

**CITY OF HOLLIS, OKLAHOMA**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORTS**

**JUNE 30, 2015**

**CITY OF HOLLIS, OKLAHOMA  
CITY OFFICIALS  
JUNE 30, 2015**

CITY COUNCIL

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

CITY MANAGER

Bob Copeland

CITY CLERK

Sasha Bronn

CITY TREASURER

Monica Mingura

**CITY OF HOLLIS, OKLAHOMA**  
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**JUNE 30, 2015**

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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, 2015, 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, 2015, 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, 2015, 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, 2015, 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 35 - 37 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 March 3, 2016, 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

March 3, 2016

**CITY OF HOLLIS, OKLAHOMA  
STATEMENT OF NET POSITION  
JUNE 30, 2015**

**PRIMARY GOVERNMENT**

	<u>GOVERN- MENTAL ACTIVITIES</u>	<u>BUSINESS- TYPE ACTIVITIES</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash on Hand	\$ 200	\$ 150	\$ 350
Cash in Bank, Including Time Deposits	440,285	279,441	719,726
Accounts Receivable:			
Services	7,769	121,735	129,504
Taxes	46,705		46,705
Intergovernmental	6,165		6,165
Employees	926	41,364	42,290
Less Allowance for Bad Debts		(55,768)	(55,768)
Prepaid Assets	10,080	1,499	11,579
Due from (to) Other Funds	4,085	(4,085)	0
Restricted Assets:			
Cash in Bank, Including Time Deposits	168,155	85,706	253,861
Accrued Interest Receivable	655		655
Capital Assets			
Net of Accumulated Depreciation		25,100	25,100
<b>TOTAL ASSETS</b>	<u>685,025</u>	<u>495,142</u>	<u>1,180,167</u>
<b>LIABILITIES</b>			
Accounts Payable	4,508	21,827	26,335
Cash Overdrafts	16,627		16,627
Accrued Payroll Liabilities	2,517	2,458	4,975
Accrued Interest Payable		606	606
Customer Deposits		78,506	78,506
Long-term Liabilities:			
Due Within One Year	14,279	30,862	45,141
Due in More Than One Year	11,283	36,161	47,444
<b>TOTAL LIABILITIES</b>	<u>49,214</u>	<u>170,420</u>	<u>219,634</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets		13,916	13,916
Restricted Net Position			
Restricted for Debt Service		7,200	7,200
Restricted for Permanent Fund	168,810		168,810
Unrestricted Net Position	467,001	303,606	770,607
<b>TOTAL NET POSITION</b>	<u>\$ 635,811</u>	<u>\$ 324,722</u>	<u>\$ 960,533</u>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2015**

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
<b>PRIMARY GOVERNMENT</b>							
<b>Governmental Activities:</b>							
General Government	\$ 305,792	\$	\$	\$	\$ (305,792)	\$	\$ (305,792)
Civic Center	2,796	4,945			2,149		2,149
Police Department	453,441	16,636	2,000		(434,805)		(434,805)
Fire Department	47,982	24,880	4,484		(18,618)		(18,618)
Cemetery	4,661	5,744	2,000		3,083		3,083
Airport	16,357	17,390			1,033		1,033
Street Department	26,822		19,222		(7,600)		(7,600)
Community Work Center	85,065	80,098			(4,967)		(4,967)
Parks Department	2,274				(2,274)		(2,274)
Animal Control	5,959				(5,959)		(5,959)
Library	4,953				(4,953)		(4,953)
Capital Improvements	135,176	5,974		155,630	26,428		26,428
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>1,091,278</b>	<b>155,667</b>	<b>27,706</b>	<b>155,630</b>	<b>(752,275)</b>	<b>0</b>	<b>(752,275)</b>
<b>Business-type Activities:</b>							
General Government	35,880					(35,880)	(35,880)
Water Department	308,686	438,479			129,793		129,793
Sewer Department	37,300	165,059			127,759		127,759
Sanitation Department	192,284	199,924			7,640		7,640
Rental Operations	17,492	30,950			13,458		13,458
Capital Improvements	24,000				(24,000)		(24,000)
Interest Expense	2,756				(2,756)		(2,756)
Cemetery		450				450	450
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>618,398</b>	<b>834,862</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>216,464</b>	<b>216,464</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 1,709,676</b>	<b>\$ 990,529</b>	<b>\$ 27,706</b>	<b>\$ 155,630</b>	<b>(752,275)</b>	<b>216,464</b>	<b>(535,811)</b>
<b>General Revenues</b>							
Sales and Use Taxes					232,230		232,230
Tobacco Taxes					2,502		2,502
Intergovernmental Revenue					56,189		56,189
Franchise Taxes					87,173		87,173
Interest Income					2,446	1,196	3,642
License, Permits, and Inspections					1,400		1,400
Sale of Property					150	(360)	(210)
Other Income					11,999	5,407	17,406
<b>Transfers</b>					400,000	(400,000)	0
<b>Total General Revenues and Transfers</b>					<b>794,089</b>	<b>(393,757)</b>	<b>400,332</b>
<b>Special Item - Recovery of Misappropriation of Assets</b>					<b>955</b>	<b>39,137</b>	<b>40,092</b>
<b>Change in Net Position</b>					<b>42,769</b>	<b>(138,156)</b>	<b>(95,387)</b>
<b>NET POSITION</b>							
Beginning of Year					593,042	462,878	1,055,920
End of Year					<b>\$ 635,811</b>	<b>\$ 324,722</b>	<b>\$ 960,533</b>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA  
BALANCE SHEET - GOVERNMENTAL FUNDS -  
MODIFIED ACCRUAL BASIS  
JUNE 30, 2015**

