CITY OF HOLLIS, OKLAHOMA

FINANCIAL STATEMENTS AND AUDITOR'S REPORTS

JUNE 30, 2022

CITY OF HOLLIS, OKLAHOMA CITY OFFICIALS JUNE 30, 2022

CITY COUNCIL

Mayor	Kendall Williams
Vice-Mayor	Darrell Hanks
Member	Adam Bromlow
Member	Stacee Garton
Member	Frank Bernard

CITY MANAGER

Mark Whisenant

CITY CLERK

CITY TREASURER

Tiffany Salinas

Monica Mingura

CITY OF HOLLIS, OKLAHOMA TABLE OF CONTENTS JUNE 30, 2022

	PAGE NUMBER
INDEPENDENT AUDITOR'S REPORT	1 - 6
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements Statement of Net Position Statement of Activities	7 8
Fund Financial Statements	
Governmental Funds Balance Sheet - Government Funds - Modified Accrual Statement of Revenues, Expenditures,	9
and Changes in Fund Balance - Governmental Funds - Modified Accrual Reconciliation Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds to the Statement of	10
Activities	11
Proprietary Fund-Type Statement of Net Position Statement of Revenues, Expenses, and	12
Changes in Net Position - Proprietary Funds	13
Statement of Cash Flows - Proprietary Fund Type	14
Fiduciary Funds - Statement of Fiduciary Net Position	15
Notes to Financial Statements	16 - 36

CITY OF HOLLIS, OKLAHOMA TABLE OF CONTENTS JUNE 30, 2022

(Continued)

PAGE NUMBER

REQUIRED SUPPLEMENTARY INFORMATION

<pre>Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and and Actual - General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and and Actual - FAA 3-40-0042-006-2020</pre>	37
Grant Fund	38
Notes to Required Supplementary Information	39
OTHER SUPPLEMENTARY INFORMATION	
Combining Balance Sheet - All Other	1.0
Governmental Funds	40
Combining Statement of Revenues, Expenditures,	
and Changes in Fund Balance - All Other Governmental Funds	41
Schedule of Expenditures of Federal Awards	42
Schedule of Expendicules of federal finalas	14
INDEPENDENT AUDITOR'S REPORT on Internal Control Over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	43 - 45
INDEPENDENT AUDITOR'S REPORT on Compliance for each Major Program and on Internal Control over Compliance Required by The Uniform	
Guidance	46 - 48
STATEMENT OF FINDINGS AND QUESTIONED COSTS	49 - 55
UPDATE ON PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS	56 - 60



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Adverse, Qualified, and Unmodified Opinions

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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Adverse Opinion on Governmental Activities

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on Governmental Activities section of our report, the financial statements referred to above do not present fairly the financial position of the governmental activities of the City of Hollis, Oklahoma, as of June 30, 2022, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

> Member: American Institute of Certified Public Accountants Oklahoma Society of Certified Public Accountants

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Qualified Opinion on Business-type Activities

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion on Business-type Activities section of our report, the financial statements referred to above present fairly, in all material respects, the financial position and cash flows, where applicable, of the business-type activities and Hollis Public Works Authority of the City of Hollis, Oklahoma, as of June 30, 2022, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Adverse, Qualified, and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Hollis, Oklahoma, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse, qualified, and unmodified 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.

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 businesstype activities.

Responsibility of Management's 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 and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Hollis, Oklahoma's, ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and <u>Government Auditing Standards</u> will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and Government Auditing Standards, we:

1. Exercise professional judgment and maintain professional skepticism throughout the audit.

2. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

3. Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.

4. Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

5. Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

The City of Hollis has been experiencing a downturn in the local economy and has been expending fund reserves to provide City services and capital improvements. In fiscal year 2022, the general fund expenditures exceeded its revenue by \$340,611, resulting in a deficit fund balance of \$120,794. The general fund also had reported cash overdrafts of \$216,915. In fiscal year 2023, the book cash overdraft amount was over \$330,519 (unaudited). No actual bank overdraft occurred since the general fund is part of a pooled bank account. The general fund depends upon transfers from other funds to fund its operations.

Management intends to correct this situation by reviewing services for essential services, reducing expenditures, personnel requirements, potential sale of property, and transferring in available unrestricted resources.

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. Our opinion on the basic financial statements is not affected by the omitted management's discussion and analysis. The budgetary comparison information on pages 37 and 38 is not a required part of the basic financial statements but is supplementary information required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary 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 statements and the schedule of expenditures of federal awards, as required by Title 2 U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, as 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 and schedule of expenditures of federal awards 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 <u>Government Auditing Standards</u>, we have also issued a report dated June 26, 2024, 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 solely to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> in considering the City's internal control over financial reporting and on compliance.

Mc Cully I mc Culla

Weatherford, Oklahoma

June 26, 2024

Member: American Institute of Certified Public Accountants Oklahoma Society of Certified Public Accountants

CITY OF HOLLIS, OKLAHOMA STATEMENT OF NET POSITION JUNE 30, 2022

		PRIMARY GOVERNMENT								
	-	GOVERN- MENTAL ACTIVITIES		BUSINESS- TYPE ACTIVITIES		TOTAL				
ASSETS	-		-							
Cash on Hand	\$	200	\$	150	\$	350				
Cash in Bank, Including Time Deposits		398,262		171,748		570,010				
Accounts Receivable:										
Services		4,074		228,109		232,183				
Taxes		83,975				83,975				
Intergovernmental		120,312				120,312				
Less Allowance for Bad Debts				(136,939)		(136,939)				
Prepaid Assets		12,304		1,105		13,409				
Due from (to) Other Funds		(579)		579		0				
Restricted Assets:										
Cash in Bank, Including Time Deposits		161,212		245,132		406,344				
Accrued Interest Receivable		777				777				
Capital Assets										
Net of Accumulated Depreciation	_		_	57,551		57,551				
TOTAL ASSETS	_	780,537	-	567,435		1,347,972				
LIABILITIES										
Accounts Payable		42,899		11,646		54,545				
Cash Overdrafts		217,355				217,355				
Accrued Payroll Liabilities		1,263		527		1,790				
Customer Deposits				115,901		115,901				
Long-term Liabilities:										
Due Within One Year		18,154		149,064		167,218				
Due in More Than One Year		25,013		2,720,307		2,745,320				
TOTAL LIABILITIES	-	304,684	-	2,997,445		3,302,129				
NET POSITION										
Net Investment (Debt) in Capital Assets				(2,801,161)		(2,801,161)				
Restricted Net Position										
Restricted for Debt Service and Asset Reserve				94,684		94,684				
Restricted for Permanent Fund		161,989				161,989				
Restricted for Airport Trust		28,692				28,692				
Restricted for Cemetery Capital Improvements		25,951				25,951				
Restricted for Grants Funds		140,680				140,680				
Unrestricted Net Position		118,541		276,467		395,008				
TOTAL NET POSITION	\$	475,853	\$	(2,430,010)	\$	(1,954,157)				

CITY OF HOLLIS, OKLAHOMA STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2022

