

CITY OF HOLLIS, OKLAHOMA

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2012

**CITY OF HOLLIS, OKLAHOMA
CITY OFFICIALS
JUNE 30, 2012**

CITY COUNCIL

Mayor	Kendall Williams
Vice-Mayor	Darrell Hanks
Member	Charles Paxton
Member	Tammy Worthen
Member	Jesse Cantu

CITY MANAGER

Bob Copeland

CITY CLERK

Dee Phillips

CITY TREASURER

Monica Mingura

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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, 2012, 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, 2012, 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. The Authority also did not have the documentation necessary to determine the ending billing accounts receivable balances at June 30, 2012. The effect on the ending billing accounts receivable balances and the related revenue accounts had such documentation been available is not known.

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, 2012, 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, 2012, 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 October 4, 2013, 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 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.

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

October 4, 2013

CITY OF HOLLIS, OKLAHOMA
STATEMENT OF NET ASSETS
JUNE 30, 2012

	PRIMARY GOVERNMENT		
	GOVERN- MENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
ASSETS			
Cash on Hand	\$ 200	\$ 150	\$ 350
Cash in Bank, Including Time Deposits	503,740	539,910	1,043,650
Accounts Receivable:			
Services	5,456	138,923	144,379
Taxes	53,196		53,196
Intergovernmental	26,551		26,551
Less Allowance for Bad Debts		(59,057)	(59,057)
Prepaid Insurance	7,789		7,789
Due from (to) Other Funds	(1,555)	1,093	(462)
Restricted Assets:			
Cash in Bank, Including Time Deposits	174,676	73,738	248,414
Accrued Interest Receivable	837		837
Capital Assets			
Net of Accumulated Depreciation		38,185	38,185
TOTAL ASSETS	<u>770,890</u>	<u>732,942</u>	<u>1,503,832</u>
LIABILITIES			
Accounts Payable	4,415	2,694	7,109
Accrued Payroll Liabilities	859	562	1,421
Accrued Interest Payable		1,442	1,442
Customer Deposits		70,966	70,966
Long-term Liabilities:			
Due Within One Year		27,191	27,191
Due in More Than One Year	19,581	107,205	126,786
TOTAL LIABILITIES	<u>24,855</u>	<u>210,060</u>	<u>234,915</u>
NET ASSETS			
Investment in Capital Assets, Net of Related Debt		24,291	24,291
Restricted Net Assets			
Restricted for Debt Service		2,772	2,772
Restricted for Permanent Fund	175,513		175,513
Unrestricted Net Assets	570,522	495,819	1,066,341
TOTAL NET ASSETS	<u>\$ 746,035</u>	<u>\$ 522,882</u>	<u>\$ 1,268,917</u>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CON- TRIBUTIONS	CAPITAL GRANTS AND CON- TRIBUTIONS	PRIMARY GOVERNMENT		
					GOVERN- MENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
PRIMARY GOVERNMENT							
Governmental Activities:							
General Government	\$ 271,463	\$	\$	\$	\$ (271,463)	\$	\$ (271,463)
Civic Center	3,917	5,556			1,639		1,639
Police Department	422,870	32,117	4,770		(385,983)		(385,983)
Fire Department	54,794	25,532	10,000		(19,262)		(19,262)
Cemetery	8,152	7,319			(833)		(833)
Airport	20,732	21,568			836		836
Street Department	25,614		19,108		(6,506)		(6,506)
Community Work Center	75,862	75,773			(89)		(89)
Parks Department	6,581	3,551			(3,030)		(3,030)
Animal Control	3,336				(3,336)		(3,336)
Library	4,956				(4,956)		(4,956)
Capital Improvements	140,338	5,464		23,213	(111,661)		(111,661)
TOTAL GOVERNMENTAL ACTIVITIES	1,038,615	176,880	33,878	23,213	(804,644)	0	(804,644)
Business-type Activities:							
General Government	40,007					(40,007)	(40,007)
Water Department	310,300	494,498				184,198	184,198
Sewer Department	62,335	176,501				114,166	114,166
Sanitation Department	171,992	204,353				32,361	32,361
Rental Operations	16,454	26,731				10,277	10,277
Capital Improvements	159,000					(159,000)	(159,000)
Interest Expense	3,052					(3,052)	(3,052)
Cemetery	326	2,225				1,899	1,899
TOTAL BUSINESS-TYPE ACTIVITIES	763,466	904,308	0	0	0	140,842	140,842
TOTAL PRIMARY GOVERNMENT	\$ 1,802,081	\$ 1,081,188	\$ 33,878	\$ 23,213	(804,644)	140,842	(663,802)
General Revenues							
Sales and Use Taxes					237,806		237,806
Tobacco Taxes					3,189		3,189
Intergovernmental Revenue					46,405		46,405
Franchise Taxes					83,654		83,654
Interest Income					5,717	3,997	9,714
License, Permits, and Inspections					999		999
Sale of Property					3,815		3,815
Other Income					6,843	4,971	11,814
Transfers					300,000	(300,000)	0
Total General Revenues and Transfers					688,428	(291,032)	397,396
Change in Net Assets					(116,216)	(150,190)	(266,406)
NET ASSETS							
Beginning of Year					862,251	673,072	1,535,323
End of Year					\$ 746,035	\$ 522,882	\$ 1,268,917

