

CITY OF HOLLIS, OKLAHOMA

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2013

**CITY OF HOLLIS, OKLAHOMA
CITY OFFICIALS
JUNE 30, 2013**

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

Report on the Financial Statements

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, 2013, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion on Governmental Activities

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 position, and expenses of the governmental activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental activities is not reasonably determinable.

Adverse Opinion on Governmental Activities

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, 2013, and the changes in financial position thereof for the year then ended.

Basis for Qualified Opinion on Business-type Activities

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 position, and expenses of the business-type activities.

Qualified Opinion on Business-type Activities

In our opinion, except for the effects of the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position and cash flows, where applicable, of the business-type activities of the City of Hollis, Oklahoma, as of June 30, 2013, and the changes in financial position thereof for the year then ended.

Unmodified Opinion

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, 2013, 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.

Other Matters

Required Supplementary Information

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 31 - 34 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. Our opinion on the basic financial statements is not affected by the missing management's discussion and analysis.

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.

Other Information

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 combining and individual nonmajor fund 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.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated June 9, 2014, 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 in considering in assessing the City's internal control over financial reporting and compliance.

McCulley & McCulley

Weatherford, Oklahoma

June 9, 2014

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF NET POSITION
JUNE 30, 2013**

PRIMARY GOVERNMENT

	GOVERN- MENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
ASSETS			
Cash on Hand	\$ 200	\$ 150	\$ 350
Cash in Bank, Including Time Deposits	514,547	562,873	1,077,420
Accounts Receivable:			
Services	9,283	113,413	122,696
Taxes	48,036		48,036
Intergovernmental	6,828		6,828
Less Allowance for Bad Debts		(45,765)	(45,765)
Prepaid Assets	8,457	2,872	11,329
Due from (to) Other Funds	2,543	(2,882)	(339)
Restricted Assets:			
Cash in Bank, Including Time Deposits	170,131	78,256	248,387
Accrued Interest Receivable	880		880
Capital Assets			
Net of Accumulated Depreciation		32,949	32,949
TOTAL ASSETS	<u>760,905</u>	<u>741,866</u>	<u>1,502,771</u>
LIABILITIES			
Accounts Payable	11,322	18,353	29,675
Cash Overdrafts	50,728		50,728
Accrued Payroll Liabilities	1,156	1,305	2,461
Accrued Interest Payable		1,172	1,172
Customer Deposits		74,156	74,156
Long-term Liabilities:			
Due Within One Year	12,403	26,259	38,662
Due in More Than One Year	15,510	82,415	97,925
TOTAL LIABILITIES	<u>91,119</u>	<u>203,660</u>	<u>294,779</u>
NET POSITION			
Net Investment in Capital Assets		19,902	19,902
Restricted Net Position			
Restricted for Debt Service		4,100	4,100
Restricted for Permanent Fund	171,011		171,011
Unrestricted Net Position	498,775	514,204	1,012,979
TOTAL NET POSITION	<u>\$ 669,786</u>	<u>\$ 538,206</u>	<u>\$ 1,207,992</u>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		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	\$ 298,697	\$	\$	\$	\$ (298,697)	\$	\$ (298,697)
Civic Center	2,474	5,848			3,374		3,374
Police Department	379,647	33,333	4,770		(341,544)		(341,544)
Fire Department	35,356	25,100	4,484		(5,772)		(5,772)
Cemetery	8,838	6,744			(2,094)		(2,094)
Airport	24,494	26,368			1,874		1,874
Street Department	27,256		18,003		(9,253)		(9,253)
Community Work Center	78,166	79,632			1,466		1,466
Parks Department	7,243				(7,243)		(7,243)
Animal Control	3,083				(3,083)		(3,083)
Library	4,513				(4,513)		(4,513)
Capital Improvements	107,827	5,995		19,539	(82,293)		(82,293)
TOTAL GOVERNMENTAL ACTIVITIES	977,594	183,020	27,257	19,539	(747,778)	0	(747,778)
Business-type Activities:							
General Government	10,070					(10,070)	(10,070)
Water Department	289,399	408,847			119,448		119,448
Sewer Department	29,569	170,609			141,040		141,040
Sanitation Department	199,333	205,050			5,717		5,717
Rental Operations	16,824	24,806			7,982		7,982
Capital Improvements	61,493				(61,493)		(61,493)
Interest Expense	4,307				(4,307)		(4,307)
Cemetery		1,125				1,125	1,125
TOTAL BUSINESS-TYPE ACTIVITIES	610,995	810,437	0	0	0	199,442	199,442
TOTAL PRIMARY GOVERNMENT	\$ 1,588,589	\$ 993,457	\$ 27,257	\$ 19,539	(747,778)	199,442	(548,336)
General Revenues							
Sales and Use Taxes					243,914		243,914
Tobacco Taxes					3,051		3,051
Intergovernmental Revenue					129,542		129,542
Franchise Taxes					80,041		80,041
Interest Income					3,585	2,518	6,103
License, Permits, and Inspections					920		920
Sale of Property					10,305		10,305
Other Income					17,531	5,828	23,359
Transfers					182,640	(182,640)	0
Total General Revenues and Transfers					671,529	(174,294)	497,235
Change in Net Position					(76,249)	25,148	(51,101)
NET POSITION							
Beginning of Year					746,035	522,882	1,268,917
Prior Period Adjustment						(9,824)	(9,824)
End of Year					\$ 669,786	\$ 538,206	\$ 1,207,992

