the bank in the City's name.

Restricted cash, including time deposits, consist of cash held for customer refundable deposits of \$67,706. The customer refundable deposits have a related liability account. It also consist of a mortgage payable reserve account for the Hollis Economic Development Authority of \$2,764 and cash restricted for the cemetery perpetual trust account of \$175,321.

Income on the pooled cash are allocated based upon the outstanding balance of the various funds at the end of month general ledger balance.

3. Cash and Cash Equivalents.

Cash and cash equivalents for cash flow presentation purposes includes the entity's cash on hand, cash in bank, including time deposits, and restricted cash in bank, including time deposits.

4. Investments.

Oklahoma Statutes authorize the City to invest in 1) obligations of the U. S. Government or its agencies and instrumentalities; 2) collateralized or insured certificates of deposits and savings accounts of savings and loan associations, banks, savings banks and credit unions located in Oklahoma; or 3) fully insured certificates of deposits of financial institutions out of state. All investments are certificate of

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

4. Investments (continued).

deposits and are included in the cash in bank, including time deposits category and are in accordance with the City's investment policy.

5. Capital Assets.

CAPITAL ASSETS	Primary Government			Balance June 30, 2011
	Balance June 30, 2010	Additions	(Deletions)	
Business-type Activities:				
Rental				
Operations:				
Building	\$ 50,969	\$	\$	\$ 50,969
Equipment	<u>19,639</u>	<u>13,230</u>	<u>(1,150)</u>	<u>31,719</u>
Total Cost	<u>70,608</u>	<u>13,230</u>	<u>(1,150)</u>	<u>82,688</u>
Less Accumulated Depreciation:				
Building	(22,766)	(2,964)		(25,730)
Equipment	<u>(12,771)</u>	<u>(1,652)</u>	<u>969</u>	<u>(13,454)</u>
Total Acc. Depreciation	<u>(35,537)</u>	<u>(4,616)</u>	<u>969</u>	<u>(39,184)</u>
Net Business-type Activities	<u>\$ 35,071</u>	<u>\$ 8,614</u>	<u>\$ (181)</u>	<u>\$ 43,504</u>

Depreciation expense is not allocated between functions/programs but only expended within the specific activities/funds. Total depreciation expense for the Hollis Economic Development Trust is \$4,616.

All of the above business-type capital assets are used to secure indebtedness as more fully discussed below.

6. Long-term Liabilities.

The Hollis Economic Development Authority assumed the mortgage payable to the Rural Housing Service of Rural Development on December 11, 2003.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

6. Long-term Liabilities (continued).

Terms call for monthly payments of \$89 plus the government interest subsidy of \$53. The monthly payments are paid by the government subsidies. Interest is at 6.375% over 240 months. The note is secured by a mortgage on the property and lien on the income produced by the property.

A summary of the changes in long-term liabilities follows:

	<u>Primary Government</u>			<u>Due</u>	
	<u>Balance</u>			<u>Balance</u>	<u>With-</u>
	<u>June 30,</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>June 30,</u>	<u>in</u>
	<u>2010</u>			<u>2011</u>	<u>One Yr.</u>
Governmental Activities:					
Accrued					
Compensated					
Absences	\$ 32,279	\$ _____	\$ (1,757)	\$ 30,522	\$11,910
Business-type Activities:					
Accrued					
Compensated					
Absences	10,911	460		11,371	6,563
Capital Leases	20,031		(9,689)	10,342	10,342
Mortgages:					
Rural Housing	15,434	_____	(746)	14,688	794
Total Business Type Activities	<u>46,376</u>	<u>460</u>	<u>(10,435)</u>	<u>36,401</u>	<u>17,699</u>
Total Long-term Liab.	<u>\$ 78,655</u>	<u>\$ 460</u>	<u>\$ (12,192)</u>	<u>\$ 66,923</u>	<u>\$29,609</u>

Annual requirements to amortize all of the June 30, 2011, mortgages payable are as follows:

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2012	\$ 794	\$ 914	\$ 1,708
2013	847	861	1,708
2014	902	806	1,708
2015	961	747	1,708
2016	1,024	684	1,708
2017-2021	6,223	2,316	8,539
2022-2024	<u>3,937</u>	<u>331</u>	<u>4,268</u>
Total	<u>\$ 14,688</u>	<u>\$ 6,659</u>	<u>\$ 21,347</u>

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

6. Long-term Liabilities (continued).

The Hollis Public Works Authority entered into a capital lease obligation to purchase a sewer machine. Terms call for annual payments of \$11,039, beginning April 9, 2009, for 4 years. Amount financed was \$37,611. Imputed interest was computed at 6.742%.

The following is schedule by years of future minimum lease payments under capital leases as of June 30, 2011.

<u>Year Ending December 31</u>	
2012	\$ 11,039
Net Minimum Lease Payments	11,039
Less Amount Representing Interest	<u>(697)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 10,342</u>

7. Pension Plans.

The City and Authority participate in various retirement plans as more fully disclosed below:

Oklahoma Municipal Retirement Fund.

Plan Description. The City and Authority participate in the Oklahoma Municipal Retirement Fund (the Fund) which provides coverage to substantially all full time employees. The Fund provides retirement benefits based on members' final average compensation, age, and term of service, plus annual cost-of-living adjustments, if so elected. A member is eligible for disability benefits upon becoming vested. These employees participate in the defined contribution plan.

