

REPORT OF AUDIT
TOWN OF HILLSDALE
INCLUDING
HILLSDALE PUBLIC WORKS AUTHORITY
GARFIELD COUNTY - OKLAHOMA
JULY 1, 2010 TO JUNE 30, 2011

TOWN OF HILLSDALE
HILLSDALE PUBLIC WORKS AUTHORITY
GARFIELD COUNTY - OKLAHOMA
JULY 1, 2010 TO JUNE 30, 2011

OFFICERS

CURT ROGGOW
LARRY SULLIVAN
ROYCE LLOYD
JILL MCCOY
SUZI LAKIN

MAYOR
MEMBER/TRUSTEE
MEMBER/TRUSTEE
CLERK
TREASURER

AUDIT

PATRICK W. CARROLL
CERTIFIED PUBLIC ACCOUNTANT

CERTIFICATE #4081

TOWN OF HILLSDALE
HILLSDALE PUBLIC WORKS AUTHORITY
GARFIELD COUNTY – OKLAHOMA
JULY 1, 2010 TO JUNE 30, 2011

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TOWN OF HILLSDALE
HILLSDALE PUBLIC WORKS AUTHORITY
GARFIELD COUNTY – OKLAHOMA
JULY 1, 2010 TO JUNE 30, 2011

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Chas. W. Carroll, P.A.

The Broadway Tower - Suite 805
114 E. Broadway

Enid, Oklahoma 73701
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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Board of Trustees
Town of Hillsdale
Garfield County, Oklahoma

I have audited the accompanying financial statements, each major fund and the aggregate remaining fund information of the Town of Hillsdale, Garfield County, Oklahoma, as of and for the year ended June 30, 2011, as listed in the Table of Contents, which collectively comprise a portion of the Town's basic financial statements required by accounting principles generally accepted in the United States of America, as applied to the Town's modified cash basis of accounting. The financial statements are the responsibility of the Town of Hillsdale, Oklahoma, management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted by the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note No. 1, the Town of Hillsdale, Oklahoma prepares its financial statements on a basis of accounting that demonstrates compliance with a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Management has not presented government-wide financial statements to display the modified cash basis financial position and changes in modified cash basis financial position of its governmental activities. Accounting principles generally accepted in the United States of America, as applied to the Town's modified cash basis of accounting, require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements resulting from modified cash basis transactions for the Town's governmental activities are not reasonably determinable.

In my opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the modified cash basis financial position of the Town of Hillsdale, Oklahoma, as of June 30, 2011, or the changes in its modified cash basis financial position, where applicable, for the year then ended.

The Budgetary Comparison information is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and do not express an opinion on it.

The Town of Hillsdale, Oklahoma, has not presented the Management's Discussion that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was made for the purpose of forming an opinion on the accompanying modified cash basis financial statements taken as a whole. The general fund budgetary comparison information, combining financial statements and supporting schedules listed in the accompanying Table of Contents are presented for purposes of additional analysis and are not a required part of the modified cash basis financial statements of the Town of Hillsdale, Oklahoma. For reasons stated in the third paragraph above, the financial statements referred to above do not present fairly in conformity with accounting principles generally accepted in the United States of America, the modified cash basis financial position of the governmental activity and the changes in modified cash basis financial position. Therefore, I do not express an opinion on the accompanying combining and supporting schedules.

In accordance with Government Auditing Standards, I have also issued a report dated November 4, 2011 on my consideration of the Town's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Sincerely,



Chas. W. Carroll, P.A.

November 4, 2011

TOWN OF HILLSDALE
GARFIELD COUNTY - OKLAHOMA
COMBINED STATEMENT OF ASSETS AND
LIABILITIES - MODIFIED CASH BASIS -
ALL GOVERNMENTAL FUNDS
AS OF JUNE 30, 2011

EXHIBIT A

| | GOVERNMENTAL FUNDS | | TOTAL |
|--|--------------------|--------------------------------|---|
| | GENERAL FUND | OTHER GOVERNMENTAL FUNDS | (MEMORANDUM ONLY) FISCAL YR. 2010-11 |
| ASSETS: | | | |
| Cash and Cash Equivalents | \$9,945.34 | \$2,617.14 | \$12,562.48 |
| Investments | 52,365.31 | 0.00 | 52,365.31 |
| TOTAL ASSETS | 62,310.65 | 2,617.14 | 64,927.79 |
| LIABILITIES AND FUND BALANCES: | | | |
| LIABILITIES - | | | |
| Warrants & Checks Outstanding | 264.80 | 0.00 | 264.80 |
| Encumbrances | 0.00 | 0.00 | 0.00 |
| Total Liabilities | 264.80 | 0.00 | 264.80 |
| FUND BALANCES- | | | |
| Nonspendable | 0.00 | 0.00 | 0.00 |
| Restricted | 0.00 | 2,617.14 | 2,617.14 |
| Committed | 0.00 | 0.00 | 0.00 |
| Assigned | 0.00 | 0.00 | 0.00 |
| Unassigned | 62,045.85 | 0.00 | 62,045.85 |
| Total Fund Balances | 62,045.85 | 2,617.14 | 64,662.99 |
| TOTAL LIABILITIES AND FUND BALANCES | \$62,310.65 | \$2,617.14 | \$64,927.79 |

The accompanying notes are an integral part of these financial statements.

