

**CITY OF HARRAH, OKLAHOMA**  
**ANNUAL FINANCIAL STATEMENTS AND**  
**INDEPENDENT AUDITOR'S REPORTS**  
**AS OF AND FOR THE FISCAL YEAR ENDED**  
**JUNE 30, 2012**

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**INDEPENDENT AUDITOR'S  
REPORT**

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**INDEPENDENT AUDITOR'S REPORT**

City Council  
City of Harrah  
Harrah, Oklahoma

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 (the City), as of and for the year ended June 30, 2012, which collectively comprise the City of Harrah's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Harrah's management. Our responsibility is to express an opinion 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 includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2012, on our consideration of the City of Harrah's internal control over financial reporting and 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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 and budgetary comparison information on pages 49 through 50 and the notes on page 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basis 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.

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 schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

Midwest City, Oklahoma  
October 10, 2012

# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

The following discussion and analysis of the City of Harrah's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's financial statements, which begin on page 13.

**Financial Highlights**

- The assets of the City of Harrah exceeded its liabilities at the close of the most recent fiscal year by \$10,068,571 (net assets), an increase of \$242,184 or 2.4% from the prior year.
- During the year, the City's expenses for governmental activities were \$2,181,947 and were funded by program revenues of \$176,554 and further funded with taxes and other general revenues, grants and net transfers that totaled \$2,247,577.
- In the business-type activities, which are primarily utilities, had program expenses of \$1,636,254 and were funded by program revenues and other general revenues and net transfers that totaled \$1,756,831.
- Sales and use taxes increased by \$91,073 or 4.8% over the prior fiscal year.
- At June 30, 2012, the General Fund reported an unreserved, undesignated fund balance of \$508,499, an increase of \$108,458 from the prior year.
- The City's total debt increased by \$259,877 during the current fiscal year. The key factors were loan issuances related to draw downs on the 2011 OWRB water line note and principal payments made on OWRB revenue notes.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Harrah's basic financial statements. The City of Harrah'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 assets presents information on all of the City of Harrah's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Harrah is improving or deteriorating.

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 of Harrah 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 of Harrah include general government, public safety, and public works. The business-type activities of the City of Harrah are comprised of the Harrah Public Works Authority which operates the City's water and wastewater operations.

The government-wide financial statements include the City of Harrah and the Harrah Public Works Authority. Although the Harrah Public Works Authority is legally a separate entity, it functions for all practical purposes as departments of the City of Harrah, and therefore has 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 of Harrah, 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 of Harrah 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.



**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

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 and the capital improvement fund, which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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 on pages 16-18 of this report.

**Proprietary funds.** The City maintains one type of proprietary funds. 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.

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 major fund of the City.

The basic proprietary fund financial statements can be found on pages 19-21 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City has two fiduciary funds-the meter deposit fund and the municipal court fund, which are agency funds.

The fiduciary fund financial statements can be found on page 22 of the report.

**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 on pages 23-48 of this report.

**Management's Discussion and Analysis**  
***For the Fiscal Year Ended June 30, 2012***  
***Unaudited***

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's actual revenues and expenditures on a budgetary basis compared with the original and final budgets for the general fund. Required supplementary information can be found on pages 49-50 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on budget and actual revenues and expenditures for the general fund. Combining and individual fund statements and schedules can be found on pages 52-53 of this report.

**Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$10,068,571 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (76.8%) 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.

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

Table 1  
Net Assets  
(In Thousands)

	Governmental		Business-type		Total	
	<u>Activities</u>		<u>Activities</u>		<u>Primary Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 1,494	1,107	952	898	2,446	2,005
Capital assets	2,256	2,414	10,104	9,766	12,360	12,180
Total assets	<u>3,750</u>	<u>3,521</u>	<u>11,056</u>	<u>10,664</u>	<u>14,806</u>	<u>14,185</u>
Long-term debt outstanding	178	187	4,441	4,171	4,619	4,358
Other liabilities	39	44	79	78	118	122
Total liabilities	<u>217</u>	<u>231</u>	<u>4,520</u>	<u>4,249</u>	<u>4,737</u>	<u>4,480</u>
Net assets:						
Invested in capital assets, net of debt	2,078	2,227	5,663	5,594	7,741	7,821
Restricted	978	702	274	517	1,252	1,219
Unrestricted	477	361	599	304	1,076	665
Total net assets	<u>\$ 3,533</u>	<u>3,290</u>	<u>6,536</u>	<u>6,415</u>	<u>10,069</u>	<u>9,705</u>

A portion of the City's net assets (12.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets of \$1,075,832 may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets increased by \$362,761 during the current fiscal year. This increase represents the overall excess of revenues over expenses, including depreciation of \$666,148.

**Governmental activities.** Governmental activities increased the City's net assets by \$242,184. The increase included a non-cash charge for depreciation on capital assets of \$238,373.

**Business-type activities.** Business-type activities increased the City's net assets by \$120,577. The increase in net assets included a non-cash charge for depreciation on capital assets of \$427,775.

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

Table 2  
**Changes in Net Assets**  
(In Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Revenues:</b>						
<b>Program revenues</b>						
Charges for services \$	177	568	1,552	817	1,729	1,385
Operating grants	4	4	-	-	4	4
Capital grants	114	276	-	-	114	276
<b>General revenues</b>						
Sales and use taxes	1,970	1,428	-	453	1,970	1,881
Franchise tax (fees)	238	217	-	-	238	217
Other taxes	80	83	-	-	80	83
Investment income	2	2	-	-	2	2
Other	33	31	12	19	45	50
Total revenues	<u>2,618</u>	<u>2,609</u>	<u>1,564</u>	<u>1,289</u>	<u>4,182</u>	<u>3,898</u>
<b>Expenses:</b>						
General government	583	1,019	-	-	583	1,019
Public safety	1,058	1,071	-	-	1,058	1,071
Public works	156	-	-	-	156	-
Cultural & recreation	385	142	-	-	385	142
Water/wastewater	-	-	1,636	1,325	1,636	1,325
Total expenses	<u>2,182</u>	<u>2,232</u>	<u>1,636</u>	<u>1,325</u>	<u>3,818</u>	<u>3,557</u>
<b>Increase in net assets</b>						
before transfers	436	377	(72)	(36)	364	341
Transfers	(193)	(123)	193	123	-	-
Change in net assets	<u>243</u>	<u>254</u>	<u>121</u>	<u>87</u>	<u>364</u>	<u>341</u>
Beginning net assets	3,290	3,036	6,415	6,328	9,705	9,364
Ending net assets \$	<u><u>3,533</u></u>	<u><u>3,290</u></u>	<u><u>6,536</u></u>	<u><u>6,415</u></u>	<u><u>10,069</u></u>	<u><u>9,705</u></u>

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

**Governmental activities.** Governmental activities increased the City's net assets by \$242,184. The key element of this increase is an overall increase in revenues.