Funding Policy. The Fund's defined contribution plans are funded through selected rates of contributions as elected by each municipality, currently 7% for the City of Hollis and Hollis Public Works Authority. Employees do not contribute to the plan. The funds are credited to individual participant accounts and pooled for investment through the Fund. All gains and/or losses are credited directly to each participant. Upon retirement, termination of employment, disability, or death, the vested portion of a participant's account is paid to the participant or beneficiary. This amount is based on an accumulation of employee and employer contributions, forfeitures, and earnings. Pension benefits are 100% vested after 10 years of service.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

7. Pension Plans (continued).

Annual Pension Cost. The City and Hollis Public Works Authority contributed \$25,100 and \$10,057, respectively, to the plan for the year ending June 30, 2011.

Oklahoma Firefighters Pension and Retirement System.

Plan Description. The City participates in the Oklahoma Firefighters Pension and Retirement System (the Plan) for its volunteer fire fighters. The Plan provides retirement, death and disability benefits to plan members and beneficiaries. The Plan is an agent multiple-employer (or municipality) contributory defined benefit pension plan. The authority to amend and establish the benefit provisions of the Plan rests with the Board of Trustees of the Plan. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Oklahoma Fire Pension and Retirement System, c/o Oklahoma State Fire Fighters Association, 4545 N. Lincoln Blvd., Oklahoma City, OK 73105-3414.

Funding Policy. Voluntary firemen do not contribute to the Plan. The City contributes \$60 for each volunteer fireman as set by the Oklahoma Statutes. The State normally contributes 34% of the Insurance Premium Tax to the Plan.

Annual Pension Cost. During the year ended June 30, 2011, the City contributed \$1,020 to the Plan. The actuarial valuation report, dated July 1, 2011, does not give disclosure information by municipality or employer.

Actuarial Assumptions. Significant actuarial assumptions used include: (a) a rate of return on the investment of present and future assets of 7.5%, and (b) a constant benefit level. The actuarial value of the Plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. The Plan's unfunded actuarial accrued liability is being amortized as a level percentage of the insurance premium tax allocation fund on a closed basis. The remaining amortization period at July 1, 2011, was 22 years.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

8. Risk Management.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The City purchases commercial insurance to reduce their risk of loss. The various insurance policies have a deductible ranging from zero to \$1,000.

9. Interfund Transfers.

The City periodically makes transfers to different funds to move funds to increase their liquidity and ability to purchase goods and services. Interfund transfers for the year ending June 30, 2011, are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers (Out)</u>
General	\$ 311,000	\$
FAA Grant	14,581	
Fairmount Cemetery Trust		(800)
Other Governmental Funds	2,482	(52,263)
Public Works Authority	<u> </u>	<u>(275,000)</u>
Totals	<u>\$ 328,063</u>	<u>\$ (328,063)</u>

10. Commitments and Contingencies.

In 1994, the City received an Administrative Compliance Order from the Oklahoma Department of Environmental Quality (ODEQ) for violation of the Public Water Supply Operation Rules. Rule 252:630-1-3 states that nitrates in the water supply should not exceed 10.0 mg/l. This Administrative Compliance Order became a consent order on March 21, 1996, which was extended on September 28, 1999. A new consent order was agreed upon in August, 2003, requiring the City to continue to provide bottled water to the population at risk, give public notice of violation, retain a professional engineer, submit an approvable engineering report with a construction schedule and a supplemental environmental project plan.

This consent order has been amended four times with the last amendment dated September 2, 2010. In the second amendment, the City agreed to an administrative penalty of \$2,000 for failure to comply with the first amendment to submit plans for an approvable supplemental environmental project and final plans and specifications by January 1, 2005. This administrative penalty

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

10. Commitments and Contingencies (continued).

is being deferred by the Oklahoma Department of Environmental Quality as long as the City complies with the requirements of this last amendment. Should these requirements not be met, then the penalty is immediately due and payable. Accordingly, no accrual for this penalty is reflected in these financial statements. This last amendment is necessary to allow the City to change from a reverse osmosis treatment plant to an ion exchange treatment process and requires the City to submit final approvable plans and specifications by February 1, 2011, construction to begin by July 1, 2011, and completion of the construction by December 1, 2012. The City has asked for an extension of the time requirements from ODEQ in January, 2011, but does not have any documentation from ODEQ approving their request. The City is in technical default on this amendment since construction has not been started as of the audit date. Costs of noncompliance could cost the City from \$70 to \$280 per day depending upon what task was not in compliance, up to a maximum of \$35,000. The City continues to seek funding sources to be able to build the required ion exchange treatment process plant.

The City has another consent order dated June 11, 2009, concerning violations of its wastewater permit and submitting incomplete reports. This consent order was amended on July 18, 2011. It requires the City to do specific tasks by specific dates. Failure to comply could result in penalties being assessed, ranging from an administrative penalty of \$1,000 plus \$35 to \$140 per day depending upon what task was not in compliance. The City completed the tasks on December 27, 2011, and this consent order was closed by ODEQ in its letter dated March 28, 2012.