	GENERAL FUND	COMMUNITY WORK CENTER	FIRE CAPITAL IMPROVE- MENT FUND	CAPITAL IMPROVE- MENT FUND	CEMETERY MAINTEN- ANCE	FAIRMOUNT CEMETERY TRUST FUND	OWRB FUND	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
<b>ASSETS</b>									
Cash on Hand	\$ 200								\$ 200
Cash in Bank, Including Time Deposits		1,964	182,382	59,177	78,230			118,532	440,285
Due from Other Funds	3,935		150						4,085
Accounts Receivable:									
Services		5,271	1,529					969	7,769
Taxes	46,705								46,705
Intergovernmental	4,292							1,873	6,165
Employees			390	276				260	926
Less Allowance for Bad Debts									0
Prepaid Assets	8,230							1,850	10,080
Restricted Assets:									
Cash in Bank, Including Time Deposits						168,155			168,155
Accrued Interest Receivable						655			655
<b>TOTAL ASSETS</b>	<u>\$ 63,362</u>	<u>\$ 7,235</u>	<u>\$ 184,451</u>	<u>\$ 59,453</u>	<u>\$ 78,230</u>	<u>\$ 168,810</u>	<u>\$ 0</u>	<u>\$ 123,484</u>	<u>\$ 685,025</u>
<b>LIABILITIES AND FUND BALANCES</b>									
<b>LIABILITIES</b>									
Accounts Payable	\$ 663							\$ 3,845	\$ 4,508
Cash Overdrafts	2,967							13,660	16,627
Accrued Payroll Liabilities	2,517								2,517
Due to Other Funds									0
<b>TOTAL LIABILITIES</b>	<u>6,147</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>17,505</u>	<u>23,652</u>
<b>FUND BALANCES</b>									
Nonspendable	8,230							1,850	114,841
Restricted						104,761		42,110	106,159
Committed			84,393		55,965	64,049		46,685	187,043
Assigned		7,235	100,058	59,453	22,265			29,096	218,107
Unassigned	48,985							(13,762)	35,223
<b>TOTAL FUND BALANCES</b>	<u>57,215</u>	<u>7,235</u>	<u>184,451</u>	<u>59,453</u>	<u>78,230</u>	<u>168,810</u>	<u>0</u>	<u>105,979</u>	<u>661,373</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 63,362</u>	<u>\$ 7,235</u>	<u>\$ 184,451</u>	<u>\$ 59,453</u>	<u>\$ 78,230</u>	<u>\$ 168,810</u>	<u>\$ 0</u>	<u>\$ 123,484</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.

(25,562)

Net Position of Governmental Activities

\$ 635,811

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, 2015**

	GENERAL FUND	COMMUNITY WORK CENTER	FIRE CAPITAL IMPROVE- MENT FUND	CAPITAL IMPROVE- MENT FUND	CEMETERY MAINTEN- ANCE	FAIRMOUNT CEMETERY TRUST FUND	OWRB FUND	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
<b>REVENUES</b>									
Sales and Use Tax	\$ 232,230								\$ 232,230
Tobacco Tax	2,502								2,502
Intergovernmental Revenue	56,189						100,000	79,336	235,525
Franchise Tax	87,173								87,173
Interest	245	75	360	68	275	1,045		378	2,446
Charges for Services		80,098	8,305	5,974	5,744			22,111	122,232
Donations	2,000					2,000			4,000
Short-term Rental of Facilities								14,398	14,398
Property Sales								150	150
Fines	11,100								11,100
Airplane Fuel								7,937	7,937
Licenses, Permits & Inspections	1,400								1,400
Other Income	11,534							465	11,999
<b>TOTAL REVENUES</b>	<u>404,373</u>	<u>80,173</u>	<u>8,665</u>	<u>6,042</u>	<u>6,019</u>	<u>3,045</u>	<u>100,000</u>	<u>124,775</u>	<u>733,092</u>
<b>EXPENDITURES</b>									
General Government	310,363								310,363
Civic Center	1,739							1,057	2,796
Police Department	445,211								445,211
Fire Department	30,892		1,870					15,220	47,982
Cemetery					4,661				4,661
Airport								16,357	16,357
Street Department	7,600							19,222	26,822
Community Work Center		85,065							85,065
Parks Department	2,274								2,274
Animal Control	5,959								5,959
Library	4,953								4,953
Capital Outlays	12,848	6,328					100,000	16,000	135,176
<b>TOTAL EXPENDITURES</b>	<u>821,839</u>	<u>91,393</u>	<u>1,870</u>	<u>0</u>	<u>4,661</u>	<u>0</u>	<u>100,000</u>	<u>67,856</u>	<u>1,087,619</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)</b>	<u>(417,466)</u>	<u>(11,220)</u>	<u>6,795</u>	<u>6,042</u>	<u>1,358</u>	<u>3,045</u>	<u>0</u>	<u>56,919</u>	<u>(354,527)</u>
<b>OTHER FINANCING SOURCES (USES)</b>									
Transfers In	525,646				3,240			9,360	538,246
Recovery of Misappropriations of Assets			417	260				278	955
Transfers (Out)		(20,000)				(3,240)		(115,006)	(138,246)
<b>TOTAL OTHER FINANCING</b>	<u>525,646</u>	<u>(20,000)</u>	<u>417</u>	<u>260</u>	<u>3,240</u>	<u>(3,240)</u>	<u>0</u>	<u>(105,368)</u>	<u>400,955</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>108,180</u>	<u>(31,220)</u>	<u>7,212</u>	<u>6,302</u>	<u>4,598</u>	<u>(195)</u>	<u>0</u>	<u>(48,449)</u>	<u>46,428</u>
<b>FUND BALANCE</b>									
Beginning of Year	(50,965)	38,455	177,239	53,151	73,632	169,005		154,428	614,945
End of Year	<u>\$ 57,215</u>	<u>\$ 7,235</u>	<u>\$ 184,451</u>	<u>\$ 59,453</u>	<u>\$ 78,230</u>	<u>\$ 168,810</u>	<u>\$ 0</u>	<u>\$ 105,979</u>	<u>\$ 661,373</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, 2015**