TOWN OF HILLSDALE
GARFIELD COUNTY - OKLAHOMA
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE -
MODIFIED CASH BASIS - ALL GOVERNMENTAL FUNDS
JULY 01, 2010 TO JUNE 30, 2011

EXHIBIT B

| | GOVERNMENTAL FUNDS | | TOTAL |
|--|--------------------|--------------------------------|---|
| | GENERAL FUND | OTHER GOVERNMENTAL FUNDS | (MEMORANDUM ONLY) FISCAL YR. 2010-11 |
| REVENUE: | | | |
| Taxes | \$5,777.53 | \$903.72 | \$6,681.25 |
| Service Collections | 32,107.28 | 0.00 | 32,107.28 |
| Fines, Penalties & Permits | 627.00 | 0.00 | 627.00 |
| Interest Earned | 100.27 | 2.54 | 102.81 |
| Patron Deposits | 0.00 | 175.00 | 175.00 |
| Royalties, Donations & Other | 0.00 | 100.00 | 100.00 |
| Intergovernmental | 0.00 | 0.00 | 0.00 |
| TOTAL | 38,612.08 | 1,181.26 | 39,793.34 |
| EXPENDITURES: | | | |
| Personal Service | 5,561.25 | 853.75 | 6,415.00 |
| Maintenance & Operation | 29,024.95 | 535.76 | 29,560.71 |
| Capital Projects | 0.00 | 0.00 | 0.00 |
| TOTAL | 34,586.20 | 1,389.51 | 35,975.71 |
| Excess of Revenues Over/ <Under> Expenditures | 4,025.88 | (208.25) | 3,817.63 |
| Operating Transfers | 100.00 | (100.00) | 0.00 |
| Bank Fees | (30.90) | 0.00 | (30.90) |
| Excess of Revenues Over/ <Under> All Uses | 4,094.98 | (308.25) | 3,786.73 |
| Balance at 7/01/10 | 57,950.87 | 2,925.39 | 60,876.26 |
| Balance at 6/30/11 | \$62,045.85 | \$2,617.14 | \$64,662.99 |

The accompanying notes are an integral part of these financial statements.

TOWN OF HILLSDALE
HILLSDALE PUBLIC WORKS AUTHORITY
GARFIELD COUNTY - OKLAHOMA
JULY 1, 2010 TO JUNE 30, 2011

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

The accounting and reporting of the Town of Hillsdale, Garfield County, Oklahoma, relating to the funds included in the combined financial statements demonstrates conformity with a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The more significant of the municipalities' policies are described below.

A. Reporting Entity

The municipality is a corporate body for public purposes created under Title II of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. The general operating authority for the municipality is the Oklahoma Municipal Code contained in Title II, Oklahoma Statutes. The governing body of the municipality is the Board of Trustees composed of elected members. The mayor is the executive officer of the municipality.

In evaluating how to define the municipality, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's oversight responsibility, especially financial interdependency. A second criterion used in evaluating potential component units is the scope of public service. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities.

Based upon the application of this criteria, the Public Works Authority is included in the Town's reporting entity. While the Public Works Authority Trust and Town are separate legal entities, the Public Works Authority is not only financially accountable to the Town, the two entities operate jointly as one unit. Certain expenditures may be paid by either entity and money may be transferred from the Public Works Authority to the Town for operating needs by board approval. Therefore, the Public Works Authority is included in the financial reports as a part of the Town's General Fund operation.

B. Fund Accounting

The Town uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain town functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Funds are classified into two categories; governmental and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental Fund Types

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds).

Fund Description

The following funds are utilized by the Town of Hillsdale, Oklahoma.

Governmental Fund Types -

Fiduciary Fund Types -

General Fund

Permanent Fund

Special Revenue Funds

The General Fund accounts for all financial transactions not accounted for in any other fund. The revenues include taxes, utility collections, fees, licenses and permits, fines and forfeits, etc. Expenditures are for personal services, maintenance and operations and capital outlay. The Public Works Authority is considered a portion of the Town's General Fund operations. The primary revenue source is utility service collections.

Special Revenue Funds are funds which must be spent in accordance with special regulations and restrictions. There are major classifications to account for operating funds for which the use of revenues is restricted or designated by outside sources.