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
BALANCE SHEET - GOVERNMENTAL FUNDS -
MODIFIED ACCRUAL BASIS
JUNE 30, 2012**

	GENERAL FUND	FIRE CAPITAL IMPROVE- MENT FUND	CEMETERY MAINTEN- ANCE	FAA GRANT 3-40-0042-001- 2010 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	60,763	158,369	70,144	19,759		194,705	503,740
Due from Other Funds	194					29,137	29,331
Accounts Receivable:							
Services		1,164				4,292	5,456
Taxes	53,196						53,196
Intergovernmental	3,385					23,166	26,551
Prepaid Insurance	5,939					1,850	7,789
Restricted Assets:							
Cash in Bank, Including Time Deposits					174,676		174,676
Accrued Interest Receivable					837		837
TOTAL ASSETS	<u>\$ 123,677</u>	<u>\$ 159,533</u>	<u>\$ 70,144</u>	<u>\$ 19,759</u>	<u>\$ 175,513</u>	<u>\$ 253,150</u>	<u>\$ 801,776</u>
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts Payable	\$ 267					\$ 4,148	\$ 4,415
Accrued Payroll Liabilities	859						859
Due to Other Funds	11,127			19,759			30,886
Accrued Compensated Absences							0
TOTAL LIABILITIES	<u>12,253</u>	<u>0</u>	<u>0</u>	<u>19,759</u>	<u>0</u>	<u>4,148</u>	<u>36,160</u>
FUND BALANCES							
Nonspendable	5,939				102,761	1,850	110,550
Restricted					72,752	50,149	122,901
Committed		60,884	48,890			152,835	262,609
Assigned		98,649	21,254			56,480	176,383
Unassigned	105,485					(12,312)	93,173
TOTAL FUND BALANCES	<u>111,424</u>	<u>159,533</u>	<u>70,144</u>	<u>0</u>	<u>175,513</u>	<u>249,002</u>	<u>765,616</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 123,677</u>	<u>\$ 159,533</u>	<u>\$ 70,144</u>	<u>\$ 19,759</u>	<u>\$ 175,513</u>	<u>\$ 253,150</u>	

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.	<u>(19,581)</u>
Net Assets of Governmental Activities	<u>\$ 746,035</u>

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, 2012

REVENUES	GENERAL FUND	FIRE CAPITAL IMPROVE- MENT FUND	CEMETERY MAINTEN- ANCE	FAA GRANT 3-40-0042-001- 2010 FUND	FAIRMOUNT CEMETERY TRUST FUND	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
Sales and Use Tax	\$ 237,806	\$	\$	\$	\$	\$	\$ 237,806
Cigarette Tax	3,189						3,189
Intergovernmental Revenue	51,175					52,321	103,496
Franchise Tax	83,654						83,654
Interest	700	1,454	698		1,476	1,389	5,717
Charges for Services		8,607	6,594			103,901	119,102
Short-term Rental of Facilities						10,456	10,456
Property Sales	3,815					725	4,540
Fines	26,378						26,378
Airplane Fuel						16,668	16,668
Swimming Pool	3,551						3,551
Licenses, Permits & Inspections	999						999
Other Income	6,843						6,843
TOTAL REVENUES	418,110	10,061	7,292	0	1,476	185,460	622,399
EXPENDITURES							
General Government	274,120						274,120
Civic Center	2,577					1,340	3,917
Police Department	431,154						431,154
Fire Department	26,864					27,930	54,794
Cemetery			8,152				8,152
Airport						20,732	20,732
Street Department	6,506					19,108	25,614
Community Work Center						75,862	75,862
Parks Department	6,581						6,581
Animal Control	3,336						3,336
Library	4,956						4,956
Capital Outlays	13,952	72,200				54,186	140,338
TOTAL EXPENDITURES	770,046	72,200	8,152	0	0	199,158	1,049,556
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	(351,936)	(62,139)	(860)	0	1,476	(13,698)	(427,157)
OTHER FINANCING SOURCES (USES)							
Transfers In	340,000		2,560				342,560
Transfers (Out)					(2,560)	(40,000)	(42,560)
TOTAL OTHER FINANCING	340,000	0	2,560	0	(2,560)	(40,000)	300,000
NET CHANGE IN FUND BALANCES	(11,936)	(62,139)	1,700	0	(1,084)	(53,698)	(127,157)
FUND BALANCE							
Beginning of Year	123,360	221,672	68,444		176,597	302,700	892,773
End of Year	\$ 111,424	\$ 159,533	\$ 70,144	\$ 0	\$ 175,513	\$ 249,002	\$ 765,616

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, 2012**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (127,157)

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

Governmental capital outlays are not capitalized, auditor's report modified.

Decreases in accrued compensated absences are not reported in the governmental funds, but are reported as a reduction of the liability in the general long-term debt account group. These are reported in the government-wide financial statements as a decrease in the related department expense.