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
BALANCE SHEET - GOVERNMENTAL FUNDS -
MODIFIED ACCRUAL BASIS
JUNE 30, 2013**

	GENERAL FUND	COMMUNITY WORK CENTER	FIRE CAPITAL IMPROVE- MENT FUND	CEMETERY MAINTEN- ANCE	FAA GRANT 3-40-0042-001- 2010 FUND	FAIRMOUNT CEMETERY TRUST FUND	RURAL FIRE	REAP 12-HA-12010 FUND	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
ASSETS										
Cash on Hand	\$ 200	\$	\$	\$	\$	\$	\$	\$	\$	\$ 200
Cash in Bank, Including Time Deposits		35,890	167,384	73,149	19,759		78,262		140,103	514,547
Due from Other Funds	4,168	3,675							25,462	33,305
Accounts Receivable:										
Services		6,220	1,348			865			850	9,283
Taxes	48,036									48,036
Intergovernmental	3,565								3,263	6,828
Prepaid Assets	6,607								1,850	8,457
Restricted Assets:										
Cash in Bank, Including Time Deposits						170,131				170,131
Accrued Interest Receivable						880				880
TOTAL ASSETS	<u>\$ 62,576</u>	<u>\$ 45,785</u>	<u>\$ 168,732</u>	<u>\$ 73,149</u>	<u>\$ 19,759</u>	<u>\$ 171,876</u>	<u>\$ 78,262</u>	<u>\$ 0</u>	<u>\$ 171,528</u>	<u>\$ 791,667</u>
LIABILITIES AND FUND BALANCES										
LIABILITIES										
Accounts Payable	\$ 7,622	\$	\$	\$	\$	\$	\$	\$	\$ 3,700	\$ 11,322
Cash Overdrafts	36,253								14,475	50,728
Accrued Payroll Liabilities	1,156									1,156
Due to Other Funds	11,003				19,759					30,762
TOTAL LIABILITIES	<u>56,034</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>19,759</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>18,175</u>	<u>93,968</u>
FUND BALANCES										
Nonspendable	6,607					102,761			1,850	111,218
Restricted						69,115			52,861	121,976
Committed		23,521	69,484	51,489			69,523		83,428	297,445
Assigned		22,264	99,248	21,660			8,739		26,304	178,215
Unassigned	(65)								(11,090)	(11,155)
TOTAL FUND BALANCES	<u>6,542</u>	<u>45,785</u>	<u>168,732</u>	<u>73,149</u>	<u>0</u>	<u>171,876</u>	<u>78,262</u>	<u>0</u>	<u>153,353</u>	<u>697,699</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 62,576</u>	<u>\$ 45,785</u>	<u>\$ 168,732</u>	<u>\$ 73,149</u>	<u>\$ 19,759</u>	<u>\$ 171,876</u>	<u>\$ 78,262</u>	<u>\$ 0</u>	<u>\$ 171,528</u>	

Amounts reported for governmental activities in the Statement of Net Position 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.

(27,913)

Net Position of Governmental Activities

\$ 669,786

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, 2013

	GENERAL FUND	COMMUNITY WORK CENTER	FIRE CAPITAL IMPROVE- MENT FUND	CEMETERY MAINTEN- ANCE	FAA GRANT 3-40-0042-001- 2010 FUND	FAIRMOUNT CEMETERY TRUST FUND	RURAL FIRE	REAP 12-HA-12010 FUND	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
REVENUES										
Sales and Use Tax	\$ 243,914									\$ 243,914
Cigarette Tax	3,051									3,051
Intergovernmental Revenue	51,948						4,484	79,400	40,506	176,338
Franchise Tax	80,041									80,041
Interest	319	151	599	406		1,431	194		485	3,585
Charges for Services		79,632	8,600	6,369			16,500		11,730	122,831
Short-term Rental of Facilities									13,569	13,569
Property Sales	10,305								375	10,680
Fines	27,598									27,598
Airplane Fuel									18,647	18,647
Swimming Pool										0
Licenses, Permits & Inspections	920									920
Other Income	17,531									17,531
TOTAL REVENUES	<u>435,627</u>	<u>79,783</u>	<u>9,199</u>	<u>6,775</u>	<u>0</u>	<u>1,431</u>	<u>21,178</u>	<u>79,400</u>	<u>85,312</u>	<u>718,705</u>
EXPENDITURES										
General Government	284,600								6,813	291,413
Civic Center	910								1,564	2,474
Police Department	378,599									378,599
Fire Department	24,722						10,634			35,356
Cemetery				8,838						8,838
Airport									24,494	24,494
Street Department	7,839								19,417	27,256
Community Work Center		78,166								78,166
Parks Department	7,243									7,243
Animal Control	3,083									3,083
Library	4,513									4,513
Capital Outlays	4,000	4,193						87,040	12,594	107,827
TOTAL EXPENDITURES	<u>715,509</u>	<u>82,359</u>	<u>0</u>	<u>8,838</u>	<u>0</u>	<u>0</u>	<u>10,634</u>	<u>87,040</u>	<u>64,882</u>	<u>969,262</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	<u>(279,882)</u>	<u>(2,576)</u>	<u>9,199</u>	<u>(2,063)</u>	<u>0</u>	<u>1,431</u>	<u>10,544</u>	<u>(7,640)</u>	<u>20,430</u>	<u>(250,557)</u>
OTHER FINANCING SOURCES (USES)										
Transfers In	175,000			5,068				7,640	1,703	189,411
Transfers (Out)						(5,068)			(1,703)	(6,771)
TOTAL OTHER FINANCING	<u>175,000</u>	<u>0</u>	<u>0</u>	<u>5,068</u>	<u>0</u>	<u>(5,068)</u>	<u>0</u>	<u>7,640</u>	<u>0</u>	<u>182,640</u>
NET CHANGE IN FUND BALANCES	<u>(104,882)</u>	<u>(2,576)</u>	<u>9,199</u>	<u>3,005</u>	<u>0</u>	<u>(3,637)</u>	<u>10,544</u>	<u>0</u>	<u>20,430</u>	<u>(67,917)</u>
FUND BALANCE										
Beginning of Year	111,424	48,361	159,533	70,144		175,513	67,718		132,923	765,616
End of Year	<u>\$ 6,542</u>	<u>\$ 45,785</u>	<u>\$ 168,732</u>	<u>\$ 73,149</u>	<u>\$ 0</u>	<u>\$ 171,876</u>	<u>\$ 78,262</u>	<u>\$ 0</u>	<u>\$ 153,353</u>	<u>\$ 697,699</u>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (67,917)

