

CITY OF HOLLIS, OKLAHOMA

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORTS**

JUNE 30, 2014

**CITY OF HOLLIS, OKLAHOMA
CITY OFFICIALS
JUNE 30, 2014**

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, 2014, and the related notes to the financial statements, 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, 2014, 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, 2014, 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, 2014, 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. 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 - 33 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 omitted 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 are presented for purposes of additional analysis and are not required parts 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 May 18, 2015, 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

May 18, 2015

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF NET POSITION
JUNE 30, 2014**

PRIMARY GOVERNMENT

	GOVERN- MENTAL ACTIVITIES	BUSINESS- TYPE ACTIVITIES	TOTAL
ASSETS			
Cash on Hand	\$ 200	\$ 150	\$ 350
Cash in Bank, Including Time Deposits	541,472	465,745	1,007,217
Accounts Receivable:			
Services	8,845	113,882	122,727
Taxes	48,681		48,681
Intergovernmental	6,017		6,017
Employees	1,118	39,326	40,444
Less Allowance for Bad Debts	(1,118)	(95,094)	(96,212)
Prepaid Assets	10,080	1,499	11,579
Due from (to) Other Funds			0
Restricted Assets:			
Cash in Bank, Including Time Deposits	168,350	80,575	248,925
Accrued Interest Receivable	655		655
Capital Assets			
Net of Accumulated Depreciation		28,240	28,240
TOTAL ASSETS	<u>784,300</u>	<u>634,323</u>	<u>1,418,623</u>
LIABILITIES			
Accounts Payable	4,543	665	5,208
Cash Overdrafts	163,237		163,237
Accrued Payroll Liabilities	1,575	2,088	3,663
Accrued Interest Payable		894	894
Customer Deposits		75,806	75,806
Long-term Liabilities:			
Due Within One Year	13,417	29,788	43,205
Due in More Than One Year	8,486	62,204	70,690
TOTAL LIABILITIES	<u>191,258</u>	<u>171,445</u>	<u>362,703</u>
NET POSITION			
Net Investment in Capital Assets		16,095	16,095
Restricted Net Position			
Restricted for Debt Service		4,769	4,769
Restricted for Permanent Fund	169,005		169,005
Unrestricted Net Position	424,037	442,014	866,051
TOTAL NET POSITION	<u>\$ 593,042</u>	<u>\$ 462,878</u>	<u>\$ 1,055,920</u>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

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	\$ 296,287	\$	\$	\$	\$ (296,287)	\$	\$ (296,287)
Civic Center	4,853	5,310			457		457
Police Department	411,175	20,633			(390,542)		(390,542)
Fire Department	48,841	24,821	4,474		(19,546)		(19,546)
Cemetery	9,366	5,526			(3,840)		(3,840)
Airport	17,054	18,588			1,534		1,534
Street Department	27,576		19,635		(7,941)		(7,941)
Community Work Center	84,133	76,689			(7,444)		(7,444)
Parks Department	824				(824)		(824)
Animal Control	3,022				(3,022)		(3,022)
Library	5,286				(5,286)		(5,286)
Capital Improvements	116,722	6,097		57,159	(53,466)		(53,466)
TOTAL GOVERNMENTAL ACTIVITIES	1,025,139	157,664	24,109	57,159	(786,207)	0	(786,207)
Business-type Activities:							
General Government	38,028					(38,028)	(38,028)
Water Department	291,563	412,465			120,902		120,902
Sewer Department	8,105	158,697			150,592		150,592
Sanitation Department	198,167	204,307			6,140		6,140
Rental Operations	18,432	29,531			11,099		11,099
Capital Improvements	10,500				(10,500)		(10,500)
Interest Expense	3,541				(3,541)		(3,541)
Cemetery		750				750	750
TOTAL BUSINESS-TYPE ACTIVITIES	568,336	805,750	0	0	0	237,414	237,414
TOTAL PRIMARY GOVERNMENT	\$ 1,593,475	\$ 963,414	\$ 24,109	\$ 57,159	(786,207)	237,414	(548,793)
General Revenues							
Sales and Use Taxes					245,868		245,868
Tobacco Taxes					2,463		2,463
Intergovernmental Revenue					56,875		56,875
Franchise Taxes					85,211		85,211
Interest Income					2,722	1,898	4,620
License, Permits, and Inspections					2,207		2,207
Sale of Property					2,576	13,392	15,968
Other Income					12,657	5,393	18,050
Transfers					300,000	(300,000)	0
Total General Revenues and Transfers					710,579	(279,317)	431,262
Special Item - Misappropriation of Assets					(1,116)	(33,425)	(34,541)
Change in Net Position					(76,744)	(75,328)	(152,072)
NET POSITION							
Beginning of Year					669,786	538,206	1,207,992
End of Year					<u>\$ 593,042</u>	<u>\$ 462,878</u>	<u>\$ 1,055,920</u>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
BALANCE SHEET - GOVERNMENTAL FUNDS -
MODIFIED ACCRUAL BASIS
JUNE 30, 2014**