For the most part, increases in expenses resulted from the charging of depreciation expense on capital assets to various functional areas.

**Business-type activities.** Business-type activities increased the City's net assets by \$120,577. The key element in this increase is an increase in utility revenues.

### **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, unreserved 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 \$1,486,848, an increase of \$384,341, in comparison with the prior year. Approximately 34.1% of this total amount, \$508,499 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for capital improvements.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$508,499. As a measure of the general fund's liquidity, it may be useful to compare fund balance to total fund expenditures. Unreserved fund balance represents 35.2% of total general fund expenditures.

The fund balance of the City's general fund increased by \$108,458 during the current fiscal year.

**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 assets of the Harrah Public Works Authority at the end of the year amounted to \$599,307. Net assets increased by \$120,577 compared to the prior year.

- Operating revenues increased by \$735,289 from the prior year, mainly to recording sanitation in the Authority. Previously it was included in General Fund revenues.
- Operating expenses (excluding depreciation) increased by \$171,274 over the prior year, mainly in the water and sewer departments.

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

**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 \$2,436,268 were \$27,101 more than the estimated revenues in the budget of \$2,409,167. Actual expenditures of \$1,442,212 were \$307,088 less than the \$1,749,300 approved in budget appropriations. After transfers out of \$885,598 to other governmental funds, the City increased its carryforward funds by \$108,458. The amount of carryover funds budget for expenditure was \$508,499.

**Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$12,360,309 (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:

- Construction of water line.
- Construction of waste water treatment plant.

Table 3  
 Capital Assets  
 (In Thousands)

	Governmental Activities <u>2012</u>	Business-type Activities <u>2012</u>	Total <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	1,576	16,043	17,619
	<u>5,041</u>	<u>17,450</u>	<u>22,491</u>
Less : Accumulated depreciation	<u>2,785</u>	<u>7,346</u>	<u>10,131</u>
Net capital assets	<u>\$ 2,256</u>	<u>10,104</u>	<u>12,360</u>

**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2012**  
**Unaudited**

	Governmental	Business-type	Total
	Activities	Activities	
	<u>2011</u>	<u>2011</u>	
Land	\$ 102	1,827	1,929
Building and improvements	903	468	1,371
Machinery and equipment	968	845	1,813
Vehicles	1,442	-	1,442
Infrastructure	1,546	13,544	15,090
	<u>4,961</u>	<u>16,684</u>	<u>21,645</u>
Less : Accumulated depreciation	<u>2,547</u>	<u>6,918</u>	<u>9,465</u>
Net capital assets	<u>\$ 2,414</u>	<u>9,766</u>	<u>12,180</u>

Additional information of the City's capital assets can be found in Note 2.D. on pages 35-36 of this report.

**Long-term debt.** As of the end of the current fiscal year, the City had total debt outstanding of \$4,618,962. This represents debt secured solely by specified revenue sources (i.e., revenue notes) and real estate.

Table 4  
**Outstanding Debt**  
(In Thousands)

	Governmental	Business-type	Total
	Activities	Activities	
	<u>2012</u>	<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>

	Governmental	Business-type	Total
	Activities	Activities	
	<u>2011</u>	<u>2011</u>	
Notes payable	\$ 187	4,172	4,359
Other	-	-	-
Net long-term debt	<u>\$ 187</u>	<u>4,172</u>	<u>4,359</u>

**Management's Discussion and Analysis**  
*For the Fiscal Year Ended June 30, 2012*  
*Unaudited*

The City's total debt increased by \$259,877 during the current fiscal year. The key factors were loan issuances related to draw downs on the 2011 OWRB water line note and principal payments made on OWRB revenue notes.

Additional information on the City's long-term debt can be found in Notes 2.F. on pages 37-39 of this report.

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

The City's elected and appointed officials considered many factors when setting the fiscal-year 2012-2013 budget, tax rates, and fees that will be charged for the proprietary fund type activities. One of these factors is the economy. A potential downturn of the national economy is expected to have limited effect on the local economy for the coming year. Employment costs are stable and sales tax revenues continue to increase over previous periods. Utility revenues are expected to continue to increase at a moderate rate.

These indicators were taken into account when adopting the general fund budget for 2012-2013.

- ❖ Revenues 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, 2012.
- ❖ As for the City's proprietary fund activities, we expect growth in the revenues and expenses over those received in 2012 due to a water and sewer rate increase.

All of these factors were considered in preparing the City's budget for the 2012-2013 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$508,499. The City has this amount available for spending in the 2012-2013 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges during the 2012-2013 fiscal year.

### **Requests for Information**

This financial report is designed to provide our citizens, funding agencies, investors, and creditors with a general overview of the City's finances and to show 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.

Earl Burson  
City Manager



# **BASIC FINANCIAL STATEMENTS**

**City of Harrah, Oklahoma**  
**Statement of Net Assets**  
*June 30, 2012*

	<b>Primary Government</b>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Pooled cash and cash equivalents	\$ 590,871	259,853	850,724
Investments	544,207	117,379	661,586
Receivables (net of allowance for uncollectibles)	54,753	77,175	131,928
Internal balances	28,159	(23,819)	4,340
Receivables from other governments	275,760	43,013	318,773
Bond issue cost (net of accumulated amortization)	-	211,691	211,691
Restricted assets:			
Restricted cash and investments	-	273,043	273,043
Capital assets:			
Land, improvements, and construction in progress	101,528	-	101,528
Other capital assets, net of depreciation	2,154,626	10,104,154	12,258,780
Total assets	<u>3,749,904</u>	<u>11,062,489</u>	<u>14,812,393</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	6,902	1,153	8,055
Compensated absences payable	31,974	30,051	62,025
Notes payable, current	9,929	275,571	285,500
Liabilities payable from restricted assets	-	48,102	48,102
Notes payable, non-current	168,080	4,165,382	4,333,462
Total liabilities	<u>216,885</u>	<u>4,520,259</u>	<u>4,737,144</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,078,145	5,663,202	7,741,347
Restricted for:			
Special revenue projects	28,143	-	28,143
Capital projects	950,206	214,276	1,164,482
Debt service	-	58,767	58,767
Unrestricted (deficit)	476,525	605,985	1,082,510
Total net assets	<u>\$ 3,533,019</u>	<u>6,542,230</u>	<u>10,075,249</u>

See accompanying notes to the basic financial statement.