			_			GRAM REVEN		NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION							
				CHARGES FOR		OPERATING GRANTS AND CON-		CAPITAL GRANTS AND CON-	_	GOVERN- MENTAL	MAI	RY GOVERNMEN BUSINESS- TYPE	NT		
FUNCTIONS/PROGRAMS		EXPENSES		SERVICES		TRIBUTIONS	_	TRIBUTIONS	_	ACTIVITIES	_	ACTIVITIES		TOTAL	
PRIMARY GOVERNMENT															
Governmental Activities:															
General Government	\$	345,729	\$		\$		\$	24,649	\$	(321,080)	\$		\$	(321,080)	
Civic Center		2,415		2,180						(235)				(235)	
Police Department		531,509		15,770						(515,739)				(515,739)	
Fire Department		40,495		23,119		4,763				(12,613)				(12,613)	
Cemetery		17,184		19,750						2,566				2,566	
Airport		11,052		13,950						2,898				2,898	
Street Department		29,074				17,410				(11,664)				(11,664)	
Parks Department		37,939		6,922						(31,017)				(31,017)	
Animal Control		6,455								(6,455)				(6,455)	
Library		4,686								(4,686)				(4,686)	
Capital Improvements	_	872,425	_				_	787,382	_	(85,043)	_			(85,043)	
TOTAL GOVERNMENTAL ACTIVITIES	_	1,898,963		81,691	_	22,173	_	812,031	_	(983,068)	_	0		(983,068)	
Business-type Activities:															
General Government		31,393										(31,393)		(31,393)	
Water Department		463,328		687,876								224,548		224,548	
Sewer Department		53,105		153,127								100,022		100,022	
Sanitation Department		246,413		297,566								51,153		51,153	
Rental Operations		29,659		26,197								(3,462)		(3,462)	
Interest Expense		69,956		-, -								(69,956)		(69,956)	
Cemetery	_	13,300		1,950			_		_		_	(11,350)		(11,350)	
TOTAL BUSINESS-TYPE ACTIVITIES	_	907,154		1,166,716	· _	0	-	0	_	0	_	259,562		259,562	
TOTAL PRIMARY GOVERNMENT	\$_	2,806,117	\$	1,248,407	\$	22,173	\$_	812,031	_	(983,068)	_	259,562		(723,506)	
General Revenues															
Sales and Use Taxes										430,148				430,148	
Tobacco Taxes										2,700				2,700	
Intergovernmental Revenue										270,787				270,787	
Franchise Taxes										83,158				83,158	
Interest Income										1,415		118		1,533	
License, Permits, and Inspections										5,432				5,432	
Sale of Property										650				650	
Insurance Proceeds										6,249				6,249	
Other Income										50,399		8,098		58,497	
Transfers										33,689		(33,689)		0	
Total General Revenues and Transfers									_	884,627	_	(25,473)	_	859,154	
Change in Net Position										(98,441)		234,089		135,648	
NET POSITION															
Beginning of Year										574,294		(2,664,099)		(2,089,805)	
End of Year									\$_	475,853	\$_	(2,430,010)	\$	(1,954,157)	

CITY OF HOLLIS, OKLAHOMA BALANCE SHEET - GOVERNMENTAL FUNDS -MODIFIED ACCRUAL BASIS JUNE 30, 2022

	-	GENERAL FUND		CEMETERY MAINTEN- ANCE		ARPA FUND		FAIRMOUNT CEMETERY TRUST FUND	_	FAA 3-40- 0042-006-2020 FUND	_	FEMA 4299 FUND	_	OTHER GOVERN- MENTAL FUNDS	_	TOTAL GOVERN- MENTAL FUNDS
ASSETS Cash on Hand	¢	200	۴		۴		\$		¢		¢		¢		¢	200
Cash in Bank, Including Time Deposits Due from Other Funds	\$	200	Φ	113,792	\$	140,680	Φ		\$		\$		\$	143,790 1,105	\$	200 398,262 1,105
Accounts Receivable: Services														4,074		4,074
Taxes		83,975														83,975
Intergovernmental		10,132								33,358		73,057		3,765		120,312
Prepaid Assets Restricted Assets:		12,304														12,304
Cash in Bank, Including Time Deposits Accrued Interest Receivable								161,212 777								161,212 777
TOTAL ASSETS	\$	106,611	\$	113,792	\$	140,680	\$	161,989	\$	33,358	\$	73,057	\$	152,734	\$	782,221
LIABILITIES AND FUND BALANCES LIABILITIES Accounts Payable Cash Overdrafts Due to Other Funds Accrued Payroll Liabilities TOTAL LIABILITIES	\$	7,543 216,915 1,684 1,263 227,405	\$	0	\$	0	\$	0	\$	32,918 440 33,358	\$	0	\$	2,438	\$	42,899 217,355 1,684 1,263 263,201
FUND BALANCES																
Nonspendable		12,304						150,000								162,304
Restricted		28,692				140,680		11,989				73,057		29,716		284,134
Committed		20,002		88,743				,				. 0,001		57.784		146,527
Assigned				25,049										65,234		90,283
Unassigned	_	(161,790)							_				_	(2,438)		(164,228)
TOTAL FUND BALANCES	-	(120,794)	_	113,792	_	140,680		161,989	-	0	_	73,057	_	150,296	-	519,020
TOTAL LIABILITIES AND FUND BALANCES	\$	106,611	\$	113,792	\$	140,680	\$	161,989	\$	33,358	\$	73,057	\$	152,734		
	Ψ=	100,011	* =	110,732	* —	140,000	Ψ	101,000	Ψ=		۳=	10,001	Ψ=	102,104		

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.	_	(43,167)
Net Position of Governmental Activities	\$_	475,853

CITY OF HOLLIS, OKLAHOMA STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS - MODIFIED ACCRUAL YEAR ENDED JUNE 30, 2022

REVENUES		GENERAL FUND	CEMETE MAINTE ANCE	N-	ARPA FUND		FAIRMOUNT CEMETERY TRUST FUND		AA 3-40- ¹²⁻⁰⁰⁶⁻²⁰²⁰ FUND		FEMA 4299 FUND		OTHER GOVERN- MENTAL FUNDS		TOTAL GOVERN- MENTAL FUNDS
Sales and Use Tax	\$	430.148	\$		\$	\$	INUSTIONE	\$	TOND	s [—]	TOND	\$	10100	\$	430.148
Tobacco Tax	Ŷ	2,700	Ŷ		Ŷ	Ψ		Ŷ		Ψ		Ψ		Ψ	2,700
Intergovernmental Revenue		132,273			163,565				689,002		73,057		47,094		1,104,991
Franchise Tax		83,158													83,158
Interest		134		171			942						168		1,415
Charges for Services			19,	750									28,260		48,010
Short-term Rental of Facilities		2,180													2,180
Property Sales		40.000											650		650
Fines Swimming Pool		10,629 6,922													10,629 6,922
Airport Revenue		6,922 13,950													6,922 13,950
Licenses, Permits & Inspections		5,432													5,432
Insurance Proceeds		6,249													6,249
Other Income		50,399													50,399
TOTAL REVENUES	-	744,174	19,	921	163,565		942		689,002		73,057		76,172		1,766,833
EXPENDITURES															
General Government		335,075											24,649		359,724
Civic Center		2,415											,		2,415
Police Department		491,148											22,855		514,003
Fire Department		32,786											7,709		40,495
Cemetery			17,	184											17,184
Airport		11,052													11,052
Street Department		29,074													29,074
Parks Department		37,939													37,939
Animal Control		6,455													6,455
Library Capital Outlays		4,686 62,563			22,885				689,002		95,537		2,438		4,686 872,425
	_	1,013,193	17	184	22,885		0		689,002	_	95,537		<u>2,436</u> 57,651		1,895,452
	-	1,010,100		104	22,000	· -	<u>v</u>		000,002		00,007		07,001		1,000,402
EXCESS OF REVENUES OVER (UNDER)															
EXPENDITURES BEFORE OTHER		(260.040)	2	707	140 690		042		0		(22,480)		10 501		(100.610)
FINANCING SOURCES (USES)	-	(269,019)	Z,	737	140,680	· _	942		0	_	(22,480)		18,521		(128,619)
OTHER FINANCING															
SOURCES (USES)															
Transfers In		54,000									95,537		9,744		159,281
Transfers (Out)	-	(125,592)				· -									(125,592)
TOTAL OTHER FINANCING	_	(71,592)		0	0		0		0		95,537		9,744		33,689
NET CHANGE IN FUND BALANCES		(340,611)	2,	737	140,680		942		0		73,057		28,265		(94,930)
FUND BALANCE Beginning of Year	_	219,817	111,	055			161,047						122,031		613,950
End of Year	\$_	(120,794)	\$113,	792	\$140,680	\$_	161,989	\$	0	\$	73,057	\$	150,296	\$	519,020