	GENERAL FUND	COMMUNITY WORK CENTER	FIRE CAPITAL IMPROVE- MENT FUND	CEMETERY MAINTEN- ANCE	FAIRMOUNT CEMETERY TRUST FUND	RURAL FIRE	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
ASSETS								
Cash on Hand	\$ 200							\$ 200
Cash in Bank, Including Time Deposits		31,925	175,820	73,632		89,223	170,872	541,472
Due from Other Funds							0	0
Accounts Receivable:								
Services		6,530	1,419				896	8,845
Taxes	48,681							48,681
Intergovernmental	4,109						1,908	6,017
Employees			490				628	1,118
Less Allowance for Bad Debts			(490)				(628)	(1,118)
Prepaid Assets	8,230						1,850	10,080
Restricted Assets:								
Cash in Bank, Including Time Deposits					168,350			168,350
Accrued Interest Receivable					655			655
TOTAL ASSETS	<u>\$ 61,220</u>	<u>\$ 38,455</u>	<u>\$ 177,239</u>	<u>\$ 73,632</u>	<u>\$ 169,005</u>	<u>\$ 89,223</u>	<u>\$ 175,526</u>	<u>\$ 784,300</u>
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts Payable	\$ 663						\$ 3,880	\$ 4,543
Cash Overdrafts	109,947						53,290	163,237
Accrued Payroll Liabilities	1,575							1,575
Due to Other Funds								0
TOTAL LIABILITIES	<u>112,185</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>57,170</u>	<u>169,355</u>
FUND BALANCES								
Nonspendable	8,230				102,761		1,850	112,841
Restricted					66,244		46,573	112,817
Committed		16,077	77,541	51,642		80,352	96,678	322,299
Assigned		22,378	99,698	21,990		8,871	26,662	179,599
Unassigned	(59,195)						(53,407)	(112,602)
TOTAL FUND BALANCES	<u>(50,965)</u>	<u>38,455</u>	<u>177,239</u>	<u>73,632</u>	<u>169,005</u>	<u>89,223</u>	<u>118,356</u>	<u>614,945</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 61,220</u>	<u>\$ 38,455</u>	<u>\$ 177,239</u>	<u>\$ 73,632</u>	<u>\$ 169,005</u>	<u>\$ 89,223</u>	<u>\$ 175,526</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.

(21,903)

Net Position of Governmental Activities

\$ 593,042

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, 2014**

	GENERAL FUND	COMMUNITY WORK CENTER	FIRE CAPITAL IMPROVE- MENT FUND	CEMETERY MAINTEN- ANCE	FAIRMOUNT CEMETERY TRUST FUND	RURAL FIRE	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
REVENUES								
Sales and Use Tax	\$ 245,868							\$ 245,868
Tobacco Tax	2,463							2,463
Intergovernmental Revenue	50,063					4,474	83,606	138,143
Franchise Tax	85,211							85,211
Interest	216	114	450	330	1,122	132	358	2,722
Charges for Services		76,689	8,546	5,526		16,275	11,794	118,830
Short-term Rental of Facilities							12,100	12,100
Property Sales	2,326						250	2,576
Fines	14,936							14,936
Airplane Fuel							11,798	11,798
Licenses, Permits & Inspections	2,207							2,207
Other Income	12,657							12,657
TOTAL REVENUES	<u>415,947</u>	<u>76,803</u>	<u>8,996</u>	<u>5,856</u>	<u>1,122</u>	<u>20,881</u>	<u>119,906</u>	<u>649,511</u>
EXPENDITURES								
General Government	292,207						8,444	300,651
Civic Center	3,326						1,527	4,853
Police Department	412,821							412,821
Fire Department	38,921					9,920		48,841
Cemetery				9,366				9,366
Airport							17,054	17,054
Street Department	7,678						19,898	27,576
Community Work Center		84,133						84,133
Parks Department	824							824
Animal Control	3,022							3,022
Library	5,286							5,286
Capital Outlays							116,722	116,722
TOTAL EXPENDITURES	<u>764,085</u>	<u>84,133</u>	<u>0</u>	<u>9,366</u>	<u>0</u>	<u>9,920</u>	<u>163,645</u>	<u>1,031,149</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	<u>(348,138)</u>	<u>(7,330)</u>	<u>8,996</u>	<u>(3,510)</u>	<u>1,122</u>	<u>10,961</u>	<u>(43,739)</u>	<u>(381,638)</u>
OTHER FINANCING SOURCES (USES)								
Transfers In	300,000			3,993			44,480	348,473
Misappropriations of Assets			(489)				(627)	(1,116)
Transfers (Out)	(9,369)				(3,993)		(35,111)	(48,473)
TOTAL OTHER FINANCING	<u>290,631</u>	<u>0</u>	<u>(489)</u>	<u>3,993</u>	<u>(3,993)</u>	<u>0</u>	<u>8,742</u>	<u>298,884</u>
NET CHANGE IN FUND BALANCES	<u>(57,507)</u>	<u>(7,330)</u>	<u>8,507</u>	<u>483</u>	<u>(2,871)</u>	<u>10,961</u>	<u>(34,997)</u>	<u>(82,754)</u>
FUND BALANCE								
Beginning of Year	6,542	45,785	168,732	73,149	171,876	78,262	153,353	697,699
End of Year	<u>\$ (50,965)</u>	<u>\$ 38,455</u>	<u>\$ 177,239</u>	<u>\$ 73,632</u>	<u>\$ 169,005</u>	<u>\$ 89,223</u>	<u>\$ 118,356</u>	<u>\$ 614,945</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, 2014**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	(82,754)
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