City of Harrah, Oklahoma  
Statement of Activities  
For the Year Ended June 30, 2012

<u>Functions/Programs</u>	Expenses	Program Revenues		Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<b>Primary government:</b>					
Governmental activities:					
General government	\$ 582,646	72,077	-	-	(510,569)
Public safety:					
Police	654,496	92,231	-	-	(562,265)
Fire	404,317	-	4,413	-	(399,904)
Public works	155,975	12,246	-	-	(143,729)
Culture and recreation	384,513	-	-	113,532	(270,981)
<b>Total government activities</b>	<u>2,181,947</u>	<u>176,554</u>	<u>4,413</u>	<u>113,532</u>	<u>(1,887,448)</u>
Business-type activities:					
Water and sewer	1,636,254	1,552,113	-	-	(84,141)
<b>Total business-type activities</b>	<u>1,636,254</u>	<u>1,552,113</u>	<u>-</u>	<u>-</u>	<u>(84,141)</u>
<b>Total primary government</b>	<u><u>3,818,201</u></u>	<u><u>1,728,667</u></u>	<u><u>4,413</u></u>	<u><u>113,532</u></u>	<u><u>(1,971,589)</u></u>

City of Harrah, Oklahoma  
Statement of Activities  
For the Year Ended June 30, 2012

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Change in net assets:</b>			
<b>Net (expense) revenue</b>	\$ (1,887,448)	(84,141)	(1,971,589)
<b>General revenues:</b>			
Taxes:			
Sales taxes	1,898,822	-	1,898,822
Use taxes	70,745	-	70,745
Franchise taxes (fees)	237,852	-	237,852
Other taxes	80,267	-	80,267
Unrestricted investment income	1,580	457	2,037
Miscellaneous	33,213	18,092	51,305
Transfers	(192,847)	192,847	-
Total general revenues and transfers	2,129,632	211,396	2,341,028
<b>Change in net assets</b>	242,184	127,255	369,439
<b>Net assets - beginning</b>	3,290,835	6,414,975	9,705,810
<b>Net assets - ending</b>	\$ 3,533,019	6,542,230	10,075,249

See accompanying notes to the basic financial statement.

**City of Harrah, Oklahoma**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2012**

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 313,759	155,289	121,823	590,871
Investments	-	544,207	-	544,207
Receivables - Accounts, net	54,753	-	-	54,753
Receivable - Grant	-	113,532	-	113,532
Receivables - Taxes	115,365	43,013	3,850	162,228
Due from other funds	28,159	94,165	-	122,324
	<u>512,036</u>	<u>950,206</u>	<u>125,673</u>	<u>1,587,915</u>
<b>Total assets</b>				
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Customer deposits	3,537	-	3,365	6,902
Due to other funds	-	-	94,165	94,165
	<u>3,537</u>	<u>-</u>	<u>97,530</u>	<u>101,067</u>
<b>Total liabilities (Note 2)</b>				
Fund balances:				
Reserved for:				
Capital outlay/improvements	-	950,206	-	950,206
For other purposes	-	-	28,143	28,143
Unreserved, reported in:				
General fund	508,499	-	-	508,499
	<u>508,499</u>	<u>950,206</u>	<u>28,143</u>	<u>1,486,848</u>
<b>Total fund balances</b>				
<b>Total liabilities and fund balances</b>	<b>\$ <u>512,036</u></b>	<b><u>950,206</u></b>	<b><u>125,673</u></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.				2,256,154
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:				
Note payable				(178,009)
Accrued compensated absences				(31,974)
				<u>(178,009)</u>
				<u>(31,974)</u>
<b>Net assets of governmental activities</b>				<b>\$ <u>3,533,019</u></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, 2012

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 2,242,460	-	45,226	2,287,686
Intergovernmental	4,413	113,532	-	117,945
Licenses and permits	72,077	-	-	72,077
Charge for services	4,800	-	7,446	12,246
Fines and forfeitures	92,231	-	-	92,231
Interest	475	1,066	39	1,580
Miscellaneous	19,812	7,052	6,349	33,213
Total revenues	<u>2,436,268</u>	<u>121,650</u>	<u>59,060</u>	<u>2,616,978</u>
<b>EXPENDITURES</b>				
Current:				
General government	111,017	52,659	99,117	262,793
City manager	2,154	-	-	2,154
Administration	209,004	-	-	209,004
Code enforcement	71,581	5,776	-	77,357
Legal	21,177	-	-	21,177
Police	633,347	20,229	-	653,576
Fire	338,921	11,488	-	350,409
Senior citizens center	55,011	10,638	-	65,649
Parks	-	249,247	-	249,247
Streets	-	6,983	-	6,983
Public works	-	141,441	-	141,441
Total expenditures	<u>1,442,212</u>	<u>498,461</u>	<u>99,117</u>	<u>2,039,790</u>
Excess (deficiency) of revenues over expenditures	<u>994,056</u>	<u>(376,811)</u>	<u>(40,057)</u>	<u>577,188</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	94,425	715,326	31,850	841,601
Transfers out	(980,023)	(54,425)	-	(1,034,448)
Total other financing sources and use:	<u>(885,598)</u>	<u>660,901</u>	<u>31,850</u>	<u>(192,847)</u>
Net change in fund balances	108,458	284,090	(8,207)	384,341
Fund balances-beginning	400,041	666,116	36,350	1,102,507
Fund balances-ending	<u>\$ 508,499</u>	<u>950,206</u>	<u>28,143</u>	<u>1,486,848</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, 2012*