11. Prior Period Adjustments.

Prior period adjustments within the governmental funds are entries to appropriately move the amounts accrued in the general fund to the general long-term debt account group for accrued compensated absences of \$14,264. The airport trust special revenue fund had previously paid for expenditures for the airport FAA grant of \$47,600. The prior period adjustment is to move these amounts from the airport trust fund to the grant fund.

CITY OF HOLLIS, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2011

12. Fund Balance Classifications.

	<u>GENERAL FUND</u>	<u>FAA 3-40- 0042-001-2010 GRANT</u>	<u>FIRE CAPITAL IMPROVE- MENT FUND</u>	<u>FAIRMOUNT CEMETERY TRUST FUND</u>	<u>OTHER GOVERN- MENTAL FUNDS</u>	<u>TOTAL GOVERN- MENTAL FUNDS</u>
FUND BALANCES:						
Nonexpendable:						
Prepaid Expenses	\$ 7,004	\$	\$	\$	\$ 2,200	\$ 9,204
Permanent Fund Principal				102,761		102,761
Restricted for:						
Street & Alley Improvements					1,575	1,575
Cemetery Improvements				73,836	20,951	94,787
Airport					23,646	23,646
Federal Emergency Management					2,069	2,069
Committed to:						
Cemetery Maintenance					47,888	47,888
Civic Center					28,654	28,654
Community Work Center					68,899	68,899
Fire Capital Improvements			124,477			124,477
Police Capital Improvements					0	0
General Capital Improvements					29,081	29,081
Rural Fire Department					60,178	60,178
Assigned to:						
Airport					16	16
Cemetery Improvements					11,365	11,365
Cemetery Maintenance					20,556	20,556
Civic Center					3,584	3,584
Community Work Center					21,888	21,888
Fire Capital Improvements			97,195			97,195
Police Capital Improvements					13,920	13,920
General Capital Improvements					6,464	6,464
Rural Fire Department					8,210	8,210
Unassigned:	<u>116,356</u>					<u>116,356</u>
Total Fund Balances	<u>\$ 123,360</u>	<u>\$ 0</u>	<u>\$ 221,672</u>	<u>\$ 176,597</u>	<u>\$ 371,144</u>	<u>\$ 892,773</u>

Restricted fund balances are special revenue funds with resources restricted by state statutes or federal guidelines.

Committed fund balances are special revenue or capital improvement funds that have been established by the governing body with resources used for specific purposes as noted.

Assigned fund balances are special revenue funds or capital improvement funds that have earned interest and represents the unexpended accumulated earnings obtained from the readily available records since fiscal year 1992. Any unexpended accumulated earnings prior to that time is considered to be committed.

The City of Hollis has not established a formal policy on the order of spending. This report assumes that restricted resources will be expended first, then unrestricted (in this order - committed, assigned, and unassigned).

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOLLIS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2011

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE -</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>(UNFAVORABLE)</u>
REVENUES				
Sales and Use Tax	\$ 273,000	\$ 273,000	\$ 248,000	\$ (25,000)
Tobacco Tax	6,000	6,000	3,334	(2,666)
Franchise Taxes	102,400	102,400	83,363	(19,037)
Licenses, Permits & Insp.	475	475	735	260
Intergovernmental Revenue	48,000	48,000	43,626	(4,374)
Swimming Pool	4,800	4,800	6,676	1,876
Fines	20,040	20,040	19,680	(360)
Interest	3,000	3,000	1,322	(1,678)
Other Miscellaneous	4,800	4,800	2,830	(1,970)
TOTAL REVENUES	<u>462,515</u>	<u>462,515</u>	<u>409,566</u>	<u>(52,949)</u>
EXPENDITURES				
General Government	291,160	291,160	273,542	17,618
Civic Center	6,000	6,000	5,809	191
Police Department	401,292	401,292	397,104	4,188
Fire Department	25,240	25,240	33,741	(8,501)
Street Department	9,000	9,000	7,800	1,200
Parks Department	11,800	11,800	13,040	(1,240)
Animal Control	3,200	3,200	2,902	298
Capital Outlays			17,400	(17,400)
Library	6,000	6,000	7,131	(1,131)
TOTAL EXPENDITURES	<u>753,692</u>	<u>753,692</u>	<u>758,469</u>	<u>(4,777)</u>
EXCESS OF REVENUES (UNDER)				
EXPENDITURES BEFORE OTHER				
FINANCING SOURCES (USES)	(291,177)	(291,177)	(348,903)	(57,726)
OTHER FINANCIAL				
SOURCES (USES)				
Operating Transfers In, Net	<u>340,000</u>	<u>340,000</u>	<u>311,000</u>	<u>(29,000)</u>
EXCESS OF REVENUES AND				
OTHER FINANCING SOURCES				
(UNDER) EXPENDITURES	48,823	48,823	(37,903)	<u>\$ (86,726)</u>
FUND BALANCE				
Beginning of Year	<u>184,897</u>	<u>184,897</u>	<u>161,263</u>	
End of Year	<u>\$ 233,720</u>	<u>\$ 233,720</u>	<u>\$ 123,360</u>	

See the accompanying auditor's report and notes to required supplementary information.