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

6,010

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u><u>(76,744)</u></u>
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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, 2014**

	BUSINESS-TYPE ACTIVITIES		
	PUBLIC WORKS AUTHORITY	HOLLIS ECON. DEV. AUTHORITY	TOTALS
ASSETS			
Current Assets:			
Cash on Hand	\$ 150	\$	\$ 150
Cash in Bank, including Time Deposits	416,042	49,703	465,745
Due from Other Funds			0
Prepaid Assets	1,499		1,499
Accounts Receivable			
Services	113,882		113,882
Employees	39,326		39,326
Allowance for Bad Debts	(95,094)		(95,094)
Total Current Assets	<u>475,805</u>	<u>49,703</u>	<u>525,508</u>
Noncurrent Assets:			
Restricted Cash in Bank, including Time Deposits	75,086	5,489	80,575
Capital Assets			
Net of Accumulated Depreciation		28,240	28,240
Total Noncurrent Assets	<u>75,086</u>	<u>33,729</u>	<u>108,815</u>
TOTAL ASSETS	<u>550,891</u>	<u>83,432</u>	<u>634,323</u>
LIABILITIES			
Current Liabilities			
Accounts Payable	665		665
Accrued and Withheld Payroll Liabilities	2,088		2,088
Due to Other Funds			0
Accrued Interest Payable	894		894
Customer Refundable Deposits	75,086	720	75,806
Accrued Compensated Absences	7,051		7,051
Current Capital Lease Obligation	21,776		21,776
Current Mortgage Payable		961	961
Total Current Liabilities	<u>107,560</u>	<u>1,681</u>	<u>109,241</u>
Noncurrent Liabilities			
Mortgage Payable		11,184	11,184
Capital Lease Obligations	45,797		45,797
Accrued Compensated Absences	5,223		5,223
Total Noncurrent Liabilities	<u>51,020</u>	<u>11,184</u>	<u>62,204</u>
TOTAL LIABILITIES	<u>158,580</u>	<u>12,865</u>	<u>171,445</u>
NET POSITION			
Net Investment in Capital Assets	(67,573)	16,095	(51,478)
Restricted Net Position			
Restricted for Debt Service		4,769	4,769
Unrestricted Net Position	<u>459,884</u>	<u>49,703</u>	<u>509,587</u>
TOTAL NET POSITION	<u>\$ 392,311</u>	<u>\$ 70,567</u>	<u>\$ 462,878</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, 2014**

	BUSINESS-TYPE ACTIVITIES		
	PUBLIC WORKS AUTHORITY	HOLLIS ECON. DEV. AUTHORITY	TOTALS
OPERATING REVENUES			
Water Sales	\$ 412,465	\$	\$ 412,465
Garbage Collections	204,307		204,307
Sewer Sales	158,697		158,697
Rental Income		5,390	5,390
Rental and Other Subsidies		24,141	24,141
Cemetery Fees	750		750
Other Miscellaneous Revenue	5,383	10	5,393
TOTAL OPERATING REVENUES	<u>781,602</u>	<u>29,541</u>	<u>811,143</u>
OPERATING EXPENSES			
General Government	38,028		38,028
Water Department	291,563		291,563
Sewer Department	8,105		8,105
Sanitation Department	198,167		198,167
Rental Operations		18,432	18,432
Capital Improvements	10,500		10,500
Cemetery			0
TOTAL OPERATING EXPENSES	<u>546,363</u>	<u>18,432</u>	<u>564,795</u>
INCOME FROM OPERATIONS	<u>235,239</u>	<u>11,109</u>	<u>246,348</u>
NONOPERATING REVENUES (EXPENSES)			
Interest Income	1,886	12	1,898
Sale of Property	13,392		13,392
Misappropriation of Assets	(33,425)		(33,425)
Interest Expense	(2,735)	(806)	(3,541)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(20,882)</u>	<u>(794)</u>	<u>(21,676)</u>
INCOME BEFORE TRANSFERS	<u>214,357</u>	<u>10,315</u>	<u>224,672</u>
TRANSFERS IN (OUT)			
Transfers (Out)	(300,000)		(300,000)
TOTAL TRANSFERS	<u>(300,000)</u>	<u>0</u>	<u>(300,000)</u>
CHANGE IN NET POSITION	<u>(85,643)</u>	<u>10,315</u>	<u>(75,328)</u>
NET POSITION			
Beginning of Year	477,954	60,252	538,206
End of Year	<u>\$ 392,311</u>	<u>\$ 70,567</u>	<u>\$ 462,878</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, 2014**

