

**CITY OF HARRAH, OKLAHOMA**  
**ANNUAL FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2013**

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**INDEPENDENT AUDITOR'S  
REPORT**

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**INDEPENDENT AUDITOR'S REPORT**

City Council  
City of Harrah  
Harrah, Oklahoma

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harrah, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Harrah, Oklahoma, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harrah's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information as listed in the Table of Contents are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures., including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information section is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2013 on our consideration of the City of Harrah's internal control over financial reporting and on our 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 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 Harrah's internal control over financial reporting and compliance.

***Dillon & Associates, P.C.***

Midwest City, Oklahoma  
September 1, 2013

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## CITY OF HARRAH, OKLAHOMA

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the Fiscal Year Ended June 30, 2013

As management of the City of Harrah (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013.

#### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$10,237,972. Of this amount, \$1,228,203 may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's net position increased by \$316,134 from the prior year restated amount.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,599,336, an increase of \$112,488 in comparison with the prior year amount. Of this total amount, \$737,893 is *unassigned fund balance* for governmental funds.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$737,893, or approximately 50% of total General Fund expenditures.
- During the current fiscal year, the City's total long-term obligations increased by \$462,408 (10%). The debt was increased by the issuance of capital leases in the amount of \$810,286, reduced by principle payments of \$347,878, and a net increase in compensated absences payable of \$65,444.
- Sales and use taxes increased by \$158,283 or 8.3% over the prior fiscal year.
- The City implemented Governmental Accounting Standards Board Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*" (GASB #63) for the current fiscal year ended June 30, 2013. GASB No. 63 establishes financial reporting requirements and related disclosures for certain elements of a statement of financial position that were discussed in the GASB's 2007 Concepts Statement No. 4, "*Elements of Financial Statements.*" In Concepts Statement No. 4, the GASB defined a *deferred outflow of resources* as a consumption of net position by a government that is applicable to a future reporting period; a *deferred inflow of resources* as an acquisition of net position by a government that is applicable to a future reporting period; and *net position* as a residual of all other elements presented in a statement of financial position (the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources). Under GASB #63, amounts for items that GASB has designated to be deferred outflows of resources are to be presented in a statement of financial position in a separate section following assets, while amounts for items that the GASB has designated to be deferred inflows of resources are to be presented in a separate section following liabilities. The residual of assets and deferred outflows of resources over liabilities and deferred inflows of resources is to be reported as net

position rather than as net assets in a statement of financial position. Since the City had no deferred outflows or inflows of resources at June 30, 2013, the City's implementation of GASB #63 has no material effect on the presentation of its fiscal year 2012-2013 financial statements.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad view of the City of Harrah's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's residual of assets and deferred outflows of resources over liabilities and deferred inflows of resources. Over time, increases or decreases in *net position* may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The business-type activities of the City, which include the City's water, wastewater, sanitation utility operations, are included in the Harrah Public Works Authority.

The government-wide financial statements include not only the City itself, but also the legally separate Harrah Public Works Authority as blended component unit. The Authority, although also legally separate, functions for all practical purposes as departments of the City, and therefore have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 13-15 of this report.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund.

The City adopts an annual appropriated budget for its general and other governmental funds. Budgetary comparison statements have been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found as listed in the table of contents.

**Proprietary funds.** The City maintains three types of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its public works authority.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its risk management and insurance activities. These services have been allocated to governmental and business-type functions in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Harrah Public Works Authority which is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found as listed in the table of contents.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found as listed in the table of contents.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's (a) variances in budget to actual revenues and expenditures for the General Fund. Required supplementary information can be found as listed in table of contents.

The combining statements referred to earlier in connection with non-major governmental funds is presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found as listed in the table of contents.

### Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$10,237,972 at the close of the most recent fiscal year. The following table provides a summary of the City's net position at June 30, 2013 compared to June 30, 2012.

Table 1  
Net Position  
(In Thousands)

	Governmental		Business-type		Total	
	Activities		Activities		Primary Government	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 2,063	1,494	1,001	747	3,064	2,241
Capital assets	2,773	2,350	10,120	10,010	12,893	12,360
Total assets	<u>4,836</u>	<u>3,844</u>	<u>11,121</u>	<u>10,757</u>	<u>15,957</u>	<u>14,601</u>
Long-term debt outstanding	398	178	4,682	4,441	5,080	4,619
Other liabilities	94	39	94	79	188	118
Total liabilities	<u>492</u>	<u>217</u>	<u>4,776</u>	<u>4,520</u>	<u>5,268</u>	<u>4,737</u>
Net assets:						
Invested in capital assets, net of debt	2,172	2,172	5,676	5,569	7,848	7,741
Restricted	861	978	300	274	1,161	1,252
Unrestricted	861	477	368	394	1,229	871
Total net assets	<u>\$ 3,894</u>	<u>3,627</u>	<u>6,344</u>	<u>6,237</u>	<u>10,238</u>	<u>9,864</u>

By far the largest portion of the City's Net Position (76.6%) reflects its investment in capital assets (e.g., land, buildings, improvements, vehicles, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (11.3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* (12.1%) may be used to meet the government's ongoing obligations to citizens and creditors.

During the current fiscal year the City's net position increased by \$316,134 during the current fiscal year. This increase represents the overall excess of revenues over expenses, including depreciation of \$832,004.

**Governmental activities.** Governmental activities increased the City's net position by \$208,562. The key element was an increase in sales tax revenues.

**Business-type activities.** Business-type activities increased the City's net position by \$107,572. The increase in net position was due to minor increases in utility income.

Table 2  
Changes in Net Position  
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues						
Charges for services \$	210	177	1,559	1,552	1,769	1,729
Operating grants	4	4	-	-	4	4
Capital grants	5	114	-	-	5	114
General revenues						
Sales and use taxes	2,155	1,970	-	-	2,155	1,970
Franchise tax (fees)	224	238	-	-	224	238
Other taxes	90	80	-	-	90	80
Investment income	1	2	-	-	1	2
Other	51	33	(2)	12	49	45
Total revenues	<u>2,740</u>	<u>2,618</u>	<u>1,557</u>	<u>1,564</u>	<u>4,297</u>	<u>4,182</u>
Expenses:						
General government	642	583	-	-	642	583
Public safety	1,113	1,058	-	-	1,113	1,058
Public works	79	156	-	-	79	156
Cultural & recreation	55	385	-	-	55	385
Water/wastewater	-	-	2,034	1,636	2,034	1,636
Total expenses	<u>1,889</u>	<u>2,182</u>	<u>2,034</u>	<u>1,636</u>	<u>3,923</u>	<u>3,818</u>
Increase in net position						
before transfers	851	436	(477)	(72)	374	364
Transfers	(584)	(193)	584	193	-	-
Change in net position	<u>267</u>	<u>243</u>	<u>107</u>	<u>121</u>	<u>374</u>	<u>364</u>
Beginning net position	<u>3,627</u>	<u>3,384</u>	<u>6,237</u>	<u>6,116</u>	<u>9,864</u>	<u>9,500</u>
Ending net position \$	<u><u>3,894</u></u>	<u><u>3,627</u></u>	<u><u>6,344</u></u>	<u><u>6,237</u></u>	<u><u>10,238</u></u>	<u><u>9,864</u></u>

## Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,599,336, an increase of \$112,488, in comparison with the prior year. Of this total amount, \$737,893 is *unassigned fund balance* for the governmental funds.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the general fund was \$737,893. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. *Unassigned fund balance* and *total fund balance* represents approximately 50% and 50% of total General Fund expenditures, respectively.

During the current fiscal year, the fund balance of the City's General Fund increased by \$229,394.

**Proprietary funds.** The City's *proprietary funds* provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Harrah Public Works Authority at the end of the year amounted to \$367,930. The total increase in net position was \$107,572.

- Operating revenues increased by \$6,638 over the prior year due to increased utility revenues.
- Operating expenses increased by \$450,790, mainly due to a general increase utility operating expense.

### General Fund Budgetary Highlights

There were differences between the original budget and the final budget for the General Fund. Overall, actual revenues on the budgetary basis of \$2,645,128 were \$202,828 more than the estimated revenues in the budget of \$2,442,300. Actual expenditures of \$1,462,623 were \$379,946 less than the \$1,842,569 approved in budget appropriations. After a net transfer in of \$949,913 from other funds, the City increased by \$232,592 its carry forward funds to cover the overall excess of expenditures over receipts. The amount of carryover funds budget for expenditure was \$741,091.

### Capital Asset and Long-term Obligations

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2013, amounts to \$12,893,866 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, vehicles, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- A new fire truck was placed in service.
- Infrastructure improvements including construction in progress related to the installation of a new meter reading system.