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, 2022

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ (94,930)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental capital outlays are not capitalized, auditor's report modified.	
Increases in accrued compensated absences are not reported in the governmental funds, but are reported as an increase of the liability in the general long-term debt account group. These are reported in the government-wide financial statements as a increase in the related department expense.	 (3,511)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ (98,441)

CITY OF HOLLIS, OKLAHOMA STATEMENT OF NET POSITION ALL ENTERPRISE FUNDS -PROPRIETARY FUND TYPE JUNE 30, 2022

		BUSINESS-TYPE ACTIVITIES							
	-	PUBLIC WORKS AUTHORITY	HOLLIS ECON. DEV. AUTHORITY	TOTALS					
ASSETS	-								
Current Assets:									
Cash on Hand	\$	150 \$	\$	150					
Cash in Bank, including Time Deposits		139,571	32,177	171,748					
Prepaid Assets		1,105		1,105					
Due From Other Funds		579		579					
Accounts Receivable									
Services		228,109		228,109					
Allowance for Bad Debts	-	(136,939)		(136,939)					
Total Current Assets	-	232,575	32,177	264,752					
Noncurrent Assets:									
Restricted Cash in Bank, including Time Deposits		237,846	7,286	245,132					
Capital Assets,									
Net of Accumulated Depreciation	_		57,551	57,551					
Total Noncurrent Assets	-	237,846	64,837	302,683					
TOTAL ASSETS	-	470,421	97,014	567,435					
LIABILITIES									
Current Liabilities									
Accounts Payable		11,646		11,646					
Accrued and Withheld Payroll Liabilities		527		527					
Customer Refundable Deposits		114,941	960	115,901					
Current Long-term Liabilities		147,465	1,599	149,064					
Total Current Liabilities	-	274,579	2,559	277,138					
Noncurrent Liabilities									
Mortgage and Notes Payable		2,326,543	2,437	2,328,980					
Revenue Note		529,732	_,	529,732					
Accrued Compensated Absences		10,659		10,659					
Less Current Portion		(147,465)	(1,599)	(149,064)					
Total Noncurrent Liabilities	-	2,719,469	838	2,720,307					
TOTAL LIABILITIES	-	2,994,048	3,397	2,997,445					
NET POSITION									
Net Investment (Debt) in Capital Assets Restricted Net Position		(2,856,275)	55,114	(2,801,161)					
Restricted for Debt Service and Asset Reserve		88,358	6,326	94,684					
Unrestricted Net Position	-	244,290	32,177	276,467					
TOTAL NET POSITION	\$_	(2,523,627) \$	93,617_\$	(2,430,010)					

CITY OF HOLLIS, OKLAHOMA STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - ALL ENTERPRISE FUNDS PROPRIETARY FUND TYPE YEAR ENDED JUNE 30, 2022

		BUSINESS-TYPE ACTIVITIES							
		PUBLIC WORKS AUTHORITY	HOLLIS ECON. DEV. AUTHORITY		TOTALS				
OPERATING REVENUES									
Water Sales	\$	687,876 \$:	\$	687,876				
Garbage Collections		297,566			297,566				
Sewer Sales		153,127			153,127				
Rental Income			9,350		9,350				
Rental and Other Subsidies			16,847		16,847				
Cemetery Fees		1,950			1,950				
Other Miscellaneous Revenue		8,098			8,098				
TOTAL OPERATING REVENUES		1,148,617	26,197		1,174,814				
OPERATING EXPENSES									
General Government		31,393			31,393				
Water Department		463,328			463,328				
Sewer Department		53,105			53,105				
Sanitation Department		246,413			246,413				
Rental Operations		-, -	29,659		29,659				
Cemetery		13,300			13,300				
TOTAL OPERATING EXPENSES		807,539	29,659		837,198				
REVENUE (LOSS) FROM OPERATIONS		341,078	(3,462)		337,616				
NONOPERATING REVENUES (EXPENSES)									
Interest Income		118			118				
Interest Expense		(69,748)	(208)		(69,956)				
TOTAL NONOPERATING REVENUES (EXPENSES)		(69,630)	(208)		(69,838)				
REVENUE (LOSS) BEFORE TRANSFERS		271,448	(3,670)		267,778				
TRANSFERS IN (OUT)									
Transfers In		128,654			128,654				
Transfers (Out)		(162,343)			(162,343)				
	-	(102,343)			(102,343)				
TOTAL TRANSFERS		(33,689)	0		(33,689)				
CHANGE IN NET POSITION		237,759	(3,670)		234,089				
NET POSITION									
Beginning of Year	-	(2,761,386)	97,287		(2,664,099)				
End of Year	\$	(2,523,627) \$	93,617	\$	(2,430,010)				