BUSINESS-TYPE ACTIVITIES

	PUBLIC WORKS AUTHORITY	HOLLIS ECON. DEV. AUTHORITY	TOTALS
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 783,023	\$ 5,400	\$ 788,423
Cash Received from Other Sources		24,141	24,141
Cash Paid to Suppliers	(294,685)	(13,434)	(308,119)
Cash Paid to Employees	(254,809)		(254,809)
Net Cash Provided by Operating Activities	<u>233,529</u>	<u>16,107</u>	<u>249,636</u>
Cash Flows from Noncapital Financing Activities			
Misappropriation of Assets	(33,425)		(33,425)
Operating Transfers In (Out)	(300,000)		(300,000)
Net Cash (Used for) Noncapital Financing Activities	<u>(333,425)</u>	<u>0</u>	<u>(333,425)</u>
Cash Flows from Capital and Related Financing Activities			
Principal Paid on Capital Lease Obligations	(21,060)		(21,060)
Interest Paid on Capital Lease Obligations	(3,013)		(3,013)
Interest Paid on Mortgage Payable		(806)	(806)
Principal Paid on Mortgage Payable		(902)	(902)
Net Cash (Used for) Capital and Related Financing Activities	<u>(24,073)</u>	<u>(1,708)</u>	<u>(25,781)</u>
Cash Flows from Investing Activities			
Sale of Property	13,392		13,392
Purchase of Capital Assets		(529)	(529)
Interest Received on Deposits	1,886	12	1,898
Net Cash Provided by (Used for) Investing Activities	<u>15,278</u>	<u>(517)</u>	<u>14,761</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>(108,691)</u>	<u>13,882</u>	<u>(94,809)</u>
Balance of Cash and Cash Equivalents			
Beginning of Year	599,969	41,310	641,279
End of Year	<u>\$ 491,278</u>	<u>\$ 55,192</u>	<u>\$ 546,470</u>
Reconciliation of Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:			
Operating Income	\$ 235,239	\$ 11,109	\$ 246,348
Adjustments to Reconcile Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:			
Depreciation Expense		5,238	5,238
Changes in Assets and Liabilities:			
(Increase) in Accounts Receivable	(469)		(469)
(Increase) in Employee Receivable	(39,326)		(39,326)
Increase in Allowance for Bad Debt	49,329		49,329
Decrease in Due from Other Funds	16,311		16,311
(Increase) in Prepaid Assets	1,373		1,373
(Decrease) in Due to Other Funds	(19,193)		(19,193)
(Decrease) in Accounts Payable	(17,688)		(17,688)
(Decrease) in Accrued Expenses Payable	6,063		6,063
Increase (Decrease) in Customer Deposits	1,890	(240)	1,650
Total Adjustments	<u>(1,710)</u>	<u>4,998</u>	<u>3,288</u>
Net Cash and Cash Equivalents Provided by Operating Activities	<u>\$ 233,529</u>	<u>\$ 16,107</u>	<u>\$ 249,636</u>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014**

	<u>AGENCY FUNDS</u>
ASSETS	
Cash in Bank, Including Time Deposits Due from Other Funds	\$ 5,983
	<hr/>
TOTAL ASSETS	\$ 5,983
	<hr/> <hr/>
LIABILITIES	
Accounts Payable Due to Other Funds	\$ 5,983
	<hr/>
TOTAL LIABILITIES	\$ 5,983
	<hr/> <hr/>
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, 2014**

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, except as noted below. 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, 2014**

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, 2014**

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, 2014**

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.

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.

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, 2014**

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, 2014**

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. Accounts Receivable and Allowance for Bad Debts.

Management periodically reviews its accounts receivable to determine if an account is collectible. The employees receivable is from the employee involved in the misappropriation of assets and who has promised to make restitution. It also is included in the allowance for bad debts. 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.

E. 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.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

1. Summary of Significant Accounting Policies (continued).

E. Capital Assets (continued).

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

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

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, 2014**

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, 2014**

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 budgeted amounts from other funds did not transfer all budgeted funds to the general fund. 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, 2014, the carrying amount of the City's deposits, net of the overdrafts, was \$1,098,888 and the bank balance was \$1,183,334. Of the bank balance, \$418,350 was covered by Federal Depository Insurance and \$764,984 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, 2014**

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 \$75,806. 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 \$4,769 and cash restricted for the cemetery perpetual trust account of \$168,350.

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

3. Cash and Cash Equivalents.

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

4. Investments.

Oklahoma Statutes authorize the City to invest in 1) obligations of the U. S. Government or its agencies and instrumentalities; 2) collateralized or insured certificates of deposits and savings accounts of savings and loan associations, banks, savings banks and credit unions located in Oklahoma; or 3) fully insured certificates of deposits of financial institutions out of state. All investments are certificate of 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, 2014**