Net change in fund balances - total governmental funds	\$	384,341
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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	80,134	
Depreciation expense	(238,373)	
	<u>(158,239)</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	9,440	
Change in accrued compensated absences	6,642	
	<u>16,082</u>	

Change in net assets of governmental activities.	\$	<u>242,184</u>
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City of Harrah, Oklahoma  
Proprietary Funds  
Statement of Net Assets  
June 30, 2012

	Harrah Public Works <u>Authority</u>
<u>ASSETS</u>	
Current assets:	
Cash and cash equivalents	\$ 259,853
Investments	117,379
Receivables	
Accounts, net of allowance for uncollectibles	77,175
Taxes	43,013
Restricted assets - cash and investments	273,043
Total current assets	770,463
Non-current assets:	
Debt issuance costs, net of accumulated amortization	211,691
Capital assets, net of accumulated depreciation	10,104,154
Total non-current assets	10,315,845
Total assets	11,086,308
<u>LIABILITIES</u>	
Current liabilities:	
Accounts payable and accrued liabilities	1,153
Accrued interest payable	48,102
Due to other funds	23,819
Current portion of long-term obligations	275,571
Total current liabilities	348,645
Non-current liabilities:	
Notes payable	4,165,382
Accrued compensated absences	30,051
Total non-current liabilities	4,195,433
Total liabilities	4,544,078
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	5,663,202
Restricted:	
Debt service	58,767
Construction	214,276
Unrestricted	605,985
Total net assets	\$ 6,542,230

See accompanying notes to the basic financial statement.



City of Harrah, Oklahoma  
Proprietary Funds  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
For the Year Ended June 30, 2012

	Harrah Public Works <u>Authority</u>
<u>OPERATING REVENUES:</u>	
Charges for services	
Water	\$ 610,105
Wastewater	416,166
Sanitation	441,748
Other	84,094
Total operating revenues	<u>1,552,113</u>
<u>OPERATING EXPENSES:</u>	
Personal services	662,362
Maintenance and operations	331,941
Bad debt expense	2,980
Depreciation and amortization	439,926
Total operating expenses	<u>1,437,209</u>
Operating income (loss)	<u>114,904</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>	
Miscellaneous revenues	18,091
Interest income	457
Interest expense and fiscal charges	(199,045)
Total nonoperating revenues (expenses)	<u>(180,497)</u>
<u>OPERATING TRANSFERS</u>	
Transfers in	474,087
Transfers out	(281,239)
Total operating transfers	<u>192,848</u>
Change in net assets	127,255
Net assets - beginning	6,414,975
Net assets-ending	<u>\$ 6,542,230</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, 2012

	Harrah Public Works <u>Authority</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from customers	\$ 1,499,431
Payments to suppliers	(580,889)
Payments to employees	(418,899)
Net cash provided (used) by operating activities	<u>499,643</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>	
Miscellaneous revenues	18,091
Operating transfers in (out)	192,848
Net cash provided (used) by noncapital financing activities	<u>210,939</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Proceeds from long-term financing, net of issuance costs	472,723
Principal paid on long-term debt	(260,906)
Interest expense and fiscal charges	(199,045)
(Increase) decrease in restricted assets	244,218
(Acquisition) disposition of capital assets	(766,220)
Net cash provided (used) by capital and related financing activities	<u>(509,230)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
(Increase) decrease in investments	(117,380)
Interest received	457
Net cash provided (used) by investing activities	<u>(116,923)</u>
Net increase (decrease) in cash and cash equivalents	84,429
Cash and cash equivalents, beginning of the year	175,424
Cash and cash equivalents, end of the year	<u><u>259,853</u></u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>	
Operating income (loss)	114,904
Adjustments to reconcile operating income to net cash provided by operating activities:	
Cash flows reported in other categories:	
Depreciation and amortization expense	439,926
Change in assets and liabilities:	
(Increase) decrease in receivables	(54,947)
(Increase) decrease in due from other funds	(601)
Increase (decrease) in accounts payable and accrued expenses	361
Total adjustments	<u>384,739</u>
Net cash provided by (used in) operating activities	<u><u>\$ 499,643</u></u>

See accompanying notes to the basic financial statement.

**City of Harrah, Oklahoma**  
**Statement of Fiduciary Net Assets**  
**Agency Funds**  
**June 30, 2012**

	Agency Funds	
	Municipal Court Fund	Meter Deposit Fund
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,430	9,108
Investments	-	64,970
Total assets	2,430	74,078
<b>LIABILITIES</b>		
Customer deposits	-	70,739
Due to bondholders	1,429	-
Due to other funds	1,001	3,339
Total liabilities	2,430	74,078
<b>NET ASSETS</b>	\$ -	-

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, 2012*

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

The City of Harrah, Oklahoma (the City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

**1.A. - REPORTING ENTITY**

The City of Harrah, Oklahoma (the City) was organized as a Town on May 12, 1908, and became a City on September 16, 1992. The City operates under a council-manager form of government under Title 11 of the *Oklahoma Statutes*. The City provides the following services to its citizens: public safety (police and fire), public works (streets and highways), culture and recreation, general government and administration, along with utility services to include water, wastewater, and sanitation.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with the data of the primary government.

**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.

**1.B. - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION - FUND ACCOUNTING**

The City's basic financial statements consist of government-wide statements, including a statement of net assets, and a statement of activities, and fund financial statements, which provide a more detailed level of financial statement information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

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

**1.B. - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION - FUND ACCOUNTING - Continued**

**Government-wide Financial Statements** - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specially associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

**Fund Financial Statements** - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Major funds represent 10% of assets, liabilities, revenues, or expenditures of the corresponding element for all funds of that category *and* is at least 5% of the corresponding element total for all governmental and enterprise funds combined *or* is a fund that government believes is important enough for financial statement users to be reported as a major fund. Each is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**Fund Accounting** - The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**1.B. - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION - FUND ACCOUNTING - Continued**

**Governmental Funds** - are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurements focus and the modified accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales and use taxes, gasoline excise taxes, cigarette taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

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.

