

CITY OF HARRAH, OKLAHOMA

Report on Audit of Financial Statements

June 30, 2008

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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, as of and for the year ended June 30, 2008, 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 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, Oklahoma, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principals generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2008, 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 read in conjunction with this report in considering the results of our audit.

The accompanying required supplementary information, such as management's discussion and analysis and budgetary comparison information on pages 3 through 10 and page 40 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Harrah's basic financial statements. The accompanying combining and individual nonmajor fund financial statements are 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 have been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, based on our audit are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dillon & Associates, P.C.

Midwest City, Oklahoma
August 28, 2008

Management's Discussion and Analysis

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, 2008. Please read it in conjunction with the City's financial statements, which begin on page 11.

Financial Highlights

- ❖ The assets of the City of Harrah exceeded its liabilities at the close of the most recent fiscal year by \$8,804,759 (net assets). Of this amount, \$1,190,785 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ The government's total net assets increased by \$405,257 for the year ended June 30, 2008.
- ❖ As of the close of the current fiscal year the City of Harrah's governmental funds reported combined ending fund balances of \$1,586,479, an increase of \$167,763 in comparison with the prior year.
- ❖ At the end of the current fiscal year, unreserved fund balance for the general fund was \$485,592, or 29.2% of total general fund expenditures.
- ❖ The City of Harrah's total debt increased by \$139,336 during the current fiscal year. The key factors were the issuance of \$1,470,000 in long-term revenue notes and debt repayment of \$1,330,664.

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.

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 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 11-13 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.

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 14-16 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 17-19 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 20 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 21-39 of this report.

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 page 40 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 41-42 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 \$8,804,759 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (73.4%) 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.

Table 1
Net Assets

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|----------------------------|------------------|-----------------------------|------------------|-----------------------------|-------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Current and other assets | \$ 1,586,779 | 1,419,416 | 898,761 | 704,613 | 2,485,540 | 2,124,029 |
| Capital assets | 1,597,698 | 1,374,118 | 8,656,514 | 8,581,221 | 10,254,212 | 9,955,339 |
| Total assets | <u>3,184,477</u> | <u>2,793,534</u> | <u>9,555,275</u> | <u>9,285,834</u> | <u>12,739,752</u> | <u>12,079,368</u> |
| Long-term debt outstanding | 0 | 0 | 3,792,354 | 3,653,018 | 3,792,354 | 3,653,018 |
| Other liabilities | 63,108 | 37,584 | 79,531 | 59,148 | 142,639 | 96,732 |
| Total liabilities | <u>63,108</u> | <u>37,584</u> | <u>3,871,885</u> | <u>3,712,166</u> | <u>3,934,993</u> | <u>3,749,750</u> |
| Net assets: | | | | | | |
| Invested in capital assets, net of debt | 1,597,698 | 1,374,118 | 4,868,691 | 5,118,052 | 6,466,389 | 6,492,170 |
| Restricted | 1,100,887 | 948,597 | 46,698 | 157,302 | 1,147,585 | 1,105,899 |
| Unrestricted | 422,784 | 433,235 | 768,001 | 298,314 | 1,190,785 | 731,549 |
| Total in net assets | <u>\$ 3,121,369</u> | <u>2,755,950</u> | <u>5,683,390</u> | <u>5,573,668</u> | <u>8,804,759</u> | <u>8,329,618</u> |

The government's net assets increased by \$405,257 during the current fiscal year. This increase represents the overall excess of revenues over expenses (including depreciation).

Table 2
Changes in Net Assets

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---|----------------------------|------------------|-----------------------------|------------------|-----------------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 591,232 | 724,719 | 620,005 | 650,369 | 1,211,237 | 1,375,088 |
| Grants/contributions | 427,035 | 104,114 | 69,884 | 0 | 496,919 | 104,114 |
| General revenues | 2,159,788 | 2,108,690 | 29,113 | 20,500 | 2,188,901 | 2,129,190 |
| Total revenues | <u>3,178,055</u> | <u>2,937,523</u> | <u>719,002</u> | <u>670,869</u> | <u>3,897,057</u> | <u>3,608,392</u> |
| Expenses: | | | | | | |
| General government | 1,140,044 | 927,473 | 0 | 0 | 1,140,044 | 927,473 |
| Public safety | 977,320 | 1,202,011 | 0 | 0 | 977,320 | 1,202,011 |
| Public works | 132,077 | 18,362 | 0 | 0 | 132,077 | 18,362 |
| Water/wastewater | 0 | 0 | 1,114,140 | 1,126,384 | 1,114,140 | 1,126,384 |
| Administration/other | 58,335 | 115,504 | 0 | 0 | 58,335 | 115,504 |
| Total expenses | <u>2,307,776</u> | <u>2,263,350</u> | <u>1,114,140</u> | <u>1,126,384</u> | <u>3,421,916</u> | <u>3,389,734</u> |
| Increase in net assets before transfers | 870,279 | 674,173 | (395,138) | (455,515) | 475,141 | 218,658 |
| Transfers | (504,860) | (418,985) | 504,860 | 418,985 | 0 | 0 |
| Change in net assets | 365,419 | 255,188 | 109,722 | (36,530) | 475,141 | 218,658 |
| Beginning net assets | 2,755,950 | 2,500,762 | 5,573,668 | 5,610,198 | 8,329,618 | 8,110,960 |
| Ending net assets | <u>\$ 3,121,369</u> | <u>2,755,950</u> | <u>5,683,390</u> | <u>5,573,668</u> | <u>8,804,759</u> | <u>8,329,618</u> |