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	\$	46,428
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>Governmental capital outlays are not capitalized, auditor's report modified.</p> <p>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.</p>		
		<u>(3,659)</u>
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	\$	<u><u>42,769</u></u>

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, 2015**

	<b>BUSINESS-TYPE ACTIVITIES</b>		
	<b>PUBLIC WORKS AUTHORITY</b>	<b>HOLLIS ECON. DEV. AUTHORITY</b>	<b>TOTALS</b>
<b>ASSETS</b>			
Current Assets:			
Cash on Hand	\$ 150	\$	150
Cash in Bank, including Time Deposits	215,624	63,817	279,441
Due from Other Funds	3,447		3,447
Prepaid Assets	1,499		1,499
Accounts Receivable			
Services	121,735		121,735
Employees	41,364		41,364
Allowance for Bad Debts	(55,768)		(55,768)
Total Current Assets	<u>328,051</u>	<u>63,817</u>	<u>391,868</u>
Noncurrent Assets:			
Restricted Cash in Bank, including Time Deposits	77,546	8,160	85,706
Capital Assets			
Net of Accumulated Depreciation		25,100	25,100
Total Noncurrent Assets	<u>77,546</u>	<u>33,260</u>	<u>110,806</u>
<b>TOTAL ASSETS</b>	<u>405,597</u>	<u>97,077</u>	<u>502,674</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts Payable	19,920	1,907	21,827
Accrued and Withheld Payroll Liabilities	2,458		2,458
Due to Other Funds	7,532		7,532
Accrued Interest Payable	606		606
Customer Refundable Deposits	77,546	960	78,506
Accrued Compensated Absences	7,322		7,322
Current Capital Lease Obligation	22,516		22,516
Current Mortgage Payable		1,024	1,024
Total Current Liabilities	<u>137,900</u>	<u>3,891</u>	<u>141,791</u>
Noncurrent Liabilities			
Mortgage Payable		10,160	10,160
Capital Lease Obligations	23,282		23,282
Accrued Compensated Absences	2,719		2,719
Total Noncurrent Liabilities	<u>26,001</u>	<u>10,160</u>	<u>36,161</u>
<b>TOTAL LIABILITIES</b>	<u>163,901</u>	<u>14,051</u>	<u>177,952</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	(45,798)	13,916	(31,882)
Restricted Net Position			
Restricted for Debt Service		7,200	7,200
Unrestricted Net Position	<u>287,494</u>	<u>61,910</u>	<u>349,404</u>
<b>TOTAL NET POSITION</b>	<u>\$ 241,696</u>	<u>\$ 83,026</u>	<u>\$ 324,722</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, 2015**

	<b>BUSINESS-TYPE ACTIVITIES</b>		
	<b>PUBLIC WORKS AUTHORITY</b>	<b>HOLLIS ECON. DEV. AUTHORITY</b>	<b>TOTALS</b>
<b>OPERATING REVENUES</b>			
Water Sales	\$ 438,479	\$	\$ 438,479
Garbage Collections	199,924		199,924
Sewer Sales	165,059		165,059
Rental Income		4,221	4,221
Rental and Other Subsidies		26,729	26,729
Cemetery Fees	450		450
Other Miscellaneous Revenue	5,346	61	5,407
<b>TOTAL OPERATING REVENUES</b>	<b>809,258</b>	<b>31,011</b>	<b>840,269</b>
<b>OPERATING EXPENSES</b>			
General Government	35,880		35,880
Water Department	308,686		308,686
Sewer Department	37,300		37,300
Sanitation Department	192,284		192,284
Rental Operations		17,492	17,492
Capital Improvements	24,000		24,000
Cemetery			0
<b>TOTAL OPERATING EXPENSES</b>	<b>598,150</b>	<b>17,492</b>	<b>615,642</b>
<b>INCOME FROM OPERATIONS</b>	<b>211,108</b>	<b>13,519</b>	<b>224,627</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest Income	1,150	46	1,196
Sale or Disposition of Property		(360)	(360)
Recovery of Misappropriation of Assets	39,137		39,137
Interest Expense	(2,010)	(746)	(2,756)
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<b>38,277</b>	<b>(1,060)</b>	<b>37,217</b>
<b>INCOME BEFORE TRANSFERS</b>	<b>249,385</b>	<b>12,459</b>	<b>261,844</b>
<b>TRANSFERS IN (OUT)</b>			
Transfers (Out)	(400,000)		(400,000)
<b>TOTAL TRANSFERS</b>	<b>(400,000)</b>	<b>0</b>	<b>(400,000)</b>
<b>CHANGE IN NET POSITION</b>	<b>(150,615)</b>	<b>12,459</b>	<b>(138,156)</b>
<b>NET POSITION</b>			
Beginning of Year	392,311	70,567	462,878
End of Year	<u>\$ 241,696</u>	<u>\$ 83,026</u>	<u>\$ 324,722</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, 2015**