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
FAA 3-40-0042-001-2010 GRANT
YEAR ENDED JUNE 30, 2011**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES				
Intergovernmental Revenue	\$ 289,751	\$ 289,751	\$ 277,043	\$ (12,708)
TOTAL REVENUES	<u>289,751</u>	<u>289,751</u>	<u>277,043</u>	<u>(12,708)</u>
EXPENDITURES				
General Government			0	0
Capital Outlay	305,002	305,002	244,024	60,978
TOTAL EXPENDITURES	<u>305,002</u>	<u>305,002</u>	<u>244,024</u>	<u>60,978</u>
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	<u>(15,251)</u>	<u>(15,251)</u>	<u>33,019</u>	<u>48,270</u>
OTHER FINANCIAL SOURCES (USES)				
Operating Transfers In	15,251	15,251	14,581	(670)
TOTAL OTHER FINANCING	<u>15,251</u>	<u>15,251</u>	<u>14,581</u>	<u>(670)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	0	0	47,600	<u>\$ 47,600</u>
FUND BALANCE				
Beginning of Year, as Restated			(47,600)	
End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	

Note: Capital outlays of \$244,024 plus \$47,600 prior year = \$291,624 for project

CITY OF HOLLIS, OKLAHOMA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDING JUNE 30, 2011

The Budget and Actual statement reports the original budget as approved and the final budget as amended. The City budgets almost all of its funds in accordance with the State of Oklahoma's municipal budget act. The City's budget is adopted at the beginning of each fiscal year and published in the local or regional newspaper. Unused appropriations lapse at the end of the year. Amendments to the budgetary data can be made by a vote of the City Council. No amendment was made during the year ending June 30, 2011. Only the budget to actual statements for the general fund and major special revenue funds are required to be presented by generally accepted accounting principles.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HOLLIS, OKLAHOMA
 COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
 JUNE 30, 2011

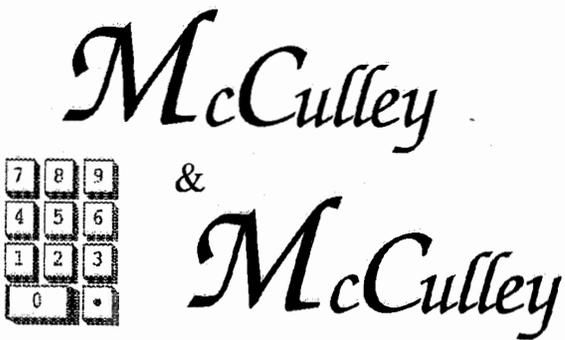
	NONMAJOR SPECIAL REVENUE FUNDS										NONMAJOR CAPITAL IMPROVEMENT FUNDS			TOTAL OTHER GOVERN- MENTAL		
	AIRPORT TRUST	CEMETERY FUND	CEMETERY MAINTEN- ANCE	CIVIC CENTER	RURAL FIRE	STREET & ALLEY	COMMUNITY WORK CENTER	HOME 08-1222 GRANT FUND	REAP 10-HR-10005 GRANT	FEMA FUND	FAA 3-40- 0042-002-2011 FUND	TOTAL	CAPITAL		POLICE CAPITAL	TOTAL
ASSETS																
Cash on Hand	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 0	\$	\$	\$ 0	\$ 0	
Cash in Bank, Including Time Deposits	(38)	32,316	68,444	32,238	68,388	3,547	80,400		2,069	(20,990)	266,374	34,981	13,362	48,343	314,717	
Due from Other Funds	23,700						3,675			1,682	29,057		80	80	29,137	
Prepaid Expenses	2,200										2,200			0	2,200	
Accounts Receivable - Intergovernmental Services						1,926	6,712			19,308	21,234	564	478	1,042	21,234	
											6,712				7,754	
TOTAL ASSETS	<u>\$ 25,862</u>	<u>\$ 32,316</u>	<u>\$ 68,444</u>	<u>\$ 32,238</u>	<u>\$ 68,388</u>	<u>\$ 5,473</u>	<u>\$ 90,787</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,069</u>	<u>\$ 0</u>	<u>\$ 325,577</u>	<u>\$ 35,545</u>	<u>\$ 13,920</u>	<u>\$ 49,465</u>	<u>\$ 375,042</u>
LIABILITIES																
Accounts Payable	\$	\$	\$	\$	\$	\$ 3,898	\$	\$	\$	\$	\$ 3,898	\$	\$	\$ 0	\$ 3,898	
Due to Other Funds											0			0	0	
TOTAL LIABILITIES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,898</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,898</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,898</u>	
FUND EQUITY																
Fund Balance											0				0	
Nonspendable	2,200										2,200				0	2,200
Restricted	23,646	20,951				1,575			2,069		48,241				0	48,241
Committed			47,888	28,654	60,178		68,899				205,619	29,081		29,081	234,700	
Assigned	16	11,365	20,556	3,584	8,210		21,888				65,619	6,464	13,920	20,384	86,003	
Unassigned											0			0	0	
TOTAL FUND EQUITY	<u>25,862</u>	<u>32,316</u>	<u>68,444</u>	<u>32,238</u>	<u>68,388</u>	<u>1,575</u>	<u>90,787</u>	<u>0</u>	<u>2,069</u>	<u>0</u>	<u>321,679</u>	<u>35,545</u>	<u>13,920</u>	<u>49,465</u>	<u>371,144</u>	
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 25,862</u>	<u>\$ 32,316</u>	<u>\$ 68,444</u>	<u>\$ 32,238</u>	<u>\$ 68,388</u>	<u>\$ 5,473</u>	<u>\$ 90,787</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,069</u>	<u>\$ 0</u>	<u>\$ 325,577</u>	<u>\$ 35,545</u>	<u>\$ 13,920</u>	<u>\$ 49,465</u>	<u>\$ 375,042</u>

See accompanying auditor's report.