Table 3  
Capital Assets  
(In Thousands)

	Governmental Activities <u>2013</u>	Business-type Activities <u>2013</u>	Total <u>2013</u>
Land	\$ 102	-	102
Construction in progress	-	480	480
Building and improvements	1,140	476	1,616
Machinery and equipment	1,071	1,006	2,077
Vehicles	1,806	-	1,806
Infrastructure	1,810	15,862	17,672
	<u>5,929</u>	<u>17,824</u>	<u>23,753</u>
Less : Accumulated depreciation	<u>3,156</u>	<u>7,704</u>	<u>10,860</u>
Net capital assets	<u>\$ 2,773</u>	<u>10,120</u>	<u>12,893</u>

  

	<u>2012</u>	<u>2012</u>	<u>2012</u>
Land	\$ 102	-	102
Building and improvements	903	468	1,371
Machinery and equipment	1,005	939	1,944
Vehicles	1,455	-	1,455
Infrastructure	1,782	15,837	17,619
	<u>5,247</u>	<u>17,244</u>	<u>22,491</u>
Less : Accumulated depreciation	<u>2,897</u>	<u>7,234</u>	<u>10,131</u>
Net capital assets	<u>\$ 2,350</u>	<u>10,010</u>	<u>12,360</u>

Additional information of the City's capital assets can be found in Note 2.D. in the Notes to the Basic Financial Statements as listed in the table of contents.

**Long-term obligations.** At the end of the current fiscal year, the City had total debt outstanding of \$5,081,370. This represents debt secured solely by specified revenue sources (i.e., general obligation bonds, revenue notes and bonds) of \$4,171,212 and other notes payable of \$910,158.

Table 4  
Outstanding Debt  
(In Thousands)

	Governmental Activities <u>2013</u>	Business-type Activities <u>2013</u>	Total <u>2013</u>
Notes payable	\$ 398	4,683	5,081
Other	-	-	-
Net long-term debt	<u>\$ 398</u>	<u>4,683</u>	<u>5,081</u>

	Governmental Activities <u>2012</u>	Business-type Activities <u>2012</u>	Total <u>2012</u>
Notes payable	\$ 178	4,441	4,619
Other	-	-	-
Net long-term debt	<u>\$ 178</u>	<u>4,441</u>	<u>4,619</u>

The City's total debt increased by \$462,408 during the current fiscal year. The key factors in this increase were the issuance in capital leases/notes payable for a fire truck in the amount of \$284,286 and a meter reading system in the amount of \$526,000.

Additional information on the City's long-term debt can be found in Notes 2.E. in the Notes to the Basic Financial Statements as listed in the table of contents.

#### Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal-year 2013-2014 budget, tax rates, and fees that will be charged for the proprietary fund type activities. One of these factors is the economy. Slower growth of the national economy has affected the local economy. Unemployment is up, sales tax revenues, however, have shown steady growth for the last several years, and utility revenues were strong and have shown moderate growth.

These indicators were taken into account when adopting the general fund budget for 2013-2014.

- Revenues, transfers in and expenses for the City's general fund are expected to increase slightly over the actual amounts received and expended in the fiscal year ended June 30, 2013.
- As for the City's proprietary fund activities, we expect moderate growth in the revenues and expenses over those received in 2013.

All of these factors were considered in preparing the City's budget for the 2013-2014 fiscal year.

## **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, bond rating agencies and creditors with a general overview of the City's finances reflecting the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Harrah, P.O. Box 636, Harrah, Oklahoma 73045.

# **BASIC FINANCIAL STATEMENTS**

**City of Harrah, Oklahoma**  
**Statement of Net Position**  
*June 30, 2013*

	<b>Primary Government</b>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Pooled cash and cash equivalents	\$ 1,330,204	692,935	2,023,139
Internal balances	28,757	(28,757)	-
Restricted cash and investments	6,396	300,233	306,629
Receivables (net of allowance for uncollectibles)	60,186	61,181	121,367
Receivables from other governments	188,957	53,423	242,380
<b>Total current assets</b>	<u>1,614,500</u>	<u>1,079,015</u>	<u>2,693,515</u>
Non-current assets:			
Capital assets:			
Land, improvements, and construction in progress	101,528	479,502	581,030
Other capital assets, net of depreciation	2,671,847	9,640,989	12,312,836
<b>Total non-current assets</b>	<u>2,773,375</u>	<u>10,120,491</u>	<u>12,893,866</u>
<b>Total assets</b>	<u>4,387,875</u>	<u>11,199,506</u>	<u>15,587,381</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	12,913	3,030	15,943
Accrued interest payable	-	43,778	43,778
Police bonds outstanding	2,251	-	2,251
Utility customer deposits	-	78,600	78,600
Current portion of long-term debt	65,580	354,809	420,389
<b>Total current liabilities</b>	<u>80,744</u>	<u>480,217</u>	<u>560,961</u>
Non-current liabilities:			
Long-term debt and other liabilities	413,603	4,374,845	4,788,448
<b>Total non-current liabilities</b>	<u>413,603</u>	<u>4,374,845</u>	<u>4,788,448</u>
<b>Total liabilities</b>	<u>494,347</u>	<u>4,855,062</u>	<u>5,349,409</u>
<b>NET POSITION</b>			
Net investment in capital assets	2,171,812	5,676,282	7,848,094
Restricted for:			
Debt service	-	61,382	61,382
Capital improvements	844,734	238,850	1,083,584
Other purposes	16,709	-	16,709
Unrestricted (deficit)	860,273	367,930	1,228,203
<b>Total net position</b>	<u>\$ 3,893,528</u>	<u>6,344,444</u>	<u>10,237,972</u>

See accompanying notes to financial statements.

**City of Harrah, Oklahoma**  
**Statement of Activities**  
**For the Year Ended June 30, 2013**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>		<b>Net (Expense) Revenue</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	
<b>Primary government:</b>				
Governmental activities:				
General government	\$ 641,514	70,043	-	(571,471)
Public safety:				
Police	720,392	136,000	-	(584,392)
Fire	392,717	-	4,484	(388,233)
Public works	79,643	3,620	-	(76,023)
Culture and recreation	55,060	-	-	(50,456)
Total governmental activities	<u>1,889,326</u>	<u>209,663</u>	<u>4,484</u>	<u>(1,670,575)</u>
Business-type activities:				
Water and sewer	2,033,791	1,558,751	-	(475,040)
Total business-type activities	<u>2,033,791</u>	<u>1,558,751</u>	<u>-</u>	<u>(475,040)</u>
Total primary government	<u><u>3,923,117</u></u>	<u><u>1,768,414</u></u>	<u><u>4,484</u></u>	<u><u>(2,145,615)</u></u>

City of Harrah, Oklahoma  
Statement of Activities  
For the Year Ended June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Change in Net Position:</b>			
<b>Net (expense) revenue</b>	\$ (1,670,575)	(475,040)	(2,145,615)
<b>General revenues:</b>			
Taxes:			
Sales taxes	2,057,104	-	2,057,104
Use taxes	98,368	-	98,368
Franchise taxes (fees)	223,706	-	223,706
Other taxes	89,785	-	89,785
Unrestricted investment income	1,045	-	1,045
Miscellaneous	51,190	(1,169)	50,021
Transfers	(583,781)	583,781	-
Total general revenues and transfers	1,937,417	582,612	2,520,029
<b>Change in Net Position</b>	266,842	107,572	374,414
<b>Net Position - beginning</b>	3,626,686	6,236,872	9,863,558
<b>Net Position - ending</b>	\$ 3,893,528	6,344,444	10,237,972

See accompanying notes to the basic financial statement.

**City of Harrah, Oklahoma  
Governmental Funds  
Balance Sheet  
June 30, 2013**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 518,181	698,745	110,026	1,326,952
Cash - Police bond account	3,252	-	-	3,252
Restricted cash	6,396	-	-	6,396
Receivables - Accounts, net	60,186	-	-	60,186
Receivables - Taxes	131,169	53,423	4,365	188,957
Due from other funds	30,356	94,165	-	124,521
<b>Total assets</b>	<b>749,540</b>	<b>846,333</b>	<b>114,391</b>	<b>1,710,264</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	6,396	-	-	6,396
Police bonds outstanding	2,251	-	-	2,251
Customer deposits	3,000	-	3,517	6,517
Due to other funds	-	1,599	94,165	95,764
<b>Total liabilities (Note 2)</b>	<b>11,647</b>	<b>1,599</b>	<b>97,682</b>	<b>110,928</b>
<b>Fund balances:</b>				
<b>Reserved for:</b>				
Capital outlay/improvements	-	844,734	-	844,734
For other purposes	-	-	16,709	16,709
<b>Unreserved, reported in:</b>				
General fund	737,893	-	-	737,893
<b>Total fund balances</b>	<b>737,893</b>	<b>844,734</b>	<b>16,709</b>	<b>1,599,336</b>
<b>Total liabilities and fund balances</b>	<b>\$ 749,540</b>	<b>846,333</b>	<b>114,391</b>	

Amounts reported for governmental activities in the statement of net assets  
(Page 13) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not required in the funds.	2,773,375
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Note payable	(398,309)
Accrued compensated absences	(80,874)
<b>Net assets of governmental activities</b>	<b>\$ 3,893,528</b>

See accompanying notes to the basic financial statement.