CITY OF HOLLIS, OKLAHOMA STATEMENT OF CASH FLOWS ALL ENTERPRISE FUNDS - PROPRIETARY FUND TYPE YEAR ENDED JUNE 30, 2022

		ITIES				
Cash Flows from Operating Activities	-	PUBLIC WORKS AUTHORITY		HOLLIS ECON. DEV. AUTHORITY		TOTALS
Cash Received from Customers	\$	1,134,653	\$	9,350	\$	1,144,003
Cash Received from Other Sources Cash Paid to Suppliers Cash Paid to Employees	-	(458,804) (319,087)	-	16,847 (19,592)	_	16,847 (478,396) (319,087)
Net Cash Provided by Operating Activities	-	356,762	_	6,605	_	363,367
Cash Flows from Noncapital Financing Activities						
Transfers In Transfers (Out) Net Cash (Used for)	-	128,654 (162,343)	-		_	128,654 (162,343)
Noncapital Financing Activities		(33,689)	-	0	_	(33,689)
Cash Flows from Capital and Related Financing Activities						
Principal Paid on Revenue Note		(82,971)				(82,971) (69,748)
Interest Paid on Revenue, Mortgage and Note Payable Interest Paid on Mortgage Payable		(69,748)		(208)		(09,748) (208)
Principal Paid on Mortgage and Note Payable		(53,200)	-	(1,500)	_	(54,700)
Net Cash (Used for) Capital and Related Financing Activities		(205,919)	-	(1,708)	_	(207,627)
Cash Flows from Investing Activities Interest Received on Deposits Net Cash Provided by	-	118	-			118
Investing Activities		118	_	0	_	118
Increase (Decrease) in Cash and Cash Equivalents	_	117,272	_	4,897		122,169
Balance of Cash and Cash Equivalents						
Beginning of Year End of Year	\$	<u>260,295</u> 377,567	\$	<u>34,566</u> 39,463	s –	<u> </u>
Reconciliation of Operating Revenue to Net Cash and Cash Equivalents Provided by Operating Activities:	Ψ.		Ψ.	00,100	^Ф =	i
Operating Revenue Adjustments to Reconcile Operating Revenue to Net	\$_	341,078	\$_	(3,462)	\$_	337,616
Cash and Cash Equivalents Provided by Operating Activities:						
Depreciation Expense				10,067		10,067
Changes in Assets and Liabilities: (Increase) in Accounts Receivable		(18,144)				(18,144)
Increase in Allowance for Bad Debt		19,566				19,566
Increase in Accounts Payable		9,788				9,788
Increase in Accrued Expenses Payable		294				294
Increase in Customer Deposits	-	4,180	-	40.007	_	4,180
Total Adjustments	-	15,684	-	10,067	_	25,751
Net Cash and Cash Equivalents Provided by Operating Activities	\$	356,762	\$	6,605	\$_	363,367

CITY OF HOLLIS, OKLAHOMA STATEMENT OF FIDUCIARY NET POSITION JUNE 30, 2022

ASSETS	-	AGENCY FUNDS
Cash in Bank, Including Time Deposits Due from Other Funds	\$	6,301
TOTAL ASSETS	\$_	6,301
LIABILITIES		
Accounts Payable Due to Other Funds	\$	6,301
TOTAL LIABILITIES	\$_	6,301

NET POSITION

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

1. Summary of Significant Accounting Policies (continued).

A. Reporting Entity (continued).

City of Hollis and as such, they continue to hold office until their successors are elected to the governing board of the City of Hollis. The Hollis Public Works Authority was created on January 1, 1981, for the use and benefit of the City. The Hollis Economic Development Authority (the Authority) was officially created and approved by the Hollis City Council on April 2, 2001. It was created to promote the economic growth and development of the City of Hollis. Operations of the Hollis Public Works Authority and Hollis Economic Development Authority are reported as enterprise funds within the proprietary fund type (business-type activities).

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 sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. Generally, the effects of interfund activity has been removed from the government-wide financial statements. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

1. Summary of Significant Accounting Policies (continued).

B. Basic Financial Statements (continued).

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

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.

1. Summary of Significant Accounting Policies (continued).

B. Basic Financial Statements (continued).

General revenues normally support the net costs of the functions and programs not covered by program revenues.

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

Major Governmental Funds.

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

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

Fairmount Cemetery Trust Fund - This fund is presented as a permanent fund. Permanent funds are used to account and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs. Prior to July 1, 1995, this fund was not audited and total assets were \$99,821. The amounts for nonexpendable and expendable assets were not known, but

1. Summary of Significant Accounting Policies (continued).

B. Basic Financial Statements (continued).

management considered 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. In accordance with the Trust documents, the Trustees can enlarge the corpus of the Trust with the income earned from the investments of said funds. At its August 15, 2017, meeting, the Trustees voted to increase the corpus to \$150,000. The remaining \$11,047 is expendable assets.

Grant Funds - These funds are special revenue funds used to account for proceeds of grants from the American Rescue Plan Act (ARPA}, Federal Aviation Administration for airport improvements (FAA), and Federal Emergency Management Agency (FEMA).

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

1. Summary of Significant Accounting Policies (continued).

B. Basic Financial Statements (continued).

business enterprises (ie. where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges); or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

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

Both enterprise funds are presented as major funds.

Fiduciary Funds.

Fiduciary funds are trust or agency funds used to account for assets held by the City in a trustee capacity or as an agent. As such, these funds are not included in the governmentwide 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.

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. An allowance for bad debt is established for those accounts where collection is deemed to be uncertain. Once an account is deemed to be uncollectible, then that account is written off.

E. Capital Assets.

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

Governmental capital assets are shown in the governmental funds as capital outlay expenditures. Under GASB 34 reporting model, they should be shown as assets in the government-wide financial statements under governmental activities and depreciated. Infrastructure assets (roads, sidewalks, bridges, etc) were previously not reported in the financial statements but now are required to be reported as assets and depreciated.

1. Summary of Significant Accounting Policies (continued).

E. Capital Assets (continued).

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 longterm 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

1. Summary of Significant Accounting Policies (continued).

F. Compensated Absences (continued).

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

G. 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 though enabling legislation. Effectively, restrictions may be changed or lifted only with the consent of resource providers.

1. Summary of Significant Accounting Policies (continued).

H. Fund Balance Classifications (continued).

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

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

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

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

The City of Hollis maintains a common cash pool for use by all governmental funds except the cemetery maintenance fund, trust and agency funds, and certain other activities that

2. <u>Cash in Bank, including Time Deposits and Cash Overdrafts</u> (continued).

require separate bank accounts with Federal Deposit Insurance Corporation insured banks. Certificates of deposit for the City of Hollis, Hollis Public Works Authority, and Hollis Fairmount Cemetery Trust fund is also included in the cash in bank classification.

Cash overdrafts are negative cash in bank balances in different fund(s) that are part of the common cash pool bank account. No actual bank overdraft occurred.

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, 2022, the carrying amount of the City's deposits as \$765,300 and the bank balance was \$868,337. Of the bank balance, \$411,213 was covered by Federal Depository Insurance and \$457,124 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 \$115,901. 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 \$6,326, Hollis Public Works Authority Rural Development debt and asset reserve service fund of \$43,659 and \$44,699, respectively, Hollis Public Works Authority Sales Tax debt reserve of \$33,810, Sales Tax Revenue Note proceeds for capital improvements of \$737, and cash restricted for the cemetery perpetual trust account of \$161,212.

Income on the pooled cash account is 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 include the entity's cash on hand, cash in bank, including time deposits, and restricted cash in bank, including time deposits.

4. Investments.

Oklahoma Statutes authorize the City to invest in 1) obligations of the U. S. Government or its agencies and instrumentalities; 2) collateralized or insured certificates of deposits and savings accounts of savings and loan associations, banks, savings banks and credit unions located in Oklahoma; or 3) fully insured certificates of deposits of financial institutions out of state. All investments are certificate of deposits and are included in the cash in bank, including time deposits category and are in accordance with the City's investment policy.

5. Capital Assets.

	Primary Government					
CAPITAL ASSETS	Balance June 30, 2021	Additions_	(Deletions)	Balance June 30, 2022		
Business-type Ac	tivities:					
Rental Operations: Building Equipment	\$ 44,552 _100,167	\$	\$ 	\$ 44,552 100,167		
Total Cost	144,719			144,719		
Less Accumulated Depreciation:	l					
Building Equipment Total Acc. Depreciation	(36,014) (41,087) (77,101)	(8,607)		(37,474) (49,694) (87,168)		
Net Business- type Activ- ities	<u>\$ 67,618</u>	<u>\$(10,067)</u>	<u>\$</u>	<u>\$ 57,551</u>		

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 \$10,067.