10,941

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (116,216)

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, 2012**

	BUSINESS- TYPE ACTIVITIES		TOTALS
	PUBLIC WORKS AUTHORITY	HOLLIS ECON. DEV. AUTHORITY	
	ASSETS		
Current Assets:			
Cash on Hand	\$ 150	\$	\$ 150
Cash in Bank	514,143	25,767	539,910
Due from Other Funds	1,273		1,273
Accounts Receivable - Services	138,923		138,923
Allowance for Bad Debts	(59,057)		(59,057)
Total Current Assets	<u>595,432</u>	<u>25,767</u>	<u>621,199</u>
Noncurrent Assets:			
Restricted Cash	70,006	3,732	73,738
Capital Assets			
Net of Accumulated Depreciation		38,185	38,185
Total Noncurrent Assets	<u>70,006</u>	<u>41,917</u>	<u>111,923</u>
TOTAL ASSETS	<u>665,438</u>	<u>67,684</u>	<u>733,122</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	2,694		2,694
Accrued and Withheld Payroll Liabilities	562		562
Due to Other Funds	180		180
Accrued Interest Payable	1,442		1,442
Customer Refundable Deposits	70,006	960	70,966
Accrued Compensated Absences	5,978		5,978
Current Capital Lease Obligation	20,367		20,367
Current Mortgage Payable		846	846
Total Current Liabilities	<u>101,229</u>	<u>1,806</u>	<u>103,035</u>
Noncurrent Liabilities			
Mortgage Payable		13,048	13,048
Capital Lease Obligations	88,633		88,633
Accrued Compensated Absences	5,524		5,524
Total Noncurrent Liabilities	<u>94,157</u>	<u>13,048</u>	<u>107,205</u>
TOTAL LIABILITIES	<u>195,386</u>	<u>14,854</u>	<u>210,240</u>
NET ASSETS			
Investment in Capital Assets, Net of Related Debt	(109,000)	24,291	(84,709)
Restricted Net Assets			
Restricted for Debt Service		2,772	2,772
Unrestricted Net Assets	<u>579,052</u>	<u>25,767</u>	<u>604,819</u>
TOTAL NET ASSETS	<u>\$ 470,052</u>	<u>\$ 52,830</u>	<u>\$ 522,882</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, 2012**

	BUSINESS- TYPE ACTIVITIES		TOTALS
	PUBLIC WORKS AUTHORITY	HOLLIS ECON. DEV. AUTHORITY	
OPERATING REVENUES			
Water Sales	\$ 494,498	\$	494,498
Garbage Collections	204,353		204,353
Sewer Sales	176,501		176,501
Rental Income		3,402	3,402
Rental and Other Subsidies		23,329	23,329
Cemetery Fees	2,225		2,225
Other Miscellaneous Revenue	4,971		4,971
TOTAL OPERATING REVENUES	<u>882,548</u>	<u>26,731</u>	<u>909,279</u>
OPERATING EXPENSES			
General Government	40,007		40,007
Water Department	310,300		310,300
Sewer Department	62,335		62,335
Sanitation Department	171,992		171,992
Rental Operations		16,454	16,454
Capital Improvements	159,000		159,000
Cemetery	326		326
TOTAL OPERATING EXPENSES	<u>743,960</u>	<u>16,454</u>	<u>760,414</u>
INCOME FROM OPERATIONS	<u>138,588</u>	<u>10,277</u>	<u>148,865</u>
NONOPERATING REVENUES (EXPENSES)			
Interest Income	3,987	10	3,997
Interest Expense	(2,139)	(913)	(3,052)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,848</u>	<u>(903)</u>	<u>945</u>
INCOME BEFORE OPERATING TRANSFERS	<u>140,436</u>	<u>9,374</u>	<u>149,810</u>
OPERATING TRANSFERS IN (OUT)			
Operating Transfers (Out)	(300,000)		(300,000)
TOTAL OPERATING TRANSFERS	<u>(300,000)</u>	<u>0</u>	<u>(300,000)</u>
CHANGE IN NET ASSETS	(159,564)	9,374	(150,190)
NET ASSETS			
Beginning of Year	<u>629,616</u>	<u>43,456</u>	<u>673,072</u>
End of Year	<u>\$ 470,052</u>	<u>\$ 52,830</u>	<u>\$ 522,882</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, 2012

