

CITY OF HARTSHORNE, OKLAHOMA

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

Ralph Osborn
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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Members of the City Council
City of Hartshorne, Oklahoma

I have audited the accompanying modified cash basis financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Hartshorne, Oklahoma, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible 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 error or fraud.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis for Qualified Opinion on Fixed Assets

The City has adopted the modified cash basis of accounting with one of the modifications being to include capital assets, net of accumulated depreciation. I was unable to determine if capital assets reported were accurate. The City has not reported annual or accumulated depreciation for capital assets. The net effects of this omission, although not reasonably determined, are presumed to be material.

Opinion

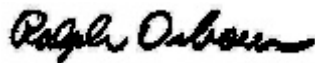
In my opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Fixed Assets" paragraph, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hartshorne, Oklahoma as of June 30, 2018, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note A.

Basis of Accounting

I draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinions are not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 7, 2019, on my consideration of City of Hartshorne's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Hartshorne, Oklahoma's internal control over financial reporting and compliance.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
January 7, 2019

CITY OF HARTSHORNE, OKLAHOMA
HARTSHORNE, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2018

	<u>Primary Government</u>		
	<u>Governmental</u>	<u>Business</u>	
	<u>Activities</u>	<u>Type</u>	<u>Total</u>
		<u>Activities</u>	
ASSETS			
Cash and cash equivalents	\$ 171,680	\$ 239,550	\$ 411,230
Internal balances	(24,500)	24,500	-
Restricted cash and cash equivalents	21	45,965	45,986
Restricted Investments	-	155,430	155,430
Capital assets:			
Other capital assets net of accumulated depreciation	<u>4,053,921</u>	<u>8,452,004</u>	<u>12,505,925</u>
Total assets	<u>4,201,122</u>	<u>8,917,449</u>	<u>13,118,571</u>
LIABILITIES:			
Deposit subject to refund	-	34,550	34,550
Long-term liabilities:			
Due within one year	-	54,334	54,334
Due in more than one year	<u>-</u>	<u>2,785,641</u>	<u>2,785,641</u>
Total liabilities	<u>-</u>	<u>2,874,525</u>	<u>2,874,525</u>
NET POSITION			
Invested in capital assets, net of related debt	4,053,921	5,612,029	9,665,950
Restricted for Debt service	-	122,905	122,905
Restricted	22,218	43,940	66,158
Unrestricted	<u>124,983</u>	<u>264,050</u>	<u>389,033</u>
Total net position	<u>\$4,201,122</u>	<u>\$6,042,924</u>	<u>\$10,244,046</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HARTSHORNE, OKLAHOMA
HARTSHORNE, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

FUNCTION/PROGRAMS	Expenses	Charges For Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		Total
				Primary Government Governmental Activities	Business-Type Activities	
Governmental Activities						
Administration	\$ 88,453	\$ -	\$ -	\$ (88,453)	\$ -	\$ (88,453)
Public safety	302,578	62,967	-	(239,611)	-	(239,611)
Community services	2,284	-	-	(2,284)	-	(2,284)
Health and welfare	45,180	10,595	3,744	(30,841)	-	(30,841)
Highways and roads	128,747	-	-	(128,747)	-	(128,747)
Culture and recreation	18,152	-	-	(18,152)	-	(18,152)
General government	463,097	-	-	(463,097)	-	(463,097)
Total Governmental Activities	<u>1,048,491</u>	<u>73,562</u>	<u>3,744</u>	<u>(971,185)</u>	<u>-</u>	<u>(971,185)</u>
Business-type Activities						
Utilities	1,197,288	1,306,189	-	-	108,901	108,901
Total Business-Type Activities	<u>1,197,288</u>	<u>1,306,189</u>	<u>-</u>	<u>-</u>	<u>108,901</u>	<u>108,901</u>
Total Primary Government	<u>\$2,245,779</u>	<u>\$1,379,751</u>	<u>\$ 3,744</u>	<u>\$ (971,185)</u>	<u>\$ 108,901</u>	<u>\$ (862,284)</u>
General Revenues						
Taxes:						
Sales/use taxes				605,307	-	605,307
Franchise taxes				9,400	-	9,400
Cigarette taxes				6,713	-	6,713
Alcohol beverage taxes				22,807	-	22,807
Vehicle registration				7,065	-	7,065
Gas tax				2,240	-	2,240
Cemetery lot sales				11,518	-	11,518
Investment income				193	751	944
Miscellaneous				278,051	-	278,051
Total General Revenue and Transfers				<u>943,294</u>	<u>751</u>	<u>944,045</u>
Change in Net Position				(27,891)	109,652	81,761
Net Position - Beginning				<u>4,229,013</u>	<u>5,933,272</u>	<u>10,162,285</u>
Net Position - Ending				<u>\$ 4,201,122</u>	<u>\$ 6,042,924</u>	<u>\$10,244,046</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HARTSHORNE, OKLAHOMA
HARTSHORNE, OKLAHOMA
BALANCE SHEET - GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
JUNE 30, 2018