Special Revenue Funds -

Street and Alley Fund

Fiduciary Funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the Town. When these assets are held under the terms of a formal trust agreement, either a permanent fund or an expendable trust fund is used. The terms "permanent" and "expendable" refer to whether or not the Town is under an obligation to maintain the trust principal. Agency funds generally are used to account for assets that the Town holds on behalf of others as their agent and do not involve measurement of results of operations.

Permanent Fund -

Water Meter Deposit Fund

Fund Equity

Fund Statements

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amount for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Town has classified Street and Alley revenue as being restricted because the use is restricted by State Statute. Debt service resources are to be used for future servicing of the general obligation bonds and are restricted through debt covenants. Capital project revenue from bond proceeds is restricted by State Statute and is legally segregated for funding of voter approved uses.

Fund Statements (continued)

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The Town has assigned interest earnings to the funds where earned for the purposes defined by the fund.
- Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other government fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Town would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

Memorandum Only - Total Column

The total column on the modified cash basis financial statements is captioned "memorandum only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

C. Basis of Presentation

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental and fiduciary funds are accounted for using a modified cash basis of accounting. Revenues, except for certain grant revenues, are recognized when they are received rather than earned. When grant terms provide that the expenditure of resources is the prime factor for determining eligibility for federal, state, and other grant resources, revenue is recognized when the grant expenditure is made. Under this modified cash basis of accounting, expenditures are generally recognized when encumbered/reserved rather than at the time the related fund liability is incurred.

The Town of Hillsdale, Oklahoma utilizes an appropriated budget system of accounting. This system has an approved budget appropriation for its General Fund and Street and Alley Fund. All expenditures are recorded against the appropriation on a ledger by classification.

D. Budgets and Budgetary Accounting

The Town is required by state law to prepare an annual budget. The Town must submit a budget by August 22 of each year according to Oklahoma Statutes, Title 68, Section 3002. The budget amount for the Town is the appropriated balance approved by the County Excise Board. The budget, as set by the governing board, constitutes the maximum funds that may be spent during the fiscal year by any department of the local government required to appropriate funds. The budget includes revenues which are collected by the Town or transfers into a specific fund from another fund. The Town's budget does not include an ad valorem tax levy.

A budget is legally adopted by the Board of Trustees for the General Fund and Street and Alley Fund that includes revenues and expenditures.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting -- under which purchase orders and other commitments of resources are recorded as expenditures of the applicable fund -- is utilized in all governmental funds of the Town.

The unencumbered balance of current fiscal year appropriations and the unexpended reserve appropriations of the previous fiscal year are lapsed and become a part of the beginning fund balance for the succeeding fiscal year.

E. Assets, Liabilities and Fund Equity

Cash, Cash Equivalents and Investments

All monies which are not invested in Certificate of Deposits are maintained in NOW Checking Accounts or Savings Accounts.

Safeguard of Deposits and Investments

State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or obligations of Oklahoma and its agencies that have a market value of not less than the principal amount of the deposits. The Town Treasurer is responsible for maintaining adequate coverage of all funds on deposit through security pledges approved by the Treasurer of the State of Oklahoma.

Deposit Categories of Credit Risk

- (A) Insured by Federal Deposit Insurance
- (B) Collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name.
- (C) Uncollateralized.

| | <u>Category</u> | | | <u>Bank</u> |
|------------------|---------------------|----------------|----------------|---------------------|
| | <u>(A)</u> | <u>(B)</u> | <u>(C)</u> | <u>Balance</u> |
| Cash/Investments | \$ <u>64,927.79</u> | \$ <u>0.00</u> | \$ <u>0.00</u> | \$ <u>64,927.79</u> |

Pooled Cash

Receipts deposited in the General Fund include the state-shared gasoline motor vehicle taxes. While these revenues are separately classified on the Town's ledgers, they are combined with all other revenues and expenditures for a single fund balance. Expenditures of these funds shall be made as provided by statute. Also, the Public Works Authority and Water Meter Deposit Funds are pooled in a like manner and each fund has an equity in the pooled amount.

Fixed Assets and Property, Plant and Equipment

Property and equipment purchases are recorded as capital outlays in the accompanying statements of revenues, expenditures and changes in fund balances. The Town does not maintain complete financial records of capital assets purchased which would include depreciation schedules.

Property Tax

The Town's property tax is levied each October 1, on the assessed value listed as of January 1, of the same year for all real and personal property located in the Town, except certain exempt property. Assessed values are established by the Oklahoma Tax Commission and the State Equalization Board. A revaluation of all property is required once every five (5) years.

The Town does not have a millage levy for the General Fund for the 2010-11 period.

Compensated Absences

The Town does not have a policy which would allow vacation leave or sick pay benefits to accrue to employees past the current year. Therefore, no liability is recorded in the accompanying financial statements for compensated absences.