**Proprietary Funds** - are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with Governmental Accounting Standards Board (GASB) Statement No. 20 the City adopted only Financial Accounting Standards Board (FASB), Accounting Principles Board (APB), and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do no conflict with GASB. Proprietary funds are classified as enterprise.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

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

**1.B. - MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND BASIS OF PRESENTATION - FUND ACCOUNTING - Continued**

Enterprise Funds - are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that the determination of revenues earned, costs, incurred and/or net income is necessary for capital maintenance, public policy, or management accountability. The following is the City's major enterprise fund:

Harrah Public Works Authority - accounts for the operations of providing public works (electric, natural gas, water, sewer, and refuse) to the City.

**Fiduciary Funds** - account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in agency capacity. The City's only fiduciary fund is agency funds that are composed of customer deposit funds.

**1.C. - ASSETS, LIABILITIES AND EQUITY**

**1. Deposits and Investments**

Oklahoma Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such investment.

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with maturity date of three months or less. Debt investments with a maturity date of more than three months from the date of issue are considered to be investments. Investments are stated at cost.



**City of Harrah, Oklahoma**  
**Notes to the Basic Financial Statements**  
*June 30, 2012*

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

**1.C. - ASSETS, LIABILITIES AND EQUITY - Continued**

**2. Restricted Cash and Investments**

The restricted bond fund cash and investments are the result of financial requirements of bond issues and consist of funds held at the Trustee Bank in Escrow, Debt Service, Reserve and Construction Accounts. Under the terms and provisions of the Debt Indenture, these special accounts and reserve funds are maintained with the Trustee bank for the benefit of the holders of the debt and are not subject to lien or attachment by any other creditors. These accounts and reserve funds are to be maintained so long as any debt is outstanding. Monies contained in accounts and reserve funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture.

**3. Fair Value of Financial Statements**

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of fair value of all financial instruments do not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**4. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of American requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**5. Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds".

**6. Inventories**

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

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

**1.C. - ASSETS, LIABILITIES AND EQUITY - Continued**

**7. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000 for the governmental and proprietary funds.

The City's infrastructure consists of roads, bridges, culverts, curbs and gutter, streets and sidewalks, drainage systems, lighting systems and similar assets that immovable and of value only to the City. Such infrastructure assets acquired are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value to the asset or materially extend an asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities Estimated Lives</u>
Buildings	35-60 years	35-60 years
Building improvements	35-60 years	35-60 years
Furniture and fixtures	5-10 years	5-10 years
Machinery and equipment	5-20 years	5-20 years
Vehicles	5-10 years	5-10 years
Infrastructure - Parks	25-99 years	25-99 years
Infrastructure - Water/sewer	25-99 years	25-99 years
Infrastructure - Streets	15-25 years	15-25 years

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1.C. - ASSETS, LIABILITIES AND EQUITY - Continued

8. Deferred Charges

Debt issuance costs are amortized ratably over the repayment period of the applicable bond or note using the straight-line method. Deferred loss on early retirement of debt is being amortized over the life of the refunded issue and is presented net of related debt as required by Governmental Accounting Standards Board Statement No. 23.

9. Compensated Absences

The City's policies regarding vacation, compensatory, holiday time and sick leave permit employees to accumulate varying amounts as determined by management and contracts with employee groups. Accumulated vested vacation pay is accrued as it is earned. For governmental funds, the non-current portion (the amount estimated to be used in subsequent fiscal years) is maintained separately and represents a reconciling item between the fund-level and government-wide presentations. Only the current portion is reported in the governmental funds, and is calculated based on historical trends. In business-type/enterprise funds, both the current and long-term liabilities are recorded.

Full-time employees earn vacation at the following rate:

<u>Number of Years of Service</u>	<u>Hours Earned</u>
One to five years	84
Six to ten years	96
Greater than eleven years	120

In accordance with the guidelines set forth by Governmental Accounting Standards Board (GASB) Statement No. 16, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, a provision has been made for accumulated vacation, compensatory time, and holiday pay.

The Fraternal Order of Police accrue sick leave at eight hours per month with the maximum limit of 800 hours. All other employees accrue eight hours of sick leave per month with a maximum limit of 800 hours. Sick leave is not recorded until paid. Employees who retire meeting the City's retirement requirements, shall be paid one-half (1/2) of their accrued sick leave up to a maximum of four hundred (400) hours.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

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

**1.C. - ASSETS, LIABILITIES AND EQUITY - Continued**

**10. Long-term Obligations**

The accounting and reporting treatment applied to long-term liabilities associates with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditure and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

All proprietary funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

**11. Net Assets/Fund Balance**

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance between amounts that are considered *nonspendable* (i.e. fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments and receivables).

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1.C. - ASSETS, LIABILITIES AND EQUITY - Continued

11. Net Assets/Fund Balance - Continued

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

**Committed** fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

**Assigned** fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

**Unassigned** fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

12. Resource Use Policy

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

**City of Harrah, Oklahoma**  
**Notes to the Basic Financial Statements**  
*June 30, 2012*

**NOTE 2 - DETAILED NOTES CONCERNING THE 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 assets/fund balances, revenues and expenditures/expenses.

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

A summary of cash and investments shown in the statement of net assets is as follows:

Cash and equivalents	\$ 850,724
Investments	<u>661,586</u>
Total	<u>\$ 1,512,310</u>

The local government had the following deposits and investments at June 30, 2012:

	Credit rating	Fair value	Maturities in Years		
			On demand	Less than 1	1-5
Demand deposits and cash on hand	(1)	\$ 850,724	850,724	-	-
Money market mutual funds	AAA	-	-	-	-
Time deposits	(1)	<u>661,586</u>	-	<u>661,586</u>	-
Total		<u>\$ 1,512,310</u>	<u>850,724</u>	<u>661,586</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, 2012, the City held deposits of approximately \$1,697,537 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, 2012

**NOTE 2 - DETAILED NOTES CONCERNING THE 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, 2012, 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, 2012

**NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

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

	General <u>Fund</u>	Capital Project <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Harrah Public Works <u>Authority</u>
Receivables:				
Taxes	\$ 115,365	43,013	-	43,013
Accounts	54,753	-	-	159,212
Due from other governments	-	113,532	3,850	-
Gross receivables	170,118	156,545	3,850	202,225
Less: Allowance for uncollectibles	-	-	-	131,740
Net total receivables	\$ 170,118	156,545	3,850	70,485