	General Fund	Street & Alley	Ambulance Fund	Other Governmental Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 88,839	\$ 22,218	\$ 30,633	\$ 29,990	\$ 171,680
Investments	-	-	-	-	-
Due from other funds	-	-	112,963	-	112,963
Restricted assets:					
Police bond	21	-	-	-	21
TOTAL ASSETS	<u>\$ 88,860</u>	<u>\$ 22,218</u>	<u>\$ 143,596</u>	<u>\$ 29,990</u>	<u>\$ 284,664</u>
LIABILITIES AND FUND BALANCES:					
LIABILITIES:					
Due to other funds	\$ 134,963	\$ -	\$ 2,500	\$ -	\$ 137,463
TOTAL LIABILITIES	<u>134,963</u>	<u>-</u>	<u>2,500</u>	<u>-</u>	<u>137,463</u>
FUND BALANCES:					
Restricted	-	22,218	-	-	22,218
Unrestricted	(46,103)	-	141,096	29,990	124,983
TOTAL FUND BALANCES	<u>(46,103)</u>	<u>22,218</u>	<u>141,096</u>	<u>29,990</u>	<u>147,201</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 88,860</u>	<u>\$ 22,218</u>	<u>\$ 143,596</u>	<u>\$ 29,990</u>	

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

Capital assets used in governmental activities are not financial
resources and, therefore, are not reported in the funds, net of
accumulated depreciation

4,053,921

Net position of governmental activities

\$ 4,201,122

The accompanying notes are an integral part of this financial statement.

CITY OF HARTSHORNE, OKLAHOMA
HARTSHORNE, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	Street & Alley	Ambulance Fund	Other Governmental Fund	Total Governmental Funds
Revenues:					
Taxes:					
Sales tax	\$ 372,088	\$ -	\$ 186,044	\$ -	\$ 558,132
Use tax	47,175	-	-	-	47,175
Tobacco tax	6,713	-	-	-	6,713
Franchise tax	9,400	-	-	-	9,400
Intergovernmental:					
Alcoholic beverage tax	22,807	-	-	-	22,807
Gas tax	-	2,240	-	-	2,240
Motor vehicle tax	-	7,065	-	-	7,065
Grants	-	-	-	3,744	3,744
Sale of lots	11,518	-	-	-	11,518
Fines and court fees	62,967	-	-	-	62,967
Charges for services	-	-	10,595	-	10,595
Investment income	97	27	62	7	193
Miscellaneous	275,473	-	-	2,578	278,051
Total revenues	<u>808,238</u>	<u>9,332</u>	<u>196,701</u>	<u>6,329</u>	<u>1,020,600</u>
Expenditures:					
Administration	88,453	-	-	-	88,453
Public safety	145,240	-	153,948	3,390	302,578
Community service	2,284	-	-	-	2,284
Health and welfare	45,160	-	-	20	45,180
Highways and roads	124,358	4,389	-	-	128,747
Culture and recreation	18,152	-	-	-	18,152
General government	463,097	-	-	-	463,097
Total expenditures	<u>886,744</u>	<u>4,389</u>	<u>153,948</u>	<u>3,410</u>	<u>1,048,491</u>
Net change in fund balance	(78,506)	4,943	42,753	2,919	(27,891)
Fund balances, beginning	<u>32,403</u>	<u>17,275</u>	<u>98,343</u>	<u>27,071</u>	<u>175,092</u>
Fund balances, ending	<u>\$ (46,103)</u>	<u>\$ 22,218</u>	<u>\$ 141,096</u>	<u>\$ 29,990</u>	<u>\$ 147,201</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HARTSHORNE, OKLAHOMA
HARTSHORNE, OKLAHOMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