	<b>BUSINESS-TYPE ACTIVITIES</b>		
	<b>PUBLIC</b>	<b>HOLLIS</b>	<b>TOTALS</b>
	<b>WORKS</b>	<b>ECON. DEV.</b>	
	<b>AUTHORITY</b>	<b>AUTHORITY</b>	
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers	\$ 803,865	\$ 4,282	\$ 808,147
Cash Received from Other Sources		26,729	26,729
Cash Paid to Suppliers	(345,272)	(10,088)	(355,360)
Cash Paid to Employees	(233,628)		(233,628)
<b>Net Cash Provided by Operating Activities</b>	<u>224,965</u>	<u>20,923</u>	<u>245,888</u>
<b>Cash Flows from Noncapital Financing Activities</b>			0
Operating Transfers In (Out)	(400,000)		(400,000)
<b>Net Cash (Used for)</b>			
<b>Noncapital Financing Activities</b>	<u>(400,000)</u>	<u>0</u>	<u>(400,000)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Principal Paid on Capital Lease Obligations	(21,775)		(21,775)
Interest Paid on Capital Lease Obligations	(2,298)		(2,298)
Interest Paid on Mortgage Payable		(746)	(746)
Principal Paid on Mortgage Payable		(961)	(961)
<b>Net Cash (Used for) Capital and Related Financing Activities</b>	<u>(24,073)</u>	<u>(1,707)</u>	<u>(25,780)</u>
<b>Cash Flows from Investing Activities</b>			
Sale of Property			0
Purchase of Capital Assets		(2,477)	(2,477)
Interest Received on Deposits	1,150	46	1,196
<b>Net Cash Provided by (Used for) Investing Activities</b>	<u>1,150</u>	<u>(2,431)</u>	<u>(1,281)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(197,958)	16,785	(181,173)
<b>Balance of Cash and Cash Equivalents</b>			
Beginning of Year	491,278	55,192	546,470
End of Year	<u>\$ 293,320</u>	<u>\$ 71,977</u>	<u>\$ 365,297</u>
<b>Reconciliation of Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:</b>			
Operating Income	\$ 211,108	\$ 13,519	\$ 224,627
Adjustments to Reconcile Operating Income to Net Cash and Cash Equivalents Provided by Operating Activities:			
Depreciation Expense		5,257	5,257
Changes in Assets and Liabilities:			
(Increase) in Accounts Receivable	(7,853)		(7,853)
(Increase) in Employee Receivable	(2,038)		(2,038)
(Decrease) in Allowance for Bad Debt, Net of Recovery of Assets	(189)		(189)
(Increase) in Due from Other Funds	(3,447)		(3,447)
(Increase) in Prepaid Assets	0		0
Increase in Due to Other Funds	7,532		7,532
Increase in Accounts Payable	19,255	1,907	21,162
(Decrease) in Accrued Expenses Payable	(1,863)		(1,863)
Increase in Customer Deposits	2,460	240	2,700
Total Adjustments	<u>13,857</u>	<u>7,404</u>	<u>21,261</u>
<b>Net Cash and Cash Equivalents Provided by Operating Activities</b>	<u>\$ 224,965</u>	<u>\$ 20,923</u>	<u>\$ 245,888</u>

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2015**

	<u><b>AGENCY FUNDS</b></u>
<b>ASSETS</b>	
Cash in Bank, Including Time Deposits Due from Other Funds	\$ 5,586
<b>TOTAL ASSETS</b>	<u>\$ 5,586</u>
<b>LIABILITIES</b>	
Accounts Payable Due to Other Funds	\$ 5,586
<b>TOTAL LIABILITIES</b>	<u>\$ 5,586</u>
<b>NET POSITION</b>	

The accompanying notes are an integral part of these statements.

**CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**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

**CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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

**A. Reporting Entity (continued).**

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.

**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

CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

1. Summary of Significant Accounting Policies (continued).

B. Basic Financial Statements (continued).

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.

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

**CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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

**B. Basic Financial Statements (continued).**

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.

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

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

CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

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

B. **Basic Financial Statements** (continued).

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.

OWRB Fund - This fund is a special revenue fund used to account for all financial resources relating to Oklahoma Water Resources Board (OWRB) grant activities for water wells.

**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.

**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

CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

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

B. **Basic Financial Statements** (continued).

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, 2015**

**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. Restitution was received in July, 2015. 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,

**CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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

**E. Capital Assets (continued).**

etc) were previously not reported in the financial statements but now are required to be reported as assets and depreciated. According to GASB statement 34, retroactively reporting of infrastructure assets is not required by the City. The City does not report its governmental capital assets in these financial statements resulting in an adverse opinion on the governmental activities.

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

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

CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

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

**F. Compensated Absences** (continued).

liability as it is incurred. Full-time employees can also accrue and accumulate sick leave benefits, but the payment of those benefits depend upon various factors that lead to uncertainty about whether or not they will be paid. No accumulated sick leave is paid upon the employee's resignation or termination. Consequently, accumulated sick leave has not been accrued in these financial statements.

**G. 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

CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

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

H. **Fund Balance Classifications (continued)**.

by the government taking the same formal action that imposed the constraint originally.

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

Unassigned - residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. If another governmental fund has a fund balance deficit, 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

**CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

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

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 of audit adjustments found during the audit from mispostings of cash activity. 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, 2015, the carrying amount of the City's deposits, net of the overdrafts, was \$962,546 and the bank balance was \$1,034,400. Of the bank balance, \$418,155 was covered by Federal Depository Insurance and \$616,245 was covered by collateral pledged to secure the deposits and held by the bank in the City's name.