Operating Leases

The Town had no operating leases during the current fiscal year; therefore, no liability is recorded in the accompanying financial statements.

2. Risk Management

Liability Protection Plan

The Town's Commercial Liability Insurance agreements cover claims against municipalities for all government functions, utilities, and services. These include bodily injury, property damage, wrongful acts, personal injury, and related torts under the State tort claims law and federal civil rights laws.

All public officials, employees, services, and municipal functions are covered unless they are specifically listed.

The title to all assets acquired by the Plan are vested in the Group. In the event of termination of the Group, such property shall belong to the then members of the Group in equal shares. Each participating Town pays all cost, premiums, or other fees attributable to its respective participation in the Plan, and is responsible for its obligation under any contract entered into with the Plan.

Liability Protection Plan (continued)

Reserves for claim losses include provisions for reported claims on a case basis and an estimate of claims incurred but not reported limited by aggregate and individual loss levels as specified by the Plan's reinsurance contracts. These credits, if any, represent contingent liabilities of the Plan if the reinsurer was unable to meet its obligations under the reinsurance agreement.

The Plan's insurance agreements are reinsured for excess losses based upon the contract year. The significant components of each reinsurance contract can be obtained from the Plan's annual financial report.

Surety Bonds

The Town maintains an Employee Dishonesty Bond with The Ohio Casualty Insurance Company. The bond number is 3798247, dated August 10, 2009 to and August 10, 2012. The positions covered are as follows:

| | |
|------------|-------------|
| Town Clerk | \$ 1,000.00 |
| Treasurer | 10,000.00 |

The Public Works Authority maintains a Public Employee Dishonesty Bond, with The Ohio Casualty Insurance Company, in the amount of \$10,000.00. The bond number is 3811049, dated September 9, 2009 to September 9, 2012.

3. Consumers and Service Rates

Consumers:

| | |
|-----------------|----------|
| Residential | 48 |
| Commercial | <u>4</u> |
| Total Consumers | 52 |

Monthly Service Rates:

Water – Residential and Commercial – (1 consumer has water only)

| | |
|---------------------|--|
| | \$17.00 for first 2,000 gallons |
| | 3.95 per 1000 gallons for next 2,000 gallons |
| | 4.60 per 1000 gallons for next 1,000 gallons |
| | 4.68 per 1000 gallons over 5,000 gallons |
| Sewer - | 10.00 minimum charge for first 2,000 gallons |
| | .85 per 1000 gallons for next 3,000 gallons |
| | .95 per 1000 gallons for next 5,000 gallons |
| Trash - Residential | 11.00 per month |
| Dumpsters | 20.00 per month |
| Deposits - | 50.00 Water/Sewer/Trash |

4. Employee Retirement System - Pensions Plans

The Town does not offer any type of retirement system for any employees.

5. Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

TOWN OF HILLSDALE
GARFIELD COUNTY - OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND FUND
BALANCES - BUDGET AND ACTUAL - MODIFIED
CASH BASIS - GENERAL FUND ONLY
FOR THE FISCAL YEAR ENDING JUNE 30, 2011

SCHEDULE A-1

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET FAVORABLE <UNFAVORABLE> |
|--|--------------------|------------------|------------------|---|
| REVENUES: | | | | |
| Taxes | \$5,410.34 | \$5,410.34 | \$5,777.53 | \$367.19 |
| Services | 0.00 | 0.00 | 32,107.28 | 32,107.28 |
| Intergovernmental | 0.00 | 0.00 | 0.00 | 0.00 |
| Rentals/Royalties | 0.00 | 0.00 | 0.00 | 0.00 |
| Other | 0.00 | 0.00 | 727.27 | 727.27 |
| TOTAL | 5,410.34 | 5,410.34 | 38,612.08 | 33,201.74 |
| EXPENDITURES: | | | | |
| Personal Services | 6,000.00 | 6,000.00 | 5,561.25 | 438.75 |
| Maintenance & Operation | 54,298.98 | 54,298.98 | 29,024.95 | 25,274.03 |
| Capital Outlay | 3,062.23 | 3,062.23 | 0.00 | 3,062.23 |
| Other | 0.00 | 0.00 | 0.00 | 0.00 |
| Bank Fees | 0.00 | 0.00 | 30.90 | (30.90) |
| TOTAL | 63,361.21 | 63,361.21 | 34,617.10 | 28,744.11 |
| Excess of Revenues Over/ <Under> Expenditures | (57,950.87) | (57,950.87) | 3,994.98 | 61,945.85 |
| Operating Transfers | 0.00 | 0.00 | 100.00 | 100.00 |
| Excess of Revenue Over/ <Under> All Uses | (57,950.87) | (57,950.87) | 4,094.98 | 62,045.85 |
| Balance at 7/01/10 | 57,950.87 | 57,950.87 | 57,950.87 | 0.00 |
| Balance at 6/30/11 | \$0.00 | \$0.00 | \$62,045.85 | 62,045.85 |

Notes to Required Supplemental Information-Budgetary Comparison Schedule

Budgetary Accounting

The Town prepares its budget for the General Fund on the modified cash basis of accounting described in Note 1 to Financial Statements. This basis is consistent with the basis of accounting used in presenting the General Fund in the combining financial statements. The Town utilizes an appropriated budgetary system and all unexpended appropriations lapse at year end.