Net change in fund balances - total governmental funds	\$ (27,891)
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Amount reported for governmental activities in the
Statement of Activities are different because:

Governmental funds report capital outlays as
expenditures while governmental activities report
depreciation expense to allocate those expenditures
over the life of the assets:

Capital asset purchases capitalized	-
Depreciation expense	-
	-

Debt proceeds provide current financial resources to
to governmental funds, but issuing debt increases long-
term liabilities in the State of Net Assets. Repayment
Of debt principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities
in the State of Net Assets:

Capital lease obligation principal payments	-
Other obligations	-
	-

Change in net assets of governmental activities	<u>\$ (27,891)</u>
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CITY OF HARTSHORNE, OKLAHOMA
HARTSHORNE, OKLAHOMA
STATEMENT OF FUND NET POSITION - PROPRIETARY FUND
MODIFIED CASH BASIS
JUNE 30, 2018

	Hartshorne Public Works Authority
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 239,550
Restricted cash and cash equivalents	45,965
Restricted Investments	155,430
Due from other funds	24,500
Total current assets	<u>465,445</u>
Non-current assets:	
Land and construction in progress	6,130,814
Capital assets, net of depreciation	2,321,190
Total non-current assets	<u>8,452,004</u>
Total assets	<u>8,917,449</u>
LIABILITIES:	
Current liabilities:	
Due to depositors	34,550
Notes payable - current portion	54,334
Total current liabilities	<u>88,884</u>
Non-current liabilities:	
Note payable - RD 92-01	1,941,881
Note payable - RD 92-03	898,094
Less: Non-current portion	(54,334)
Total non-current liabilities	<u>2,785,641</u>
Total liabilities	<u>2,874,525</u>
Invested in capital assets, net of related debt	5,612,029
Restricted for Meter Deposit	43,940
Restricted for Debt service	122,905
Unrestricted	264,050
Total net position	<u>\$ 6,042,924</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HARTSHORNE, OKLAHOMA
HARTSHORNE, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Hartshorne Public Works Authority
OPERATING REVENUES:	
Water	\$ 661,603
Sewer	274,977
Sanitation	340,162
Penalties	12,752
Other	<u>16,695</u>
Total operating revenues	<u>1,306,189</u>
OPERATING EXPENSES:	
Wages	132,927
Payroll taxes	11,625
Employee benefits	29,494
Equipment	13,500
Fuel	5,675
Testing & licenses	11,923
Insurance	34,762
Maintenance & supplies	170,461
Sanitation	278,974
Office	10,939
Telephone	6,620
Professional Fees	7,698
Water Purchases	357,599
Utilities	<u>23,974</u>
Total operating expenses	<u>1,096,171</u>
Operating income (loss)	<u>210,018</u>
NON-OPERATING REVENUE (EXPENSES):	
Interest income	751
Interest expense	<u>(101,117)</u>
Total non-operating revenue (expenses)	<u>(100,366)</u>
Change in net position of business type activities	109,652
Total net position, beginning	<u>5,933,272</u>
Total net position, ending	<u><u>\$ 6,042,924</u></u>

The accompanying notes are an integral part of this financial statement.

CITY OF HARTSHORNE, OKLAHOMA
HARTSHORNE, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Hartshorne Public Works Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,311,191
Payments to suppliers	(922,125)
Payments to employees	(174,046)
Net Cash Provided by Operating Activities	<u>215,020</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Change in restricted cash	(16,593)
Principal paid on capital debt	(52,496)
Interest paid on capital debt	(101,117)
Net Cash Used by Capital and Related Financing Activities	<u>(170,206)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	751
Net Cash Provided by Investing Activities	<u>751</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	45,565
Cash and Cash Equivalents, Beginning	<u>193,985</u>
Cash and Cash Equivalents, Ending	<u>\$ 239,550</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income (loss)	\$ 210,018
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	-
Changes in assets and liabilities:	
Increase/(decrease) in due to depositors	<u>5,002</u>
Net Cash Provided by Operating Activities	<u>\$ 215,020</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HARTSHORNE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity

The City of Hartshorne, Oklahoma, is a municipal corporation incorporated under the laws of the State of Oklahoma. In evaluating how to define the City of Hartshorne, for the financial reporting purposes, management has considered all potential component units. The financial statements of the have been prepared in conformity with the modified cash basis. The basic but not the only criterion for including a potential component unit within the reporting entity, is the governing body's ability to exercise oversight responsibility. The most significant manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other 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 City is able to exercise oversight responsibilities. The Hartshorne Public Works Authority is considered a component unit of the City of Hartshorne and it has been included in the financial statements. The Authority provides water, sewer and sanitation services as authorized by its charter.