Restricted cash, including time deposits, consist of cash held for customer refundable deposits of \$78,506. 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 \$7,200 and cash restricted for the cemetery perpetual trust account of \$168,155.

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.

**CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**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.

**5. Capital Assets.**

<u>CAPITAL ASSETS</u>	<u>Primary Government</u>			<u>Balance June 30, 2015</u>
	<u>Balance June 30, 2014</u>	<u>Additions</u>	<u>(Deletions)</u>	
Business-type Activities:				
Rental				
Operations:				
Building	\$ 50,969	\$	\$	\$ 50,969
Equipment	<u>31,927</u>	<u>2,477</u>	<u>(1,785)</u>	<u>32,619</u>
Total Cost	<u>82,896</u>	<u>2,477</u>	<u>(1,785)</u>	<u>83,588</u>
Less Accumulated Depreciation:				
Building	(34,620)	(2,963)		(37,583)
Equipment	<u>(20,036)</u>	<u>(2,294)</u>	<u>1,425</u>	<u>(20,905)</u>
Total Acc. Depreciation	<u>(54,656)</u>	<u>(5,257)</u>	<u>1,425</u>	<u>(58,488)</u>
Net Business- type Activ- ities	<u>\$ 28,240</u>	<u>\$ (2,780)</u>	<u>\$ (360)</u>	<u>\$ 25,100</u>

**CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**5. Capital Assets (continued).**

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 \$5,257.

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.

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

	<u>Primary Government</u>			<u>Due</u>	
	<u>Balance</u>		<u>Balance</u>	<u>With-</u>	
	<u>June 30,</u>		<u>June 30,</u>	<u>in</u>	
	<u>2014</u>	<u>Additions</u>	<u>(Deletions)</u>	<u>2015</u>	<u>One Yr.</u>
Governmental Activities:					
Accrued					
Compensated					
Absences	\$ 21,903	\$ 3,659	\$	\$ 25,562	\$14,279

**CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**6. Long-term Liabilities (continued).**

	<u>Primary Government</u>			Due
Balance			Balance	With-
June 30,	<u>Additions</u>	<u>(Deletions)</u>	June 30,	in
2014			2015	<u>One Yr.</u>
Business-type Activities:				
Accrued				
Compensated				
Absences	12,274	(2,233)	10,041	7,322
Capital Leases	67,573	(21,775)	45,798	22,516
Mortgages:				
Rural Housing	<u>12,145</u>	<u>(961)</u>	<u>11,184</u>	<u>1,024</u>
 Total Business Type Activities	 <u>91,992</u>	 <u>(24,969)</u>	 <u>67,023</u>	 <u>30,862</u>
 Total Long-term Liab.	 <u>\$113,895</u>	 <u>\$ 3,659</u>	 <u>\$ (24,969)</u>	 <u>\$ 92,585</u>
		<u>\$45,141</u>		

Annual requirements to amortize all of the June 30, 2015, mortgage payable are as follows:

Year ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,321	387	1,708
2021-2024	<u>5,344</u>	<u>633</u>	<u>5,977</u>
 Total	 <u>\$ 11,184</u>	 <u>\$ 3,333</u>	 <u>\$ 14,517</u>

**CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**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, 2015.

<u>Year Ending June 30</u>	
2016	\$ 24,073
2017	<u>24,073</u>
Net Minimum Lease Payments	48,146
Less Amount Representing Interest	<u>( 2,348)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 45,798</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

**CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**7. Pension Plans (continued).**

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

**Annual Pension Cost.** The City and Hollis Public Works Authority contributed \$30,327 and \$10,929, respectively, to the plan for the year ending June 30, 2015.

**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.

**CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**7. Pension Plans (continued).**

**Annual Pension Cost.** During the year ended June 30, 2015, the City contributed \$960 to the Plan. The actuarial valuation report, dated July 1, 2015, 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, 2015, was 18 years.

**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, 2015, are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers (Out)</u>
General	\$ 525,646	\$
Community Work Center		(20,000)
Cemetery Maintenance	3,240	
Fairmount Cemetery Trust		(3,240)
Other Governmental Funds	9,360	(115,006)
Public Works Authority		(400,000)
Totals	<u>\$ 538,246</u>	<u>\$ (538,246)</u>

**CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015**

**10. Commitments and Contingencies.**

In 1994, the City received an Administrative Compliance Order from the Oklahoma Department of Environmental Quality (ODEQ) for violation of the Public Water Supply Operation Rules. Rule 252:630-1-3 states that nitrates in the water supply should not exceed 10.0 mg/l. This Administrative Compliance Order became a consent order on March 21, 1996. Various extensions, amendments and consent orders have been received since then requiring the City to continue to provide bottled water to the population at risk, give public notice of violation, retain a professional engineer, submit an approvable engineering report with a construction schedule, plans, and specifications, and obtain project funding.

The City agreed to consent order #12-197 on November 15, 2012, which replaces the previous consent order. Under this consent order, the City was assessed a penalty of \$37,000 by ODEQ. All but \$2,000 has been deferred by the ODEQ, depending upon the completion of each of the five tasks required by ODEQ by the required due date. 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 March 3, 2016, no addendum has been received by the City.

CITY OF HOLLIS, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

10. Commitments and Contingencies (continued).

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.