TOWN OF HILLSDALE
GARFIELD COUNTY - OKLAHOMA
COMBINING STATEMENT OF ASSETS
AND LIABILITIES - MODIFIED CASH BASIS-
GENERAL FUND TYPE GOVERNMENTAL FUNDS
AS OF JUNE 30, 2011

SCHEDULE B-1

| <u>GENERAL FUND TYPE GOVERNMENTAL FUNDS</u> | | | |
|--|-------------------------|---------------------------------------|---------------------------|
| | <u>GENERAL FUND</u> | <u>PUBLIC WORKS AUTHORITY</u> | <u>TOTALS 2010-11</u> |
| ASSETS: | | | |
| Cash and Cash Equivalents | \$3,667.91 | \$6,277.43 | \$9,945.34 |
| Investments | 0.00 | 52,365.31 | 52,365.31 |
| TOTAL ASSETS | 3,667.91 | 58,642.74 | 62,310.65 |
| LIABILITIES AND FUND BALANCES: | | | |
| LIABILITIES- | | | |
| Warrants & Checks Outstanding | 0.00 | 264.80 | 264.80 |
| Encumbrances Outstanding | 0.00 | 0.00 | 0.00 |
| Total Liabilities | 0.00 | 264.80 | 264.80 |
| FUND BALANCES- | | | |
| Nonspendable | 0.00 | 0.00 | 0.00 |
| Restricted | 0.00 | 0.00 | 0.00 |
| Committed | 0.00 | 0.00 | 0.00 |
| Assigned | 0.00 | 0.00 | 0.00 |
| Unassigned | 3,667.91 | 58,377.94 | 62,045.85 |
| Total Fund Balances | 3,667.91 | 58,377.94 | 62,045.85 |
| TOTAL LIABILITIES AND FUND BALANCES | \$3,667.91 | \$58,642.74 | \$62,310.65 |

The accompanying notes are an integral part of these financial statements.

TOWN OF HILLSDALE
GARFIELD COUNTY - OKLAHOMA
COMBINING STATEMENT OF ASSETS
AND LIABILITIES - MODIFIED CASH BASIS-
NON-MAJOR OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2011

SCHEDULE B-2

| | SPECIAL REVENUE FUNDS | PERMANENT FUND | |
|--|-----------------------------|------------------------------------|-------------------|
| | STREET AND ALLEY FUND | WATER AND SEWER DEPOSIT FUND | TOTALS 2010-11 |
| ASSETS: | | | |
| Cash and Cash Equivalents | \$26.79 | \$2,590.35 | \$2,617.14 |
| Investments | 0.00 | 0.00 | 0.00 |
| TOTAL ASSETS | 26.79 | 2,590.35 | 2,617.14 |
| LIABILITIES AND FUND BALANCES: | | | |
| LIABILITIES - | | | |
| Warrants & Checks Outstanding | 0.00 | 0.00 | 0.00 |
| Encumbrances Outstanding | 0.00 | 0.00 | 0.00 |
| Total Liabilities | 0.00 | 0.00 | 0.00 |
| FUND BALANCES- | | | |
| Nonspendable | 0.00 | 0.00 | 0.00 |
| Restricted | 26.79 | 2,590.35 | 2,617.14 |
| Committed | 0.00 | 0.00 | 0.00 |
| Assigned | 0.00 | 0.00 | 0.00 |
| Unassigned | 0.00 | 0.00 | 0.00 |
| Total Fund Balances | 26.79 | 2,590.35 | 2,617.14 |
| TOTAL LIABILITIES AND FUND BALANCES | \$26.79 | \$2,590.35 | \$2,617.14 |

The accompanying notes are an integral part of these financial statements.