The financial statements of the City of Hartshorne have been prepared in conformity with the modified cash basis. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting boy for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

The accounting policies of the City conform to modified cash basis. The Proprietary fund applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (GASB) pronouncements, in which case, GASB prevails.

Government-Wide Financial Statements

The government-wide financial statements include the statement o net position and statement of activities. These statements report financial information for the City as a whole excluding fiduciary activities such as employee pension plans. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A functional program is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include:

- Public safety - police fines and forfeitures
- Operating grants and contributions which finance annual operating activities including restricted investment income
- Capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these programs uses.

These revenues are subject to externally imposed restrictions to these programs uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements of the City are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item B below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- A. All government funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- B. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current, financial, or non-financial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental and business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements of proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Basis of Accounting

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Fund Types and Major Funds

The City reports the following major governmental funds:

General Fund - The general fund reports as the primary fund of the City. This fund is used to account for all financial resources not reported in other funds.

Street and Alley Fund - this fund accounts for revenue and expenses related to street maintenance.

Ambulance Fund - This fund accounts for the revenues and expenses related to the maintenance and operation of an ambulance service for the City.

Proprietary Funds - The City reports the following major enterprise funds:

Hartshorne Public Works Authority - The Authority provides certain utility services for the City.

Budgetary Accounting and Control

The City adopts an annual budget for all funds established by the governing body as required by O.S. 11 Section 17.207 through 17.210. The state statutes also require that the budget be adopted by resolution or per the City charter at the legal level of classification (fund, department, and object category) and that the budget be filed with County Clerk and the State Auditor and Inspector. The City may transfer budgeted amounts within and among departments. The budget is prepared on a cash basis.

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Investments

The City follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The City considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year end are cancelled under the modified cash basis. The encumbrance is added to the subsequent year expenses when paid.

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary funds and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis. The City has not maintained inventory records, however, the value of inventory on hand at June 30, 2018 is not believed to be material.

Prepaids recording payments to vendors that benefit future reporting periods are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported and comprehensively reported in the government-wide financial statements. The City maintains infrastructure assets records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets with a cost of \$2,500 or more as purchase and construction outlays occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Water and Sewer Projects	40 years
Computer and Printers	5 years

Compensated Absences

The City of Hartshorne has no written policies concerning vacation and sick leave.

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - CASH AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the City will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the City, and are held by counterparty or the counterparty's trust department but not in the name of the City. The City's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2018, the City's deposits and investments were covered by federal deposit insurance up to \$250,000; however, deposits over that amount were not insured or collateralized and were at risk.

Deposits

The City had deposits at financial institutions with a carrying amount of approximately \$612,646 at June 30, 2018. The bank balance of the deposits at June 30, 2018 was approximately \$664,444.

Credit Risk

Fixed-income securities are subject to credit risk. However, the City did not have fixed income securities at June 30, 2018.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City Council monitors the investment performance on an ongoing basis to limit the City's interest rate risk. As of June 30, 2018, the City's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE 3 - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at June 30, 2018 are as follows:.

<u>Amount</u>	<u>Due To Other Funds</u>	<u>Due From Other Funds</u>
\$112,963	Ambulance Fund	General Fund
10,000	Public Works	General Fund
2,500	Public Works	Ambulance Fund
12,000	Public Works	Police Bond Fund
<u>\$137,463</u>		

CITY OF HARTSHORNE, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 4 - RESTRICTED ASSETS

The Loan Resolution Security Agreements with the USDA Rural Development requires a reserve fund to be funded at 10% of the monthly installment until the balance is equal to the annual installment amount (\$12,801 X 12 = \$153,612). At June 30, 2018, the total balance in the debt service reserve accounts at First National Bank, Hartshorne was \$122,905.