**City of Harrah, Oklahoma**  
**Governmental Funds**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**For the Year Ended June 30, 2013**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 2,413,337	8,811	46,815	2,468,963
Intergovernmental	4,484	4,604	-	9,088
Licenses and permits	70,043	-	-	70,043
Charge for services	-	-	3,620	3,620
Fines and forfeitures	136,000	-	-	136,000
Interest	394	628	23	1,045
Miscellaneous	20,870	30,020	300	51,190
Total revenues	<u>2,645,128</u>	<u>44,063</u>	<u>50,758</u>	<u>2,739,949</u>
<b>EXPENDITURES</b>				
Current:				
General government	128,184	42,300	92,280	262,764
City manager	13,120	-	-	13,120
Administration	172,799	-	-	172,799
Code enforcement	78,077	739	-	78,816
Legal	21,777	-	-	21,777
Police	642,506	98,414	-	740,920
Fire	350,977	118,214	-	469,191
Senior citizens center	55,183	6,592	-	61,775
Parks	-	142,875	-	142,875
Streets	-	4,815	-	4,815
Public works	-	74,828	-	74,828
Total expenditures	<u>1,462,623</u>	<u>488,777</u>	<u>92,280</u>	<u>2,043,680</u>
Excess (deficiency) of revenues over expenditures	<u>1,182,505</u>	<u>(444,714)</u>	<u>(41,522)</u>	<u>696,269</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	110,062	509,052	45,069	664,183
Transfers out	(1,063,173)	(169,810)	(14,981)	(1,247,964)
Total other financing sources and uses	<u>(953,111)</u>	<u>339,242</u>	<u>30,088</u>	<u>(583,781)</u>
Net change in fund balances	229,394	(105,472)	(11,434)	112,488
Fund balances-beginning	508,499	950,206	28,143	1,486,848
Fund balances-ending	<u>\$ 737,893</u>	<u>844,734</u>	<u>16,709</u>	<u>1,599,336</u>

See accompanying notes to the basic financial statement.

**City of Harrah, Oklahoma**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
*For the Year Ended June 30, 2013*

Net change in fund balances - total governmental funds \$ 112,488

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation in the current reporting period.

Capital outlay expenditures, net of retirements	398,727
Depreciation expense	<u>(259,459)</u>
	<u>139,268</u>

The increase of long-term debt provides current financial resources to governmental funds, while the repayment or reductions in of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

Repayment of long-term debt	63,986
Change in accrued compensated absences	<u>(48,900)</u>
	<u>15,086</u>

Change in net position of governmental activities. \$ 266,842

City of Harrah, Oklahoma  
Proprietary Funds  
Statement of Net Position  
June 30, 2013

	Harrah Public Works Authority
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 610,209
Cash - Meter deposits	82,726
Receivables	
Accounts, net of allowance for uncollectibles	61,181
Taxes	53,423
Restricted assets - cash and investments	300,233
Total current assets	1,107,772
Non-current assets:	
Capital assets, net of accumulated depreciation	10,120,491
Total non-current assets	10,120,491
Total assets	11,228,263
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable and accrued liabilities	3,030
Accrued interest payable	43,778
Due to other funds	28,757
Utility customer deposits	78,600
Current portion of long-term obligations	354,809
Total current liabilities	508,974
Non-current liabilities:	
Notes payable	4,328,251
Accrued compensated absences	46,594
Total non-current liabilities	4,374,845
Total liabilities	4,883,819
<u>NET POSITION</u>	
Net investment in capital assets	5,676,282
Restricted:	
Debt service	61,382
Construction	238,850
Unrestricted	367,930
Total net position	\$ 6,344,444

See accompanying notes to the basic financial statement.

City of Harrah, Oklahoma  
Proprietary Funds  
Statement of Revenues, Expenses and Changes in Fund Net Position  
For the Year Ended June 30, 2013

	Harrah Public Works Authority
<u>OPERATING REVENUES:</u>	
Charges for services	
Water	\$ 575,479
Wastewater	420,743
Sanitation	465,025
Other	97,504
Total operating revenues	<u>1,558,751</u>
<u>OPERATING EXPENSES:</u>	
Personal services	682,967
Maintenance and operations	716,914
Bad debt expense	18,042
Depreciation and amortization	470,076
Total operating expenses	<u>1,887,999</u>
Operating income (loss)	<u>(329,248)</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>	
Miscellaneous revenues (expense)	(1,169)
Interest income	-
Interest expense and fiscal charges	(145,792)
Total nonoperating revenues (expenses)	<u>(146,961)</u>
<u>OPERATING TRANSFERS</u>	
Transfers in	623,781
Transfers out	(40,000)
Total operating transfers	<u>583,781</u>
Change in net position	107,572
Net position - beginning	6,236,872
Net position-ending	<u>\$ 6,344,444</u>

See accompanying notes to the basic financial statement.

City of Harrah, Oklahoma  
Proprietary Funds  
Statement of Cash Flows  
For the Year Ended June 30, 2013

	Harrah Public Works Authority
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from customers	\$ 1,569,893
Payments to suppliers	(966,020)
Payments to employees	(442,553)
Net cash provided (used) by operating activities	<u>161,320</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>	
Miscellaneous revenues (expenses)	(1,169)
Operating transfers in (out)	583,781
Net cash provided (used) by noncapital financing activities	<u>582,612</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Proceeds from long-term financing, net of issuance costs	526,000
Principal paid on long-term debt	(283,893)
Interest expense and fiscal charges	(145,792)
(Increase) decrease in restricted assets	(27,190)
(Acquisition) disposition of capital assets	(580,081)
Net cash provided (used) by capital and related financing activities	<u>(510,956)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
(Increase) decrease in investments	117,380
Interest received	-
Net cash provided (used) by investing activities	<u>117,380</u>
Net increase (decrease) in cash and cash equivalents	350,356
Cash and cash equivalents, beginning of the year	259,853
Cash and cash equivalents, end of the year	<u><u>610,209</u></u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>	
Operating income (loss)	(329,248)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Cash flows reported in other categories:	
Depreciation and amortization expense	470,076
Change in assets and liabilities:	
(Increase) decrease in receivables	5,584
(Increase) decrease in due from other funds	812
Increase (decrease) in accounts payable and accrued expenses	14,096
Total adjustments	<u>490,568</u>
Net cash provided by (used in) operating activities	<u>\$ 161,320</u>

See accompanying notes to the basic financial statement.

**NOTES TO BASIC  
FINANCIAL STATEMENTS**

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of the City of Harrah, Oklahoma (the City) conform to accounting principles generally accepted in the United States of America for state and local governments. General accepted accounting principles for municipalities are defined as those principles promulgated by the Governmental Accounting Standards Board (“GASB”). Business-type activities and enterprise funds apply Financial Accounting Standards Board (“FASB”) and Accounting Principles Board (“APB”) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The following represents the more significant accounting and reporting policies of the City:

**Reporting Entity** - The City is a municipal corporation organized as a Town on May 12, 1908, and became a City on September 16, 1992. The City is governed by an elected mayor and four-member council. As required by accounting principles generally accepted in the United States of America (primarily Governmental Accounting Standards Board Statement No. 14, *Reporting Entity*), these financial statements present the government and its component units, entities for which the City is considered to be financial accountable. Blended component units, although legally separate entities, are, in substance, part of the City’s operations and therefore data from these units are combined with the data of the City. Each blended component unit has a June 30 year end.

**Blended component units.** The Harrah Public Works Authority (HPWA) operated the City’s municipal utilities, including long-term financing and capital development. Council members serve as trustees and the City Manager is General Manager. The Authority is reported as a proprietary fund.

The Harrah Industrial and Economic Development Trust (HIEDT) purpose is to finance and promote industrial development and economic growth. The mayor and vice mayor members serve as trustees and the City Manager is General Manager. The Authority is reported as a governmental fund.

**Basis of Presentation** - The City follows Governmental Accounting Standards Board (“GASB”) Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis - for States and Local Governments” and related pronouncements in the preparation of its financial statements. Additional information regarding the basis of accounting and the differences in presentation are contained in Management’s Discussion and Analysis, which preceded the financial statements.

**Government-wide and Fund Financial Statements** - The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of Interfund activity has been removed from these financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for services.

City of Harrah, Oklahoma  
Notes to Basic Financial Statements  
June 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement focus, basis of accounting, and financial statement presentation** - The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Sales taxes, excise taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The following are the City's major governmental funds:

General Fund - is the general operating fund of the City. It accounts and reports for all financial resources not required to be reported in another fund.

Capital Projects Fund - accounts for designated revenues and the purchase and construction of capital projects.

City of Harrah, Oklahoma  
Notes to Basic Financial Statements  
June 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

The following are the City's major proprietary funds:

Harrah Public Works Authority (HPWA) - accounts for the revenues from operations of water, sanitary sewer, solid waste systems.

The following are the City's agency funds:

Meter Deposit Fund - accounts for utility customer deposits.

Municipal Court Fund - accounts for municipal court bonds related intergovernmental payments.

The following are the City's non-major governmental funds:

Special Revenue Funds - accounts for the proceeds of government grants or specific revenue sources (other than grants applicable to enterprise fund activities, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

- Street & Alley Fund
- Harrah Industrial Economic Development Trust
- Park Funds

Debt Service Sinking Fund - accounts for the accumulation of financial resources for the payment of principal and interest on the general long-term debt of the City, other than debt service payments made by enterprise funds. Ad Valorem taxes and interest earned on investments of the Debt Service Fund are used for the payment of principal, interest and commissions to fiscal agents on the City's general obligation bonds.