TOWN OF HILLSDALE
GARFIELD COUNTY - OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - MODIFIED CASH BASIS -
GENERAL FUND TYPE GOVERNMENTAL FUNDS
JULY 01, 2010 TO JUNE 30, 2011

SCHEDULE C-1

| GENERAL FUND TYPE GOVERNMENTAL FUNDS | | | |
|--|-----------------|------------------------------|-------------------|
| | GENERAL FUND | PUBLIC WORKS AUTHORITY | TOTALS 2010-11 |
| REVENUE: | | | |
| Taxes | \$5,777.53 | \$0.00 | \$5,777.53 |
| Services Collections | 0.00 | 32,107.28 | 32,107.28 |
| Fines, Penalties & Permits | 0.00 | \$627.00 | 627.00 |
| Interest Earned | 5.78 | 94.49 | 100.27 |
| Royalties & Other | 0.00 | 0.00 | 0.00 |
| Intergovernmental | 0.00 | 0.00 | 0.00 |
| | | | |
| TOTAL | 5,783.31 | 32,828.77 | 38,612.08 |
| EXPENDITURES: | | | |
| Personal Service | 1,453.75 | 4,107.50 | 5,561.25 |
| Maintenance & Operation | 6,282.64 | 22,742.31 | 29,024.95 |
| Capital Projects | 0.00 | 0.00 | 0.00 |
| | | | |
| TOTAL | 7,736.39 | 26,849.81 | 34,586.20 |
| Excess of Revenues Over/ <Under> Expenditures | | | |
| | (1,953.08) | 5,978.96 | 4,025.88 |
| Operating Transfers | | | |
| | 0.00 | 100.00 | 100.00 |
| Bank Fees | | | |
| | (30.90) | 0.00 | (30.90) |
| Excess of Revenues Over/ <Under> All Uses | | | |
| | (1,983.98) | 6,078.96 | 4,094.98 |
| Balance at 7/01/10 | | | |
| | 5,651.89 | 52,298.98 | 57,950.87 |
| Balance at 6/30/11 | | | |
| | \$3,667.91 | \$58,377.94 | \$62,045.85 |

The accompanying notes are an integral part of these financial statements.

TOWN OF HILLSDALE
GARFIELD COUNTY - OKLAHOMA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE -
MODIFIED CASH BASIS - NON-MAJOR OTHER GOVERNMENTAL FUNDS
JULY 01, 2010 TO JUNE 30, 2011

SCHEDULE C-2

| | SPECIAL REVENUE FUNDS | PERMANENT FUND | |
|--|-----------------------------|------------------------------------|-------------------|
| | STREET AND ALLEY FUND | WATER AND SEWER DEPOSIT FUND | TOTALS 2010-11 |
| REVENUE: | | | |
| Taxes | \$903.72 | \$0.00 | \$903.72 |
| Services Collections | 0.00 | 0.00 | 0.00 |
| Interest Earned | 0.00 | 2.54 | 2.54 |
| Patron Deposits | 0.00 | 175.00 | 175.00 |
| Donations and Other | 100.00 | 0.00 | 100.00 |
| Intergovernmental | 0.00 | 0.00 | 0.00 |
| TOTAL | 1,003.72 | 177.54 | 1,181.26 |
| EXPENDITURES: | | | |
| Personal Service | 853.75 | 0.00 | 853.75 |
| Maintenance & Operation | 485.76 | 50.00 | 535.76 |
| Capital Projects | 0.00 | 0.00 | 0.00 |
| TOTAL | 1,339.51 | 50.00 | 1,389.51 |
| Excess of Revenues Over/ <Under> Expenditures | (335.79) | 127.54 | (208.25) |
| Operating Transfers | 0.00 | (100.00) | (100.00) |
| Excess of Revenues Over/ <Under> All Uses | (335.79) | 27.54 | (308.25) |
| Balance at 7/01/10 | 362.58 | 2,562.81 | 2,925.39 |
| Balance at 6/30/11 | \$26.79 | \$2,590.35 | \$2,617.14 |

The accompanying notes are an integral part of these financial statements.

TOWN OF HILLSDALE
GARFIELD COUNTY
CHANGES IN FUND BALANCE
GENERAL FUND
JULY 1, 2010 TO JUNE 30, 2011

SCHEDULE 1-00

| | FISCAL YEAR <u>2010-11</u> |
|---------------------------------------|-------------------------------|
| <u>Revenues</u> | |
| Taxes | \$5,777.53 |
| Interest Earned | 5.78 |
| Miscellaneous | 0.00 |
| Intergovernmental | 0.00 |
| Total | <u>5,783.31</u> |
| <u>Expenditures</u> | |
| Warrants/Checks Paid | 7,736.39 |
| Bank Charges | 30.90 |
| Total | <u>7,767.29</u> |
| Net Change | (1,983.98) |
| Operating Transfers | 0.00 |
| Beg Bal 07/01/10 | <u>5,651.89</u> |
| End Bal 06/30/11 | 3,667.91 |
| Less: Outstanding | <u>0.00</u> |
| Fund Balance Forward to FY 2011-12 | <u><u>\$3,667.91</u></u> |