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

6. Long-term Liabilities.

On August 21, 2017, Hollis Public Works Authority executed two promissory notes with the Rural Utilities Service division of Rural Development for the construction of a water treatment plant. The notes were for \$2,060,000 and \$418,000 at 2% interest for a 40 year term. Security for these notes includes a first mortgage on various properties leased from the City of Hollis, property owned by the borrower for the water system, and an assignment and pledge of revenues from the water system operated by the borrower. Both notes call for monthly payments beginning September 21, 2017, at \$6,242 and \$1,267, respectively.

On October 13, 2015, the citizens of Hollis approved a 1% increase in the City sales tax rate to be used as security for the issuance of a revenue note with a local bank. This additional sales tax became effective January 1, 2016, and is effective for 12 years. The Hollis Public Works Authority Revenue Note, Series 2016 (Municipal Capital Improvements Project) was issued on February 12, 2016, for the principal sum not to exceed \$1,000,000, interest at 3.5%, interest only payable monthly from March 12, 2016 through August 12, 2016. The total outstanding principal amount drawn on this revenue note was \$975,000. Repayment terms are principal and interest payments of \$8,615 due monthly beginning September 12, 2016. This Series 2016 revenue note does not constitute an obligation of the City of Hollis, Oklahoma, or a personal obligation of the

6. Long-term Liabilities (continued).

Trustees of the Issuer or a general obligation of the Issuer, but is a limited and special obligation of the Issuer and is secured by the proceeds of the 1% sales tax revenue approved above. The Authority received \$116,654 sales tax from the City for the year ending June 30, 2022. Revenue Note proceeds remaining for capital improvements was \$737 and \$33,810 was the balance of the debt reserve fund.

On June 9, 2020, Hollis Public Works Authority signed a loan agreement with Communities Unlimited, Inc. for \$100,000. Purpose of the loan is to provide funding for water system improvements. Terms call for interest at 4.5% with monthly payments of \$1,036 for 120 months. It is secured by the revenues of the water and sewer systems.

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:

	Primary Government					Due
	Balance			Ba	alance	With-
	June 30,		(Dele-	Jι	une 30,	in
	2021	Additions	letions)		2022	One Yr.
Governmenta Accrued Compensate Absences			<u>\$</u>	<u>\$</u>	43,167	<u>\$ 18,154</u>

6. Long-term Liabilities (continued).

		Primary Government					
	Balance		Balance				
	June 30,		(Dele-	June 30,	in		
	2021	Additions	letions)	20220	Dne Yr.		
Business-type Activities: Public Works Authority:							
Accrued Compensate	_	•					
Absences	10,892		(233)	10,659	7,633		
Rev. Note	612,703		(82,971)	529,732	85,964		
RD Mtg							
RD - 01	• •			1,860,489	•		
RD - 02	388,835			381,339			
Total RD	2,286,612		(44,784)	2,241,828	45,065		
Comm. Unlim	ited						
Note	93,131		(8,416)	84,715	8,803		
Hollis Econ Dev.:							
Rural Housi	ng <u>3,937</u>		(1,500)	2,437	1,599		
Total Busi- ness Type							
Activities	3,007,275		(137,904)	2,869,371	149,064		
Total Long-							
term Liab.	\$3,046,931	<u>\$ 3,511</u>	\$(137,904)	<u>\$2,912,538</u>	<u>\$167,218</u>		

6. Long-term Liabilities (continued).

Annual requirements to amortize all of the June 30, 2022, revenue and mortgage note payables for the Public Works Authority are as follows:

Year ending						
June 30	P	Principal		Interest		Total
2023	\$	139,831		66,088	\$	205,919
2024		144,259		61,660		205,919
2025		148,680		57,239		205,919
2026		153 , 562		52 , 357		205,919
2027		158,454		47,465		205,919
2028-2032		363,911		194,532		558,443
2033-2037		287,244		163,296		450,540
2038-2042		317,984		132,556		450,540
2043-2047		351 , 904		98,636		450,540
2048-2052		389,442		61,098		450,540
2053-2057		399,812		19,660		419,472
2058		1,192		3		1,195
Total	\$	2,856,275		<u> </u>	\$	3,810,865

Annual requirements to amortize all of the June 30, 2022, mortgage payable for Hollis Economic Development Authority are as follows:

Year ending June 30	Pr	incipal	Int	terest	Total
2023 2024	\$	1,599 838	\$	109 16	\$ 1,708 854
Total	\$	2,437	\$	125	\$ 2,562

7. Pension Plans.

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

7. Pension Plans (continued).

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-ofliving adjustments, if so elected. A member is eligible for disability benefits upon becoming vested. These employees participate in the defined contribution plan.

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

Annual Pension Cost. The City and Hollis Public Works Authority contributed \$30,770 and \$16,470, respectively, to the plan for the year ending June 30, 2022. CITY OF HOLLIS, OKLAHOMA NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDING JUNE 30, 2022

7. Pension Plans (continued).

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. These on-behalf payments on not reflected in these financial statements.

Annual Pension Cost. During the year ended June 30, 2022, the City contributed \$960 to the Plan. The actuarial valuation report, dated July 1, 2022, 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, 2022 was 11 years.

CITY OF HOLLIS, OKLAHOMA NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDING JUNE 30, 2022

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. <u>Net Position (Deficit) - Business Type Activities</u>. <u>Fund Balance (Deficit) - General Fund</u> (continued).

Net Position (Deficit) - Business Type Activities.

The business-type activities on the Statement of Net Position show a deficit net position balance of \$(2,430,010) because of the net investment (debt) used for capital assets sub-title. This deficit is the result of the City not capitalizing the Public Works Authority capital assets and depreciating them. The City's policy is to expend the costs of capital items, even if the funds were obtained from borrowed money. The borrowed money is shown as a liability. The amount that could be capitalized as capital assets and depreciated is not known.

Fund Balance (Deficit) - General Fund.

The General Fund has a deficit fund balance because of the City utilizing the cash balance of the other funds that are pooled in the same bank account. The general fund is reporting cash overdrafts of \$216,915. No actual bank overdraft occurred. However, some of these other funds contain restricted funds making it illegal to use these funds for other purposes. It is also a violation of state statutes for the general fund to expend more than it has in the budget and fund balance. 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 of (\$120,794) at the end of the fiscal year making it violating this statute.

CITY OF HOLLIS, OKLAHOMA NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDING JUNE 30, 2022

10. 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, 2022, are as follows:

Fund	Transfers In	Transfers (Out)						
General	\$ 54,000	\$ (125,592)						
FEMA Fund	9,744							
Other Governmental	95,537							
Public Works Authority	128,654	(162,343)						
Totals	<u>\$ 287,935</u>	<u>\$ (287,935)</u>						

11. Commitments and Contingencies.

The City may from time to time have 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.

In April 2021, the City received awards for a REAP grant and CDBG grant for \$75,761 each. Both awards are for water well improvements. Only the CDBG grant had \$1,071 expended in fiscal year 2021. Balance of the monies were spent in fiscal year 2023.

In November 2021, the City received funds from the Coronavirus Local Fiscal Recovery Funds for Non-entitlement Units of Government through the American Rescue Plan Act of \$163,565. The City expended \$22,885 in fiscal year 2022 leaving a balance of \$140,680.