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

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

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

(8,332)

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (76,249)

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF NET POSITION
ALL ENTERPRISE FUNDS -
PROPRIETARY FUND TYPE
JUNE 30, 2013**

	BUSINESS- TYPE ACTIVITIES		TOTALS
	PUBLIC WORKS AUTHORITY	HOLLIS ECON. DEV. AUTHORITY	
ASSETS			
Current Assets:			
Cash on Hand	\$ 150	\$	\$ 150
Cash in Bank, including Time Deposits	526,623	36,250	562,873
Due from Other Funds	16,311		16,311
Prepaid Assets	2,872		2,872
Accounts Receivable - Services	113,413		113,413
Allowance for Bad Debts	(45,765)		(45,765)
Total Current Assets	<u>613,604</u>	<u>36,250</u>	<u>649,854</u>
Noncurrent Assets:			
Restricted Cash in Bank, including Time Deposits	73,196	5,060	78,256
Capital Assets			
Net of Accumulated Depreciation		32,949	32,949
Total Noncurrent Assets	<u>73,196</u>	<u>38,009</u>	<u>111,205</u>
TOTAL ASSETS	<u>686,800</u>	<u>74,259</u>	<u>761,059</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	18,353		18,353
Accrued and Withheld Payroll Liabilities	1,305		1,305
Due to Other Funds	19,193		19,193
Accrued Interest Payable	1,172		1,172
Customer Refundable Deposits	73,196	960	74,156
Accrued Compensated Absences	4,297		4,297
Current Capital Lease Obligation	21,060		21,060
Current Mortgage Payable		902	902
Total Current Liabilities	<u>138,576</u>	<u>1,862</u>	<u>140,438</u>
Noncurrent Liabilities			
Mortgage Payable		12,145	12,145
Capital Lease Obligations	67,573		67,573
Accrued Compensated Absences	2,697		2,697
Total Noncurrent Liabilities	<u>70,270</u>	<u>12,145</u>	<u>82,415</u>
TOTAL LIABILITIES	<u>208,846</u>	<u>14,007</u>	<u>222,853</u>
NET POSITION			
Net Investment in Capital Assets	(88,633)	19,902	(68,731)
Restricted Net Position			
Restricted for Debt Service		4,100	4,100
Unrestricted Net Position	<u>566,587</u>	<u>36,250</u>	<u>602,837</u>
TOTAL NET POSITION	<u>\$ 477,954</u>	<u>\$ 60,252</u>	<u>\$ 538,206</u>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION - ALL ENTERPRISE FUNDS
PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2013**

	BUSINESS- TYPE ACTIVITIES		TOTALS
	PUBLIC WORKS AUTHORITY	HOLLIS ECON. DEV. AUTHORITY	
OPERATING REVENUES			
Water Sales	\$ 408,847	\$	408,847
Garbage Collections	205,050		205,050
Sewer Sales	170,609		170,609
Rental Income		4,882	4,882
Rental and Other Subsidies		19,924	19,924
Cemetery Fees	1,125		1,125
Other Miscellaneous Revenue	5,529	299	5,828
TOTAL OPERATING REVENUES	<u>791,160</u>	<u>25,105</u>	<u>816,265</u>
OPERATING EXPENSES			
General Government	10,070		10,070
Water Department	289,399		289,399
Sewer Department	29,569		29,569
Sanitation Department	199,333		199,333
Rental Operations		16,824	16,824
Capital Improvements	61,493		61,493
Cemetery			0
TOTAL OPERATING EXPENSES	<u>589,864</u>	<u>16,824</u>	<u>606,688</u>
INCOME FROM OPERATIONS	<u>201,296</u>	<u>8,281</u>	<u>209,577</u>
NONOPERATING REVENUES (EXPENSES)			
Interest Income	2,507	11	2,518
Interest Expense	(3,437)	(870)	(4,307)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(930)</u>	<u>(859)</u>	<u>(1,789)</u>
INCOME BEFORE TRANSFERS	<u>200,366</u>	<u>7,422</u>	<u>207,788</u>
TRANSFERS IN (OUT)			
Transfers (Out)	(182,640)		(182,640)
TOTAL TRANSFERS	<u>(182,640)</u>	<u>0</u>	<u>(182,640)</u>
CHANGE IN NET POSITION	17,726	7,422	25,148
NET POSITION			
Beginning of Year	470,052	52,830	522,882
Prior Period Adjustment	(9,824)		(9,824)
End of Year	<u>\$ 477,954</u>	<u>\$ 60,252</u>	<u>\$ 538,206</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, 2013