As a general rule the effect of Interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are payments-in-lieu of taxes and other charges between governments risk management internal service fund. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for the enterprise funds include the cost of sales and service, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of Harrah, Oklahoma  
Notes to Basic Financial Statements  
June 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Accounting Policies** - The City's significant accounting policies related to the following financial statement categories are summarized below:

**Assets, Liabilities, and Fund Equity**

- a. *Cash and Cash Equivalents* - The City considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.
- b. *Pooled Cash and Investments* - The City Charter requires all cash belonging to the City to be placed in the custody of the Financial Services Department of the City. A "Pooled Cash" concept is used in maintaining the cash and investment accounts in the accounting records. Under this method, all cash is pooled for investment purposes and each fund has an equity in the pooled amounts. Investments are allocated to the individual participating funds based upon a percentage determined by the Financial Services Department of the City. An interfund receivable/payable is recognized if the allocation of investments to a particular fund exceeds the fund's pooled cash amount before the allocation of the pooled investments.

Purchases and maturities of the pooled investments, as reported in the fund's statement of cash flow, are allocated to the participating proprietary funds based on their portion of total pooled investments.

- c. *Investments* - Investments are stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. The City considers quoted market price at June 30, 2013, to be the fair value of its investments.

Oklahoma Statutes authorize the City to invest in obligations of the United States government, its agencies and instrumentalities; collateralized or insured certificates of deposit and other evidences of deposit at banks, savings banks, savings and loan associations and credit unions located in this state, or fully insured certificates of deposit at banks, savings bank, savings and loan associations and credit unions located out of state; negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings bank, a savings and loan association or a state-licensed branch of a foreign bank; prime banker's acceptances which are eligible for purchases by the Federal Reserve System and which do not exceed 270 days' maturity; prime commercial paper which shall not have a maturity that exceeds 180 days nor represent more than 10% of the outstanding paper of an issuing corporation; repurchase agreements that have underlying collateral consisting of those items specified above; and money market funds regulated by the Securities and Exchange Commission and which investments consist of those items noted above.

City of Harrah, Oklahoma  
Notes to Basic Financial Statements  
June 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

- d. *Receivables and payables* - In the government-wide financial statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

In the governmental fund financial statements, receivables are recorded when they are both measurable and available. Proprietary fund receivables consist of all revenues earned at year-end and not yet received.

- e. *Interfund Receivable and Payables* - Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to / due from other funds” (i.e., the current portion of interfund loans) or “advances to / from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to / from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”
- f. *Restricted Assets* - Restricted assets include cash and investments of both governmental activities and business-type activities that are legally restricted as to their use. The restricted assets are primarily related to debt trustee accounts and guaranty deposits.
- g. *Capital Assets* - Capital assets, which include property, plant and equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, the majority of which generally consists of donated land and infrastructure which is recorded in the governmental funds and donated water and sewer distribution systems which are recorded in the proprietary funds, are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment is depreciated using the straight line method over the following estimated useful lives:

Buildings	40 - 65 years
Infrastructure	25 - 50 years
Improvements other than buildings & infrastructure	10 - 20 years
Machinery and equipment	3 - 20 years
Vehicles	3 - 7 years

City of Harrah, Oklahoma  
Notes to Basic Financial Statements  
June 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

- h. *Inventory* - The City records parts and fuel inventory within the General Fund. Parts inventory is recorded using actual cost. Fuel inventory is recorded using average cost.
- i. *Long-term Debt* - In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt is reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, issuance costs and losses on refunding are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and deferred losses on refunding. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issues is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt services expenditures.

- j. *Claims and Judgments Payable* - Under state law, judgments against the City can be paid over three years or can be paid immediately. The General Fund pays all claims and judgments. A liability has been recorded within the government-wide, proprietary and fiduciary fund financial statements for claims and judgments payable. A liability for these amounts is reported in governmental funds only if they will be paid from current financial resources.
- k. *Compensated Absences* - Under the terms of union contracts and City personnel policies, City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for vacation leave accumulated and vested accumulated sick leave. Vesting of sick leave by employees and maximum number of hours that can be accumulated for vacation and sick leave are dependent upon an employees' years of service. Upon retirement, employees are paid one-half of accumulated sick leave and accumulated vacation time, subject to the above limitations.

City of Harrah, Oklahoma  
Notes to Basic Financial Statements  
June 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

- l. *Fund Equity* - In the government-wide financial statements, equity is classified as net position and displayed in three components:
1. *Net investment in capital assets* - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
  2. *Restricted net position* - Consists of net position with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through constitutional provisions or enabling legislation. The most significant restriction as of June 30, 2013 related to three ordinances benefiting the City's wastewater system which provide funds that are being held to complete capital projects.
  3. *Unrestricted net position* - All other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

When both restricted and unrestricted net position are available for use, generally it is the City's policy to use restricted resources first. For projects funded with tax-exempt debt proceeds and other sources, the debt proceeds are used first.

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

- a) *Nonspendable* - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.
- b) *Restricted* - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- c) *Committed* - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through formal action of the highest level of decision making authority. To commit these funds, formal action is required by the City Council either by resolution or ordinance that identifies the specific circumstances under which the resources may be expended.
- d) *Assigned* - Includes fund balance amount that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be stipulated by the governing body, another body (such as Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance of the classification for all governmental funds with positive balances.
- e) *Unassigned* - Includes the residual balance of the General Fund that has not been assigned to other funds and that has not be restricted, committed, or assigned to specific purposes with the General Fund.

City of Harrah, Oklahoma  
Notes to Basic Financial Statements  
June 30, 2013

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

***Revenues, Expenditures and Expenses***

- a. *Property Tax Revenue* - Property taxes attach an enforceable lien on property as of January 1. Taxes are levied annually on November 1 and are due one-half by December 31 and one-half by March 31. The Tax Assessor's office bills and collects the property taxes and remits to the City its portion. Property taxes not paid prior to April are considered delinquent. Such delinquent tax payments have not historically been material. Delinquent tax payments are received throughout the year and are recognized as revenue in the year received, except those received within 60 days of year end, which are recognized as revenues as of June 30, 2013 in both the government-wide and fund financial statements.
- b. *Sales Taxes* - Sales taxes are collected by vendors and required to be remitted to the State of Oklahoma by the 20<sup>th</sup> of the month following collection. The tax is then paid to the City by the 10<sup>th</sup> of the next month. A two month lag exists between collection by the vendor and payment to the City by the State. Revenue received in July and August from sales made in May and June, respectively, is available for prior year expenses and is accrued in both the government-wide and fund financial statements.
- c. *Charges for Services* - Charges for service consist primarily of charges made by the General Fund for services such as motor pool usage, printing, accounting, data processing, facilities usage and other benefits provided to the other funds of the City.
- d. *Intergovernmental Revenues/Capital Grants Earned* - Revenues from Federal and State operating grants are recognized when expenditures are made. Similarly, capital grants are considered earned when the expenditures are made. The earned portion of capital grants in Proprietary Funds is treated as a capital contribution within the statement of revenues, expenses and changes in fund net position.
- e. *Investment Earnings* - Investment earnings on pooled cash and investments are allocated on a pro-rata basis to the City's funds based on the percentage of each fund's average month-end pooled cash balance.

***Use of Estimates*** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Reclassifications*** - Certain amounts in prior-year financial statements have been reclassified to conform with the current-year presentation.

**City of Harrah, Oklahoma**  
**Notes to the Basic Financial Statements**  
*June 30, 2013*

**NOTE 2 - DETAILED NOTES ON ALL FUNDS**

The following notes present detailed information to support the amounts reported in the basic financial statements for the City's various assets, liabilities, Net Position/fund balances, revenues and expenditures/expenses.

**2.A. - Cash and Investments**

A summary of cash and investments shown in the statement of Net Position is as follows:

Cash and equivalents	\$ 1,937,161
Investments	<u>0</u>
Total	<u>\$ 1,937,161</u>

The local government had the following deposits and investments at June 30, 2013:

	Credit rating	Fair value	Maturities in Years		
			On demand	Less than 1	1-5
Demand deposits and cash on hand	(1)	\$ 1,937,161	751,759	1,185,402	-
Money market mutual funds	AAA	-	-	-	-
Time deposits	(1)	-	-	-	-
Total		<u>\$ 1,937,161</u>	<u>751,759</u>	<u>1,185,402</u>	<u>-</u>

(1) Note subject to rating

Standard and Poor's (S&P) was the source for all credit ratings reported above.

*Custodial Credit Risk*

At June 30, 2013, the City held deposits of approximately \$2,087,456 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with the securities held by the City or by its agent in the City's name.

*Investment Interest Credit Risk*

The City does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2013

**NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued**

**2.A. - Cash and Investments - Continued**

*Investment Credit Risk*

The City has no policy that limits its investment choice other than the limitation of the state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by Federal Housing Administrator, and obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraph (a.-d.).