CITY OF HOLLIS, OKLAHOMA NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2022

12. Fund Balance Classifications.

		GENERAL FUND		CEMETERY MAINTEN- ANCE		ARPA FUND	FAIRMOUNT CEMETERY TRUST FUND		FEMA 4299 FUND		OTHER GOVERN- MENTAL FUNDS		TOTAL GOVERN- MENTAL FUNDS
FUND BALANCES:	-				_		 	_		-		_	
Nonexpendable: Prepaid Expenditures Permanent Fund Principal	\$	12,304	\$		\$		\$ 150,000	\$		\$		\$	12,304 150,000
Restricted for:													
Cemetery Improvements		00.000					11,989				25,951		37,940
Airport ARPA Fund		28,692				140.680					3,765		32,457 140,680
FEMA Grant						110,000			73,057				73,057
Committed to:													
Cemetery Maintenance				88,743							15.040		88,743
Police Capital Improvements Fire Capital Improvements											15,940 7,727		15,940 7,727
Rural Fire Department											34,117		34,117
Assigned to:													
Cemetery Improvements				05.040							13,972		13,972
Cemetery Maintenance Police Capital Improvements				25,049							3.727		25,049 3,727
Fire Capital Improvements											38,442		38,442
Rural Fire Department											9,043		9,043
CDBG Grant Fund											50		50
Unassigned:	_	(161,790)	_							_	(2,438)	_	(164,228)
Total Fund Balances	\$	(120,794)	\$	113,792	\$	140,680	\$ 161,989	\$	73,057	\$	150,296	\$_	519,020

Restricted fund balances are special revenue funds with resources restricted by state statutues 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, 2022

	BUDG								VARIANCE - FAVORABLE
	_	ORIGINAL			FINAL		ACTUAL		(UNFAVORABLE)
	_								
	۴	405 000			405 000	٠	400 440	۴	F 4 40
	\$	425,000	\$	þ	425,000	\$	430,148	\$	5,148
Tobacco Tax		3,000			3,000		2,700		(300)
Franchise Taxes		85,000			85,000		83,158		(1,842)
Licenses, Permits & Insp.		6,000			6,000		5,432		(568)
Intergovernmental Revenue		108,000 8,000			108,000		132,273		24,273
Swimming Pool		24,000			8,000 24,000		6,922 13,950		(1,078)
Airport Revenue Rent of Facilities									(10,050)
		4,000			4,000		2,180		(1,820)
Fines		9,000			9,000		10,629		1,629
Interest		100			100		134		34
Donations		20,000			20.000		0		0
Other Miscellaneous	_	30,000			30,000	_	50,399		20,399
TOTAL REVENUES		702,100			702,100	_	744,174		42,074
EXPENDITURES									
General Government		285,500			285,500		335,075		(49,575)
Civic Center		3,000			3,000		2,415		585
Police Department		507,500			507,500		491,148		16,352
Fire Department		32,500			32,500		32,786		(286)
Street Department		32,000			32,000		29,074		2,926
Parks Department		35,000			35,000		37,939		(2,939)
Animal Control		4,000			4,000		6,455		(2,455)
Airport		12,000			12,000		11,052		948
Library		2,000			2,000		4,686		(2,686)
Capital Outlay		_,			_,		62,563		(62,563)
						_			
TOTAL EXPENDITURES		913,500			913,500		1,013,193		(99,693)
EXCESS OF REVENUES (UNDER)									
EXPENDITURES BEFORE OTHER									
FINANCING SOURCES (USES)		(211,400)			(211,400)		(269,019)		(57,619)
OTHER FINANCIAL									
SOURCES (USES)									
Transfers In, Net		237,000			237,000	_	(71,592)		(308,592)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES									
OVER (UNDER) EXPENDITURES		25,600			25,600		(340,611)	\$	(366,211)
FUND BALANCE Beginning of Year		219,817			219,817		219,817		
		210,017			210,017	_	210,017		
End of Year	\$_	245,417	\$	§	245,417	\$_	(120,794)		

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

CITY OF HOLLIS, OKLAHOMA STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -FAA 3-40-0042-006-2020 GRANT FUND YEAR ENDED JUNE 30, 2022

		BU	DO	GET			VARIANCE - FAVORABLE
	-	ORIGINAL		FINAL		ACTUAL	(UNFAVORABLE)
REVENUES Intergovernmental Revenue Other Revenue	\$	693,066	\$	693,066	\$	689,002	\$ 4,064
TOTAL REVENUES	-	693,066		693,066	_	689,002	4,064
EXPENDITURES		000.000		<u></u>		<u></u>	4.004
Capital Outlay	-	693,066		693,066	_	689,002	4,064
TOTAL EXPENDITURES	-	693,066		693,066	_	689,002	4,064
EXCESS OF REVENUES (UNDER) EXPENDITURES BEFORE OTHER FINANCING SOURCES (USES)	-	0		0_	_	0	0
OTHER FINANCIAL SOURCES (USES) Transfers In	-				_		0_
TOTAL OTHER FINANCING	-	0		0	_	0	0
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES		0		0		0	\$ 0
FUND BALANCE Beginning of Year	-						
End of Year	\$	0	\$	§0	\$_	0	

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, 2022

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, 2022. 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 or the FEMA 4299 fund. The Fairmount cemetery trust fund is not a special revenue fund so no budget to actual report is presented. OTHER SUPPLEMENTARY INFORMATION

CITY OF HOLLIS, OKLAHOMA COMBINING BALANCE SHEET OTHER GOVERNMENTAL FUNDS JUNE 30, 2022

	_	NONMAJOR SPECIAL REVENUE FUNDS								TOTAL OTHER									
	c 	EMETERY FUND	RURAL FI FUND	RE	CENA FUND	CDBG 18025, 18126 FUND	_	FAA 3-40-42-5-2020 FUND	s _	FUNDING SUSTAINABILITY FUND	_	TOTAL	FIRE CAPITAL	_	POLICE CAPITAL	1	TOTAL		GOVERN- MENTAL
ASSETS Cash on Hand Cash in Bank, Including Time Deposits Accounts Receivable -	\$	39,923	\$ 43,1	\$ 60	(1,105)	\$ 50	\$		\$		\$	0 \$ 82,028	43,697	\$	\$ 18,065	\$	0 \$ 61,762	6	0 143,790
Intergovernmental Services Due from Other Funds	_				1,105		_	3,765	_			3,765 0 1,105	2,472	_	1,602		0 4,074 0		3,765 4,074 1,105
TOTAL ASSETS	\$	39,923	\$ 43,1	60 \$	0	\$50_	\$_	3,765	\$_	0	\$	86,898 \$	46,169	\$_	19,667 \$	\$	65,836 \$	<u></u>	152,734
LIABILITIES Accounts Payable	\$		\$	\$		\$	\$		\$	2,438	\$	2,438 \$ 		\$	\$	\$	0 \$ 0	6	2,438 0
TOTAL LIABILITIES		0		0	0	0	_	0	_	2,438		2,438	0	_	0		0		2,438
FUND EQUITY Fund Balance Nonspendable Restricted Committed Assigned Unassigned	_	25,951 13,972	34,1 9,0			50	_	3,765	_	(2,438)	_	0 29,716 34,117 23,065 (2,438)	7,727 38,442	_	15,940 3,727		0 0 23,667 42,169 0		0 29,716 57,784 65,234 (2,438)
TOTAL FUND EQUITY		39,923	43,1	60	0	50	_	3,765	_	(2,438)	_	84,460	46,169	_	19,667		65,836		150,296
TOTAL LIABILITIES AND FUND EQUITY	\$	39,923	\$43,1	60 \$	0	\$50_	\$_	3,765	\$_	0	\$	86,898 \$	46,169	\$_	19,667 \$	\$	65,836 \$	š	152,734