**2.C. - Restricted Assets**

The Harrah Public Works Authority has issued Utility System and Sales Tax Revenue Notes, Series 2008 and the Oklahoma Water Resource Board SRF Note - Series 2011 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	\$ 192,330
Debt service	58,767
OWRB SRF Note - Series 2011 :	
Debt service	21,946
Total restricted assets	\$ 251,097



**City of Harrah, Oklahoma**  
**Notes to the Basic Financial Statements**  
**June 30, 2012**

**NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

**2.D. - Capital assets**

Capital asset balances and activities for the year ended June 30, 2012, 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	902,943	-	-	902,943
Machinery and equipment	968,351	36,381	-	1,004,732
Vehicles	1,441,760	13,753	-	1,455,513
Infrastructure	1,546,054	29,997	-	1,576,051
Total capital assets being depreciated	<u>4,859,108</u>	<u>80,131</u>	<u>-</u>	<u>4,939,239</u>

Less accumulated depreciation for :

Buildings and improvements	(262,715)	(26,098)	-	(288,813)
Machinery and equipment	(683,986)	(132,120)	-	(816,106)
Vehicles	(1,062,571)	(71,227)	-	(1,133,798)
Infrastructure	(536,968)	(8,928)	-	(545,896)
Total accumulated depreciation	<u>(2,546,240)</u>	<u>(238,373)</u>	<u>-</u>	<u>(2,784,613)</u>
Total capital assets being depreciated, net	<u>2,312,868</u>	<u>(158,242)</u>	<u>-</u>	<u>2,154,626</u>
Governmental activities capital assets, net	<u>\$ 2,414,396</u>	<u>(158,242)</u>	<u>-</u>	<u>2,256,154</u>

***Business-type activities***

Capital assets not being depreciated :

Construction in progress	\$ 1,827,376	-	(1,827,376)	-
Total capital assets not being depreciated	<u>1,827,376</u>	<u>-</u>	<u>(1,827,376)</u>	<u>-</u>

Capital assets being depreciated :

Buildings and improvements	467,891	-	-	467,891
Equipment and vehicles	845,687	93,384	-	939,071
Water and sewer infrastructure	12,937,969	2,500,212	-	15,438,181
Industrial Park	398,926	-	-	398,926
Fire station	205,853	-	-	205,853
Total capital assets being depreciated	<u>14,856,326</u>	<u>2,593,596</u>	<u>-</u>	<u>17,449,922</u>

Less accumulated depreciation for :

Buildings and improvements	(259,805)	(11,697)	-	(271,502)
Equipment and vehicles	(615,950)	(43,018)	-	(658,968)
Water and sewer infrastructure	(5,795,257)	(357,940)	-	(6,153,197)
Industrial Park	(139,942)	(9,973)	-	(149,915)
Fire station	(107,039)	(5,147)	-	(112,186)
Total accumulated depreciation	<u>(6,917,993)</u>	<u>(427,775)</u>	<u>-</u>	<u>(7,345,768)</u>
Total capital assets being depreciated, net	<u>7,938,333</u>	<u>2,165,821</u>	<u>-</u>	<u>10,104,154</u>

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

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

Depreciation expense was charged to functions/programs as follows:

Governmental activities:

General government	\$ 51,763
Fire department	45,167
Police department	49,667
Park department	91,776
Total depreciation expense - governmental activities	<u>238,373</u>

Business-type activities:

Water and sewer	422,629
Fire station	5,146
Total depreciation expense - business-type activities	<u>\$ 427,775</u>

**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, 2012, cash and investments included \$74,079 available for refund of customer deposits, while the liability to customers was \$70,740.

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, 2012, \$1,429 was being held that was subject to refund.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

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

Long-term liabilities of the City of Harrah as of June 30, 2012, 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.	\$ 178,009
Total governmental activities	<u>178,009</u>

**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.	1,657,928
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\$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.	1,100,000
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\$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.	1,193,025
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\$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.	490,000
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Total net revenue bonds and notes payable	<u>4,440,953</u>
Total business-type activities	<u>\$ 4,440,953</u>

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

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

Long-term liabilities transactions for the year ended June 30, 2012, 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	\$ 187,449	-	9,440	178,009	9,929
Total governmental activities	<u>187,449</u>	<u>-</u>	<u>9,440</u>	<u>178,009</u>	<u>9,929</u>
<b>Business-type activities</b>					
Notes payable:					
OWRB Series 2004	1,755,043	-	97,115	1,657,928	100,154
OWRB Series 2009	1,216,593	40,223	63,791	1,193,025	50,917
OWRB Series 2011	-	490,000	-	490,000	24,500
Revenue note - Series 2008	1,200,000	-	100,000	1,100,000	100,000
Total business-type activities	<u>\$ 4,171,636</u>	<u>530,223</u>	<u>260,906</u>	<u>4,440,953</u>	<u>275,571</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, 2012 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>
2013	\$ 9,929	8,356	275,571	142,634
2014	10,419	7,867	291,757	132,547
2015	10,931	7,355	296,804	122,698
2016	11,451	6,835	312,012	112,409
2017	12,033	6,252	317,388	101,859
2018-2022	69,646	28,035	1,613,828	341,625
2023-2027	53,600	4,304	991,752	129,620
2028-2032	-	-	341,841	20,968
Totals	<u>\$ 178,009</u>	<u>69,004</u>	<u>4,440,953</u>	<u>1,104,360</u>

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**NOTE 2 - DETAILED NOTES CONCERNING THE 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, 2012, the Authority received and paid \$27,027 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 \$5,545,312. Pledged sales tax received in the current year was \$1,422,260. Debt service payments on the 2004, 2008, 2009 and 2011 Revenue Notes of \$392,972 for the current fiscal year were 27.6% 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 \$5,545,312. Water and sewer revenues received in the current year were \$1,026,271. Debt service payments of \$392,972 for the current fiscal year were 38.2% of the pledged water and sewer revenues.