*Concentration of Investment Credit Risk*

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 0% in Certificates of deposit and 100% in Money Market funds.

**2.B. - Receivables and Uncollectible Accounts**

Receivables as of June 30, 2013, for the City of Harrah's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2013

**NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued**

**2.B. - Receivables and Uncollectible Accounts - Continued**

	General Fund	Capital Project Fund	Nonmajor Governmental Funds	Harrah Public Works Authority
Receivables:				
Taxes	\$ 131,169	53,423	-	53,423
Accounts	60,186	-	-	213,943
Due from other governments	-	-	4,365	-
Gross receivables	<u>191,355</u>	<u>53,423</u>	<u>4,365</u>	<u>267,366</u>
Less: Allowance for uncollectibles	<u>-</u>	<u>-</u>	<u>-</u>	<u>152,762</u>
Net total receivables	<u>\$ 191,355</u>	<u>53,423</u>	<u>4,365</u>	<u>114,604</u>

**2.C. - Restricted Assets**

The Harrah Public Works Authority has issued Utility System and Sales Tax Revenue Notes, Series 2008 and debt related to the installation of a new meter reading system which include restricted cash and investments for unexpended construction funds, debt service funds for repayment of the principal and interest when due. All funds are on deposit with trustee banks.

Utility Sales Tax Revenue Bonds, Series 2008 :	
Project account	\$ 192,353
Debt service	61,382
Meter Reading Note, 2012 :	
Project account	<u>46,498</u>
Total restricted assets	<u>\$ 300,233</u>

**City of Harrah, Oklahoma**  
**Notes to the Basic Financial Statements**  
**June 30, 2013**

**NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued**

**2.D. - Capital assets**

Capital asset balances and activities for the year ended June 30, 2013, were as follows:

***Governmental activities***

Capital assets not being depreciated :

Land	\$ 101,528	-	-	101,528
Total capital assets not being depreciated	<u>101,528</u>	<u>-</u>	<u>-</u>	<u>101,528</u>

Capital assets being depreciated :

Buildings and improvements	1,108,796	31,285	-	1,140,081
Machinery and equipment	1,004,732	66,105	-	1,070,837
Vehicles	1,455,513	350,809	-	1,806,322
Infrastructure	<u>1,576,051</u>	<u>234,814</u>	<u>-</u>	<u>1,810,865</u>
Total capital assets being depreciated	<u>5,145,092</u>	<u>683,013</u>	<u>-</u>	<u>5,828,105</u>

Less accumulated depreciation for :

Buildings and improvements	(400,999)	(31,766)	-	(432,765)
Machinery and equipment	(816,106)	-	30,813	(785,293)
Vehicles	(1,133,798)	(75,417)	-	(1,209,215)
Infrastructure	<u>(545,896)</u>	<u>(183,089)</u>	<u>-</u>	<u>(728,985)</u>
Total accumulated depreciation	<u>(2,896,799)</u>	<u>(290,272)</u>	<u>30,813</u>	<u>(3,156,258)</u>
Total capital assets being depreciated, net	<u>2,248,293</u>	<u>392,741</u>	<u>30,813</u>	<u>2,671,847</u>
Governmental activities capital assets, net	<u>\$ 2,349,821</u>	<u>392,741</u>	<u>30,813</u>	<u>2,773,375</u>

***Business-type activities***

Capital assets not being depreciated :

Construction in progress	\$ -	479,502	-	479,502
Total capital assets not being depreciated	<u>-</u>	<u>479,502</u>	<u>-</u>	<u>479,502</u>

Capital assets being depreciated :

Buildings and improvements	467,891	8,043	-	475,934
Equipment and vehicles	939,071	67,432	-	1,006,503
Water and sewer infrastructure	15,438,181	25,103	-	15,463,284
Industrial Park	<u>398,926</u>	<u>-</u>	<u>-</u>	<u>398,926</u>
Total capital assets being depreciated	<u>17,244,069</u>	<u>100,578</u>	<u>-</u>	<u>17,344,647</u>

Less accumulated depreciation for :

Buildings and improvements	(271,502)	(11,764)	-	(283,266)
Equipment and vehicles	(658,968)	(49,032)	-	(708,000)
Water and sewer infrastructure	(6,153,197)	(399,307)	-	(6,552,504)
Industrial Park	<u>(149,915)</u>	<u>(9,973)</u>	<u>-</u>	<u>(159,888)</u>
Total accumulated depreciation	<u>(7,233,582)</u>	<u>(470,076)</u>	<u>-</u>	<u>(7,703,658)</u>
Total capital assets being depreciated, net	<u>10,010,487</u>	<u>(369,498)</u>	<u>-</u>	<u>9,640,989</u>
Business-type activities capital assets, net	<u>\$ 10,010,487</u>	<u>110,004</u>	<u>-</u>	<u>10,120,491</u>

**City of Harrah, Oklahoma**  
**Notes to the Basic Financial Statements**  
*June 30, 2013*

**NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued**

**2.D. - Capital assets - Continued**

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government	\$ 53,761
Fire department	47,725
Police department	49,398
Park department	108,575
Total depreciation expense - governmental activities	259,459

Business-type activities:

Water and sewer	470,076
Total depreciation expense - business-type activities	\$ 470,076

**2.E. - Deposits subject to refund**

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2013, cash and investments included \$82,726 available for refund of customer deposits, while the liability to customers was \$78,600.

Appearance bonds and other payments made to the municipal court funds are held until final disposition by the court at which time they are refunded to the bondholder or paid over to the City general fund as fines. As of June 30, 2013, \$2,251 was being held that was subject to refund.

**2.F. - Long-term debt**

Long-term liabilities of the City of Harrah as of June 30, 2013, are as summarized as follows:

Governmental activities:

\$195,000 note from a local bank, dated August 18, 2010, payable in monthly installments of \$1,524, with a final payment due August 18, 2025, inclusive interest at 4.75%, secured by real estate.	\$ 167,586
\$284,286 capital lease with no termination cost, dated February 8, 2012, payable in annual installments of \$62,049, with a final payment due February 8, 2017, inclusive of interest at 3.50%, secured by a fire truck.	230,723
Total governmental activities	\$ 398,309

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2013

**NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued**

**Business-type activities:**

Revenue notes payable:

\$2,220,000 Clean Water SRF Series 2004 loan payable to the Oklahoma Water Resources Board (OWRB), dated December 16, 2004, payable in semi-annual installments with a final payment due Sept. 15, 2025; interest rate of 2.60% and administrative fee of 0.5%; secured by a pledge of a three cent sales tax and water and sewer revenues. 1,557,590

\$1,470,000 Utilities System and Sales Tax Revenue Note, Series 2008, payable in semi-annual installments ranging from \$35,000 to \$70,000 over 13 years plus interest due at 3.73% secured by pledge of a three cent sales tax and water and sewer revenues. 1,000,000

\$1,930,000 Clean Water SRF Series 2004 loan payable to the Oklahoma Water Resources Board (OWRB), dated May 29, 2009, payable in semi-annual installments with a final payment due March 15, 2030; interest rate of 2.35% and administrative fee of 0.5%; secured by a pledge of a three cent sales tax and water and sewer revenues. 1,141,648

\$490,000 Drinking Water SRF Series 2011 loan payable to the Oklahoma Water Resources Board (OWRB), dated October 1, 2011, payable in semi-annual installments with a final payment due March 15, 2032; interest rate of 3.05% and administrative fee of 0.5%; secured by a pledge of a three cent sales tax and water and sewer revenues. 471,974

\$526,000 capital lease with no termination costs, dated August 17, 2012, payable in monthly installments of \$7,239 inclusive of interest at 4.25%, secured by certain capital equipment. 511,849

Total net revenue bonds and notes payable 4,683,061

Total business-type activities \$ 4,683,061

**City of Harrah, Oklahoma**  
**Notes to the Basic Financial Statements**  
**June 30, 2013**

**NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued**

**2.F. - Long-term debt - Continued**

Long-term liabilities transactions for the year ended June 30, 2013, and changes therein were as follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>	Amounts Due Within <u>One Year</u>
<b>Governmental activities</b>					
Note payable - City Hall	\$ 178,009	-	10,423	167,586	10,418
Note payable - Fire truck	-	284,286	53,563	230,723	55,161
Total governmental activities	<u>178,009</u>	<u>284,286</u>	<u>63,986</u>	<u>398,309</u>	<u>65,579</u>
<b>Business-type activities</b>					
Notes payable:					
OWRB Series 2004	1,657,928	-	100,338	1,557,590	104,620
OWRB Series 2009	1,193,025	-	51,377	1,141,648	52,637
OWRB Series 2011	490,000	-	18,026	471,974	18,656
Water meters	-	526,000	14,151	511,849	68,895
Revenue note - Series 2008	1,100,000	-	100,000	1,000,000	110,000
Total business-type activities \$	<u>4,440,953</u>	<u>526,000</u>	<u>283,892</u>	<u>4,683,061</u>	<u>354,808</u>

***Annual Debt Service Requirements***

The annual debt service requirements to maturity, including principal and interest, for long-term debt, excluding accrued compensated absences, with interest rates applicable at June 30, 2013 are as follows:

Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
	2014	\$ 65,580	16,354	354,809
2015	67,739	14,242	363,050	139,332
2016	69,955	12,075	381,570	126,429
2017	72,283	9,797	390,380	113,143
2018	12,626	7,459	409,489	109,583
2019-2023	73,075	18,353	1,647,412	53,769
2024-2028	37,052	2,073	878,347	30,281
2029-2033	-	-	258,004	8,595
Totals	<u>\$ 398,310</u>	<u>80,353</u>	<u>4,683,061</u>	<u>732,808</u>

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2013

**NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued**

***Non-Commitment Debt***

Harrah Tax Increment Finance Authority Revenue Notes- Series 2009

On December 28, 2008, the Harrah Tax Increment Finance Authority issued tax increment revenue notes in the aggregate principal amount of \$15,760,000 with a maturity date on July 1, 2035. The Notes will be issued on a drawdown basis as project costs are incurred. The Notes shall bear interest and principal on a monthly basis, as more fully set out in a Loan Agreement and Security Agreement dated December 1, 2009. The Notes were issued in furtherance of the implementation of the Harrah Town Center Economic Development Project Plan. The proceeds of the Notes are financing the certain project costs outlined in the Project Plan.