TOWN OF HILLSDALE
GARFIELD COUNTY
CHANGES IN FUND BALANCE
PUBLIC WORKS AUTHORITY
JULY 1, 2010 TO JUNE 30, 2011

SCHEDULE 1-01

| | FISCAL YEAR <u>2010-11</u> | FISCAL YEAR <u>2009-10</u> | <u>INVESTMENT</u> | <u>Total</u> |
|---------------------------------------|-------------------------------|-------------------------------|--------------------|--------------------|
| <u>Revenues</u> | | | | |
| Service Collections | \$32,734.28 | \$0.00 | \$0.00 | \$32,734.28 |
| Interest Earned | 4.28 | | 90.21 | 94.49 |
| Miscellaneous | 0.00 | | | 0.00 |
| Intergovernmental | 0.00 | | | 0.00 |
| Total | <u>32,738.56</u> | <u>0.00</u> | <u>90.21</u> | <u>32,828.77</u> |
| <u>Expenditures</u> | | | | |
| Warrants/Checks Paid | 26,585.01 | 92.00 | 0.00 | 26,677.01 |
| Bank Charges | 0.00 | | | 0.00 |
| Total | <u>26,585.01</u> | <u>92.00</u> | <u>0.00</u> | <u>26,677.01</u> |
| Net Change | 6,153.55 | (92.00) | 90.21 | 6,151.76 |
| Inv Pur/<Liq> | (7,500.00) | 0.00 | 7,500.00 | 0.00 |
| Operating Transfers | 100.00 | | | 100.00 |
| Beg Bal 07/01/10 | <u>7,523.88</u> | <u>92.00</u> | <u>44,775.10</u> | <u>52,390.98</u> |
| End Bal 06/30/11 | 6,277.43 | 0.00 | 52,365.31 | 58,642.74 |
| Less: Outstanding | <u>264.80</u> | | | <u>264.80</u> |
| Fund Balance Forward to FY 2011-12 | <u>\$6,012.63</u> | <u>\$0.00</u> | <u>\$52,365.31</u> | <u>\$58,377.94</u> |

TOWN OF HILLSDALE
GARFIELD COUNTY
CHANGES IN FUND BALANCE
STREET & ALLEY FUND
JULY 1, 2010 TO JUNE 30, 2011

SCHEDULE 1-02

| | FISCAL YEAR <u>2010-11</u> |
|----------------------------|-------------------------------|
| <u>Revenues</u> | |
| Taxes | \$903.72 |
| Miscellaneous | 100.00 |
| Total | <u>1,003.72</u> |
| <u>Expenditures</u> | |
| Warrants/Checks Paid | 1,339.51 |
| Bank Charges | 0.00 |
| Ret Cks/Fees | 0.00 |
| Total | <u>1,339.51</u> |
| Net Change | (335.79) |
| Operating Transfers | 0.00 |
| Beg Bal 07/01/10 | <u>362.58</u> |
| End Bal 06/30/11 | <u><u>\$26.79</u></u> |

TOWN OF HILLSDALE
GARFIELD COUNTY
CHANGES IN FUND BALANCE
PUBLIC WORKS AUTHORITY
METER FUND
JULY 1, 2010 TO JUNE 30, 2011

SCHEDULE 1-03

| | FISCAL YEAR <u>2010-11</u> |
|----------------------------|-------------------------------|
| <u>Revenues</u> | |
| Meter Deposits | \$175.00 |
| Interest | 2.54 |
| | ----- |
| Total | 177.54 |
| | ----- |
| <u>Expenditures</u> | |
| Warrants/Checks Paid | 50.00 |
| Bank Charges | 0.00 |
| Ret Cks/Fees | 0.00 |
| | ----- |
| Total | 50.00 |
| | ----- |
| Net Change | 127.54 |
| Operating Transfers | (100.00) |
| Beg Bal 07/01/10 | 2,562.81 |
| | ----- |
| End Bal 06/30/11 | \$2,590.35 |
| | ===== |

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

The Honorable Mayor and Board of Trustees
Town of Hillsdale
Garfield County, Oklahoma

I have audited the accompanying financial statements, each major fund and aggregate remaining fund information of the Town of Hillsdale, Garfield County, Oklahoma, as of and for the year ended June 30, 2011, and have issued my report thereon dated November 4, 2011. The Town prepares its financial statements on a basis of accounting that demonstrates compliance with a modified cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. In my report, my opinion was adverse because the financial statements referred to above do not present the government-wide financial statements as required by accounting principles generally accepted in the United States of America. The Town has not presented the required supplemental information which includes the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of the basic financial statements. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Town's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Town's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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.

My consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify and deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that I consider to be significant deficiencies in internal control over financial reporting as item 11-03. A significant deficiency is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which are described in the accompanying Schedule of Findings as items 11-01 and 11-02.