	BUSINESS- TYPE ACTIVITIES		
	PUBLIC WORKS AUTHORITY	HOLLIS ECON. DEV. AUTHORITY	TOTALS
	\$	\$	\$
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 810,036	\$ 5,181	\$ 815,217
Cash Received from Other Sources		19,924	19,924
Cash Paid to Suppliers	(364,848)	(11,588)	(376,436)
Cash Paid to Employees	(225,311)		(225,311)
Net Cash Provided by Operating Activities	<u>219,877</u>	<u>13,517</u>	<u>233,394</u>
Cash Flows from Noncapital Financing Activities			
Operating Transfers In (Out)	(182,640)	0	(182,640)
Net Cash (Used for) Noncapital Financing Activities	<u>(182,640)</u>	<u>0</u>	<u>(182,640)</u>
Cash Flows from Capital and Related Financing Activities			
Principal Paid on Capital Lease Obligations	(20,367)		(20,367)
Interest Paid on Capital Lease Obligations	(3,707)		(3,707)
Interest Paid on Mortgage Payable		(870)	(870)
Principal Paid on Mortgage Payable		(847)	(847)
Net Cash (Used for) Capital and Related Financing Activities	<u>(24,074)</u>	<u>(1,717)</u>	<u>(25,791)</u>
Cash Flows from Investing Activities			
Interest Received on Deposits	2,507	11	2,518
Net Cash Provided by Investing Activities	<u>2,507</u>	<u>11</u>	<u>2,518</u>
Increase in Cash and Cash Equivalents	15,670	11,811	27,481
Balance of Cash and Cash Equivalents			
Beginning of Year	584,299	29,499	613,798
End of Year	<u>\$ 599,969</u>	<u>\$ 41,310</u>	<u>\$ 641,279</u>
Reconciliation of Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:			
Operating Income	\$ 201,296	\$ 8,281	\$ 209,577
Adjustments to Reconcile Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:			
Depreciation Expense		5,236	5,236
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	15,686		15,686
(Decrease) in Allowance for Bad Debt	(13,292)		(13,292)
(Increase) in Due from Other Funds	(15,038)		(15,038)
(Increase) in Prepaid Assets	(2,872)		(2,872)
Increase in Due to Other Funds	19,013		19,013
Increase in Accounts Payable	15,659		15,659
(Decrease) in Accrued Expenses Payable	(3,765)		(3,765)
Increase in Customer Deposits	3,190		3,190
Total Adjustments	<u>18,581</u>	<u>5,236</u>	<u>23,817</u>
Net Cash and Cash Equivalents Provided by Operating Activities	<u>\$ 219,877</u>	<u>\$ 13,517</u>	<u>\$ 233,394</u>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013**

	<u>AGENCY FUNDS</u>
ASSETS	
Cash in Bank, Including Time Deposits	\$ 5,939
Due from Other Funds	<u>339</u>
TOTAL ASSETS	<u><u>\$ 6,278</u></u>
LIABILITIES	
Accounts Payable	\$ 6,278
Due to Other Funds	<u> </u>
TOTAL LIABILITIES	<u><u>\$ 6,278</u></u>
NET POSITION	

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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, 2013**

1. Summary of Significant Accounting Policies (continued).

B. Basic Financial Statements.

Basic financial statements include a Statement of Net Position 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 sustain ability 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 Position reports all financial and capital resources of the City. It is displayed in a format of assets less liabilities equals net position, with the assets and liabilities shown in order of their relative liquidity. Net position is required to be displayed in three components: 1) net investment in capital assets, 2) restricted, and 3) unrestricted. Net investment in capital assets 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 position 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 position 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 position are available.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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 as other governmental funds.

Major 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.

Community Work Center - This fund is a special revenue fund used to account for activities associated with operating a community work center for the Department of Corrections.

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

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

1. Summary of Significant Accounting Policies (continued).

B. Basic Financial Statements (continued).

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.

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.

Rural Fire Fund - This fund is a special revenue fund used to account for all financial resources relating to rural fire activities performed by the City.

Reap 12-HA-12010 Fund - This fund is a special revenue fund used to account for all financial resources relating to the reap grant received by the City.

Nonmajor Governmental Funds.

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.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

1. Summary of Significant Accounting Policies (continued).

B. Basic Financial Statements (continued).

Proprietary Funds.

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

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

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.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

1. Summary of Significant Accounting Policies (continued).

C. Measurement Focus and Basis of Accounting (continued).

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.

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

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.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

1. Summary of Significant Accounting Policies (continued).

D. Capital Assets (continued).

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.

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.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

1. Summary of Significant Accounting Policies (continued).

G. 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.

H. 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.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

1. Summary of Significant Accounting Policies (continued).

H. Fund Balance Classifications (continued).

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, than 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 position are available.

2. Cash in Bank, including Time Deposits and Cash Overdrafts.

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, Hollis Public Works Authority, and Hollis Fairmount Cemetery Trust fund is also included in the cash in bank classification.

Cash overdrafts are negative cash in bank balances in different funds that are part of the common cash pool bank account. No actual bank overdraft occurred. The general fund cash overdraft amount occurred because the Public Works Authority did not transfer the budgeted funds from the Authority to the general fund. This remaining amount to transfer occurred after the fiscal year end. The other funds cash overdraft occurred because the City has elected to account for these grants in a separate fund.