The Notes are secured by a pledge of certain ad valorem tax and sales and use revenues generated within the Increment District. The Notes are a limited obligation of the Authority and does not constitute an obligation of the State of Oklahoma or the City of Harrah. The Authority has no taxing power.

During the fiscal year ended June 30, 2013, the Authority received and paid \$5,500 of sales tax related to the Tax Increment District.

***Pledge of Future Revenues***

Sales Tax Pledge - The City has entered into a Sales Tax Agreement dated February 1, 2008 of future sales tax revenues to repay the 2004, 2008, 2009 and 2011 Revenue Notes which are payable through March 15, 2032. Proceeds from the notes provided funding for improvements and expansion of the water and sanitary sewer systems. The total principal and interest payable for the remaining life of the notes is \$4,895,563. Pledged sales tax received in the current year was \$1,527,213. Debt service payments on the 2004, 2008, 2009 and 2011 Revenue Notes of \$407,508 for the current fiscal year were 26.7% of pledged sales tax.

Utility Revenue Pledge - The City has pledged the revenues from future sale of water to repay the 2004, 2008, 2009 and 2011 revenue notes which are payable through March 15, 2032. Proceeds from the notes provided funding for improvements and expansion of the water and sanitary sewer systems. The total principal and interest payable for the remaining life of the notes is \$4,895,563. Water and sewer revenues received in the current year were \$996,222. Debt service payments of \$407,508 for the current fiscal year were 40.9% of the pledged water and sewer revenues.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2013

**NOTE 2 - DETAILED NOTES ON ALL FUNDS - Continued**

**2.G. - Compensated absences**

Compensated absences of the City of Harrah as of June 30, 2013, are as summarized as follows:

Governmental activities	\$	80,874
Business-type activities		46,594
Total compensated absences	\$	127,468

**2.H. - Interfund receivables, payables, and transfers**

The composition of interfund balances as of June 30, 2013, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Municipal Court Fund - Agency	\$ 1,001
General Fund	Harrah Public Works Authority	24,631
Capital Projects Fund	Harrah Ind. Econ. Dev. Trust	94,165
Harrah Public Works Authority	Meter Deposit Fund	4,126
		\$ 123,923

Interfund transactions:

	Transfers In			
	<u>General Fund</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Harrah Public Works Authority</u>
Transfer out:				
General Fund	\$ -	509,052	45,069	509,052
Capital Projects Fund	55,081	-	-	114,729
Nonmajor Governmental	14,981	-	-	-
Harrah Public Works Authority	40,000	-	-	-
Totals	\$ 110,062	509,052	45,069	623,781

**City of Harrah, Oklahoma**  
**Notes to the Basic Financial Statements**  
*June 30, 2013*

**NOTE 3 - OTHER INFORMATION**

**3.A. - 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; employee health benefits; unemployment; and natural disasters. The City manages these various risks of loss as follows:

- General Liability - Covered through purchased insurance with a \$1,000 deductible, per occurrence.
- Physical Property - Covered through purchased insurance with a \$1,000 deductible, per occurrence.
- Workers' Compensation - The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year.

As a matter of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. The City is responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. A loss Fund has been established from the proceeds of the fees paid by the City. The City expensed these fees when paid. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's Liability for claim loss is limited to the balance of that fund. However, failure of the State Insurance Fund to honor its obligations could result in losses to the Plan.

- Employee's Group Medical - Covered through purchased insurance with a deductible of \$1,000 per employee and \$3,000 per family.

**3.B. Contingent Liabilities**

***General Litigation***

The City and Utilities Authority are parties to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City.

**City of Harrah, Oklahoma**  
**Notes to the Basic Financial Statements**  
*June 30, 2013*

**NOTE 3 - OTHER INFORMATION - Continued**

**3.B. Contingent Liabilities - Continued**

While the outcome of the above noted proceedings cannot be predicted, due to the self-insurance reserves maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance reserves would not have a material adverse effect on the financial condition of the City.

***Grant Program Involvement***

In the normal course of operations, the City participates in various federal and state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

**3.C. Stewardship, Compliance and Accountability**

By its nature as a local government entity, the City and its component units are subject to various federal, state and local laws and contractual regulations. Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund of the City (excluding public trusts). At June 30, 2013, the City did not have deficits in any funds.

**3.D. Employee Retirement Systems and Pension Plans**

The City of Harrah participates in the Oklahoma State Police Pension and Retirement System and the Oklahoma State Firefighters' Pension and Retirement System, both of which are cost sharing multiple-employer defined benefit plans administered by the State of Oklahoma. Additionally, for other City employees not covered by the other plans, the City maintains the Oklahoma Municipal Retirement Fund, an agent multiple employer defined benefit pension plan and a related defined contribution plan.

***Oklahoma Police Pension and Retirement Plan***

All City police department employees hired before age 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Police Pension and Retirement System (OPPRS). Under this plan, police department personnel contribute 8.0% of base salary and the City contributes an additional 13.0%. The OPPRS issue publicly available financial reports that include financial statements and required supplemental information for the fund. These reports may be obtained by writing to the Oklahoma Police Pension and Retirement System, 101 NW 63<sup>rd</sup> Street, Suite 305, Oklahoma City, OK 73116-7335, or by calling 1-800-347-6552.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2013

NOTE 3 - OTHER INFORMATION - Continued

3.D. Employee Retirement System and Plans - Continued

The required contributions from the City for the OPPRS plan are as follows:

Fiscal Year	Required Contribution	Amount Contributed
2013	\$ 38,824	38,824
2012	37,397	37,397
2011	35,277	35,277

***Oklahoma Firefighter's Pension and Retirement Plan***

All City fire department employees hired before age 45 are covered by a statewide cost sharing multi-employer defined benefit plan adopted under Oklahoma Statutes. This plan is operated and administered by the Oklahoma Firefighters' Pension and Retirement System (OFPRS). Under this plan, fire department personnel contribute 8.0% of base salary and the City contributes an additional 13.0%. The OFPRS issue publicly available financial reports that include financial statements and required supplemental information for the fund. These reports may be obtained by writing to the Oklahoma Firefighters Pension and Retirement System, 4545 north Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414, or by calling 1-800-525-7461.

The required contributions from the City for the OFPRS plan are as follows:

Fiscal Year	Required Contribution	Amount Contributed
2013	\$ 23,849	23,849
2012	22,442	22,442
2011	19,772	19,772

***Oklahoma Municipal Retirement Fund Employee Retirement System (DB)***

The Oklahoma Municipal Retirement Fund Employee Retirement System of Harrah, (the Plan) is a defined benefit retirement plan (the DB plan) covering City employees not covered by other plans. The Plan operates as a trust maintained by the Oklahoma Municipal Retirement Fund (OMRF). The OMRF board of trustees retains JP Morgan Chase as custodian to hold the Plan assets which are invested by various professional managers. All regular, full-time City employees not covered by other plans are required to participate in the Plan. Benefits vest after five years of service. Employees who retire at age 65 or completion of five years of service are entitled to an annual retirement benefit, payable monthly in an amount equal to 2.625% of final average compensation multiplied by the number of years of credited service.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2013

**NOTE 3 - OTHER INFORMATION - Continued**

**3.D. Employee Retirement System and Plans - Continued**

***Oklahoma Municipal Retirement Fund Employee Retirement System (DB) - Continued***

An employee is eligible for an early retirement benefit upon attaining age 55 and completion of five years of service. The amount of benefit is determined based on the final average salary and credited service as of the date of termination. If benefit payments are to begin before age 65, the amount of benefit will be actuarially reduced. A late retirement benefit is computed in the same manner as a normal retirement based on average salary and credited service as of the termination of employment.