Debt Service Reserve Account	\$122,905
Required Reserve	<u>(153,612)</u>
Excess/(Short)	<u>\$ (30,707)</u>

The Authority also has restricted cash assets for customer deposits in the amount of \$78,513.

NOTE 5- CAPITAL ASSETS

The following table provides a summary of changes in capital assets:

	<u>July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>June 30, 2018</u>
PRIMARY GOVERNMENT				
Governmental activities				
Capital assets				
General Fund	\$ 1,185,252	\$ -	\$ -	\$ 1,185,252
Cemetery	32,645	-	-	32,645
Street & Alley	31,355	-	-	31,355
Library	403,918	-	-	403,918
Spec Building	1,477,353	-	-	1,477,353
Nutrition	201,671	-	-	201,671
Volunteer Fire	340,561	-	-	340,561
Utilities	89,624	-	-	89,624
Ambulance	232,238	-	-	232,238
Emergency	47,924	-	-	47,924
Park	11,380	-	-	11,380
Total capital assets	<u>4,053,921</u>	<u>-</u>	<u>-</u>	<u>4,053,921</u>
Less: Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Governmental activities				
Capital Assets, Net	<u>\$ 4,053,921</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,053,921</u>
Business-type activities				
Capital assets				
Public Works Authority	\$ 2,321,190	\$ -	\$ -	\$ 2,321,190
Construction in Progress	6,130,814	-	-	6,130,814
Total capital assets	<u>8,452,004</u>	<u>-</u>	<u>-</u>	<u>8,452,004</u>
Less: Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 8,452,004</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,452,004</u>
PRIMARY GOVERNMENT				
Capital Assets, Net	<u>\$12,505,925</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$12,505,925</u>

The City, along with KEDDO (Kiamichi Economic Development District), has prepared a Capital Improvement Plan which lists all of the City's capital assets at replacement cost. This list does not show original cost or prior year depreciation.

CITY OF HARTSHORNE
HARTSHORNE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 6 - NOTES PAYABLE - PROPRIETARY FUND

Hartshorne Public Works Authority has two promissory notes with the United States Department of agriculture - Rural Development. These notes are for the purpose of providing loan funds for a portion of the cost o a sewer system improvement project.

During the fiscal year ending June 30, 2010, the Authority entered into a loan agreement with the United States Department of Agriculture Rural Development in the amount of \$2,223,000 with a fixed interest rate of 4.00% and 480 monthly payments of \$9,293. The balance of this note at June 30, 2018 was \$1,941,881.

During the fiscal year ending June 30, 2010, the Authority entered into a loan agreement with the United States Department of Agriculture Rural Development in the amount of \$1,063,000 with a fixed interest rate of 2.50% and 480 monthly payments of \$3,508. The balance o this note at June 30, 2018 was \$898,094.

The following is a summary of changes in long-term debt of the proprietary fund for the year ended June 30, 2018:

Description	Payable at July 1, 2017	Additions	Retirements	Balance at June 30, 2018
U.S. Dept of Agriculture:				
Rural Development 92-01	\$ 1,974,997	\$ -	\$ (33,116)	\$ 1,941,881
Rural Development 92-03	917,473	-	(19,379)	898,094
	<u>\$ 2,892,470</u>	<u>\$ -</u>	<u>\$ (52,495)</u>	<u>\$ 2,839,975</u>

Year ending June 30	Principal	Interest	Principal	Interest	Total
2019	\$ 34,465	\$ 77,051	\$ 19,869	\$ 22,227	\$ 153,612
2020	35,869	75,647	20,372	21,724	153,612
2021	37,330	74,186	20,887	21,209	153,612
2022	38,851	72,665	21,415	20,681	153,612
2023	40,434	71,082	21,957	20,139	153,612
2024-2028	228,263	329,317	118,399	92,081	768,060
2029-2033	278,708	278,872	134,147	76,333	768,060
2034-2038	340,301	217,279	151,988	58,492	768,060
2039-2043	415,507	142,073	172,203	38,277	768,060
2044-2048	492,153	50,269	195,106	15,374	752,902
2049-2052	-	-	21,751	166	21,917
Total	<u>\$1,941,881</u>	<u>\$ 1,388,441</u>	<u>\$ 898,094</u>	<u>\$ 386,703</u>	<u>\$ 4,615,119</u>

NOTE 7- COMPENSATED ABSENCES

The City does not report accrued expenses under the modified cash basis of accounting.