CITY OF HOLLIS, OKLAHOMA COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - OTHER GOVERNMENTAL FUNDS YEAR ENDED JUNE 30, 2022

			NC	ONMAJOR SPECIAL RE	VENUE FUNDS				NONMAJOR CAPITAL IMPROVEMENT FUNDS		
	CEMETERY FUND	RURAL FIRE	CENA FUND	CDBG 18025, 18126 FUND	FAA 3-40-42-5-2020 	FUNDING SUSTAINABILITY FUND	TOTAL	FIRE CAPITAL	POLICE CAPITAL	TOTAL	OTHER GOVERN- MENTAL
REVENUES Charges for Services Intergovernmental Revenue Interest Property Sales Miscellaneous Revenue	\$ 163 650	\$ 15,420 4,763	\$	\$10,000	\$ 14,649	\$ 17,682	\$ 15,420 47,094 163 650 0	\$	\$ 5.141	\$ 12,840 \$ 0 5 0 0	28,260 47,094 168 650 0
TOTAL REVENUES	813	20,183	0	10,000	14,649	17,682	63,327	7,704	5,141	12,845	76,172
EXPENDITURES Airport General Government Police Department Fire Department Capital Outlay		7,709		10,000	14,649	22,855	0 24,649 22,855 7,709 2,438 0			0 0 0 0 0	0 24,649 22,855 7,709 2,438 0
TOTAL EXPENDITURES	0	7,709	0	10,000	14,649	25,293	57,651	0	0	0	57,651
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	813	12,474	0	0_	0	(7,611)	5,676	7,704	5,141	12,845	18,521
OTHER FINANCING SOURCES (USES) Transfers In Transfers (Out)					3,765	5,173	8,938 0	477	329	806 0	9,744 0
TOTAL OTHER FINANCING SOURCES (USES)	0	0	0	0	3,765	5,173	8,938	477	329	806	9,744
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	813	12,474	0	0	3,765	(2,438)	14,614	8,181	5,470	13,651	28,265
FUND BALANCE Beginning of Year	39,110	30,686	0	50			69,846	37,988	14,197	52,185	122,031
End of Year	\$39,923_	\$43,160	\$	\$50_	\$3,765	\$(2,438)	\$84,460	\$46,169	\$19,667	\$\$	150,296

CITY OF HOLLIS, OKLAHOMA SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2022

FEDERAL OR STATE AGENCY/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THOUGH GRANTOR NUMBER/ OR GRANT ID NUMBER	_	FEDERAL EXPENDITURES
United States Department of Agriculture Rural Development/Rural Utilities Service Grant	10.760	42-029-0562509784	\$	20,841
United States Department of Homeland Security Fedeal Emergency Management Agency passed through Oklahoma Dept. of				
Emergency Management and Homeland Security (ODEMHS) - Hazard Mitigation Grant Passed Through ODEMHS 911 & SWOR 911	97.039	4299-0038-OK		73,057
Funding Sustainability Grant	97.067	F106228-S4		25,293
Total United States Dept. of Homeland Secuity				98,350
United States Department of Transportation Federal Aviation Administration Cares Act Airport Grant Airport Improvement Grant	20.106 20.106	3-40-0042-005-2020 3-40-0042-006-2020		14,649 689,002
Total United States Dept. of Transportation				703,651
United States Department of Treasury Coronavirus State and Local Fiscaly Recovery Funds/American Rescue Plan Act	21.027	ARPA-NEU		22,885
United States Department of Housing and Urban Development: Passed through the Oklahoma Department of Commerce Community Development Block Grant	14.228	18025 CDBG-CIP 20		10,000
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$	855,727

Note 1 This Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 *U. S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the accompanying financial statements. Expenditures are limited to the amount of Federal awards received from the granting agency, and does not include expenditures of local matching funds. Since it presents only a selected portion of the operations of the City of Hollis, Oklahoma, it is not intended to and does not present the total assets, liabilities, and net assets, changes in net assets, or cash flows of the City of Hollis, Oklahoma.

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, 2022, and the related notes to the financial statements, which collectively comprise the City of Hollis, Oklahoma's basic financial statements. We have issued our report thereon dated June 26, 2024. 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.

Report on 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) as a basis for designing 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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, 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 questioned costs as items 2022-001, 2022-002 and 2022-003 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 questioned cost as items 2022-004 and 2022-005 to be significant deficiencies in internal control over financial reporting.

Report on 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 financial statements. 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 one instance of noncompliance and other matters that are required to be reported under <u>Government</u> <u>Auditing Standards</u> and which are described in the accompanying schedule of findings and questioned costs as item 2022-006.

City of Hollis, Oklahoma's Response to Findings

<u>Government Auditing Standards</u> requires the auditor to perform limited procedures on the City of Hollis, Oklahoma's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. 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 <u>Government Auditing Standards</u> in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mc Cully I mc Lulla

Weatherford, Oklahoma

June 26, 2024



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for each Major Federal Program

We have audited the City of Hollis, Oklahoma's, compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement that could have a direct and material effect on each of the City of Hollis, Oklahoma's, major federal programs for the year ended June 30, 2022. The City of Hollis, Oklahoma's, major federal programs are identified in the summary of auditor's results section of the accompanying statement of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Hollis, Oklahoma's, major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U. S. Code of Federal Regulations Part 200, Uniform

Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Hollis, Oklahoma's, compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City of Hollis, Oklahoma's, compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the City of Hollis, Oklahoma, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Report on Internal Control Over Compliance

Management of the City of Hollis, Oklahoma, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to In planning and performing our audit of compliance, we above. considered the City of Hollis, Oklahoma's, internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Hollis, Oklahoma's, internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of

deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Mc Cully I mc Cully

Weatherford, Oklahoma

June 26, 2024

A. SUMMARY OF AUDITOR'S RESULTS.

FINANCIAL STATEMENTS.

- The auditor's report issued an adverse opinion on the governmental activities, a qualified opinion on the business-type activities, a qualified opinion on the Hollis Public Works Authority major fund, and an unmodified opinion on the other major funds and the aggregate remaining funds.
- Internal control over financial reporting identified three material weaknesses and two significant deficiencies during the audit of the financial statements.
- One instance of noncompliance material to the financial statements was disclosed during the audit.

FEDERAL AWARDS.

- The auditor's report on compliance for the major federal award programs issued an unmodified opinion on all major federal award programs.
- Internal control over major programs identified no material weakness.
- 3. No audit findings relative to the major federal award programs are reported in section C of this schedule.
- 4. The following programs were tested as a major program:

Assistance Listing #20.106 Department of Transportation Federal Aviation Administration 3-40-0042-006-2020 Airport Improvement Grant

- 5. The threshold for distinguishing Types A and B programs was \$750,000.
- 6. City of Hollis, Oklahoma, was not considered to be a low risk auditee.

B. FINANCIAL STATEMENT AUDIT FINDINGS.

Material Weaknesses:

2022-001. 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. These conditions could result in material errors or fraud occurring and not be detected in a timely manner.

CRITERIA - Duties should be segregated to ensure City's assets are properly safeguarded.