	BUSINESS- TYPE ACTIVITIES		
	PUBLIC WORKS AUTHORITY	HOLLIS ECON. DEV. AUTHORITY	TOTALS
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 868,531	\$ 3,402	\$ 871,933
Cash Received from Other Sources		23,329	23,329
Cash Paid to Suppliers	(530,489)	(11,135)	(541,624)
Cash Paid to Employees	(201,241)		(201,241)
Net Cash Provided by Operating Activities	<u>136,801</u>	<u>15,596</u>	<u>152,397</u>
Cash Flows from Noncapital Financing Activities			
Operating Transfers (Out)	(300,000)		(300,000)
Net Cash (Used for) Noncapital Financing Activities	<u>(300,000)</u>	<u>0</u>	<u>(300,000)</u>
Cash Flows from Capital and Related Financing Activities			
Proceeds from Capital Lease Obligations	159,000		159,000
Principal Paid on Capital Lease Obligations	(60,342)		(60,342)
Interest Paid on Capital Lease Obligations	(697)		(697)
Interest Paid on Mortgage Payable		(913)	(913)
Principal Paid on Mortgage Payable		(794)	(794)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>97,961</u>	<u>(1,707)</u>	<u>96,254</u>
Cash Flows from Investing Activities			
Interest Received on Deposits	3,987	10	3,997
Net Cash Provided by Investing Activities	<u>3,987</u>	<u>10</u>	<u>3,997</u>
Increase (Decrease) in Cash and Cash Equivalents	(61,251)	13,899	(47,352)
Balance of Cash and Cash Equivalents			
Beginning of Year	645,550	15,600	661,150
End of Year	<u>\$ 584,299</u>	<u>\$ 29,499</u>	<u>\$ 613,798</u>
Reconciliation of Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:			
Operating Income	\$ 138,588	\$ 10,277	\$ 148,865
Adjustments to Reconcile Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:			
Depreciation Expense		5,319	5,319
Changes in Assets and Liabilities:			
(Increase) in Accounts Receivable	(17,277)		(17,277)
Increase in Allowance for Bad Debt	16,208		16,208
(Decrease) in Accounts Payable	(3,448)		(3,448)
(Decrease) in Accrued Expenses Payable	(530)		(530)
Increase in Customer Deposits	3,260		3,260
Total Adjustments	<u>(1,787)</u>	<u>5,319</u>	<u>3,532</u>
Net Cash and Cash Equivalents Provided by Operating Activities	<u>\$ 136,801</u>	<u>\$ 15,596</u>	<u>\$ 152,397</u>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012**

	<u>AGENCY FUNDS</u>
ASSETS	
Cash in Bank, Including Time Deposits	\$ 4,098
Due from Other Funds	<u>462</u>
TOTAL ASSETS	<u><u>\$ 4,560</u></u>
LIABILITIES	
Accounts Payable	\$ 4,560
Due to Other Funds	<u> </u>
TOTAL LIABILITIES	<u><u>\$ 4,560</u></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, 2012**

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, 2012**

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, 2012**

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.

Cemetery Maintenance - This fund is a special revenue fund used to account for proceeds of cemetery dues and expenditures for maintenance for the City's cemetery.

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.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies (continued).

B. Basic Financial Statements (continued).

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.

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. 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

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

1. Summary of Significant Accounting Policies (continued).

B. Basic Financial Statements (continued).

Proprietary Funds (continued).

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.

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, 2012**

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, 2012**

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, 2012**

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, 2012**

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, 2012, the carrying amount of the City's deposits was \$1,296,162 and the bank balance was \$1,364,648. Of the bank balance, \$424,676 was covered by Federal Depository Insurance and \$939,972 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 \$70,966. 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 \$2,772 and cash restricted for the cemetery perpetual trust account of \$174,676.

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, 2012**

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, 2012
	Balance June 30, 2011	Additions	(Deletions)	
Business-type Activities:				
Rental				
Operations:				
Building	\$ 50,969	\$	\$	\$ 50,969
Equipment	<u>31,719</u>	<u> </u>	<u> </u>	<u>31,719</u>
Total Cost	<u>82,688</u>	<u>-0-</u>	<u>-0-</u>	<u>82,688</u>
Less Accumulated Depreciation:				
Building	(25,730)	(2,963)		(28,693)
Equipment	<u>(13,454)</u>	<u>(2,356)</u>	<u> </u>	<u>(15,810)</u>
Total Acc. Depreciation	<u>(39,184)</u>	<u>(5,319)</u>	<u>-0-</u>	<u>(44,503)</u>
Net Business-type Activities	<u>\$ 43,504</u>	<u>\$ (5,319)</u>	<u>\$ -0-</u>	<u>\$ 38,185</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 \$5,319.

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, 2012**

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>2011</u>			<u>2012</u>	<u>One Yr.</u>
Governmental Activities:					
Accrued					
Compensated					
Absences	\$ 30,522	\$ _____	\$ (10,941)	\$ 19,581	\$ _____
Business-type Activities:					
Accrued					
Compensated					
Absences	11,371	131		11,502	5,977
Capital Leases	10,342	159,000	(60,342)	109,000	20,367
Mortgages:					
Rural Housing	14,688	_____	(794)	13,894	847
Total Business Type Activities	<u>36,401</u>	<u>159,131</u>	<u>(61,136)</u>	<u>134,396</u>	<u>27,191</u>
Total Long-term Liab.	<u>\$ 66,923</u>	<u>\$159,131</u>	<u>\$ (72,077)</u>	<u>\$153,977</u>	<u>\$27,191</u>

Annual requirements to amortize all of the June 30, 2012, mortgages payable are as follows:

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2013	\$ 847	\$ 861	\$ 1,708
2014	902	806	1,708
2015	961	747	1,708
2016	1,024	684	1,708
2017	1,092	616	1,708
2018-2022	6,631	1,907	8,538
2023-2024	<u>2,437</u>	<u>125</u>	<u>2,562</u>
Total	<u>\$ 13,894</u>	<u>\$ 5,746</u>	<u>\$ 19,640</u>

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

6. Long-term Liabilities (continued).

On February 2, 2012, the Hollis Public Works Authority entered into a \$159,000 capital lease obligation to purchase a trash truck. Terms call for a down payment of \$50,000 with annual payments of \$24,073, beginning February 8, 2013, for 5 years. Amount financed was \$109,000. Imputed interest was computed at 3.40%.