CITY OF HOLLIS, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2015

11. Fund Balance Classifications.

	GENERAL FUND	COMMUNITY WORK CENTER	FIRE CAPITAL IMPROVE- MENT FUND	CAPITAL IMPROVE- MENT FUND	CEMETERY MAINTEN- ANCE	FAIRMOUNT CEMETERY TRUST FUND	OWRB FUND	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
<b>FUND BALANCES:</b>									
Nonexpendable:									
Prepaid Expenditures	\$ 8,230							\$ 1,850	\$ 10,080
Permanent Fund Principal						104,761			104,761
Restricted for:									
Street & Alley Improvements								0	0
Cemetery Improvements						64,049		22,451	86,500
Airport								19,659	19,659
Federal Emergency Management								0	0
Committed to:									
Cemetery Maintenance					55,965				55,965
Civic Center								14,824	14,824
Community Work Center									0
Fire Capital Improvements			84,393						84,393
Police Capital Improvements								15,220	15,220
General Capital Improvements				52,570					52,570
Rural Fire Department								16,641	16,641
Assigned to:									
Airport								16	16
Cemetery Improvements								11,833	11,833
Cemetery Maintenance					22,265				22,265
Civic Center								4,527	4,527
Community Work Center		7,235							7,235
Fire Capital Improvements			100,058						100,058
Police Capital Improvements								3,722	3,722
General Capital Improvements				6,883					6,883
Rural Fire Department								8,998	8,998
Unassigned:									
	48,985							(13,762)	35,223
Total Fund Balances	<u>\$ 57,215</u>	<u>\$ 7,235</u>	<u>\$ 184,451</u>	<u>\$ 59,453</u>	<u>\$ 78,230</u>	<u>\$ 168,810</u>	<u>\$ 0</u>	<u>\$ 105,979</u>	<u>\$ 661,373</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, 2015**

	<b>BUDGET</b>		<b>ACTUAL</b>	<b>VARIANCE - FAVORABLE (UNFAVORABLE)</b>
	<b>ORIGINAL</b>	<b>FINAL</b>		
<b>REVENUES</b>				
Sales and Use Tax	\$ 281,000	\$ 281,000	\$ 232,230	\$ (48,770)
Tobacco Tax	4,000	4,000	2,502	(1,498)
Franchise Taxes	121,400	121,400	87,173	(34,227)
Licenses, Permits & Insp.	1,026	1,026	1,400	374
Intergovernmental Revenue	50,000	50,000	56,189	6,189
Swimming Pool			0	0
Fines	30,000	30,000	11,100	(18,900)
Interest	1,000	1,000	245	(755)
Donations			2,000	2,000
Property Sales				0
Other Miscellaneous	20,000	20,000	11,534	(8,466)
<b>TOTAL REVENUES</b>	<u>508,426</u>	<u>508,426</u>	<u>404,373</u>	<u>(104,053)</u>
<b>EXPENDITURES</b>				
General Government	297,500	297,500	310,363	(12,863)
Civic Center	2,000	2,000	1,739	261
Police Department	420,300	420,300	445,211	(24,911)
Fire Department	29,300	29,300	30,892	(1,592)
Street Department	6,000	6,000	7,600	(1,600)
Parks Department	700	700	2,274	(1,574)
Animal Control	2,000	2,000	5,959	(3,959)
Library	4,000	4,000	4,953	(953)
Capital Outlay			12,848	(12,848)
<b>TOTAL EXPENDITURES</b>	<u>761,800</u>	<u>761,800</u>	<u>821,839</u>	<u>(60,039)</u>
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)</b>	(253,374)	(253,374)	(417,466)	(164,092)
<b>OTHER FINANCIAL SOURCES (USES)</b>				
Transfers In, Net	300,000	300,000	525,646	225,646
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</b>	46,626	46,626	108,180	<u>\$ 61,554</u>
<b>FUND BALANCE</b>				
Beginning of Year	<u>(50,965)</u>	<u>(50,965)</u>	<u>(50,965)</u>	
End of Year	<u>\$ (4,339)</u>	<u>\$ (4,339)</u>	<u>\$ 57,215</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, 2015**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>REVENUES</b>				
Charges for Services	\$ 76,000	\$ 76,000	\$ 80,098	\$ 4,098
Interest	<u>100</u>	<u>100</u>	<u>75</u>	<u>(25)</u>
<b>TOTAL REVENUES</b>	<u>76,100</u>	<u>76,100</u>	<u>80,173</u>	<u>4,073</u>
<b>EXPENDITURES</b>				
Community Work Center	<u>73,000</u>	<u>73,000</u>	<u>91,393</u>	<u>(18,393)</u>
<b>TOTAL EXPENDITURES</b>	<u>73,000</u>	<u>73,000</u>	<u>91,393</u>	<u>(18,393)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)</b>	3,100	3,100	(11,220)	(14,320)
<b>OTHER FINANCIAL SOURCES (USES)</b>				
Operating Transfers (Out), Net	<u>0</u>	<u>0</u>	<u>(20,000)</u>	<u>(20,000)</u>
<b>EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES</b>	3,100	3,100	(31,220)	<u><u>\$ (34,320)</u></u>
<b>FUND BALANCE</b>				
Beginning of Year	<u>38,455</u>	<u>38,455</u>	<u>38,455</u>	
End of Year	<u><u>\$ 41,555</u></u>	<u><u>\$ 41,555</u></u>	<u><u>\$ 7,235</u></u>	

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

**CITY OF HOLLIS, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET TO ACTUAL -  
OWRB FUND  
YEAR ENDED JUNE 30, 2015**

	<u>BUDGET</u>		<u>ACTUAL</u>	<u>VARIANCE - FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>REVENUES</b>				
Intergovernment Revenue	100,000	\$ 100,000	\$ 100,000	\$ 0
Charges for Services				0
Interest				0
<b>TOTAL REVENUES</b>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>0</u>
<b>EXPENDITURES</b>				
Capital Outlay	100,000	100,000	100,000	0
<b>TOTAL EXPENDITURES</b>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>0</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (Out)				0
Transfers In				0
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$ 0</u>
<b>FUND BALANCES</b>				
Beginning of Year				
End of Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</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, 2015**

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, 2015. 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 capital improvement fund, fire capital improvement fund and Fairmount cemetery funds are not special revenue funds so no budget to actual reports are presented.