CITY OF HOLLIS, OKLAHOMA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - OTHER GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2011

	NONMAJOR SPECIAL REVENUE FUNDS											NONMAJOR CAPITAL IMPROVEMENT FUNDS			TOTAL OTHER GOVERN- MENTAL	
	AIRPORT TRUST	CEMETERY FUND	CEMETERY MAINTEN- ANCE	CIVIC CENTER	RURAL FIRE	STREET & ALLEY	COMMUNITY WORK CENTER	HOME 08-1222 GRANT FUND	REAP 10-HR-10005 GRANT	FEMA FUND	FAA 3-40- 0042-002-2011 FUND	TOTAL	CAPITAL	POLICE CAPITAL		TOTAL
REVENUES																
Charges for Services	\$	\$	\$ 6,844	\$	\$ 17,300	\$	\$ 91,387	\$	\$	\$	\$ 115,531	\$	\$ 6,252	\$ 5,629	\$ 11,881	\$ 127,412
Intergovernmental Revenue					4,398	21,346	65,807	94,140	2,069	31,953	219,713	0	0	0	0	219,713
Interest	16	292	861	639	626	572					3,006	325	142	467	3,473	
Property Sales		134									134				0	134
Rent of Facilities	5,810			4,210							10,020				0	10,020
Airplane Fuel	9,792										9,792				0	9,792
Donations					610						610				0	610
Miscellaneous Revenue											0				0	0
TOTAL REVENUES	<u>15,618</u>	<u>426</u>	<u>7,705</u>	<u>4,849</u>	<u>22,934</u>	<u>21,346</u>	<u>91,959</u>	<u>65,807</u>	<u>94,140</u>	<u>2,069</u>	<u>31,953</u>	<u>358,806</u>	<u>6,577</u>	<u>5,771</u>	<u>12,348</u>	<u>371,154</u>
EXPENDITURES																
Airport	21,093										21,093				0	21,093
Fire Department					9,690						9,690				0	9,690
Cemetery			8,245								8,245				0	8,245
Civic Center				68							68				0	68
Capital Outlay							65,807	94,140		33,635	193,582		13,000	13,000	206,582	
Community Work Center						63,748					63,748				0	63,748
Street Department						21,847					21,847				0	21,847
TOTAL EXPENDITURES	<u>21,093</u>	<u>0</u>	<u>8,245</u>	<u>68</u>	<u>9,690</u>	<u>21,847</u>	<u>63,748</u>	<u>65,807</u>	<u>94,140</u>	<u>0</u>	<u>33,635</u>	<u>318,273</u>	<u>0</u>	<u>13,000</u>	<u>13,000</u>	<u>331,273</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(5,475)</u>	<u>426</u>	<u>(540)</u>	<u>4,781</u>	<u>13,244</u>	<u>(501)</u>	<u>28,211</u>	<u>0</u>	<u>0</u>	<u>2,069</u>	<u>(1,682)</u>	<u>40,533</u>	<u>6,577</u>	<u>(7,229)</u>	<u>(652)</u>	<u>39,881</u>
OTHER FINANCING SOURCES (USES)																
Operating Transfers In			800								1,682	2,482			0	2,482
Operating Transfers (Out)	(16,263)						(36,000)		0	0	(52,263)	0	0	0	(52,263)	
TOTAL OTHER FINANCING SOURCES (USES)	<u>(16,263)</u>	<u>0</u>	<u>800</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(36,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,682</u>	<u>(49,781)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(49,781)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	<u>(21,738)</u>	<u>426</u>	<u>260</u>	<u>4,781</u>	<u>13,244</u>	<u>(501)</u>	<u>(7,789)</u>	<u>0</u>	<u>0</u>	<u>2,069</u>	<u>0</u>	<u>(9,248)</u>	<u>6,577</u>	<u>(7,229)</u>	<u>(652)</u>	<u>(9,900)</u>
FUND BALANCE																
Beginning of Year		31,890	68,184	27,457	55,144	2,076	98,576	0			283,327	28,968	21,149	50,117	333,444	
Prior Period Adjustment	47,600										47,600				47,600	
End of Year	<u>\$ 25,862</u>	<u>\$ 32,316</u>	<u>\$ 68,444</u>	<u>\$ 32,238</u>	<u>\$ 68,388</u>	<u>\$ 1,575</u>	<u>\$ 90,787</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,069</u>	<u>\$ 0</u>	<u>\$ 321,679</u>	<u>\$ 35,545</u>	<u>\$ 13,920</u>	<u>\$ 49,465</u>	<u>\$ 371,144</u>

See accompanying auditor's report.