The following is schedule by years of future minimum lease payments under capital leases as of June 30, 2012.

<u>Year Ending June 30</u>	
2013	\$ 24,073
2014	24,073
2015	24,073
2016	24,073
2017	<u>24,073</u>
Net Minimum Lease Payments	120,365
Less Amount Representing Interest	<u>(11,365)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 109,000</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

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

7. Pension Plans (continued).

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.

Annual Pension Cost. The City and Hollis Public Works Authority contributed \$25,015 and \$ 8,126, respectively, to the plan for the year ending June 30, 2012.

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, 2012, the City contributed \$ 900 to the Plan. The actuarial valuation report, dated July 1, 2012, 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, 2012, was 21 years.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

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, 2012, are as follows:

Fund	Transfers In	Transfers (Out)
General	\$ 340,000	\$
Cemetery Maintenance	2,560	
Fairmount Cemetery Trust		(2,560)
Other Governmental Funds		(40,000)
Public Works Authority	_____	(300,000)
Totals	\$ 342,560	\$ (342,560)

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. Various extensions, amendments and consent orders have been received since then 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, plans, and specifications, and obtain project funding.

The City agreed to consent order #12-197 on November 15, 2012, which replaces the previous consent order. Under this consent order, the City was assessed a penalty of \$37,000 by ODEQ. All but \$2,000 has been deferred by the ODEQ, depending upon the completion of each of the five tasks required by ODEQ by the required due date. Each task has been allocated \$7,000 of the deferred penalty, and the City may be assessed that penalty

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

10. Commitments and Contingencies (continued).

if the respective task is not completed on time. The City states that all but the last task has been completed. This task was to obtain funding for the project to correct the violation and was due on July 1, 2013. The City has requested a modified construction schedule and on August 6, 2013, the City received a letter from ODEQ stating that an addendum to the consent order is being prepared and will be sent under separate cover to reflect the modified construction schedule submitted with the approved engineering report. As of September 26, 2013, no addendum has been received by the City. The \$2,000 penalty assessed was paid by the City on March 31, 2013. No accrual for this penalty is reflected in these financial statements.

Costs of noncompliance with this consent order could cost the City from \$140 to \$360 per day depending upon what task was not in compliance, up to a maximum of \$70,000. The City continues to seek funding sources to be able to build the required ion exchange treatment process plant.

CITY OF HOLLIS, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2012

11. Fund Balance Classifications.

	GENERAL FUND	CEMETERY MAINTEN- ANCE	FIRE CAPITAL IMPROVE- MENT FUND	FAA 3-40- 0042-001-2010 GRANT	FAIRMOUNT CEMETERY TRUST FUND	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
FUND BALANCES:							
Nonexpendable:							
Prepaid Expenses	\$ 5,939					\$ 1,850	\$ 7,789
Permanent Fund Principal					102,761		102,761
Restricted for:							
Street & Alley Improvements						1,575	1,575
Cemetery Improvements					72,752	21,676	94,428
Airport						24,829	24,829
Federal Emergency Management						2,069	2,069
Committed to:							
Cemetery Maintenance		48,890					48,890
Civic Center						32,869	32,869
Community Work Center						26,248	26,248
Fire Capital Improvements			60,884				60,884
Police Capital Improvements						0	0
General Capital Improvements						34,545	34,545
Rural Fire Department						59,173	59,173
Assigned to:							
Airport						19	19
Cemetery Improvements						11,525	11,525
Cemetery Maintenance		21,254					21,254
Civic Center						3,996	3,996
Community Work Center						22,113	22,113
Fire Capital Improvements			98,649				98,649
Police Capital Improvements						3,634	3,634
General Capital Improvements						6,648	6,648
Rural Fire Department						8,545	8,545
Unassigned:							
	105,485					(12,312)	93,173
Total Fund Balances	\$ 111,424	\$ 70,144	\$ 159,533	\$ 0	\$ 175,513	\$ 249,002	\$ 765,616