5. Capital Assets.

CAPITAL ASSETS	Primary Government			Balance June 30, 2014
	Balance June 30, 2013	Additions	(Deletions)	
Business-type Activities:				
Rental Operations:				
Building	\$ 50,969	\$	\$	\$ 50,969
Equipment	<u>31,719</u>	<u>529</u>	<u>(321)</u>	<u>31,927</u>
Total Cost	<u>82,688</u>	<u>529</u>	<u>(321)</u>	<u>82,896</u>
Less Accumulated Depreciation:				
Building	(31,656)	(2,964)		(34,620)
Equipment	<u>(18,083)</u>	<u>(2,274)</u>	<u>321</u>	<u>(20,036)</u>
Total Acc. Depreciation	<u>(49,739)</u>	<u>(5,238)</u>	<u>321</u>	<u>(54,656)</u>
Net Business-type Activities	<u>\$ 32,949</u>	<u>\$ (4,709)</u>	<u>\$ -0-</u>	<u>\$ 28,240</u>

Depreciation expense is not allocated between functions/programs but only expended within the specific activities/funds. Total depreciation expense for the Hollis Economic Development Trust is \$5,238.

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, 2014**

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>2013</u>			<u>2014</u>	<u>One Yr.</u>
Governmental Activities:					
Accrued					
Compensated					
Absences	\$ 27,913	\$ _____	\$ (6,010)	\$ 21,903	\$13,417
Business-type Activities:					
Accrued					
Compensated					
Absences	6,994	5,280		12,274	7,051
Capital Leases	88,633		(21,060)	67,573	21,776
Mortgages:					
Rural Housing	13,047	_____	(902)	12,145	961
Total Business Type Activities	<u>108,674</u>	<u>5,280</u>	<u>(21,962)</u>	<u>91,992</u>	<u>29,788</u>
Total Long-term Liab.	<u>\$136,587</u>	<u>\$ 5,280</u>	<u>\$ (27,972)</u>	<u>\$113,895</u>	<u>\$43,205</u>

Annual requirements to amortize all of the June 30, 2014, mortgage payable are as follows:

<u>Year ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2015	\$ 961	\$ 747	\$ 1,708
2016	1,024	684	1,708
2017	1,092	616	1,708
2018	1,163	545	1,708
2019	1,240	468	1,708
2020-2024	<u>6,665</u>	<u>1,019</u>	<u>7,684</u>
Total	<u>\$ 12,145</u>	<u>\$ 4,079</u>	<u>\$ 16,224</u>

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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, 2014.

<u>Year Ending June 30</u>	
2015	\$ 24,073
2016	24,073
2017	<u>24,073</u>
Net Minimum Lease Payments	72,219
Less Amount Representing Interest	<u>(4,646)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 67,573</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, 2014**

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 \$27,748 and \$11,265, respectively, to the plan for the year ending June 30, 2014.

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, 2014, the City contributed \$1,080 to the Plan. The actuarial valuation report, dated July 1, 2014, 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, 2014, was 19 years.

**CITY OF HOLLIS, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014**

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, depending upon the type of coverage.

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, 2014, are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers (Out)</u>
General	\$ 300,000	\$ (9,369)
Cemetery Maintenance	3,993	
Fairmount Cemetery Trust		(3,993)
Fire Capital Improvement		
Other Governmental Funds	44,480	(35,111)
Public Works Authority	<u> </u>	<u>(300,000)</u>
Totals	<u>\$ 348,473</u>	<u>\$ (348,473)</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, 2014**

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 May 18, 2015, 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. It is in the process of obtaining approval for a Rural Development Loan.

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.

The City discovered the misappropriation of assets during this fiscal year. Total amount recorded for the fiscal year ending June 30, 2014, was \$34,541. Total estimated loss through fiscal year 2015, was \$42,289.

CITY OF HOLLIS, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2014

11. Fund Balance Classifications.

	GENERAL FUND	COMMUNITY WORK CENTER	FIRE CAPITAL IMPROVE- MENT FUND	CEMETERY MAINTEN- ANCE	FAIRMOUNT CEMETERY TRUST FUND	RURAL FIRE	FUND	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS	
FUND BALANCES:										
Nonexpendable:										
Prepaid Expenditures	\$ 8,230							\$ 1,850	\$ 10,080	
Permanent Fund Principal					102,761				102,761	
Restricted for:										
Street & Alley Improvements								0	0	
Cemetery Improvements					66,244			22,301	88,545	
Airport								18,626	18,626	
Federal Emergency Management								5,646	5,646	
Committed to:										
Cemetery Maintenance				51,642					51,642	
Civic Center								40,936	40,936	
Community Work Center		16,077							16,077	
Fire Capital Improvements			77,541						77,541	
Police Capital Improvements								9,406	9,406	
General Capital Improvements								46,336	46,336	
Rural Fire Department						80,352			80,352	
Assigned to:										
Airport								16	16	
Cemetery Improvements								11,758	11,758	
Cemetery Maintenance				21,990					21,990	
Civic Center								4,370	4,370	
Community Work Center		22,378							22,378	
Fire Capital Improvements			99,698						99,698	
Police Capital Improvements								3,703	3,703	
General Capital Improvements								6,815	6,815	
Rural Fire Department						8,871			8,871	
Unassigned:										
	(59,195)							(53,407)	(112,602)	
Total Fund Balances	<u>\$ (50,965)</u>	<u>\$ 38,455</u>	<u>\$ 177,239</u>	<u>\$ 73,632</u>	<u>\$ 0</u>	<u>\$ 169,005</u>	<u>\$ 89,223</u>	<u>\$ 0</u>	<u>\$ 118,356</u>	<u>\$ 614,945</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, 2014**