CITY OF HARTSHORNE
HARTSHORNE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8- PENSION OBLIGATIONS

City of Hartshorne participates in a statewide, cost-sharing multiple-employer defined benefit plan on behalf of volunteer firefighters. The system is administered by an agency of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

	<u>Oklahoma Firefighter's Pension and Retirement System</u>
Eligibility to Participate	All full-time or voluntary Firefighters of a Participating Municipality hired before age 45
Authority establishing contribution obligations and benefit provisions	State Statute
Plan members' contribution rate	8% of covered payroll
City's contribution rate	13% of covered payroll/\$60 per volunteer
Period required to vest	10 years
Benefits and eligibility for distribution full time)	20 years credited service, 2 ½% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; If vested, at or after age 50, or After 10 but before 20 years of credited service with reduced benefits
Benefits and eligibility for distribution (Volunteer)	20 years credited service equal to \$5.46 per month per year of service with a maximum of 30 years considered
Deferred retirement option	Yes, 20 years credited service with Continued service for 30 or more years
Provisions for:	
Cost of living adjustments (normal retirement)	Yes, if vested by 5/83
Death (duty, non-duty, post-retirement)	Yes
Disability	Yes
Cost of living allowances	Yes

The City is required to contribute \$60 per year per volunteer firefighter. For those years in which the City General Fund revenue falls below a statutory amount, the City is not required to make a contribution.

Contributions required by State Statute:

<u>Fiscal</u> <u>Year</u>	<u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2018	\$ 1,020	100%
2017	\$ 1,080	100%
2016	\$ 1,080	100%

Trend information showing the progress of the system in accumulating sufficient assets to pay benefits when due is presented in the annual financial reports of the plan. Copies of the report may be obtained from the State Retirement System.

Volunteer firefighters receive a monthly pension based on their years of service. The volunteer may receive death or spousal benefits if certain conditions are met.

CITY OF HARTSHORNE
HARTSHORNE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

Oklahoma Municipal Retirement Fund

The City allows employees to participate in Oklahoma Municipal Retirement Fund, a defined contribution plan. The plan is funded by contributions from participants and employers. The following is a summary of eligibility factor, contribution methods, and benefit provision:

	<u>Oklahoma Municipal Retirement Fund</u>	
Eligibility to Participate	Once a six month probationary period is met, all regular full-time employees, and the City Clerk and Treasurer, except any person covered under another system	
Employer contributions	Match 100% of pay of the total mandatory. Plan forfeitures reduce the employer contributions	
Employee contributions	Up to 5% of mandatory after-tax contributions are eligible for employer match. Voluntary after-tax contributions are also allowed	
Service		
Credited Service	The last period of continuous employment with the employer	
Vesting	Credited service plus transferred service from other OMRF employers	
Normal Retirement Age	Age 65 with 5 or more years of vesting service	
Investment Options	Employees direct how their money is invested. A list of investment choices is available at okmrforg.voya.com or your personnel department	
Payment Options		
Before vesting	Return of employee contribution account balances (if any)	
After vesting	Benefit payment option include the distribution of Both the employee and the employer contribution account Balance and can be paid in any form designated by the participant, including: equivalent optional forms: - Full or partial lump sum - Monthly payments - Rollover to another qualified plan	
Vesting	<u>Years of Service</u>	<u>Vesting Percentage</u>
	Less than 3	0%
	3 but less than 4	20%
	4 but less than 5	40%
	4 but less than 5	60%
	4 but less than 5	80%
	7 or more	100%

100% vested also upon becoming disabled, death, or turning age 68.

Annual reports may be obtained from Oklahoma Municipal Retirement System, 525 Central Park Dr., Oklahoma City, OK 73105.

CITY OF HARTSHORNE
HARTSHORNE, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 9 - PROPRIETARY FUND WORKING CAPITAL

The net working capital of the enterprise fund (current assets less current liabilities) was \$376,561 at June 30, 2018.

NOTE 10 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The City retained legal counsel to defend it in any legal action.