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, 2013, the carrying amount of the City's deposits, net of the overdrafts, was \$1,281,018 and the bank balance was \$1,346,718. Of the bank balance, \$421,131 was covered by Federal Depository Insurance and \$925,587 was covered by collateral pledged to secure the deposits and held by the bank in the City's name.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

2. Cash in Bank, including Time Deposits and Bank Overdrafts (continued).

Restricted cash, including time deposits, consist of cash held for customer refundable deposits of \$74,156. 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 \$4,100 and cash restricted for the cemetery perpetual trust account of \$171,011.

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 Equivalent.

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

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

5. Capital Assets.

	Primary Government			
CAPITAL ASSETS	Balance June 30, 2012	Additions	(Deletions)	Balance June 30, 2013
Business-type Activities:				
Rental				
Operations:				
Building	\$ 50,969	\$	\$	\$ 50,969
Equipment	31,719			31,719
Total Cost	82,688	-0-	-0-	82,688
Less Accumulated Depreciation:				
Building	(28,693)	(2,963)		(31,656)
Equipment	(15,810)	(2,273)		(18,083)
Total Acc. Depreciation	(44,503)	(5,236)	-0-	(49,739)
Net Business-type Activities	\$ 38,185	\$ (5,236)	\$ -0-	\$ 32,949

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 \$5,236.

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.

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.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

6. Long-term Liabilities (continued).

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

	<u>Primary Government</u>			Due	
	Balance			Balance	With-
	June 30,	<u>Additions</u>	<u>(Deletions)</u>	June 30,	in
	<u>2012</u>			<u>2013</u>	<u>One Yr.</u>
Governmental Activities:					
Accrued					
Compensated					
Absences	\$ 19,581	\$ 8,332	\$ _____	\$ 27,913	\$12,403
Business-type Activities:					
Accrued					
Compensated					
Absences	11,502		(4,508)	6,994	4,297
Capital Leases	109,000		(20,367)	88,633	21,060
Mortgages:					
Rural Housing	13,894	_____	(847)	13,047	902
Total Business Type					
Activities	<u>134,396</u>	_____	(25,722)	<u>108,674</u>	<u>26,259</u>
Total Long-term Liab.	<u>\$153,977</u>	<u>\$ 8,332</u>	<u>\$ (25,722)</u>	<u>\$136,587</u>	<u>\$38,662</u>

Annual requirements to amortize all of the June 30, 2013, mortgage payable are as follows:

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2014	\$ 902	\$ 806	\$ 1,708
2015	961	747	1,708
2016	1,024	684	1,708
2017	1,092	616	1,708
2018	1,163	545	1,708
2019-2023	7,067	1,472	8,539
2024	838	16	854
Total	<u>\$ 13,047</u>	<u>\$ 4,886</u>	<u>\$ 17,933</u>

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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, 2013.

<u>Year Ending June 30</u>	
2014	\$ 24,073
2015	24,073
2016	24,073
2017	<u>24,073</u>
Net Minimum Lease Payments	96,292
Less Amount Representing Interest	<u>(7,659)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$ 88,633</u></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,

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

7. Pension Plans (continued).

termination of employment, disability, or death, the vested portion of a participant's account is paid to the participant or beneficiary. This amount is based on an accumulation of employee and employer contributions, forfeitures, and earnings. Pension benefits are 100% vested after 10 years of service.

Annual Pension Cost. The City and Hollis Public Works Authority contributed \$26,198 and \$10,380, respectively, to the plan for the year ending June 30, 2013.

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, 2013, the City contributed \$1,800 to the Plan. The actuarial valuation report, dated July 1, 2013, 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, 2013, was 20 years.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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 \$5,000.

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, 2013, are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers (Out)</u>
General	\$ 175,000	\$
Cemetery Maintenance	5,068	
Fairmount Cemetery Trust		(5,068)
Reap 12-HA-12010 Fund	7,640	
Other Governmental Funds	1,703	(1,703)
Public Works Authority	<u> </u>	<u>(182,640)</u>
Totals	<u>\$ 189,411</u>	<u>\$ (189,411)</u>

10. Commitments and Contingencies.

In 1994, the City received an Administrative Compliance Order from the Oklahoma Department of Environmental Quality (ODEQ) for violation of the Public Water Supply Operation Rules. Rule 252:630-1-3 states that nitrates in the water supply should not exceed 10.0 mg/l. This Administrative Compliance Order became a consent order on March 21, 1996. 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

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

10. Commitments and Contingencies (continued).

the required due date. The \$2,000 penalty assessed was paid by the City on March 31, 2013. 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. No accrual for the remaining penalty of \$7,000 is reflected in these financial statements since it is not known if it will be assessed and required to be paid.

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 June 9, 2014, no addendum has been received by the City.

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.

The City has claims filed against it for various reasons. When they occur, they are turned over to the insurance company for investigation and disposition. No actual lawsuit has been filed nor has any potential loss been accrued due to the uncertainty of the outcome of any claim.

11. Prior Period Adjustment.

A prior period adjustment was made to the Hollis Public Works Authority financial statements. This \$9,824 was to credit the beginning balance of accounts receivable-services and debit the beginning balance of unrestricted net position. Had the entry been made in the prior period it would have reduced operating income of the Authority.