Governmental activities. Governmental activities increased the City's net assets by \$365,419. The key element of this increase is an increase in revenues over expenses.

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 \$109,722. The key element in this decrease is the excess of operating revenues over operating expenses.

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 \$1,586,479, an increase of \$167,763, in comparison with the prior year. Approximately 31% of this total amount, \$485,592 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 \$485,592. 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 29.2% of total general fund expenditures and transfers out.

The fund balance of the City's general fund increased by \$15,473 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 \$768,001. The total increase in net assets was \$109,722.

- Operating revenues decreased by \$30,365 over the prior year, mainly for water and sewer charges.
- Operating expenses (excluding depreciation) increased by \$12,035 over the prior year, mainly in the water and sewer departments.

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 \$2,466,906 were \$204,027 less than the estimated revenues in the budget of \$2,670,933. Actual expenditures of \$1,766,192 were \$405,056 less than the \$2,171,248 approved in budget appropriations. After transfers out of \$790,118 to other governmental funds, the City used \$89,404 of its carry forward funds to cover the overall excess of expenditures over receipts. The amount of carryover funds budget for expenditure was \$380,715.

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, 2008, amounts to \$9,955,239 (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:

- Equipment for the police and fire departments.
- Construction of the centennial amphitheater.

Table 3
Capital Assets

| | Governmental Activities | | Business-type Activities | | Totals | |
|-----------------------|----------------------------|------------------|-----------------------------|------------------|-------------------|------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Police | 146,413 | 145,079 | 0 | 0 | 146,413 | 145,079 |
| Fire | 217,201 | 280,511 | 114,253 | 119,399 | 331,454 | 399,910 |
| Buildings and improv. | 437,800 | 306,614 | 0 | 0 | 437,800 | 306,614 |
| Public works | 0 | 0 | 8,542,261 | 8,461,722 | 8,542,261 | 8,461,722 |
| Park | 796,284 | 641,914 | 0 | 0 | 796,284 | 641,914 |
| Work-in-Progress | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 1,597,698 | 1,374,118 | 8,656,514 | 8,581,121 | 10,254,212 | 9,955,239 |

Additional information of the City's capital assets can be found in Note V.D. On pages 30-31 of this report.

Long-term debt. As of the end of the current fiscal year, the City had total debt outstanding of \$3,889,079. This represents debt secured solely by specified revenue sources (i.e., revenue notes) of \$3,792,354.

**Table 4
Outstanding Debt**

| | Governmental Activities | | Business-type Activities | | Total Primary Government | |
|---------------------------------|----------------------------|----------------------|-----------------------------|-------------------------|-----------------------------|-------------------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Notes payable | 0 | 0 | 3,792,354 | 3,653,018 | 3,792,354 | 3,653,018 |
| Accrued compensated absences | <u>62,808</u> | <u>36,884</u> | <u>33,917</u> | <u>24,420</u> | <u>96,725</u> | <u>61,304</u> |
| Totals | <u><u>62,808</u></u> | <u><u>36,884</u></u> | <u><u>3,826,271</u></u> | <u><u>3,677,438</u></u> | <u><u>3,889,079</u></u> | <u><u>3,714,322</u></u> |

The City's total debt increased by \$174,757 during the current fiscal year. The key factors in the increase were the issuance of revenue notes and principal payments made on OWRB revenue notes.

Additional information on the City's long-term debt can be found in Notes V.F. and V.G. on pages 32-33 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 2008-2009 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 2008-2009.

- ❖ 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, 2008.
- ❖ As for the City's proprietary fund activities, we expect a slight growth in the revenues and expenses over those received in 2008.