NOTE 11 - FEDERAL STATE GRANTS

In the normal course of operations, the City receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE 12 - STATE AUDITOR AND INSPECTOR CITIZEN'S PETITION SPECIAL AUDIT

The City underwent a special audit by the Oklahoma State Auditor and Inspector which covered the dates of July 1, 2015 through August 31, 2016. The objectives of the audit included a review of possible irregularities in utility billing, court activity, credit card expenditures, and payroll, and possible violations of the Open Meeting and Open Records Act. The Citizens' Petition Audit report, issued on October 19, 2017, concluded that misappropriations of funds and other possible violations did occur during that the special audit period. Any claims or legal matters resulting from these findings have not been resolved as of January 7, 2019.

NOTE 12- SUBSEQUENT EVENTS

The City has evaluated subsequent events and contingencies through January 7, 2019, the date which financial statements were available. The City underwent a special audit by the Oklahoma State Auditor and Inspector which covered the dates of July 1, 2015 through August 31, 2016. The objectives of the audit included a review of possible irregularities in utility billing, court activity, credit card expenditures, and payroll, and possible violations of the Open Meeting and Open Records Act. The Citizens' Petition Audit report, issued on October 19, 2017, concluded that misappropriations of funds and other possible violations did occur during that the special audit period. Any claims or legal matters resulting from these findings have not been resolved as of January 7, 2019.

CITY OF HARTSHORNE, OKLAHOMA
HARTSHORNE, OKLAHOMA
COMBINING BALANCE SHEET - MODIFIED CASH
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Cemetery Fund	Volunteer Fire Dept	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 25,400	\$ 4,590	\$ 29,990
Investments	-	-	-
Receivables:			
Due from other funds	-	-	-
Other receivables	-	-	-
TOTAL ASSETS	<u>\$ 25,400</u>	<u>\$ 4,590</u>	<u>\$ 29,990</u>
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable	\$ -	\$ -	\$ -
Due to other funds	-	-	-
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:			
Reserved for:			
Unreserved, reported in:			
Special revenue funds	<u>25,400</u>	<u>4,590</u>	<u>29,990</u>
TOTAL FUND BALANCES	<u>25,400</u>	<u>4,590</u>	<u>29,990</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 25,400</u>	<u>\$ 4,590</u>	<u>\$ 29,990</u>

The accompanying notes are an integral part of this financial statement.

CITY OF HARTSHORNE, OKLAHOMA
HARTSHORNE, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Cemetery Fund	Volunteer Fire Dept	Total Nonmajor Governmental Funds
Revenues:			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	-	3,744	3,744
Investment income	-	7	7
Miscellaneous	2,202	376	2,578
TOTAL REVENUES	<u>\$ 2,202</u>	<u>\$ 4,127</u>	<u>\$ 6,329</u>
EXPENDITURES:			
Administration	\$ -	\$ -	\$ -
Public Safety	-	3,390	3,390
Community service	-	-	-
Health and welfare	20	-	20
Administrative services	-	-	-
Capital outlay	-	-	-
TOTAL LIABILITIES	<u>20</u>	<u>3,390</u>	<u>3,410</u>
Net change in fund balances	2,182	737	2,919
Fund balances - beginning	<u>23,218</u>	<u>3,853</u>	<u>27,071</u>
Fund balances - ending	<u>\$ 25,400</u>	<u>\$ 4,590</u>	<u>\$ 29,990</u>

The accompanying notes are an integral part of this financial statement.

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 Members of the Board of Trustees
City of Hartshorne
Hartshorne, Oklahoma

I have audited, in accordance with the 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 City of Hartshorne, Oklahoma, modified cash basis, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City of Hartshorne's basic financial statements and have issued my report thereon dated January 7, 2019.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered City of Hartshorne, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Hartshorne, Oklahoma's internal control. Accordingly, I do not express an opinion of the effectiveness of City of Hartshorne, Oklahoma's internal control.

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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Accordingly, we do not express an opinion on the effectiveness of City of Hartshorne, Oklahoma's internal control.

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 2018-4, 2018-5, and 2018-6 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-2, 2018-3, and 2018-7 to be significant deficiencies.

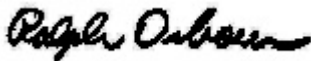
Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Hartshorne, Oklahoma'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* which are described in the accompanying schedule of findings and questioned costs as items 2018-1, 2018-5, and 2018-7.