CITY OF HOLLIS, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2013

12. Fund Balance Classifications.

	GENERAL FUND	COMMUNITY WORK CENTER	FIRE CAPITAL IMPROVE- MENT FUND	CEMETERY MAINTEN- ANCE	FAA 3-40- 0042-001-2010 GRANT	FAIRMOUNT CEMETERY TRUST FUND	RURAL FIRE	REAP 12-HA-12010 FUND	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
FUND BALANCES:										
Nonexpendable:										
Prepaid Expenditures	\$ 6,607								\$ 1,850	\$ 8,457
Permanent Fund Principal						102,761				102,761
Restricted for:										
Street & Alley Improvements									161	161
Cemetery Improvements						69,115			22,051	91,166
Airport									25,003	25,003
Federal Emergency Management									5,646	5,646
Committed to:										
Cemetery Maintenance				51,489						51,489
Civic Center									37,153	37,153
Community Work Center		23,521								23,521
Fire Capital Improvements			69,484							69,484
Police Capital Improvements									5,735	5,735
General Capital Improvements									40,540	40,540
Rural Fire Department							69,523			69,523
Assigned to:										
Airport									16	16
Cemetery Improvements									11,658	11,658
Cemetery Maintenance				21,660						21,660
Civic Center									4,215	4,215
Community Work Center		22,264								22,264
Fire Capital Improvements			99,248							99,248
Police Capital Improvements									3,671	3,671
General Capital Improvements									6,744	6,744
Rural Fire Department							8,739			8,739
Unassigned:										
Total Fund Balances	\$ <u>6,542</u>	\$ <u>45,785</u>	\$ <u>168,732</u>	\$ <u>73,149</u>	\$ <u>0</u>	\$ <u>171,876</u>	\$ <u>78,262</u>	\$ <u>0</u>	\$ <u>(11,090)</u>	\$ <u>(11,155)</u>

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOLLIS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2013

	BUDGET		ACTUAL	VARIANCE -
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
REVENUES				
Sales and Use Tax	\$ 280,000	\$ 280,000	\$ 243,914	\$ (36,086)
Tobacco Tax	5,000	5,000	3,051	(1,949)
Franchise Taxes	108,000	108,000	80,041	(27,959)
Licenses, Permits & Insp.	700	700	920	220
Intergovernmental Revenue	48,000	48,000	51,948	3,948
Swimming Pool			0	0
Fines	30,000	30,000	27,598	(2,402)
Interest	2,000	2,000	319	(1,681)
Property Sales			10,305	10,305
Other Miscellaneous	6,000	6,000	17,531	11,531
	479,700	479,700	435,627	(44,073)
EXPENDITURES				
General Government	299,000	299,000	284,600	14,400
Civic Center	6,000	6,000	910	5,090
Police Department	412,000	412,000	378,599	33,401
Fire Department	28,000	28,000	24,722	3,278
Street Department	9,200	9,200	7,839	1,361
Parks Department	11,000	11,000	7,243	3,757
Animal Control	3,000	3,000	3,083	(83)
Library	5,000	5,000	4,513	487
Capital Outlay			4,000	(4,000)
	773,200	773,200	715,509	57,691
EXCESS OF REVENUES (UNDER)				
EXPENDITURES BEFORE OTHER				
FINANCING SOURCES (USES)				
	(293,500)	(293,500)	(279,882)	13,618
OTHER FINANCIAL				
SOURCES (USES)				
Transfers In, Net	340,000	340,000	175,000	(165,000)
EXCESS OF REVENUES AND				
OTHER FINANCING SOURCES				
OVER (UNDER) EXPENDITURES				
	46,500	46,500	(104,882)	\$ <u><u>(151,382)</u></u>
FUND BALANCE				
Beginning of Year	111,424	111,424	111,424	
End of Year	\$ <u><u>157,924</u></u>	\$ <u><u>157,924</u></u>	\$ <u><u>6,542</u></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 -
COMMUNITY WORK CENTER FUND
YEAR ENDED JUNE 30, 2013**

	BUDGET		ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Charges for Services	\$ 81,200	\$ 81,200	\$ 79,632	\$ (1,568)
Interest	600	600	151	(449)
TOTAL REVENUES	81,800	81,800	79,783	(2,017)
EXPENDITURES				
Community Work Center	72,800	72,800	82,359	(9,559)
TOTAL EXPENDITURES	72,800	72,800	82,359	(9,559)
EXCESS OF REVENUES OVER EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	9,000	9,000	(2,576)	(11,576)
OTHER FINANCIAL SOURCES (USES)				
Operating Transfers (Out), Net	(40,000)	(40,000)	0	40,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	(31,000)	(31,000)	(2,576)	\$ 28,424
FUND BALANCE				
Beginning of Year	48,361	48,361	48,361	
End of Year	\$ 17,361	\$ 17,361	\$ 45,785	