	BUDGET		ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Sales and Use Tax	\$ 285,600	\$ 285,600	\$ 245,868	\$ (39,732)
Tobacco Tax	5,100	5,100	2,463	(2,637)
Franchise Taxes	110,160	110,160	85,211	(24,949)
Licenses, Permits & Insp.	714	714	2,207	1,493
Intergovernmental Revenue	48,960	48,960	50,063	1,103
Swimming Pool			0	0
Fines	30,600	30,600	14,936	(15,664)
Interest	2,040	2,040	216	(1,824)
Property Sales			2,326	2,326
Other Miscellaneous	6,120	6,120	12,657	6,537
TOTAL REVENUES	<u>489,294</u>	<u>489,294</u>	<u>415,947</u>	<u>(73,347)</u>
EXPENDITURES				
General Government	304,980	304,980	292,207	12,773
Civic Center	6,120	6,120	3,326	2,794
Police Department	420,240	420,240	412,821	7,419
Fire Department	28,560	28,560	38,921	(10,361)
Street Department	9,384	9,384	7,678	1,706
Parks Department	11,220	11,220	824	10,396
Animal Control	3,060	3,060	3,022	38
Library	5,100	5,100	5,286	(186)
Capital Outlay			0	0
TOTAL EXPENDITURES	<u>788,664</u>	<u>788,664</u>	<u>764,085</u>	<u>24,579</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	(299,370)	(299,370)	(348,138)	(48,768)
OTHER FINANCIAL SOURCES (USES)				
Transfers In, Net	346,800	346,800	290,631	(56,169)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	47,430	47,430	(57,507)	<u>\$ (104,937)</u>
FUND BALANCE				
Beginning of Year	6,542	6,542	6,542	
End of Year	<u>\$ 53,972</u>	<u>\$ 53,972</u>	<u>\$ (50,965)</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, 2014**

	BUDGET		ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
REVENUES				
Charges for Services	\$ 82,824	\$ 82,824	\$ 76,689	\$ (6,135)
Interest	612	612	114	(498)
TOTAL REVENUES	<u>83,436</u>	<u>83,436</u>	<u>76,803</u>	<u>(6,633)</u>
EXPENDITURES				
Community Work Center	74,256	74,256	84,133	(9,877)
TOTAL EXPENDITURES	<u>74,256</u>	<u>74,256</u>	<u>84,133</u>	<u>(9,877)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	9,180	9,180	(7,330)	(16,510)
OTHER FINANCIAL SOURCES (USES)				
Operating Transfers (Out), Net	(40,800)	(40,800)	0	40,800
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES	(31,620)	(31,620)	(7,330)	<u>\$ 24,290</u>
FUND BALANCE				
Beginning of Year	45,785	45,785	45,785	
End of Year	<u>\$ 14,165</u>	<u>\$ 14,165</u>	<u>\$ 38,455</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 BALANCES - BUDGET TO ACTUAL -
RURAL FIRE FUND
YEAR ENDED JUNE 30, 2014**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUES				
Intergovernment Revenue		\$	\$ 4,474	\$ 4,474
Charges for Services	24,480	24,480	16,275	(8,205)
Interest	612	612	132	(480)
TOTAL REVENUES	<u>25,092</u>	<u>25,092</u>	<u>20,881</u>	<u>(4,211)</u>
EXPENDITURES				
Fire Department	14,280	14,280	9,920	4,360
				0
TOTAL EXPENDITURES	<u>14,280</u>	<u>14,280</u>	<u>9,920</u>	<u>4,360</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>10,812</u>	<u>10,812</u>	<u>10,961</u>	<u>149</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 OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)	10,812	10,812	10,961	\$ <u><u>149</u></u>
FUND BALANCES				
Beginning of Year	<u>78,262</u>	<u>78,262</u>	<u>78,262</u>	
End of Year	\$ <u><u>89,074</u></u>	\$ <u><u>89,074</u></u>	\$ <u><u>89,223</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, 2014**

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, 2014. 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. 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, 2014