I noted other matters that I reported to management of the Town of Hillsdale, Oklahoma, in the accompanying Schedule of Other Matters as items B-1 and B-2.

This report is intended solely for the information and use of the federal awarding agencies and pass-through entities, management, others within the organization, and the Town Board and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Chas. W. Carroll, P.A.

November 4, 2011

TOWN OF HILLSDALE
HILLSDALE PUBLIC WORKS AUTHORITY
GARFIELD COUNTY - OKLAHOMA
JULY 1, 2010 TO JUNE 30, 2011

DISPOSITION OF PRIOR YEAR FINDINGS
JUNE 30, 2011

10-01 Financial Statement Presentation

The Town had not presented government-wide financial statements to display the modified cash basis financial position and changes in modified cash basis financial position of its governmental activities in the prior year and did not present them in the current fiscal year.

10-02 Required Supplemental Information

The Town had 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 in the prior year, and did not provide the Discussion and Analysis in the current fiscal year.

10-03 Lack of Segregation of Duties

The finding that inherent limitations resulting from a small number of employees performing functions, which would normally be divided among a larger number of employees, prevented a proper segregation of accounting functions which is necessary in order to assure adequate internal accounting controls continued in the current fiscal year.

TOWN OF HILLSDALE
HILLSDALE PUBLIC WORKS AUTHORITY
GARFIELD COUNTY - OKLAHOMA
JULY 1, 2010 TO JUNE 30, 2011

SCHEDULE OF FINDINGS
JUNE 30, 2011

Section 1 - Findings related to the financial statements required to be reported in accordance with GAGAS.

11-01 Financial Statement Presentation

Management has not presented government-wide financial statements to display the modified cash basis financial position and changes in modified cash basis financial position of its governmental activities. Accounting principles generally accepted in the United States of America, as applied to the Town's modified cash basis of accounting, require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements resulting from modified cash basis transaction for the Town's governmental activities are not reasonably determinable.

11-02 Required Supplemental Information

The Town of Hillsdale, Oklahoma, 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.

11-03 Lack Of Segregation Of Duties

Criteria: Segregation of duties over asset custody, transaction authorization, bookkeeping and reconciliation is an important element of effective internal control over government assets and resources.

Condition: Due to its limited population, the Town employs one individual who is responsible for certain duties that are incompatible with the objectives of effective internal control.

Cause: The Town's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Effect: Without proper segregation of duties, the risk increases that errors, fraud or illegal acts could occur and not be detected within a timely basis. For example, employees with access to cash and access to the accounting records could misappropriate cash and conceal the misappropriation through improper accounting entries or adjustment.

Recommendation and Benefit: Efficient segregation of duties is difficult in a small environment; however, this segregation of duties is an important one to seriously consider. We recommend the Town assess the feasibility of segregating the cash collection duties from those of posting and adjusting customer accounts and posting to the accounting ledgers, to the extent reasonably possible. The Town may want to consider the use of volunteer assistance on a monthly basis for the reconciliation duties to segregate those activities from asset custody and bookkeeping. Such duties segregation will significantly reduce the risk of undetected errors, fraud or illegal acts.

TOWN OF HILLSDALE
HILLSDALE PUBLIC WORKS AUTHORITY
GARFIELD COUNTY - OKLAHOMA
JULY 1, 2010 TO JUNE 30, 2011

SCHEDULE OF OTHER MATTERS

Specific Administrative Controls

Internal Control

B-1 Purchasing Procedures

During my audit of the Town and Public Works Authority's purchasing procedures I found that some transactions tested had invoices attached to the purchase order dated prior to the purchase order date.

I recommend that prior to the ordering of material or supplies, that a request for purchase be made to the purchasing agent for authorization to obligate funds. This will in turn initiate the preparation of a fully documented purchase order.

A similar matter was noted in the previous years audit report.

B-2 Expenditure Approval By Town Board

My review of the Board of Trustees minutes for the 2010-11 fiscal year indicated that encumbrances are presented to and approved by the Board of Trustees, but purchase order numbers and total amounts are not approved by fund.

The Alternate System of Accounting prescribed by Oklahoma Statutes states that encumbrances must be submitted to the Board of Trustees in the order of their issuance on a monthly basis, subject to a monthly business cycle cut-off date determined by the Board of Trustees, by fund. Approved purchase orders and the total amount by fund shall be listed in the minutes by the Minute Clerk.

A similar matter was noted in the previous years audit report.

TOWN OF HILLSDALE
HILLSDALE PUBLIC WORKS AUTHORITY
GARFIELD COUNTY - OKLAHOMA
JULY 1, 2010 TO JUNE 30, 2011

SCHEDULE OF OTHER MATTERS - PRIOR YEAR

All other matters of the prior year have since been resolved unless they are presented in the current year Schedule of Other Matters followed by "A similar exception was presented in the previous years audit report".