**OTHER SUPPLEMENTARY INFORMATION**

CITY OF HOLLIS, OKLAHOMA  
 COMBINING BALANCE SHEET  
 OTHER GOVERNMENTAL FUNDS  
 JUNE 30, 2015

	NONMAJOR SPECIAL REVENUE FUNDS									NONMAJOR CAPITAL IMPR. FUND	TOTAL OTHER GOVERNMENTAL	
	AIRPORT TRUST	CEMETERY FUND	RURAL FIRE FUND	CIVIC CENTER	CENA FUND	STREET & ALLEY	FAA GRANT 3-40-0042-003-2014 FUND	AIRPORT LOCAL FUNDS	FEMA FUND	TOTAL	POLICE CAPITAL	
<b>ASSETS</b>												
Cash on Hand	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$ 0	\$	\$ 0
Cash in Bank, Including Time Deposits	19,675	34,284	25,639	19,351		1,870				100,819	17,713	118,532
Due from Other Funds										0		0
Prepaid Assets	1,850									1,850		1,850
Accounts Receivable - Intergovernmental						1,873				1,873		1,873
Services Employees										0	969	969
Allowance for Bad Debts										0	260	260
<b>TOTAL ASSETS</b>	<b>\$ 21,525</b>	<b>\$ 34,284</b>	<b>\$ 25,639</b>	<b>\$ 19,351</b>	<b>\$ 0</b>	<b>\$ 3,743</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 104,542</b>	<b>\$ 18,942</b>	<b>\$ 123,484</b>
<b>LIABILITIES</b>												
Accounts Payable	\$	\$	\$	\$	\$	3,845	\$	\$	\$	3,845	\$	\$ 3,845
Cash Overdrafts								13,660		13,660		13,660
<b>TOTAL LIABILITIES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,845</b>	<b>0</b>	<b>13,660</b>	<b>0</b>	<b>17,505</b>	<b>0</b>	<b>17,505</b>
<b>FUND EQUITY</b>												
Fund Balance												
Nonspendable	1,850									1,850		1,850
Restricted	19,659	22,451								42,110		42,110
Committed			16,641	14,824						31,465	15,220	46,685
Assigned	16	11,833	8,998	4,527						25,374	3,722	29,096
Unassigned						(102)		(13,660)		(13,762)		(13,762)
<b>TOTAL FUND EQUITY</b>	<b>21,525</b>	<b>34,284</b>	<b>25,639</b>	<b>19,351</b>	<b>0</b>	<b>(102)</b>	<b>0</b>	<b>(13,660)</b>	<b>0</b>	<b>87,037</b>	<b>18,942</b>	<b>105,979</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 21,525</b>	<b>\$ 34,284</b>	<b>\$ 25,639</b>	<b>\$ 19,351</b>	<b>\$ 0</b>	<b>\$ 3,743</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 104,542</b>	<b>\$ 18,942</b>	<b>\$ 123,484</b>

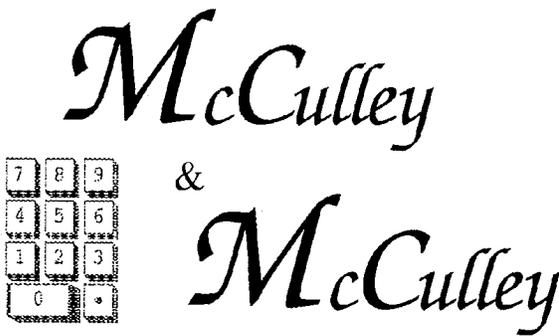
See accompanying auditor's report.

CITY OF HOLLIS, OKLAHOMA  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCE - OTHER GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2015