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

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET TO ACTUAL -
RURAL FIRE FUND
YEAR ENDED JUNE 30, 2013**

	BUDGET		ACTUAL	VARIANCE -
	ORIGINAL	FINAL		FAVORABLE (UNFAVORABLE)
REVENUES				
Intergovernment Revenue		\$	\$ 4,484	\$ 4,484
Charges for Services	24,000	24,000	16,500	(7,500)
Interest	600	600	194	(406)
TOTAL REVENUES	<u>24,600</u>	<u>24,600</u>	<u>21,178</u>	<u>(3,422)</u>
EXPENDITURES				
Fire Department	14,000	14,000	10,634	3,366 0
TOTAL EXPENDITURES	<u>14,000</u>	<u>14,000</u>	<u>10,634</u>	<u>3,366</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>10,600</u>	<u>10,600</u>	<u>10,544</u>	<u>(56)</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers (Out)				0
Operating Transfers In				0
TOTAL OTHER FINANCING SOURCES (USES)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
EXCESS OF REVENUES (UNDER) OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	10,600	10,600	10,544	\$ <u><u>(56)</u></u>
FUND BALANCES				
Beginning of Year	<u>67,718</u>	<u>67,718</u>	<u>67,718</u>	
End of Year	\$ <u><u>78,318</u></u>	\$ <u><u>78,318</u></u>	\$ <u><u>78,262</u></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 -
REAP 12-HA-12010 GRANT
YEAR ENDED JUNE 30, 2013**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE -</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		<u>FAVORABLE</u> <u>(UNFAVORABLE)</u>
REVENUES				
Intergovernmental Revenue	\$ 79,400	\$ 79,400	\$ 79,400	\$ 0
Interest				0
TOTAL REVENUES	<u>79,400</u>	<u>79,400</u>	<u>79,400</u>	<u>0</u>
EXPENDITURES				0
Capital Outlay	<u>79,400</u>	<u>79,400</u>	<u>87,040</u>	<u>(7,640)</u>
TOTAL EXPENDITURES	<u>79,400</u>	<u>79,400</u>	<u>87,040</u>	<u>(7,640)</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	<u>0</u>	<u>0</u>	<u>(7,640)</u>	<u>(7,640)</u>
OTHER FINANCIAL SOURCES (USES)				
Transfers In			<u>7,640</u>	<u>7,640</u>
TOTAL OTHER FINANCING	<u>0</u>	<u>0</u>	<u>7,640</u>	<u>7,640</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	0	0	0	\$ <u><u>0</u></u>
FUND BALANCE				
Beginning of Year				
End of Year	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>	\$ <u><u>0</u></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, 2013

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, 2013. 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. The fire capital improvement fund and Fairmount cemetery funds are not special revenue funds.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HOLLIS, OKLAHOMA
 COMBINING BALANCE SHEET
 OTHER GOVERNMENTAL FUNDS
 JUNE 30, 2013

	NONMAJOR SPECIAL REVENUE FUNDS									NONMAJOR CAPITAL IMPROVEMENT FUNDS			TOTAL OTHER GOVERN- MENTAL	
	AIRPORT TRUST	CEMETERY FUND	14819 CDBG-CIP 11 FUND	CIVIC CENTER	CENA FUND	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	3,022	33,709		41,368		598			5,646	84,343	47,284	8,476	55,760	140,103
Due from Other Funds	21,997						3,385			25,382		80	80	25,462
Prepaid Assets	1,850									1,850			0	1,850
Accounts Receivable - Intergovernmental Services						3,263				3,263			0	3,263
										0		850	850	850
TOTAL ASSETS	<u>\$ 26,869</u>	<u>\$ 33,709</u>	<u>\$ 0</u>	<u>\$ 41,368</u>	<u>\$ 0</u>	<u>\$ 3,861</u>	<u>\$ 3,385</u>	<u>\$ 0</u>	<u>\$ 5,646</u>	<u>\$ 114,838</u>	<u>\$ 47,284</u>	<u>\$ 9,406</u>	<u>\$ 56,690</u>	<u>\$ 171,528</u>
LIABILITIES														
Accounts Payable	\$	\$	\$	\$	\$	3,700				3,700				3,700
Cash Overdrafts							3,385	11,090		14,475				14,475
TOTAL LIABILITIES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,700</u>	<u>3,385</u>	<u>11,090</u>	<u>0</u>	<u>18,175</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>18,175</u>
FUND EQUITY														
Fund Balance														
Nonspendable	1,850									1,850			0	1,850
Restricted	25,003	22,051				161			5,646	52,861			0	52,861
Committed				37,153						37,153	40,540	5,735	46,275	83,428
Assigned	16	11,658		4,215						15,889	6,744	3,671	10,415	26,304
Unassigned							0	(11,090)		(11,090)			0	(11,090)
TOTAL FUND EQUITY	<u>26,869</u>	<u>33,709</u>	<u>0</u>	<u>41,368</u>	<u>0</u>	<u>161</u>	<u>0</u>	<u>(11,090)</u>	<u>5,646</u>	<u>96,663</u>	<u>47,284</u>	<u>9,406</u>	<u>56,690</u>	<u>153,353</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 26,869</u>	<u>\$ 33,709</u>	<u>\$ 0</u>	<u>\$ 41,368</u>	<u>\$ 0</u>	<u>\$ 3,861</u>	<u>\$ 3,385</u>	<u>\$ 0</u>	<u>\$ 5,646</u>	<u>\$ 114,838</u>	<u>\$ 47,284</u>	<u>\$ 9,406</u>	<u>\$ 56,690</u>	<u>\$ 171,528</u>

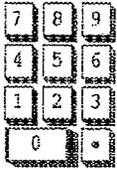
See accompanying auditor's report.