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, 2012

	BUDGET		ACTUAL	VARIANCE -
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
REVENUES				
Sales and Use Tax	\$ 274,800	\$ 274,800	\$ 237,806	\$ (36,994)
Tobacco Tax	6,000	6,000	3,189	(2,811)
Franchise Taxes	108,600	108,600	83,654	(24,946)
Licenses, Permits & Insp.	625	625	999	374
Intergovernmental Revenue	48,000	48,000	51,175	3,175
Swimming Pool	6,000	6,000	3,551	(2,449)
Fines	24,000	24,000	26,378	2,378
Interest	3,000	3,000	700	(2,300)
Property Sales			3,815	3,815
Other Miscellaneous	6,000	6,000	6,843	843
	477,025	477,025	418,110	(58,915)
EXPENDITURES				
General Government	303,160	303,160	274,120	29,040
Civic Center	6,000	6,000	2,577	3,423
Police Department	407,820	407,820	431,154	(23,334)
Fire Department	26,360	26,360	26,864	(504)
Street Department	5,400	5,400	6,506	(1,106)
Parks Department	11,800	11,800	6,581	5,219
Animal Control	8,200	8,200	3,336	4,864
Library	6,000	6,000	4,956	1,044
Capital Outlay			13,952	(13,952)
	774,740	774,740	770,046	4,694
EXCESS OF REVENUES (UNDER)				
EXPENDITURES BEFORE OTHER				
FINANCING SOURCES (USES)				
	(297,715)	(297,715)	(351,936)	(54,221)
OTHER FINANCIAL				
SOURCES (USES)				
Transfers In, Net	340,000	340,000	340,000	0
EXCESS OF REVENUES AND				
OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES				
	42,285	42,285	(11,936)	\$ <u>(54,221)</u>
FUND BALANCE				
Beginning of Year	123,360	123,360	123,360	
End of Year	\$ <u>165,645</u>	\$ <u>165,645</u>	\$ <u>111,424</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 -
CEMETERY MAINTENANCE FUND
YEAR ENDED JUNE 30, 2012**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES				
Charges for Services	\$	\$	\$ 6,594	\$ (6,594)
Interest			698	698
TOTAL REVENUES	<u>0</u>	<u>0</u>	<u>7,292</u>	<u>(5,896)</u>
EXPENDITURES				
Cemetery			8,152	(8,152)
Capital Outlay			0	0
TOTAL EXPENDITURES	<u>0</u>	<u>0</u>	<u>8,152</u>	<u>(8,152)</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	<u>0</u>	<u>0</u>	<u>(860)</u>	<u>(860)</u>
OTHER FINANCIAL SOURCES (USES)				
Transfers In			2,560	2,560
TOTAL OTHER FINANCING	<u>0</u>	<u>0</u>	<u>2,560</u>	<u>2,560</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	<u>0</u>	<u>0</u>	<u>1,700</u>	<u>\$ 1,700</u>
FUND BALANCE				
Beginning of Year			68,444	
End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 70,144</u>	

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

CITY OF HOLLIS, OKLAHOMA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDING JUNE 30, 2012

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, 2012. 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. No budget was made for the cemetery maintenance fund. No budget comparison is presented for the FAA grant since it had no income or expenditure.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HOLLIS, OKLAHOMA
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2012

	NONMAJOR SPECIAL REVENUE FUNDS									NONMAJOR CAPITAL IMPROVEMENT FUNDS			TOTAL OTHER GOVERN- MENTAL	
	AIRPORT TRUST	CEMETERY FUND	COMMUNITY WORK CENTER	CIVIC CENTER	RURAL FIRE	STREET & ALLEY	FAA GRANT 3-40-0042-002-2011 FUND	AIRPORT LOCAL FUNDS	FEMA FUND	TOTAL	CAPITAL	POLICE CAPITAL		TOTAL
ASSETS														
Cash on Hand	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Cash in Bank, Including Time Deposits	1,148	33,201	41,120	36,865	67,718	3,547	(23,894)	(11,090)	2,069	150,684	41,193	2,828	44,021	194,705
Due from Other Funds	23,700		3,675				1,682			29,057		80	80	29,137
Prepaid Insurance	1,850									1,850			0	1,850
Accounts Receivable - Intergovernmental Services						2,176	20,990			23,166			0	23,166
			3,566							3,566		726	726	4,292
TOTAL ASSETS	<u>\$ 26,698</u>	<u>\$ 33,201</u>	<u>\$ 48,361</u>	<u>\$ 36,865</u>	<u>\$ 67,718</u>	<u>\$ 5,723</u>	<u>\$ (1,222)</u>	<u>\$ (11,090)</u>	<u>\$ 2,069</u>	<u>\$ 208,323</u>	<u>\$ 41,193</u>	<u>\$ 3,634</u>	<u>\$ 44,827</u>	<u>\$ 253,150</u>
LIABILITIES														
Accounts Payable	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
						4,148				4,148				4,148
										0				0
TOTAL LIABILITIES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,148</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,148</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,148</u>
FUND EQUITY														
Fund Balance														
Nonspendable	1,850									1,850			0	1,850
Restricted	24,829	21,676				1,575			2,069	50,149			0	50,149
Committed			26,248	32,869	59,173					118,290	34,545	0	34,545	152,835
Assigned	19	11,525	22,113	3,996	8,545					46,198	6,648	3,634	10,282	56,480
Unassigned							(1,222)	(11,090)		(12,312)			0	(12,312)
TOTAL FUND EQUITY	<u>26,698</u>	<u>33,201</u>	<u>48,361</u>	<u>36,865</u>	<u>67,718</u>	<u>1,575</u>	<u>(1,222)</u>	<u>(11,090)</u>	<u>2,069</u>	<u>204,175</u>	<u>41,193</u>	<u>3,634</u>	<u>44,827</u>	<u>249,002</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 26,698</u>	<u>\$ 33,201</u>	<u>\$ 48,361</u>	<u>\$ 36,865</u>	<u>\$ 67,718</u>	<u>\$ 5,723</u>	<u>\$ (1,222)</u>	<u>\$ (11,090)</u>	<u>\$ 2,069</u>	<u>\$ 208,323</u>	<u>\$ 41,193</u>	<u>\$ 3,634</u>	<u>\$ 44,827</u>	<u>\$ 253,150</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, 2012