**2.G. - Debt issuance costs**

Debt issuance costs of \$253,562 have been capitalized and are being amortized on the straight line basis over the term of the relevant note issues. During the year ended June 30, 2012, \$12,150 in debt issuance costs was amortized, leaving an unamortized balance of \$211,691.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**NOTE 2 - DETAILED NOTES CONCERNING THE FUNDS - Continued**

**2.H. - Compensated absences**

Compensated absences of the City of Harrah as of June 30, 2012, are as summarized as follows:

Governmental activities	\$ 31,974
Business-type activities	<u>30,051</u>
Total compensated absences	<u>\$ 62,025</u>

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

The composition of interfund balances as of June 30, 2012, 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	27,158
Capital Projects Fund	Harrah Ind. Econ. Dev. Trust	94,165
Harrah Public Works Authority	Meter Deposit Fund	<u>3,338</u>
		<u>\$ 125,662</u>

Interfund transactions:

	<u>Transfers In</u>			
	<u>General Fund</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Harrah Public Works Authority</u>
Transfer out:				
General Fund	\$ -	474,087	31,850	474,087
Capital Projects Fund	54,425	-	-	-
Nonmajor Governmental	-	-	-	-
Harrah Public Works Authority	40,000	241,239	-	-
Totals	<u>\$ 94,425</u>	<u>715,326</u>	<u>31,850</u>	<u>474,087</u>

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
*June 30, 2012*

**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, 2012*

**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, 2012, 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, 2012

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
2012	\$ 37,397	37,397
2011	35,277	35,277
2010	40,756	40,756

*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
2012	\$ 22,442	22,442
2011	19,772	19,772
2010	19,981	19,981

*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, 2012

**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, 2012. 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, 2012

NOTE 3 - OTHER INFORMATION - Continued

3.D. Employee Retirement System and Plans - Continued

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

Net assets available for benefits at actuarial value were less than the total actuarial liability (entry age normal) by \$521,398 at January 1, 2012, (the most recent information available) as follows:

Actuarial liability:	
Retirees, survivors, and deferred vested	\$ 523,911
Active employees	<u>1,237,937</u>
Total	1,761,848
Net assets available for benefits (actuarial value)	<u>1,240,450</u>
Unfunded actuarial liability	\$ <u><u>(521,398)</u></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, 2012, the City's payroll for all employees and the City's total covered payroll was \$623,248. 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, 2012, 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, 2012, was 13.18.

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

Fiscal Year	Required Contribution	Amount Contributed
2012	\$ 81,957	81,957
2011	77,765	77,765
2010	79,386	79,386

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, 2012*

**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 two years is as follows:

	Value of		Unfunded		Accrued	
Actuarial	Assets	Actuarial	Actuarial	Annual	Liability as a	
Valuation	Available	Accrued	Accrued	Covered	Percentage	
<u>Date</u>	<u>For Benefits</u>	<u>Liability</u>	<u>Liability</u>	<u>Funded</u>	<u>Payroll</u>	<u>Payroll</u>
01/01/03	\$ 503,062	808,773	305,711	62.20%	379,684	80.50%
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%

**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, 2012, the City contributed \$6,139 to the plan, while the employee contributions totaled \$13,270.

City of Harrah, Oklahoma  
Notes to the Basic Financial Statements  
June 30, 2012

**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, 100 N. Broadway, Oklahoma City, Oklahoma 73102.

***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 \$16,500 annually, whichever is less. Vesting in such contributions is 100% immediately. During the year ended June 30, 2012, 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, 2012, 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, 2012

**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 2012, 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, 2012 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 October 10, 2012, 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, 2012

	Budget		Actual	Final Budget
	Original	Final		Over (Under)
<b>REVENUES</b>				
Taxes	\$ 2,171,000	2,169,000	2,242,460	73,460
Intergovernmental	5,500	5,500	4,413	(1,087)
Licenses and permits	63,000	63,000	72,077	9,077
Charge for services	14,800	6,800	4,800	(2,000)
Fines and forfeitures	125,000	133,000	92,231	(40,769)
Interest	500	500	475	(25)
Miscellaneous	73,367	31,367	19,812	(11,555)
Total revenues	<u>2,453,167</u>	<u>2,409,167</u>	<u>2,436,268</u>	<u>27,101</u>
<b>EXPENDITURES</b>				
General government:				
General government	1,112,615	290,711	111,017	179,694
City manager	2,700	2,700	2,154	546
Administration	213,938	214,168	209,004	5,164
Code enforcement	69,862	75,062	71,581	3,481
Legal	20,736	23,736	21,177	2,559
Public safety:				
Police	679,098	679,898	633,347	46,551
Fire	408,068	408,005	338,921	69,084
Culture and recreation:				
Senior citizen center	54,300	55,020	55,011	9
Total expenditures	<u>2,561,317</u>	<u>1,749,300</u>	<u>1,442,212</u>	<u>307,088</u>
Excess (deficiency) of revenues over (under) expenditures	(108,150)	659,867	994,056	334,189
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers	94,300	(853,900)	(885,598)	(31,698)
Net change in fund balances	(13,850)	(194,033)	108,458	302,491
Fund balances - beginning	62,902	194,033	400,041	206,008
Fund balances - ending	<u>\$ 49,052</u>	<u>-</u>	<u>508,499</u>	<u>508,499</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, 2012

	Budget		Actual	Variance with Final Budget Over (Under)
	Original	Final		(Under)
<b>REVENUES</b>				
Intergovernmental	\$ -	100,524	113,532	13,008
Interest	1,500	1,500	1,066	(434)
Miscellaneous	-	-	7,052	7,052
Total revenues	1,500	102,024	114,598	12,574
<b>EXPENDITURES</b>				
General government:				
General government	37,000	51,271	52,659	(1,388)
Administration	23,594	-	-	-
Code enforcement	8,000	8,000	5,776	2,224
Public safety:				
Police	112,106	112,106	20,229	91,877
Fire	196,000	196,000	11,488	184,512
Culture and recreation:				
Senior citizen center	12,000	12,000	10,638	1,362
Parks	180,000	264,398	249,247	15,151
Streets	-	-	6,983	(6,983)
Public works	333,500	258,300	141,441	116,859
Total expenditures	902,200	902,075	498,461	403,614
Excess (deficiency) of revenues over (under) expenditures	(900,700)	(800,051)	(383,863)	416,188
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers	400,700	400,575	660,901	260,326
Net change in fund balances	(500,000)	(399,476)	277,038	676,514
Fund balances - beginning	500,000	500,000	666,116	166,116
Fund balances - ending	\$ -	100,524	943,154	842,630

See accompanying notes to the basic financial statements.