A participant who becomes totally and permanently disabled after completion of five years of service will be entitled to a disability benefit computed as an early retirement benefit based on average salary and service as of the date of disability but without actuarial reduction for payments beginning prior to normal retirement age if the employee is also eligible for a disability benefit from Social Security.

Employee contributions are returned with interest if their employment is terminated prior to completion of five years of service. A death benefit is payable after five years of service based on 50.0% of the employee's accrued benefit. This benefit is payable for life or until remarriage of the surviving spouse. For a vested single participant, 50.0% of the accrued benefit is payable for 60 months certain.

The following amount shown as the actuarial accrued liability is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plan on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to the Plan.

The actuarial accrued liability was computed as part of an actuarial valuation dated March 31, 2013. Significant actuarial assumptions used in the valuation include 1) a rate of return on the investment of present and future assets of 7.50% compounded annually, and 2) future salary increases of 5.25% per year.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2013

NOTE 3 - OTHER INFORMATION - Continued

3.D. Employee Retirement System and Plans - Continued

*Oklahoma Municipal Retirement Fund Employee Retirement System (DB) - Continued*

Net Position available for benefits at actuarial value were less than the total actuarial liability (entry age normal) by \$535,606 at January 1, 2013, (the most recent information available) as follows:

Actuarial liability:	
Retirees, survivors, and deferred vested	\$ 595,035
Active employees	<u>1,319,539</u>
Total	1,914,574
Net assets available for benefits (actuarial value)	<u>1,378,968</u>
Unfunded actuarial liability	\$ <u>(535,606)</u>

The Plan's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so sufficient assets will be available to pay benefits when due. Required contributions are determined using the aggregate entry age normal cost method. Unfunded actuarial accrued liabilities are being amortized as a level percentage of payrolls over a period of 30 years.

For the year ended June 30, 2013, the City's payroll for all employees and the City's total covered payroll was \$625,917. Covered payroll refers to all compensation paid by the City of Harrah to active employees covered by the Plan on which contributions are based.

For the year ended June 30, 2013, employees were required to contribute 5.25% of annual compensation, while the City contributed the remaining amounts necessary to fund the pension plan, using an actuarial basis. The City's contribution rate for the year ended June 30, 2013, was 13.28.

The required contributions from the City for the OMRF plan are as follows:

Fiscal Year	Required Contribution	Amount Contributed
2013	\$ 83,119	83,119
2012	81,957	81,957
2011	77,765	77,765

Significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation as described above.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2013

**NOTE 3 - OTHER INFORMATION - Continued**

**3.D. Employee Retirement System and Plans - Continued**

***Oklahoma Municipal Retirement Fund Employee Retirement System (DB) - Continued***

The schedule of funding progress for the Plan for the current and past nine years is as follows:

Actuarial Valuation Date	Value of Assets Available For Benefits	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percentage Funded	Annual Covered Payroll	Accrued Liability as a Percentage of Covered Payroll
01/01/04	\$ 576,303	835,434	259,132	69.00%	443,315	58.50%
01/01/05	667,117	911,455	244,339	73.20%	452,879	54.00%
01/01/06	746,898	914,504	167,606	81.70%	443,631	37.80%
01/01/07	860,483	1,209,241	348,757	71.20%	525,339	66.40%
01/01/08	979,806	1,306,628	326,823	75.00%	501,262	65.20%
01/01/09	972,998	1,324,279	351,281	73.50%	560,144	62.70%
01/01/10	1,049,192	1,506,623	457,431	69.60%	589,111	77.60%
01/01/11	1,145,406	1,635,546	490,140	70.00%	599,045	81.80%
01/01/12	1,240,450	1,761,848	521,398	70.40%	604,302	86.30%
01/01/13	1,378,968	1,914,574	535,606	72.00%	597,919	89.60%

**OMRF Defined Contribution Plan (DC) -**

The City has provided a defined contribution plan and trust known as the City of Harrah Plan and Trust (the Plan) in the form of The Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF). OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The plan is administered by JP Morgan Chase Bank, Oklahoma. The defined contribution plan is available to all full-time employees except those participating in state fire and police programs. Benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate upon employment, and are required to make contributions to the plan of 2% and make additional contributions at their option. By City ordinance, the City, as employer, is required to make contributions at a current rate of 1% of covered payroll. The City's contributions for each employee (and interest allocated to the employee account) are vested at a rate of 100% after 5 years of service. City contributions for, and interest forfeited by, employees who leave employment prior to fully vesting are allocated back to remaining participants. The authority to establish and amend the provisions of the plan rests with the City Council.

For the year ended June 30, 2013, the City contributed \$5,859 to the plan, while the employee contributions totaled \$13,066.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2013

**NOTE 3 - OTHER INFORMATION - Continued**

**3.D. Employee Retirement System and Plans - Continued**

**OMRF Defined Contribution Plan (DC) - Continued**

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Dr., Oklahoma City, Oklahoma 73105.

***Deferred Compensation Plan***

The City makes available to all full-time employees a deferred compensation plan. The DC Plan was created in accordance with Section 457 of the *Internal Revenue Code*, and permits employees to defer a portion of their salary until future years. According to the plan, the deferred compensation is not available to employees until termination, retirement, death or in case of an unforeseeable emergency.

The City makes no contributions to the Deferred Compensation Plan which the employees may contribute up to a maximum of 25% of compensation of \$17,500 annually, whichever is less. Vesting in such contributions is 100% immediately. During the year ended June 30, 2013, employees contributed \$3,551 to the DC Plan.

**3.E. Other Post-Employment Benefits**

*Plan Description:* City provides post-retirement benefit options for health care, prescription drug, dental and vision benefits for retired employees and their dependents that elect to make required contributions. The benefits are provided in accordance with State Law, police and firefighter's union contracts and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The relationship for these benefits is not formalized in a contract or plan document, only a few sentences in the administrative policy. These benefits are considered for accounting purposes to be provided in accordance with a single employer substantive plan. A substantive plan is one in which the plan terms are understood by the City and plan members. This understanding is based on communications between the employers and plan member and the historical pattern of practice with regard to the sharing of benefit costs.

Substantially all of the government's employees may become eligible for those post-retirement benefits if they reach normal retirement age while working for the City. The plan is only provided for employees between the ages of 62 and 65. As of June 30, 2013, approximately no retired employees are receiving benefits under this plan.

*Funding Policy.* The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2013

**NOTE 3 - OTHER INFORMATION - Continued**

**3.E. Other Post-Employment Benefits - Continued**

There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree. The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2013, the City contributed 0% to the plan for previously retired employees (0 retirees) and 0% of premiums on newly retired employees (0 retirees).

*Annual OPEB Cost and Net OPEB Obligation.* The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. GASB 45 requires entities with over 200 employees to have the actuarial valuation performed biennially. The City is not required to perform the actuarial valuation of the OPEB cost and related OPEB obligation for the year ended June 30, 2013 since no one is participating at this time.

Actuarial valuations of an ongoing plan involve estimates of the value of reporting amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**4. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 1, 2013, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**City of Harrah, Oklahoma**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**For the Year Ended June 30, 2013**

	Budget		Actual	Final Budget Over (Under)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 2,251,000	2,249,000	2,413,337	164,337
Intergovernmental	4,500	4,500	4,484	(16)
Licenses and permits	45,000	47,500	70,043	22,543
Fines and forfeitures	125,000	125,000	136,000	11,000
Interest	-	500	394	(106)
Miscellaneous	106,600	15,800	20,870	5,070
Total revenues	<u>2,532,100</u>	<u>2,442,300</u>	<u>2,645,128</u>	<u>202,828</u>
<b>EXPENDITURES</b>				
General government:				
General government	200,915	337,871	128,184	209,687
City manager	13,000	13,180	13,120	60
Administration	228,747	194,700	172,799	21,901
Code enforcement	105,681	105,681	78,077	27,604
Legal	28,674	30,174	21,777	8,397
Public safety:				
Police	705,820	677,465	642,506	34,959
Fire	426,706	427,582	350,977	76,605
Culture and recreation:				
Senior citizen center	55,800	55,916	55,183	733
Total expenditures	<u>1,765,343</u>	<u>1,842,569</u>	<u>1,462,623</u>	<u>379,946</u>
Excess (deficiency) of revenues over (under) expenditures	766,757	599,731	1,182,505	582,774
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers	<u>(950,000)</u>	<u>(922,304)</u>	<u>(949,913)</u>	<u>(27,609)</u>
Net change in fund balances	(183,243)	(322,573)	232,592	555,165
Fund balances - beginning	268,496	322,573	508,499	185,926
Fund balances - ending	<u>\$ 85,253</u>	<u>-</u>	<u>741,091</u>	<u>741,091</u>

See accompanying notes to the basic financial statements.