	NONMAJOR SPECIAL REVENUE FUNDS									NONMAJOR CAPITAL IMPROVEMENT FUNDS			TOTAL OTHER GOVERN- MENTAL	
	AIRPORT TRUST	CEMETERY FUND	COMMUNITY WORK CENTER	CIVIC CENTER	RURAL FIRE	STREET & ALLEY	FAA GRANT 3-40-0042-002-2011 FUND	AIRPORT LOCAL FUNDS	FEMA FUND	TOTAL	CAPITAL	POLICE CAPITAL		TOTAL
REVENUES														
Charges for Services	\$	\$	\$ 75,773	\$	\$ 16,925	\$	\$	\$	\$	\$ 92,698	\$ 5,464	\$ 5,739	\$ 11,203	\$ 103,901
Intergovernmental Revenue					10,000	19,108	23,213			52,321			0	52,321
Interest		160	225	411	335					1,131	184	74	258	1,389
Property Sales		725								725			0	725
Rent of Facilities	4,900			5,556						10,456			0	10,456
Airplane Fuel	16,668									16,668			0	16,668
Donations										0			0	0
Miscellaneous Revenue										0			0	0
TOTAL REVENUES	21,568	885	75,998	5,967	27,260	19,108	23,213	0	0	173,999	5,648	5,813	11,461	185,460
EXPENDITURES														
Airport	20,732									20,732			0	20,732
Fire Department					27,930					27,930			0	27,930
Cemetery										0			0	0
Civic Center				1,340						1,340			0	1,340
Community Work Center			75,862							75,862			0	75,862
Capital Outlay			2,562				24,435	11,090		38,087		16,099	16,099	54,186
Street Department						19,108				19,108			0	19,108
TOTAL EXPENDITURES	20,732	0	78,424	1,340	27,930	19,108	24,435	11,090	0	183,059	0	16,099	16,099	199,158
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	836	885	(2,426)	4,627	(670)	0	(1,222)	(11,090)	0	(9,060)	5,648	(10,286)	(4,638)	(13,698)
OTHER FINANCING SOURCES (USES)														
Transfers In										0			0	0
Transfers (Out)			(40,000)							(40,000)			0	(40,000)
TOTAL OTHER FINANCING SOURCES (USES)	0	0	(40,000)	0	0	0	0	0	0	(40,000)	0	0	0	(40,000)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	836	885	(42,426)	4,627	(670)	0	(1,222)	(11,090)	0	(49,060)	5,648	(10,286)	(4,638)	(53,698)
FUND BALANCE														
Beginning of Year	25,862	32,316	90,787	32,238	68,388	1,575			2,069	253,235	35,545	13,920	49,465	302,700
End of Year	\$ 26,698	\$ 33,201	\$ 48,361	\$ 36,865	\$ 67,718	\$ 1,575	\$ (1,222)	\$ (11,090)	\$ 2,069	\$ 204,175	\$ 41,193	\$ 3,634	\$ 44,827	\$ 249,002

See accompanying auditor's report.



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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, 2012, which collectively comprise the City of Hollis, Oklahoma's basic financial statements. We have issued our report thereon dated October 4, 2013. 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 and the balance for the utility accounts receivable is not known since the documentation was not available. 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

Management of the City of Hollis, Oklahoma, is responsible for establishing and maintaining effective 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 was not designed to 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, #3 and #6 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 item #4 to be significant deficiencies in internal control over financial reporting.

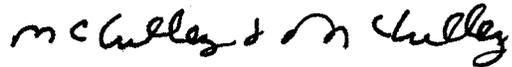
Compliance and Other Matters

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 and #5.

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.



Weatherford, Oklahoma

October 4, 2013

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

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 (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. Various extensions, amendments and consent orders have been received since then 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, plans, and specifications, and obtain project funding.

The City agreed to consent order #12-197 on November 15, 2012, which replaces the previous consent order. Under this consent order, the City was assessed a penalty of \$37,000 by ODEQ. All but \$2,000 has been deferred by the ODEQ, depending upon the completion of each of the five tasks required by ODEQ by the required due date. Each task has been allocated \$7,000 of the deferred penalty, and the City may be assessed that penalty if the respective task is not completed on time. The City states that all but the last task has been completed. This task was to obtain funding for the project to correct the violation and was due on July 1, 2013. The City has requested a modified construction schedule and on August 6, 2013, the City received a letter from ODEQ stating that an addendum to the consent order is being prepared and will be sent under separate cover to reflect the modified construction schedule submitted with the approved engineering report. As of September 26, 2013, no addendum has been received by the City. The \$2,000 penalty assessed was paid by the City on March 31, 2013. No accrual for this penalty is reflected in these financial statements.

Costs of noncompliance with this consent order could cost the City from \$140 to \$360 per day depending upon what task was not in compliance, up to a maximum of \$70,000. The City continues to seek funding sources to be able to build the required ion exchange treatment process plant.

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.

QUESTIONED COSTS - None.

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

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. Utility Billings Accounts Receivable.