Certified Public Accountants

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

To the Honorable Mayor and City Council
City of Hollis, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hollis, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City of Hollis, Oklahoma's basic financial statements. We have issued our report thereon dated April 17, 2012. In our report, our opinion was adverse for the government-wide financial statements because of the omission of the capital assets, including infrastructure, for the governmental activities and qualified for the business-type activities since the capital assets of the Public Works Authority enterprise fund was not presented nor known. The City has elected to omit the management discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

We have 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 the City of Hollis, Oklahoma's, internal control over financial reporting as a basis for designing 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 the

City of Hollis, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hollis, Oklahoma's internal control over financial reporting.

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

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 responses as items #2 and #7 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 accompanying schedule of findings and responses as items #4, #5, and #6 to be significant deficiencies in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 and other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and responses as items #1, #3, #4, and #6.

The City of Hollis, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule

of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, and grantors. It is not intended to be and should not be used by anyone other than these specified parties.

McCulley & McCulley

Weatherford, Oklahoma

April 17, 2012

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011**

1. Violation of Public Water Supply Operation Rules.

CONDITION AND EFFECT - In 1994, the City received an Administrative Compliance Order from the Oklahoma Department of Environmental Quality for violation of the Public Water Supply Operation Rules. Rule 252:630-1-3 states that nitrates in the water supply should not exceed 10.0 mg/l. This Administrative Compliance Order became a consent order on March 21, 1996. This consent order was amended until a new consent order was issued. This consent order was agreed upon in August, 2003, requiring the City to continue to provide bottled water and publish the public notice and also submit an approvable engineering report with a construction schedule and a supplemental environmental project plan. This consent order has been amended four times with the last amendment dated September 2, 2010. In the second amendment, the City agreed to an administrative penalty of \$2,000 for failure to comply with the first amendment to submit plans for an approvable supplemental environmental project and final plans and specifications by January 1, 2005. This administrative penalty is being deferred by the Oklahoma Department of Environmental Quality as long as the City complies with the requirements of this last amendment. Should these requirements not be met, then the penalty is immediately due and payable. Accordingly, no accrual for this penalty is reflected in these financial statements. This last amendment is necessary to allow the City to change from a reverse osmosis treatment plant to an ion exchange treatment process and requires the City to submit final approvable plans and specifications by February 1, 2011, construction to begin by July 1, 2011, and completion of the construction by December 1, 2012. The City has asked for an extension of the time requirements from ODEQ in January, 2011, but does not have any documentation from ODEQ approving their request. The City is in technical default on this amendment since construction has not been started as of the audit date. Costs of noncompliance could cost the City from \$70 to \$280 per day depending upon what task was not in compliance, up to a maximum of \$35,000.

RECOMMENDATION - Comply with the environmental laws and consent order.

RESPONSE - The City has been trying to comply with the consent order and continues to seek funding sources to be able to build the required nitrate removal plant. The City had received approval for a pilot study protocol for anion exchange from ODEQ on November 14, 2011. Management believes that personnel turnover at ODEQ may be the reason for not receiving approval on their request for extension of time.

QUESTIONED COSTS - None.

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011**

2. Inadequate Segregation of Duties.

CONDITION AND EFFECT - The City only has two full-time administrative personnel in its office. The City's Economic Development Authority only has one person who does all the bookkeeping and managing of the rental properties. Consequently, they do not have adequate segregation of duties for internal control over financial reporting purposes.

RECOMMENDATION - Segregate the duties to the extent possible should additional employees be hired.

RESPONSE - The City and Economic Development Authority has purchased surety bond insurance to reduce any risk of loss and considers the cost of hiring additional employees as not being economically feasible.

3. Consent Order Concerning Violations of Wastewater Permit.

CONDITION AND EFFECT - The City has another consent order dated June 11, 2009, concerning violations of its wastewater permit and submitting incomplete reports. This consent order was amended on July 18, 2011. It requires the City to do specific tasks by specific dates. Failure to comply could result in penalties being assessed, ranging from an administrative penalty of \$1,000 plus \$35 to \$140 per day depending upon what task was not in compliance. The City completed the tasks on December 27, 2011, and this consent order was closed by ODEQ in its letter dated March 28, 2012.

RECOMMENDATION - Comply with the environmental laws and consent order.

RESPONSE - The City completed the tasks on December 27, 2011, and this consent order was closed by ODEQ in its letter dated March 28, 2012.

4. Delinquencies on Utility Billings Accounts Receivable.

CONDITION AND EFFECT - The amount of delinquencies on the utility billings accounts receivable accounts have continued to increase - even after the City Council approved on November 1, 2010, the enforcement of the ordinance on collection of delinquent accounts. Of the 111 delinquent active accounts at June 30, 2011, all were still receiving services. Of these 111 delinquent active accounts, only 18 had a signed agreement for deferred payment. Of the 18 deferred payment agreements, 11 were being followed and their outstanding utility accounts receivable

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011**

**4. Delinquencies on Utility Billings Accounts Receivable
(continued).**

balance were decreasing after June 30, 2011. The other 7 were not being followed and their outstanding utility accounts receivable balances were still increasing and they were not cut-off. The other delinquent active accounts that did not have a deferred payment agreement showed about one-half of the accounts had balances that were decreasing and the other half increasing. The maximum customer meter deposit the Public Works Authority collects is \$100, but many delinquent accounts receivable outstanding balances exceed that amount. Some even exceeded \$500 or \$1,000.

Delinquent accounts receivable reports are not reviewed by the City Manager or City Council.