	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	15475 CDBG FUND	AIRPORT LOCAL FUNDS	13-HR-170315 REAP FUND	FEMA FUND	TOTAL	CAPITAL	POLICE CAPITAL		TOTAL
ASSETS															
Cash on Hand	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Cash in Bank, Including Time Deposits	18,642	34,059		45,306	(15)	1,870				5,646	0	53,151	12,213	65,364	170,872
Due from Other Funds											0			0	0
Prepaid Assets	1,850										1,850			0	1,850
Accounts Receivable -															
Intergovernmental										1,908	1,908			0	1,908
Services										0	0	896		896	896
Employees										0	0	326		326	628
Allowance for Bad Debts										0	0	(302)	(326)	(628)	(628)
TOTAL ASSETS	<u>\$ 20,492</u>	<u>\$ 34,059</u>	<u>\$ 0</u>	<u>\$ 45,306</u>	<u>\$ (15)</u>	<u>\$ 3,778</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,646</u>	<u>\$ 109,266</u>	<u>\$ 53,151</u>	<u>\$ 13,109</u>	<u>\$ 66,260</u>	<u>\$ 175,526</u>
LIABILITIES															
Accounts Payable	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Cash Overdrafts						3,880		53,290			3,880				3,880
TOTAL LIABILITIES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,880</u>	<u>0</u>	<u>53,290</u>	<u>0</u>	<u>0</u>	<u>57,170</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>57,170</u>
FUND EQUITY															
Fund Balance															
Nonspendable	1,850										1,850			0	1,850
Restricted	18,626	22,301								5,646	46,573			0	46,573
Committed				40,936							40,936	46,336	9,406	55,742	96,678
Assigned	16	11,758		4,370							16,144	6,815	3,703	10,518	26,662
Unassigned					(15)	(102)	(53,290)				(53,407)			0	(53,407)
TOTAL FUND EQUITY	<u>20,492</u>	<u>34,059</u>	<u>0</u>	<u>45,306</u>	<u>(15)</u>	<u>(102)</u>	<u>0</u>	<u>(53,290)</u>	<u>0</u>	<u>5,646</u>	<u>52,096</u>	<u>53,151</u>	<u>13,109</u>	<u>66,260</u>	<u>118,356</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 20,492</u>	<u>\$ 34,059</u>	<u>\$ 0</u>	<u>\$ 45,306</u>	<u>\$ (15)</u>	<u>\$ 3,778</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,646</u>	<u>\$ 109,266</u>	<u>\$ 53,151</u>	<u>\$ 13,109</u>	<u>\$ 66,260</u>	<u>\$ 175,526</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, 2014

	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	15475 CDBG FUND	AIRPORT LOCAL FUNDS	13-HR-170315 REAP FUND	FEMA FUND	TOTAL	CAPITAL		POLICE CAPITAL
REVENUES														
Charges for Services	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Intergovernmental Revenue			6,812		2,759	19,635	27,200		27,200		0	6,097	5,697	11,794
Interest		100		155							83,606			0
Property Sales		250									255	71	32	103
Rent of Facilities	6,790			5,310							250			0
Airplane Fuel	11,798										12,100			0
Miscellaneous Revenue											11,798			0
											0			0
TOTAL REVENUES	18,588	350	6,812	5,465	2,759	19,635	27,200	0	27,200	0	108,009	6,168	5,729	11,897
EXPENDITURES														
Airport	17,054										17,054			0
General Government			6,812				1,632				8,444			0
Civic Center				1,527							1,527			0
Capital Outlay					2,774			50,111			115,022		1,700	1,700
Street Department						19,898					19,898			0
TOTAL EXPENDITURES	17,054	0	6,812	1,527	2,774	19,898	63,769	50,111	0	0	161,945	0	1,700	1,700
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1,534	350	0	3,938	(15)	(263)	(36,569)	(50,111)	27,200	0	(53,936)	6,168	4,029	10,197
OTHER FINANCING SOURCES (USES)														
Transfers In							36,569	7,911			44,480			0
Misappropriation of Assets												(301)	(326)	(627)
Transfers (Out)	(7,911)								(27,200)		(35,111)			0
TOTAL OTHER FINANCING SOURCES (USES)	(7,911)	0	0	0	0	0	36,569	7,911	(27,200)	0	9,369	(301)	(326)	(627)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(6,377)	350	0	3,938	(15)	(263)	0	(42,200)	0	0	(44,567)	5,867	3,703	9,570
FUND BALANCE														
Beginning of Year	26,869	33,709		41,368		161		(11,090)		5,646	96,663	47,284	9,406	56,690
End of Year	\$ 20,492	\$ 34,059	\$ 0	\$ 45,306	\$ (15)	\$ (102)	\$ 0	\$ (53,290)	\$ 0	\$ 5,646	\$ 52,096	\$ 53,151	\$ 13,109	\$ 66,260



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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, 2014, 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 May 18, 2015. 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 #5 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, #4, and #7.

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. The City's response was not subjected

to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

McCulley & McCulley

Weatherford, Oklahoma

May 18, 2015

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

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 April 21, 2015, 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, 2014**

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. It is in the process of obtaining approval for a Rural Development Loan.

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. 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. We also noted that bank deposits for payments to the utility accounts receivable system were not being timely deposited to the bank. 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, 2014**

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. State law states that bank deposits should be made daily. 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 contain 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. Bank deposits should be made on a daily basis in accordance with State statutes.

RESPONSE - Management states they will work on reconciling the utility accounts receivable records to the general ledger. Customers are required to pay the current bill and an additional amount on the past due bill now, although they may not be strictly adhering to the policy. It will implement the other recommendations in fiscal year 2015.

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

4. 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 at least one employee 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 employee noted above was granted an exemption due to extenuating circumstances in which the employee could not take the time off. This employee has since moved to another department. The City will strive to get this employee in compliance with the vacation policy.