CITY OF HOLLIS, OKLAHOMA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - OTHER GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2013

	NONMAJOR SPECIAL REVENUE FUNDS							NONMAJOR CAPITAL IMPROVEMENT FUNDS			TOTAL OTHER GOVERN- MENTAL		
	AIRPORT TRUST	CEMETERY FUND	14819 CDBG-CIP 11 FUND	CIVIC CENTER	CENA FUND	STREET & ALLEY	FAA GRANT 3-40-0042-002- 2011 FUND	AIRPORT LOCAL FUNDS	FEMA FUND	TOTAL		CAPITAL	POLICE CAPITAL
REVENUES													
Charges for Services	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Intergovernmental Revenue			6,813		2,964	18,003	9,149		3,577	40,506	5,995	5,735	11,730
Interest		133		219						352	96	37	133
Property Sales		375								375			0
Rent of Facilities	7,721			5,848						13,569			0
Airplane Fuel	18,647									18,647			0
Miscellaneous Revenue										0			0
TOTAL REVENUES	26,368	508	6,813	6,067	2,964	18,003	9,149	0	3,577	73,449	6,091	5,772	11,863
EXPENDITURES													
Airport	24,494									24,494			0
General Government			6,813							6,813			0
Civic Center				1,564						1,564			0
Capital Outlay					2,964		9,630			12,594			0
Street Department						19,417				19,417			0
TOTAL EXPENDITURES	24,494	0	6,813	1,564	2,964	19,417	9,630	0	0	64,882	0	0	0
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,874	508	0	4,503	0	(1,414)	(481)	0	3,577	8,567	6,091	5,772	11,863
OTHER FINANCING SOURCES (USES)													
Transfers In							1,703			1,703			0
Transfers (Out)	(1,703)									(1,703)			0
TOTAL OTHER FINANCING SOURCES (USES)	(1,703)	0	0	0	0	0	1,703	0	0	0	0	0	0
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	171	508	0	4,503	0	(1,414)	1,222	0	3,577	8,567	6,091	5,772	11,863
FUND BALANCE													
Beginning of Year	26,698	33,201		36,865		1,575	(1,222)	(11,090)	2,069	88,096	41,193	3,634	44,827
End of Year	\$ 26,869	\$ 33,709	\$ 0	\$ 41,368	\$ 0	\$ 161	\$ 0	\$ (11,090)	\$ 5,646	\$ 96,663	\$ 47,284	\$ 9,406	\$ 56,690

See accompanying auditor's report.

McCulley



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McCulley

Certified Public Accountants

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

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

We have audited, 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the City of Hollis, Oklahoma's basic financial statements. We have issued our report thereon dated June 9, 2014. In our report, our opinion was adverse for the government-wide financial statements because of the omission of the capital assets, including infrastructure, for the governmental activities and qualified for the business-type activities since the capital assets of the Public Works Authority enterprise fund was not presented nor known. The City has elected to omit the management discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Hollis, Oklahoma's, internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hollis, Oklahoma's internal

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not 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 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.

City of Hollis, Oklahoma's Response to Findings

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.

Purpose of this Report

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

McCulley & McCulley

Weatherford, Oklahoma

June 9, 2014

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

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. The \$2,000 penalty assessed was paid by the City on March 31, 2013. 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. No accrual for the remaining deferred penalty of \$7,000 is reflected in these financial statements since it is not known if it will be assessed and required to be paid.

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 June 9, 2014, no addendum has been received by the City.

Costs of noncompliance with the current 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.

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

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

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. They hope to have funding soon.

QUESTIONED COSTS - None.

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 in fiscal year 2012. The utility billing accounts receivable transactions were posted to the general ledger system, but the two systems were not reconciled to each other, and they did not balance. The Authority did not print an end of the month aging accounts receivable report at the end of each and every month (had one for nine out of twelve months). 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 continue to be higher than comparative City's - even after the City Council approved on November 1, 2010, the enforcement of the ordinance on collection of delinquent accounts. However, they did decrease from the previous year.

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

3. Utility Billings Accounts Receivable (continued).

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 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 for each month and that it 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 to ensure accuracy in postings. 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 in fiscal year 2012 did not reconcile these accounts. Management did a better job enforcing the collection policy in fiscal year 2013 and will continue to do so in fiscal year 2014. Customers are required to pay the current bill and an additional amount on the past due bill now. It will implement the other recommendations in fiscal year 2014.

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

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 and bank accounts since June 30, 2011. Also noted that the dates of new deposits are not the same for the billing records and the general ledger. 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 and bank accounts to ensure all are properly recorded and accounted in the proper fund.

RESPONSE - Management stated 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. The City has made progress on this comment. Some personnel were granted exemptions due to extenuating circumstances in which they could not take the time off.

6. Accounting Records and Bank Reconciliations.

CONDITION AND EFFECT - The City converted to a new accounting software system during fiscal year 2012. 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

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

6. Accounting Records and Bank Reconciliations (continued).

was set up as part of the general pooled 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 accounting records were not produced timely and reconciliations to those records could not be performed in a timely manner. 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 is working on getting everything caught up and treasurer trained. In March, 2014, the City had the payroll clearing fund eliminated and was posting the payroll cash transactions to the respective funds.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

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. 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.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

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

QUESTIONED COSTS - None.

UPDATED COMMENT - Situation still the same. The City has applied for funding and hope to have it soon. 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. 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.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

3. Utility Billings Accounts Receivable (continued).

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 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.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

3. Utility Billings Accounts Receivable (continued).

UPDATED COMMENT - The City changed its software program in fiscal year 2012. Some improvements were noted but the reconciliations were still not being done. Delinquencies did go down during fiscal 2013 but still were higher than comparative City's. Comment revised and included in the current year's audit report.

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.

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.

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

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.

UPDATED COMMENT - Noted some employees leave records still showing amounts in excess of allowed. The City has been making progress in becoming compliant. Comment revised in the current year audit report.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

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 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.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

6. Accounting Records and Bank Reconciliations (continued).

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.

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 new software utilized a payroll clearing fund which created accounting problems for the City. The City eliminated this payroll clearing account in March 2014. Comment revised for the current year audit report.