CONDITION AND EFFECT - The Hollis Public Works Authority changed its utility billing accounts receivable software during this fiscal year. The accounts receivable was posted to the general ledger system, but the two systems were not reconciled to each other. The Authority did not print an end of the month aging accounts receivable report at the end of each month, and the one printed for June 30, 2012, only included those with a balance greater than or equal to \$50. Any adjustments made to the utility billing accounts receivable system were not posted to the general ledger system. Also noted some other entries were made by the accounts receivable system that were not correctly posted to the general ledger system. The accounts receivable system is set up to post everything to the general ledger cash account, but not all entries are cash entries. The effect of not balancing these records could result in errors and possibly fraud occurring.

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.

CRITERIA - Good internal control procedures include reconciling the utility billings accounts receivable system to the general ledger system to ensure accuracy in posting. 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

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

3. Utility Billings Accounts Receivable (continued).

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 Authority print and retain the end of the month aging report that contains all the outstanding balances of the utility billings account receivable accounts. These should be used to reconcile the accounts receivable balances to the general ledger system. All entries made to the utility accounts receivable system should also be posted to the general ledger system. Reconciliations should be done as soon as possible after the end of each month and corrections (if any) made. The Authority should also change the setup on the general ledger entries that are not cash entries to ensure the entries are correctly posted and the accounts receivable balances and cash balances can be properly reconciled. Recommend the Authority 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 Authority 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 Authority 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 Authority had problems during the conversion of the software this fiscal year and did not reconcile these accounts. Management stated it did a better job enforcing the collection policy in fiscal year 2013. It will implement the recommendations in fiscal year 2014.

4. 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 June 30, 2011. The effect of not balancing these records could result in errors and possibly fraud occurring.

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

**4. Balancing of Meter Deposit Liability Subsidiary Records
(continued).**

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.

5. 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 reviewed its vacation policy in fiscal year 2013 and sent notices to employees to use their vacation time or lose it.

6. Accounting Records and Bank Reconciliations.

CONDITION AND EFFECT - The City converted to a new accounting software system during this fiscal year. The new accounting software system had various transactions that were being posted as a cash transaction when it was actually a non-cash transaction. It also created a payroll clearing fund in which payroll transactions were posted to this fund for both the general fund payroll and PWA fund payroll. Each of these funds had their own separate bank account. The payroll clearing fund was set up as part of the general bank account. The actual checks for the PWA payroll were drawn on the PWA bank account. Thus the PWA payroll were posted on the books as part of the general bank account and not posted on the PWA books as drawn on the PWA bank account. This created an enormous amount of reconciling items in order for the City to reconcile the general and PWA bank accounts. These reconciling items were not shown on the bank reconciliations performed by the City. The bank reconciliations performed for the two major bank accounts were not fully reconciled and reconciling items explained. The City's

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

6. Accounting Records and Bank Reconciliations (continued).

accounting records were not produced timely and reconciliations to those records could not be performed in a timely manner. Noted adjustments being made to the accounting records for fiscal year 2012 as late as January, 2013. The end of year financial statements had various payroll related liability accounts with debit balances for both the PWA and general fund. The effect of not balancing these records could result in errors and possibly fraud occurring and not being detected within a timely manner.

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 for all funds should be performed monthly and all reconciling items identified and explained. Adjustments, if any, should be posted to the accounting records to correct any errors found. Non-cash transactions should not be posted as cash transactions but as journal entries. Recommend the City discontinue the use of the payroll clearing fund and post the respective payroll activity within the respective fund accounting records. This would require changing the payroll setup on the payroll system. Payroll related liability accounts should be reviewed at the end of each month to ensure accuracy in posting 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 recognized that it had issues with the payroll processing and was waiting until the audit was done to contact the software company and see if it can be changed to the respective fund. The City is working on getting everything caught up and treasurer trained.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

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 an ion exchange plant 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.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

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

QUESTIONED COSTS - None.

UPDATED COMMENT - Situation still the same. The City has received a new consent order and is trying to comply with it. 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. Comment repeated.

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.

UPDATED COMMENT - Comment removed for the current audit.

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

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

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

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.

UPDATED COMMENT - The City changed its software program for fiscal year 2012. Other problems were noted for this fiscal year. The City Manager states that he and the City Council review the delinquent reports. Comment revised and included in the current year's audit report.

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.

UPDATED COMMENT - The meter deposit subsidiary ledger did not agree to the general ledger control account. Comment revised in the current year audit report.

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

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

6. Vacation Leave Policy (continued).

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.

UPDATED COMMENT - Noted some employees leave records still showing amounts in excess of allowed. The City began in fiscal year 2013 to get employees to take their vacation time. Comment revised in the current year audit report.

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.

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 posting 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.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2012**

7. Accounting Records and Bank Reconciliatons (continued).

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.

UPDATED COMMENT - The City changed accounting software system for fiscal year 2012 and had some problems in the conversion and utilizing this accounting software. Accounting records were still not being done timely. Bank accounts not reconciled for the general and Public Works Authority bank accounts. The municipal court records were corrected and that part will be taken out. The new software utilized a payroll clearing account which created accounting problems for the City. Comment revised for the current year audit report.