5. Accounting Records and Bank Reconciliations.

CONDITION AND EFFECT - The City converted to a new accounting software system during fiscal year 2012. The City has not been completing its accounting records and bank reconciliations in a timely manner. The City's accounting records were not produced timely and reconciliations to those records could not be performed in a timely manner. The bank reconciliations performed for the two major bank accounts were not fully reconciled and reconciling items explained. The end of year financial statements had various payroll 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. 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
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

5. Accounting Records and Bank Reconciliations (continued).

RESPONSE - The City is working on getting everything caught up and treasurer trained. The City had will review the transactions and end of month balances.

6. Misappropriation of Assets.

CONDITION AND EFFECT - During the course of the audit of utility accounts receivable, we noted the Authority was not depositing the actual bank deposits in a timely manner. Some were being made as long as two months after the accounting records said it was deposited. The accounting records did not record the type of monies received as either cash or check. All the accounting entries said the monies received were cash. Noted at least three deposits through February 2015 that never cleared the bank account at the time the audit was being conducted. Upon expanding the audit procedures and getting information from the bank, it was noted that the actual bank deposit consisted of checks dated and received after the accounting deposit record date. This type of activity is a serious fraud risk factor and indicates that cash is being taken from the City and replaced by subsequent checks received to make the bank deposits agree to the recorded book deposit. When the suspected employee was confronted, the employee admitted to the scheme and offered a method for restitution. The City Council accepted the employee's resignation and offer of restitution at its May, 2015, City Council meeting.

RECOMMENDATION - The best recommendation is to segregate the duties involving the billing and collection process. This would require separate individuals to do the billing and post to the billing records, receive the payments, post the payments to the billing records, and do the bank deposit and take it to the bank. Since the City only has two full time office employees (not including the City Manager), then adequate segregation of duties is not possible. Controls can be strengthened by posting the type of payment received on the computer, do a daily bank deposit versus having a lot of monies on site, balance the actual bank deposit to the computer generated receipt reports, and have a second employee review the billing for proper imputing and calculation and review the bank deposit for agreement to the billing accounting records. The cash drawer should be balanced daily and only have the amount of cash on hand that is indicated on the general ledger.

**CITY OF HOLLIS, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

6. Misappropriation of Assets (continued).

RESPONSE - The City took appropriate actions concerning the misappropriation of assets. It will consider the recommendations over control when it fills the open position within the office.

7. (Deficit) Fund Balances.

CONDITION AND EFFECT - Oklahoma State Statutes Sec. 11-17-211 prohibits by law the creation of a (deficit) fund balance in any fund. Noted the City's general fund had a (deficit) fund balance at the end of the fiscal year and it continued into the next fiscal year making it violating this statute.

CRITERIA - Paragraph A of the statute referenced above states no expenditure may be incurred or made by an officer or employee which exceeds the fund balance for any fund. Paragraph C states that any obligation that is contracted or authorized by any officer or employee in violation of this act shall become the obligation of the officer or employee himself and shall not be valid or enforceable against the municipality. Any officer or employee who violates this act shall forfeit his office or position and shall be subject to such civil and criminal punishments as are provided by law. Any obligation, authorization for expenditure or expenditure made in violation of this act shall be illegal and void.

RECOMMENDATION - The City should remedy this situation as soon as possible.

RESPONSE - This situation was created when the City's other funds did not perform as well as expected and anticipated transfers between funds were not done. The City did authorize various transfer of funds in April, 2015.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

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. 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 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.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

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.

QUESTIONED COSTS - None.

UPDATED COMMENT - Situation still the same. The City has applied for funding from Rural Development 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 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.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

3. Utility Billings Accounts Receivable (continued).

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.

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 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.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

3. Utility Billings Accounts Receivable (continued).

RESPONSE - The Authority had problems during the conversion of the software in fiscal year 2012 and 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.

UPDATED COMMENT - The Authority still did not reconcile the utility billings accounts receivable to the general ledger. Non cash entries were still being posited as cash entries. Management stated that the collection policies may not be strictly enforced. 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 - Management stated these records will be brought up to date and balanced monthly.

UPDATED COMMENT - The meter deposit subsidiary ledger was balanced to the general ledger control account and bank accounts. Comment removed 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.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

5. Vacation Leave Policy (continued).

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.

UPDATED COMMENT - Noted some at least one employees leave record still showing amounts in excess of allowed. This employee was granted an exemption in the past, but has now changed to another department. The City has been making progress in becoming compliant. Comment revised in the current year audit report.

6. Accounting Records and Bank Reconciliatons.

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 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 the year financial 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.

**CITY OF HOLLIS, OKLAHOMA
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2014**

6. Accounting Records and Bank Reconciliatons (continued).

RECOMMENDATION - Posting to the accounting records should be completed as soon as possible after each month end. The general ledger should be reviewed for each account to check postings and review for accuracy. Reconciliation of the bank account to the general ledger 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.

UPDATED COMMENT - The City did get the payroll posting changed in the accounting software system beginning in February, 2014. Accounting records were still not being done timely. Bank reconciliations performed by the City still did not contain all the reconciling items nor were they completely reconciled. Comment revised for the current year audit report.