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

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN - 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.

2022-002. Utility Billings Accounts Receivable.

CONDITION AND EFFECT - 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. We noted the Authority was not retaining any documentation for adjustments posted in the billing system nor were the adjustments posted to the general ledger system. 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.

2022-002. Utility Billings Accounts Receivable (continued).

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

RECOMMENDATION - Recommend the Authority print and retain the end of the month aging report for each month and that it 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. These include billing adjustments made. The Authority should also retain documentation of all adjustments made, the reason for the adjustment, and approval of the City Manager. Reconciliations should be done as soon as possible after the end of each month and corrections (if any) made. 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.

2022-002. Utility Billings Accounts Receivable (continued).

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN -Management states they will work on reconciling the utility accounts receivable records to the general ledger. Documentation will be made of billing adjustments made and approved. They will be posted 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 and following up on collection agreements.

2022-003. Reconciliation of Bank Statements to General Ledger.

CONDITION AND EFFECT - The bank reconciliations to the general ledger were not timely completed. The general and public works authority reconciliations were not accurate in that unknown differences were shown on the reconciliations. Certain smaller bank reconcilations were completed as if they reconciled when in actuality they did not. The person completing the reconciliation said the reconciliation assumed the bank balance equaled the book balance and did not physically check to make sure they agreed. The effect of not performing bank reconciliations timely and accurately could result in fraud or errors occurring and not being timely found or corrected.

CRITERIA - Timely and accurate bank reconciliations are good internal control procedures and helps in finding fraud or errors that can be timely corrected.

RECOMMENDATION - Bank reconciliations should be timely and correctly prepared normally within 15 days after receipt of the bank statement. Documentation of each reconciliation should be retained and each reconciling item shown. Any correcting entries should also be noted on the reconciliation.

2022-003. <u>Reconciliation of Bank Statements to General Ledger</u> (continued).

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN - The City had changes in personnel and had gotten behind in its accounting functions. This recommendation will receive additional emphasis and will be caught up.

Significant Deficiencies:

2022-004. Accounting Records.

CONDITION AND EFFECT - The end of year financial statements had various payroll related liability accounts with outstanding 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.

CRITERIA - Accounting records should be reviewed for accuracy and properly balanced and reconciled, as applicable.

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. Payroll related liability accounts should be reviewed at the end of each month to ensure accuracy in posting and balances due. The City should consider changing the setup on the posting of some of the payroll liabilities accounts in its payroll and/or accounts payable system. This could minimize the number of the end of month adjustments being made.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN - The City is working on getting everything caught up and treasurer trained. The City will review the transactions and end of month balances and make adjustments as necessary.

2022-005. <u>Balancing of Meter Deposit Liability Subsidiary</u> Records.

CONDITION AND EFFECT - The Public Works Authority (PWA) uses a spreadsheet accounting system for meter deposits subsidiary records. The PWA has not reconciled the meter deposit subsidiary records to the general ledger control account for the fiscal year ending June 30, 2020. The effect of not balancing these records could result in errors and possibly fraud occurring.

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

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN - Management stated these records will be brought up to date and balanced monthly.

Noncompliance Material to the Financial Statements

2022-006. (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 (\$120,794) at the end of the fiscal year making it violating this statute. The general fund also had a cash overdraft balance of \$216,915. No actual bank account was overdrawn since the general fund was part of a pooled bank account with other funds. However, the other funds that are part of the pooled account have restricted funds that was, in substance, spent by the general fund. These transactions could be construed as being illegal.

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

2022-006. (Deficit) Fund Balances (continued).

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. Management should review their expenditures, budgets, and other resources to see where cuts could be made. Also seek additional revenue sources such as grants, economic development, etc.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN - This situation was created when the City did not transfer funds from other funds to the general fund. After year end the funds were transferred and the general fund currently has a positive fund balance. The City has not had any problems with meeting their obligations.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS.

None.

D. SUMMARY OF PRIOR AUDIT FINDINGS.

See the prior audit findings and questioned costs on pages 56-60.

2021-001. 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. These conditions could result in material errors or fraud occurring and not be detected in a timely manner.

CRITERIA - Duties should be segregated to ensure City's assets are properly safeguarded.

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

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN - 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.

2021-002. Utility Billings Accounts Receivable.

CONDITION AND EFFECT - 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. We noted the Authority did retain the documentation for adjustments posted in the billing system and did post most of them to the general ledger system. However, the ones posted were posted incorrectly. If the Authority had balanced these systems as recommended above, they should have found these errors. No evidence of the City Manager approving the adjustments was noted. 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

2021-002. Utility Billings Accounts Receivable (continued).

City's - even after the City Council approved on November 1, 2010, the enforcement of the ordinance on collection of delinquent accounts.

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

RECOMMENDATION - Recommend the Authority print and retain the end of the month aging report 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. These include billing adjustments made. The Authority should also retain documentation of all adjustments made, the reason for the adjustment, and approval of the City Manager. Reconciliations should be done as soon as possible after the end of each month and corrections (if any) made. 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

2021-002. Utility Billings Accounts Receivable (continued).

agreement (or to make an agreement) will result in them being cut-off.

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIDE ACTION PLAN -Management states they will work on reconciling the utility accounts receivable records to the general ledger. Documentation will be made of billing adjustments made and approved. They will be posted 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 and following up on collection agreements.

UPDATED COMMENT - The Authority still did not reconcile the utility billings accounts receivable to the general ledger. The adjustments made were printed but were not posted to the general ledger. We did not see evidence of approval by the City Manager. Comment revised in the current year's audit report.

2021-003. Accounting Records.

CONDITION AND EFFECT - The end of year financial statements had various payroll related liability accounts with outstanding 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.

CRITERIA - Accounting records should be reviewed for accuracy and properly balanced and reconciled, as applicable.

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. Payroll related liability accounts should be reviewed at the end of each month to ensure accuracy in posting and balances due. The City should consider changing

2021-003. Accounting Records (continued).

the setup on the posting of some of the payroll liabilities accounts in its payroll and/or accounts payable system. This could minimize the number of the end of month adjustments being made.

VIEW OF RESPONSIBLE OFFICALS AND CORRECTIVE ACTION PLAN - The City Treasurer is now posting the accounting records and is willing to make changes as necessary to reduce the amount of end of month entries that are being made. She wants to make the computer system word as efficiently as possible. The City will review the transactions and end of month balances and make adjustments as necessary.

UPDATED COMMENT - Some payroll liabilities accounts still had outstanding balances that needed to be corrected. No setup changes were made. Comment repeated for the current year audit report.

2021-004. <u>Balancing of Meter Deposit Liability Subsidiary</u> Records.

CONDITION AND EFFECT - The Public Works Authority (PWA) uses a spreadsheet accounting system for meter deposits subsidiary records. The PWA has not reconciled the meter deposit subsidiary records to the general ledger control account for the fiscal year ending June 30, 2020 and 2021. The effect of not balancing these records could result in errors and possibly fraud occurring.

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

VIEWS OF RESPONSIBLE OFFICIALS AND CORRECTIVE ACTION PLAN - Management stated these records will be brought up to date and balanced monthly.

2021-004. Balancing of Meter Deposit Liability Subsidiary Records (continued).

UPDATED COMMENT - Situation still the same. The City had a new clerk handling this account who stated she would get it fixed. Comment repeated for the current year audit report.