**City of Harrah, Oklahoma**  
**Notes to Required Supplemental Information**  
***For the Year Ended June 30, 2012***

**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, 2012*

	Special Revenue				Total Nonmajor Governmental Funds
	Street & Alley	Harrah Ind. Econ. Dev. Trust	Park Funds	Debt Service Fund	
<u>ASSETS</u>					
Cash and cash equivalents	\$ 90,817	3,319	12,721	14,966	121,823
Receivables, net	3,850	-	-	-	3,850
	94,667	3,319	12,721	14,966	125,673
<b>TOTAL</b>	<b>94,667</b>	<b>3,319</b>	<b>12,721</b>	<b>14,966</b>	<b>125,673</b>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Deposits	-	-	3,365	-	3,365
Due to other funds	-	94,165	-	-	94,165
	-	94,165	3,365	-	97,530
<b>Total Liabilities</b>	<b>-</b>	<b>94,165</b>	<b>3,365</b>	<b>-</b>	<b>97,530</b>
Fund balances:					
Reserved:					
For other purposes	94,667	(90,846)	9,356	14,966	28,143
	94,667	(90,846)	9,356	14,966	28,143
<b>Total Fund Balances</b>	<b>94,667</b>	<b>(90,846)</b>	<b>9,356</b>	<b>14,966</b>	<b>28,143</b>
<b>TOTAL</b>	<b>\$ 94,667</b>	<b>3,319</b>	<b>12,721</b>	<b>14,966</b>	<b>125,673</b>

See accompanying notes to the basic financial statement.

**City of Harrah, Oklahoma**  
**Nonmajor Governmental Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2012**

	Special Revenue			Debt Service Fund	Total Nonmajor Governmental Funds
	Street & Alley	Harrah Ind. Econ. Dev. Trust	Park Funds		
<b>REVENUES</b>					
Taxes	\$ 44,488	-	-	738	45,226
Charge for services	-	-	7,446	-	7,446
Interest	-	4	13	22	39
Miscellaneous	-	-	1,075	5,274	6,349
Total revenues	<u>44,488</u>	<u>4</u>	<u>8,534</u>	<u>6,034</u>	<u>59,060</u>
<b>EXPENDITURES</b>					
Maintenance & operations	53,674	1,253	44,190	-	99,117
Capital outlay	-	-	-	-	-
Total expenditures	<u>53,674</u>	<u>1,253</u>	<u>44,190</u>	<u>-</u>	<u>99,117</u>
Excess (deficiency) of revenues over expenditures	<u>(9,186)</u>	<u>(1,249)</u>	<u>(35,656)</u>	<u>6,034</u>	<u>(40,057)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	31,850	-	31,850
Transfers out	-	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>31,850</u>	<u>-</u>	<u>31,850</u>
Net change in fund balances	(9,186)	(1,249)	(3,806)	6,034	(8,207)
Fund balances-beginning	103,853	(89,597)	13,162	8,932	36,350
Fund balances-ending	<u>\$ 94,667</u>	<u>(90,846)</u>	<u>9,356</u>	<u>14,966</u>	<u>28,143</u>

See accompanying notes to the basic financial statement.

# DILLON & ASSOCIATES, P.C.

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## 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 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, 2012, which collectively comprise the City of Harrah's basic financial statements and have issued our report thereon dated October 10, 2012. 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.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Harrah, Oklahoma's internal control over financial reporting as a basis for our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Harrah, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Harrah, Oklahoma's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. The finding reference numbers are 2012-01, 2012-02 and 2012-03. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*.

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

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

Midwest City, Oklahoma  
October 10, 2012

**City of Harrah, Oklahoma**  
**Schedule of Expenditures of Federal Awards**  
*For the Year Ended June 30, 2012*

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS - THROUGH GRANTOR NUMBER	PROGRAM OR AWARD AMOUNT	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	\$ 118,136	113,532
Total U.S. Land & Water Conservation Fund			<u>118,136</u>	<u>113,532</u>
<u>U.S. Department of Environmental Protection Agency</u>				
Passed through Oklahoma Water Resource Board: Safe Drinking Water State Revolving Fund	66.458	ORF-11-0001-DW	72,354	72,354
Total U.S. Department of Environmental Protection Agency			<u>72,354</u>	<u>72,354</u>
Total Federal Assistance			<u>190,490</u>	<u>185,886</u>
<b>STATE PROGRAMS</b>				
<u>State of Oklahoma</u>				
Oklahoma Department of Agriculture Rural Fire Program			4,413	4,413
Oklahoma State Arts Council Small Grant Support			1,800	1,800
Total State of Oklahoma			<u>6,213</u>	<u>6,213</u>
Total Federal and State Assistance			\$ <u>196,703</u>	<u>192,099</u>

Notes to Schedule of Expenditures of Federal Awards

Note A - Significant Accounting Policies - The accompanying schedule of expenditures of federal awards is prepared on the basis of accounting consistent with the definition of federal awards expended in paragraph 205 of OMB Circular A-133.



CITY OF HARRAH, OKLAHOMA  
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2012

**Finding 2012-01 - 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, 2012, 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, 2012**

*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 2012-02 - 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.

**Finding 2012-03 - Internal Control - Bank Reconciliations**

*Criteria* - The general fund bank reconciliation did not agree with the general ledger. The City had transactions which were improperly posted and carried as outstanding items in the monthly bank reconciliation.

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

*Cause* - The City's internal control structure did not identify misstatements to the cash reconciliation which carried as outstanding from month to month.

**CITY OF HARRAH, OKLAHOMA  
SCHEDULE OF REPORTABLE FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2012**

*Effect or Potential Effect* - Without controls in place to insure the proper pooled cash bank reconciliation is prepared on a timely basis. Management isn't able to accurately balance the cash accounts with the individual fund trial balances. Management may not know the accurate cash balance at times during the year for the cash account. Additionally, this control deficiency can result in material misstatements to the annual financial statements that could be prevented or detected.

*Recommendation* - We recommend that the City strive to reconcile the cash bank statements accurately and clear individual transactions on a timely basis.

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