	NONMAJOR SPECIAL REVENUE FUNDS									NONMAJOR CAPITAL IMPR. FUND	TOTAL OTHER GOVERN- MENTAL	
	AIRPORT TRUST	CEMETERY FUND	RURAL FIRE FUND	CIVIC CENTER	CENA FUND	STREET & ALLEY	FAA GRANT 3-40-0042-003-2014 FUND	AIRPORT LOCAL FUNDS	FEMA FUND	TOTAL	POLICE CAPITAL	
<b>REVENUES</b>												
Charges for Services	\$	\$	\$ 16,575	\$	\$	\$	\$	\$	\$	16,575	\$ 5,536	\$ 22,111
Intergovernmental Revenue			4,484			19,222	55,630			79,336		79,336
Interest		75	127	157						359	19	378
Property Sales		150								150		150
Rent of Facilities	9,453			4,945						14,398		14,398
Airplane Fuel	7,937									7,937		7,937
Miscellaneous Revenue			450		15					465		465
<b>TOTAL REVENUES</b>	<u>17,390</u>	<u>225</u>	<u>21,636</u>	<u>5,102</u>	<u>15</u>	<u>19,222</u>	<u>55,630</u>	<u>0</u>	<u>0</u>	<u>119,220</u>	<u>5,555</u>	<u>124,775</u>
<b>EXPENDITURES</b>												
Airport	16,357									16,357		16,357
General Government										0		0
Fire Department			15,220							15,220		15,220
Civic Center				1,057						1,057		1,057
Capital Outlay							11,700 *	4,300		16,000		16,000
Street Department							19,222			19,222		19,222
<b>TOTAL EXPENDITURES</b>	<u>16,357</u>	<u>0</u>	<u>15,220</u>	<u>1,057</u>	<u>0</u>	<u>19,222</u>	<u>11,700</u>	<u>4,300</u>	<u>0</u>	<u>67,856</u>	<u>0</u>	<u>67,856</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>1,033</u>	<u>225</u>	<u>6,416</u>	<u>4,045</u>	<u>15</u>	<u>0</u>	<u>43,930</u>	<u>(4,300)</u>	<u>0</u>	<u>51,364</u>	<u>5,555</u>	<u>56,919</u>
<b>OTHER FINANCING SOURCES (USES)</b>												
Transfers In							9,360			9,360		9,360
Recovery of Misappropriation of Assets										0	278	278
Transfers (Out)			(70,000)	(30,000)				(9,360)	(5,646)	(115,006)		(115,006)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>0</u>	<u>0</u>	<u>(70,000)</u>	<u>(30,000)</u>	<u>0</u>	<u>0</u>	<u>9,360</u>	<u>(9,360)</u>	<u>(5,646)</u>	<u>(105,646)</u>	<u>278</u>	<u>(105,368)</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<u>1,033</u>	<u>225</u>	<u>(63,584)</u>	<u>(25,955)</u>	<u>15</u>	<u>0</u>	<u>53,290</u>	<u>(13,660)</u>	<u>(5,646)</u>	<u>(54,282)</u>	<u>5,833</u>	<u>(48,449)</u>
<b>FUND BALANCE</b>												
Beginning of Year	20,492	34,059	89,223	45,306	(15)	(102)	(53,290)		5,646	141,319	13,109	154,428
End of Year	<u>\$ 21,525</u>	<u>\$ 34,284</u>	<u>\$ 25,639</u>	<u>\$ 19,351</u>	<u>\$ 0</u>	<u>\$ (102)</u>	<u>\$ 0</u>	<u>\$ (13,660)</u>	<u>\$ 0</u>	<u>\$ 87,037</u>	<u>\$ 18,942</u>	<u>\$ 105,979</u>

\* \$50,111 expended in prior fiscal year.

See accompanying auditor's report.



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

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

We have audited, 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, 2015, 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 March 3, 2016. 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 and #3 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as item #4 to be significant deficiencies in internal control over financial reporting.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of findings and responses as items #1 and #5.

### **City of Hollis, Oklahoma's Response to Findings**

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

March 3, 2016

**CITY OF HOLLIS, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

**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 March 3, 2016, no addendum has been received by the City.

**CITY OF HOLLIS, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

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

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.

**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.

**CITY OF HOLLIS, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

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

**CITY OF HOLLIS, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

**3. Utility Billings Accounts Receivable (continued).**

**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. The Authority will try to be more diligent in its collections. The Authority began making more timely bank deposits in April, 2015.

**CITY OF HOLLIS, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

**4. 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.

**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.

**5. (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 2014 fiscal year and it continued into the next 2015 fiscal year making it violating this statute. Although the City transferred monies into the general fund in fiscal year 2015 to remedy this situation, at the end of the year it still had a small deficit balance.

**CITY OF HOLLIS, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

**5. (Deficit) Fund Balances** (continued).

**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. Implementing the recommendations for accounting and bank reconciliations will also help in monitoring this situation.

**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. The accounting records had showed a small positive balance at the end of the 2015 fiscal year, but had to be adjusted as a result of the audit. The City will strive to remedy this situation.

**CITY OF HOLLIS, OKLAHOMA  
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

**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 April 21, 2015, no addendum has been received by the City.

**CITY OF HOLLIS, OKLAHOMA  
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

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

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

**RECOMMENDATION** - Comply with the environmental laws and consent order.

**RESPONSE** - The City has been trying to comply with the consent order and continues to seek funding sources to be able to build the required nitrate removal plant. It is in the process of obtaining approval for a Rural Development loan.

**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.

**CITY OF HOLLIS, OKLAHOMA  
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

**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 account 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.

**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 15<sup>th</sup> of the month and cut-off on the 20<sup>th</sup>. 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 and that it contain all the

**CITY OF HOLLIS, OKLAHOMA  
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

**3. Utility Billings Accounts Receivable (continued).**

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.

**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.

**CITY OF HOLLIS, OKLAHOMA  
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

**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.

**UPDATED COMMENT** - Noted at least one employees leave record still showing amounts in excess of allowed. This employee was granted an exemption in the past due to extenuating circumstances in which the employee could not take the time off. This employee is now back in his original department and still under exemption. The City has made progress in becoming compliant. Comment removed in the current year audit report.

**5. Accounting Records and Bank Reconciliatons.**

**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.

**CITY OF HOLLIS, OKLAHOMA  
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

**5. Accounting Records and Bank Reconciliatons (continued).**

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.

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

**UPDATED COMMENT** - 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.

**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

**CITY OF HOLLIS, OKLAHOMA  
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

**6. Misappropriation of Assets (continued).**

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.

**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.

**UPDATED COMMENT** - The City now has a new employee. It has initiated a policy of requiring a deposit to be made when the deposit is more than \$200. They now post the type of payment received to the computer and balance to the reports. Comment removed for the current year audit report.

**CITY OF HOLLIS, OKLAHOMA  
UPDATE ON PRIOR YEAR'S FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2015**

**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.

**UPDATED COMMENT** - Comment revised for the current year audit report.