Purpose of the 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
January 7, 2019

CITY OF HARTSHORNE, OKLAHOMA
HARTSHORNE, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

2018-1 Ordinance Publications

Statement of Condition- The City passed several ordinances that were not properly published in full.

Criteria - Oklahoma Statutes state that, "No ordinance having any subject other than the appropriation of monies shall be in force unless published or posted within fifteen (15) days after its passage. Every municipal ordinance shall be published at least once in full, except as provided for in Section 14-107 of this title. When publishing the ordinance, the publisher or managing officer of the newspaper shall prefix to the ordinance a line in brackets stating the date of publication as 'Published', giving the month, day, and year of publication." (11 O.S. §14-106)

Cause/Effect of Condition - The public may not have been properly notified of a new ordinance before it was made effective.

Recommendation - The District should comply with state statutes on the publication of ordinances.

2018-2 Capitalization and Depreciation

Statement of Condition - The City does not have a capitalization and depreciation policy. The City does not report depreciation expense or accumulated depreciation.

Criteria - The City has adopted the modified cash basis of accounting with one of the modifications being to include capital assets, net of accumulated depreciation.

Cause/Effect of Condition - The City may be over or under reporting assets due to assets that have been retired may not be removed from the total and assets that have been purchased may not have been added to the capital asset schedule. The City may be over reporting assets and under reporting expenses due to not accounting for accumulated depreciation and annual depreciation expense.

Recommendation - The City should adopt a capitalization and depreciation policy. The City should work with their outside consultant and management to adjust their capital asset and depreciation schedules and the respective financial statement accounts for any changes in capital assets and for accumulated depreciation.

CITY OF HARTSHORNE, OKLAHOMA
HARTSHORNE, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

2018-3 Inventory of fixed assets

Statement of Condition - The City does not have an updated list of capital assets in order to determine if assets may be missing.

Criteria - The City is responsible for safeguarding public assets, including capital assets.

Cause/Effect of Condition - The City could be missing assets that it isn't aware it should have in inventory.

Recommendation - The City should take an inventory of all capital assets and develop an internal control system to update and refer to the inventory periodically in order to recognize when assets are missing.

2018-4 Utility collections

Statement of Condition - The Authority did not consistently shut off services to customers who did not submit timely payment.

Criteria - The Authority is a business-type entity who provides a service for payment.

Cause/Effect of Condition - If payment is not made on customer accounts, the Authority could face a cash shortfall. Allowing customer accounts to accumulate could also cause the account to be too expensive to pay in full.

Recommendation - The Authority should adopt and follow payment arrangement and shut off policies for all customers.

2018-5 Purchase orders

Statement of Condition - The City did not use a sufficient purchase order system of controls.

Criteria - State Statutes require that, unless otherwise provided by ordinance, purchase orders are to be obtained and submitted to the encumbering officer prior to the time the commitment (to expend funds) is made. (62 O.S. §310)

Cause/Effect of Condition - Purchase orders are part of internal control used to document certification that appropriations are available for the expenditure prior to purchase and approval of the expenditure by all required parties.

Recommendation - The City should develop and utilize a sufficient purchase order system of controls.

CITY OF HARTSHORNE, OKLAHOMA
HARTSHORNE, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

2018-6 Deficit Fund Balance

Statement of Condition - The City reported a deficit fund balance in the General Fund at June 30, 2018.

Criteria - The City is required to maintain a positive carryover in each fund.

Cause/Effect of Condition - The assets of the general fund may not be sufficient to cover future liabilities.

Recommendation - General fund liabilities include amounts due to other funds. The City should review amounts included in this liability account and determine if the general fund should be responsible for repayment of these amounts or if the liability could be forgiven by the respective fund to which the liability is owed.

2018-7 Deposit Risk

Statement of Condition - The City maintained more than the FDIC coverage limit in deposit accounts at one bank during part of the fiscal year without requiring the bank to pledge collateral or additional insurance toward the funds.

Criteria - The City's deposits can not exceed the federal insurance limit in on depository bank unless secured by acceptable collateral. (62 O.S.§511-516)

Cause/Effect of Condition - City funds on deposit at the depository bank were at risk for loss if the depository bank fails.

Recommendation - The City should adopt and follow a policy for monitoring bank balances and either require that the bank pledge collateral on deposits over the FDIC limit or split funds between more than one FDIC insured bank.