**City of Harrah, Oklahoma**  
**Capital Projects Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual**  
**For the Year Ended June 30, 2013**

	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
<b>REVENUES</b>				
Intergovernmental	\$ 135,000	135,000	4,604	(130,396)
Interest	1,000	1,000	628	(372)
Miscellaneous	-	-	38,831	38,831
Total revenues	<u>136,000</u>	<u>136,000</u>	<u>44,063</u>	<u>(91,937)</u>
<b>EXPENDITURES</b>				
General government:				
General government	13,000	155,670	42,300	113,370
Administration	-	-	-	-
Code enforcement	-	1,000	739	261
Public safety:				
Police	259,050	243,450	98,414	145,036
Fire	287,100	262,125	118,214	143,911
Culture and recreation:				
Senior citizen center	67,800	67,800	6,592	61,208
Parks	-	31,200	142,875	(111,675)
Streets	5,500	5,500	4,815	685
Public works	578,550	543,543	74,828	468,715
Total expenditures	<u>1,211,000</u>	<u>1,310,288</u>	<u>488,777</u>	<u>821,511</u>
Excess (deficiency) of revenues over (under) expenditures	(1,075,000)	(1,174,288)	(444,714)	729,574
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers	475,000	475,000	339,242	(135,758)
Net change in fund balances	(600,000)	(699,288)	(105,472)	593,816
Fund balances - beginning	600,000	699,288	950,206	250,918
Fund balances - ending	<u>\$ -</u>	<u>-</u>	<u>844,734</u>	<u>844,734</u>

See accompanying notes to the basic financial statements.

**City of Harrah, Oklahoma**  
**Notes to Required Supplemental Information**  
***For the Year Ended June 30, 2013***

**BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise fund adopts budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

Prior to July 1, the City Manager (not an elected official) submits a proposed operating budget for the fiscal year commencing July 1, to the Council Members (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlay, transfers and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the City Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

The City uses encumbrance accounting. Encumbrances are recorded when purchase orders are issued but generally are not considered expenditures until liabilities for payments are incurred. At year-end, open purchase orders are reviewed and payments are made on those where receipt of goods and services is eminent. The remaining purchase orders (and encumbrances) are cancelled and reissued during the following year. There are no outstanding encumbrances at year-end.

**OTHER SUPPLEMENTARY  
INFORMATION**

**City of Harrah, Oklahoma**  
**Nonmajor Governmental Funds**  
**Combining Balance Sheet**  
*June 30, 2013*

	Special Revenue			Debt Service Fund	Total Nonmajor Governmental Funds
	Street & Alley	Harrah Ind. Econ. Dev. Trust	Park Funds		
<u>ASSETS</u>					
Cash and cash equivalents	\$ 90,083	1,715	18,228	-	110,026
Receivables, net	4,365	-	-	-	4,365
<b>TOTAL</b>	<b>94,448</b>	<b>1,715</b>	<b>18,228</b>	<b>-</b>	<b>114,391</b>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Deposits	-	-	3,517	-	3,517
Due to other funds	-	94,165	-	-	94,165
<b>Total Liabilities</b>	<b>-</b>	<b>94,165</b>	<b>3,517</b>	<b>-</b>	<b>97,682</b>
Fund balances:					
Reserved:					
For other purposes	94,448	(92,450)	14,711	-	16,709
<b>Total Fund Balances</b>	<b>94,448</b>	<b>(92,450)</b>	<b>14,711</b>	<b>-</b>	<b>16,709</b>
<b>TOTAL</b>	<b>\$ 94,448</b>	<b>1,715</b>	<b>18,228</b>	<b>-</b>	<b>114,391</b>

See accompanying notes to the basic financial statement.

**City of Harrah, Oklahoma**  
**Nonmajor Governmental Funds**  
**Statement of Revenues, Expenses and Changes in Fund Balances**  
**For the Year Ended June 30, 2013**

	Special Revenue			Debt Service Fund	Total Nonmajor Governmental Funds
	Street & Alley	Harrah Ind. Econ. Dev. Trust	Park Funds		
<b>REVENUES</b>					
Taxes	\$ 46,815	-	-	-	46,815
Charge for services	-	-	3,620	-	3,620
Interest	-	2	6	15	23
Miscellaneous	-	-	300	-	300
Total revenues	<u>46,815</u>	<u>2</u>	<u>3,926</u>	<u>15</u>	<u>50,758</u>
<b>EXPENDITURES</b>					
Maintenance & operations	47,034	1,606	43,640	-	92,280
Capital outlay	-	-	-	-	-
Total expenditures	<u>47,034</u>	<u>1,606</u>	<u>43,640</u>	<u>-</u>	<u>92,280</u>
Excess (deficiency) of revenues over expenditures	<u>(219)</u>	<u>(1,604)</u>	<u>(39,714)</u>	<u>15</u>	<u>(41,522)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	45,069	-	45,069
Transfers out	-	-	-	(14,981)	(14,981)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>45,069</u>	<u>(14,981)</u>	<u>30,088</u>
Net change in fund balances	(219)	(1,604)	5,355	(14,966)	(11,434)
Fund balances-beginning	94,667	(90,846)	9,356	14,966	28,143
Fund balances-ending	<u>\$ 94,448</u>	<u>(92,450)</u>	<u>14,711</u>	<u>-</u>	<u>16,709</u>

See accompanying notes to the basic financial statement.

# DILLON & ASSOCIATES, P.C.

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## INDEPENDENT AUDITOR'S REPORT 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

Honorable Mayor and City Council Members  
City of Harrah, Oklahoma

We 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 the City of Harrah, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Harrah's basic financial statements and have issued our report thereon dated September 1, 2013.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Harrah's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Harrah's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Harrah'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of reportable

findings and responses that we consider to be significant deficiencies, referred to as Findings 2013-01 and 2013-02.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Harrah's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City of Harrah's Response to Findings**

The City of Harrah's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City of Harrah's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

***Dillon & Associates, P.C.***

Midwest City, Oklahoma  
September 1, 2013

City of Harrah, Oklahoma  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended June 30, 2013

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS - THROUGH GRANTOR NUMBER	FEDERAL EXPENDITURES
<b>FEDERAL PROGRAMS</b>			
<u>U.S. Land &amp; Water Conservation Fund</u>			
Passed through Oklahoma Tourism and Recreation Dept:			
Harrah Splash Park Grant	15-916	40-01194	\$ <u>4,604</u>
Total U.S. Land & Water Conservation Fund			<u>4,604</u>
Total Federal Assistance			<u><u>4,604</u></u>
<b>STATE PROGRAMS</b>			
<u>State of Oklahoma</u>			
Oklahoma Department of Agriculture			
Rural Fire Program			4,484
Oklahoma State Arts Council			
Small Grant Support			<u>2,937</u>
Total State of Oklahoma			<u>7,421</u>
Total Federal and State Assistance			\$ <u><u>12,025</u></u>

CITY OF HARRAH, OKLAHOMA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2013

NOTE A - BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal awards activity of the City of Harrah, Oklahoma (the "City"), and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

CITY OF HARRAH, OKLAHOMA  
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2013

**Finding 2013-01 - Internal Control - Material Adjusting Journal Entries**

*Criteria* - The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balance required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balance prior to audit.

*Condition* - The government's trial balance for the year ended June 30, 2013, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: yearend revenue accruals, depreciation expense, and transactions related to debt service.

*Cause* - Although the government's accounting and financial reporting staff possess the necessary knowledge and expertise to provide reasonable assurance that the trial balances used for preparing the governmental GAAP financial statements are complete and accurate prior to audit, because of work load and other time constraints sufficient efforts were not expended to correct these misstatements prior to the auditor's arrival to perform fieldwork. As a result, management had to rely on the external auditors to identify and correct a number of material misstatements in the trial balance. However, management was able to review, understand and accept the adjusting entries proposed by the external auditor in order to take responsibility for them and the financial statements.

*Effect or Potential Effect* - As a result of this condition, without reliance on its external auditors, the government did not comply with its internal controls over completeness and accuracy of the trial balances that are used in the preparation of financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management continues to rely on the external auditor. To detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence since management is responsible for the completeness and accuracy of the financial statements.

**CITY OF HARRAH, OKLAHOMA  
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2013**

*Recommendation* - The accounting and financial reporting staff should spend sufficient time in evaluating the completeness and accuracy of trial balances that will be used to prepare the government's annual financial statements. If accounting staff doesn't have sufficient time because of workload constraints the government might consider outsourcing certain activities to other individuals or a qualified accounting firm other than the external auditor.

*Management's Response* - The City concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements.

**Finding 2013-02 - Internal Control - Reconciliation of Utility Accounts Receivable**

*Criteria* - The City should have adequate controls in place to prepare a timely reconciliation of utility billings, collections, adjustments and ending account receivable balances to the general ledger.

*Condition* - Internal controls should be in place that provides reasonable assurance that reconciliations are being produced on a monthly basis.

*Cause* - The City failed to produce month end aged customer accounts receivable reports and reconcile the utility billing, collections and adjustments to the monthly receivable reports. Because of work load and other time constraints sufficient efforts, the accounting staff did not prepare the necessary reconciliations.

*Effect or Potential Effect* - Without controls in place to insure the proper reconciliations errors or irregularities may occur and go undetected and uncorrected.

*Recommendation* - We recommend that the City perform proper reconciliations of the utility accounts receivable aging reports with the general ledger control account balances on a monthly basis.

*Management's Response* - The City concurs with the recommendation and has adjusted their controls to insure timely and accurate reconciliations.