CRITERIA - The City's code of ordinances state that payments of utility accounts receivable accounts are due on the 15th of the month and cut-off on the 20th. Restoration of services will not be done until the account is paid in full (section 18-4). In the municipal sewer system of the code (section 18-22-4), it states that the City Council has the power to adjust individual bills for sewer charges. Otherwise nothing is really said about granting exceptions on customers paying their bill in the code of ordinances. The form used for sending out delinquent notices states that the customer is entitled to a hearing before the City Manager.

RECOMMENDATION - Recommend the City Manager and/or the City Council receive and review the delinquent accounts receivable reports each month. They should formulate and implement more stringent collection procedures on the present delinquent accounts and enforce the code of ordinances on any new delinquencies. For those delinquencies where forbearance had previously been granted, recommend the City require the payment of the current bill plus an additional amount each month until the account is brought current. The customer should come in and sign a written agreement with the City on how they are going to bring their account current. Failure by the customer to keep the agreement (or to make an agreement) will result in them being cut-off.

RESPONSE - The City had personnel turnover and were in the process of changing billing and accounting software during this fiscal year. The City will do better collections this year and the City Manager will review the delinquency reports.

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011**

5. Balancing of Meter Deposit Liability Subsidiary Records.

CONDITION AND EFFECT - The Public Works Authority (PWA) uses a spreadsheet accounting system for meter deposits subsidiary records. The PWA has not reconciled the meter deposit subsidiary records to the general ledger control account since October, 2010. It was updated to June 30, 2011, for the audit. The effect of not balancing these records could result in errors and possibly fraud occurring.

RECOMMENDATION - Meter deposit subsidiary ledgers should be reconciled monthly to the general ledger control account to ensure all are properly recorded and accounted in the proper fund.

RESPONSE - These records will be brought up to date and balanced monthly. Situation occurred due to the turnover in the Treasurer's position.

6. Vacation Leave Policy.

CONDITION AND EFFECT - The City's personnel policy states that vacation time can be accumulated up to twice the annual amount earned by the employee. Only the twice amount earned can be carried over to the following year. During the audit, noted several employees who either were paid or accrued more vacation time than the maximum allowed by the personnel policy.

RECOMMENDATION - The City should review its vacation policy and either comply with it or make any necessary changes.

RESPONSE - The City will review its vacation policy and take an appropriate course of action.

7. Accounting Records and Bank Reconciliations.

CONDITION AND EFFECT - The City's accounting records after September, 2010, were not produced timely and reconciliations to those records could not be performed in a timely manner. Noted that the City's treasurer had resigned in October and the new person only stayed a couple of months. The newest treasurer started in February, 2011. Noted adjustments being made to the November, 2010 records as late as April, 2011. The bank reconciliations performed for the two major bank accounts were not fully reconciled and reconciling items explained. The end of year financial statements had various payroll liability accounts with debit balances for both the PWA and general fund. We also noted that municipal court transactions were not completely processed after November, 2010.

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011**

7. Accounting Records and Bank Reconciliatons (continued).

RECOMMENDATION - Posting to the accounting records should be completed as soon as possible after each month end. The general ledger should be reviewed for each account to check postings and review for accuracy. Reconciliation of the bank account to the general ledger should be performed monthly and all reconciling items explained. Adjustments, if any, should be posted to the accounting records to correct any errors found. Municipal court transactions should be posted monthly and funds transferred to the respective funds and accounts. Payroll liability accounts should be reviewed at the end of each month to ensure accuracy in positing and balances due. Payroll records should be compared to the general ledger to ensure proper posting, proper reporting to the tax authorities, and amounts paid.

RESPONSE - The City had personnel turnover in the treasurer's position and fell behind. The City was also converting its accounting software to another system during this fiscal year. The City is working on getting everything caught up and new treasurer trained.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011**

1. Violation of Public Water Supply Operation Rules.

CONDITION AND EFFECT - In 1994, the City received an Administrative Compliance Order from the Oklahoma Department of Environmental Quality for violation of the Public Water Supply Operation Rules. Rule 252:630-1-3 states that nitrates in the water supply should not exceed 10.0 mg/l. This Administrative Compliance Order became a consent order on March 21, 1996. This consent order was amended until a new consent order was issued. This consent order was agreed upon in August, 2003, requiring the City to continue to provide bottled water and publish the public notice and also submit an approvable engineering report with a construction schedule and a supplemental environmental project plan. This consent order has been amended four times with the last amendment dated September 2, 2010. In the second amendment, the City agreed to an administrative penalty of \$2,000 for failure to comply with the first amendment to submit plans for an approvable supplemental environmental project and final plans and specifications by January 1, 2005. This administrative penalty is being deferred by the Oklahoma Department of Environmental Quality as long as the City complies with the requirements of this last amendment. Should these requirements not be met, then the penalty is immediately due and payable. Accordingly, no accrual for this penalty is reflected in these financial statements. This last amendment is necessary to allow the City to change from a reverse osmosis treatment plant to an ion exchange treatment process and requires the City to submit final approvable plans and specifications by February 1, 2011, construction to begin by July 1, 2011, and completion of the construction by December 1, 2012. Costs of noncompliance could cost the City from \$70 to \$280 per day depending upon what task was not in compliance, up to a maximum of \$35,000.

RECOMMENDATION - Comply with the environmental laws and consent order.

RESPONSE - The City has been complying with the consent order and continues to seek funding sources to be able to build the required nitrate removal plant.

QUESTIONED COSTS - None.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011**

1. Violation of Public Water Supply Operation Rules (continued).

UPDATED COMMENT - Situation still the same. The City has asked for an extension of the time requirements from ODEQ in January, 2011, but does not have any documentation from ODEQ approving their request. The City is in technical default on this amendment since construction has not been started as of the audit date. Comment revised in the current year audit report.

2. Inadequate Segregation of Duties.

CONDITION AND EFFECT - The City only has two full-time administrative personnel in its office. The City's Economic Development Authority only has one person who does all the bookkeeping and managing of the rental properties. Consequently, they do not have adequate segregation of duties for internal control over financial reporting purposes.

RECOMMENDATION - Segregate the duties to the extent possible should additional employees be hired.

RESPONSE - The City and Economic Development Authority has purchased surety bond insurance to reduce any risk of loss and considers the cost of hiring additional employees as not being economically feasible.

UPDATED COMMENT - Situation still the same, except the manager of the rental property has resigned recently and the City has taken it over.

3. Consent Order Concerning Violations of Wastewater Permit.

CONDITION AND EFFECT - The City has another consent order dated June 11, 2009, concerning violations of its wastewater permit and submitting incomplete reports. This consent order requires the City to do specific tasks by September 1, 2009, which management states has not been done. No addendum to the consent order has been received. Failure to comply could result in penalties being assessed, ranging from an administrative penalty of \$1,000 plus \$35 to \$70 per day depending upon what task was not in compliance.

RECOMMENDATION - Comply with the environmental laws and consent order.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011**

3. Consent Order Concening Violations of Wastewater Permit (continued).

RESPONSE - The City has been working on complying with the consent order and has obtained a REAP grant for an engineering report on the upgrades to the sewer collection system. This REAP grant was approved on February 10, 2010, for \$94,140.

UPDATED COMMENT - The City completed the tasks on December 27, 2011, and this consent order was closed by ODEQ in its letter dated March 28, 2012. Comment revised for the current audit.

4. Delinquencies on Utility Billings Accounts Receivable.

CONDITION AND EFFECT - The amount of delinquencies on the utility billings accounts receivable accounts have dramatically increased. Many accounts are still receiving services and their outstanding accounts receivable balances are increasing each month. Some are not making monthly payments and others are not even making payments equal to the current bill, let alone payments on the past-due amounts. The maximum customer meter deposit the Public Works Authority collects is \$100, but many delinquent accounts receivable outstanding balances exceed that amount. Some even exceed \$500. Inquiry into the Authority's collection procedures revealed that when a customer cannot pay their bill, they may contact the City Manager or a City Council member who then may grant them leniency in paying their bill and not be cut-off. These collection methods are also inconsistent with the code of ordinances. Delinquent accounts receivable reports are not reviewed by the City Manager or City Council.

CRITERIA - The City's code of ordinances state that payments of utility accounts receivable accounts are due on the 15th of the month and cut-off on the 20th. Restoration of services will not be done until the account is paid in full (section 18-4). In the municipal sewer system of the code (section 18-22-4), it states that the City Council has the power to adjust individual bills for sewer charges. Otherwise nothing is really said about granting exceptions on customers paying their bill in the code of ordinances. The form used for sending out delinquent notices states that the customer is entitled to a hearing before the City Manager.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2011**

**4. Delinquencies on Utility Billings Accounts Receivable
(continued).**

RECOMMENDATION - Recommend the City Manager and City Council receive and review the delinquent accounts receivable reports each month. They should formulate and implement more stringent collection procedures on the present delinquent accounts and enforce the code of ordinances on any new delinquencies. For those delinquencies where forbearance had previously been granted, recommend the City Council require the payment of the current bill plus an additional amount each month until the account is brought current. The customer should come in and sign a written agreement with the City on how they are going to bring their account current. Failure by the customer to keep the agreement (or to make an agreement) will result in them being cut-off.

RESPONSE - The City Manager will review the delinquency reports and take to the City Council the above recommendations.

UPDATED COMMENT - The City Council at its November 1, 2010, council meeting approved enforcing the collection ordinance on delinquent water bills. Actual enforcement has only partially occurred. Comment revised and included in the current year's audit report.

5. Additional Vacation Time in Lieu of Salary Increase.

CONDITION AND EFFECT - In the vacation records, there is a note stating that the City Manager has 10 extra days vacation beginning 7/1/10 that was granted by the City Council on June 21, 2010, in lieu of a salary increase. The minutes for that City Council meeting does not specifically mention this was approved. Since the City has a personnel manual that governs approved vacation time based upon length of service, and this is an exception to that personnel manual, it should have been specifically approved and recorded in the City Council minutes.

RECOMMENDATION - Recommend this action and its effective date be specifically approved by the City Council as an exception to the personnel manual and recorded in the City Council minutes.

RESPONSE - The City Manager states this was approved as part of the new fiscal year budget. He will put this on the agenda for the next City Council meeting.

UPDATED COMMENT - This was approved by the City Council at its November 1, 2010, meeting effective July 1, 2010. Comment removed.