All of these factors were considered in preparing the City's budget for the 2008-2009 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$485,592. The City has this amount available for spending in the 2008-2009 fiscal year budget. It is intended that this use of available fund balance will avoid the need to raise taxes or charges during the 2008-2009 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

City of Harrah, Oklahoma
Statement of Net Assets
June 30, 2008

| | Primary Government | | Total |
|---|----------------------------|-----------------------------|-------------------|
| | Governmental Activities | Business-type Activities | |
| ASSETS | | | |
| Pooled cash and cash equivalents | \$ 1,346,260 | 147,869 | 1,494,129 |
| Receivables (net of allowance for uncollectibles) | 0 | 91,815 | 91,815 |
| Advances from other funds | 28,630 | (21,773) | 6,857 |
| Receivables from other governments | 211,889 | 0 | 211,889 |
| Bond issue cost (net of accumulated amortization) | 0 | 179,843 | 179,843 |
| Restricted assets: | | | |
| Restricted cash and investments | 0 | 501,007 | 501,007 |
| Capital assets: | | | |
| Land, improvements, and construction in progress | 0 | 0 | 0 |
| Other capital assets, net of depreciation | 1,597,698 | 8,656,514 | 10,254,212 |
| Total assets | <u>3,184,477</u> | <u>9,555,275</u> | <u>12,739,752</u> |
| LIABILITIES | | | |
| Accounts payable and accrued expenses | 300 | 3,446 | 3,746 |
| Compensated absences payable | 62,808 | 33,917 | 96,725 |
| Notes payable, current | 0 | 303,317 | 303,317 |
| Liabilities payable from restricted assets | 0 | 42,168 | 42,168 |
| Notes payable, non-current | 0 | 3,489,037 | 3,489,037 |
| Total liabilities | <u>63,108</u> | <u>3,871,885</u> | <u>3,934,993</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 1,597,698 | 4,868,691 | 6,466,389 |
| Restricted for: | | | |
| Special revenue projects | 143,599 | 0 | 143,599 |
| Capital projects | 957,288 | 0 | 957,288 |
| Debt service | 0 | 46,698 | 46,698 |
| Unrestricted (deficit) | 422,784 | 768,001 | 1,190,785 |
| Total net assets | <u>\$ 3,121,369</u> | <u>5,683,390</u> | <u>8,804,759</u> |

See accompanying notes to the basic financial statement.

City of Harrah, Oklahoma
Statement of Activities
For the Year Ended June 30, 2008

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue</u> | |
|--------------------------------|------------------|---------------------------------|---|--------------------------------------|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | | <u>Capital Grants and Contributions</u> |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 1,140,044 | 34,541 | 0 | 92,504 | (1,012,999) |
| Public safety | | | | | |
| Police | 618,455 | 59,865 | 0 | 0 | (558,590) |
| Fire | 358,865 | 0 | 0 | 5,100 | (353,765) |
| Public works | 132,077 | 496,826 | 0 | 57,446 | 422,195 |
| Culture and recreation | 58,335 | 0 | 0 | 271,985 | 213,650 |
| Total governmental activities | <u>2,307,776</u> | <u>591,232</u> | <u>0</u> | <u>427,035</u> | <u>(1,289,509)</u> |
| Business-type activities: | | | | | |
| Water and sewer | 1,114,140 | 620,005 | 0 | 69,884 | (424,251) |
| Total business-type activities | <u>1,114,140</u> | <u>620,005</u> | <u>0</u> | <u>69,884</u> | <u>(424,251)</u> |
| Total primary government | <u>3,421,916</u> | <u>1,211,237</u> | <u>0</u> | <u>496,919</u> | <u>(1,713,760)</u> |

City of Harrah, Oklahoma
Statement of Activities
For the Year Ended June 30, 2008

| | Primary Government | | |
|---|----------------------------|-----------------------------|-------------|
| | Governmental Activities | Business-type Activities | Total |
| Change in net assets: | | | |
| Net (expense) revenue | \$ (1,289,509) | (424,251) | (1,713,760) |
| General revenues: | | | |
| Taxes: | | | |
| Sales taxes | 1,644,153 | 0 | 1,644,153 |
| Use taxes | 63,027 | 0 | 63,027 |
| Franchise taxes (fees) | 188,174 | 0 | 188,174 |
| Other taxes | 184,274 | 0 | 184,274 |
| Unrestricted investment income | 45,358 | 14,780 | 60,138 |
| Miscellaneous | 34,802 | 14,333 | 49,135 |
| Transfers | (504,860) | 504,860 | 0 |
| Total general revenues and transfers | 1,654,928 | 533,973 | 2,188,901 |
| Change in net assets | 365,419 | 109,722 | 475,141 |
| Net assets - beginning | 2,755,950 | 5,573,668 | 8,329,618 |
| Net assets - ending | \$ 3,121,369 | 5,683,390 | 8,804,759 |

See accompanying notes to the basic financial statement.

City of Harrah, Oklahoma
 Governmental Funds
 Balance Sheet
 June 30, 2008

| | General Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--|-----------------|-----------------------------|--------------------------------|--------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 248,869 | 957,288 | 140,103 | 1,346,260 |
| Receivables, net | 208,093 | 0 | 3,796 | 211,889 |
| Due from other funds | 28,630 | 0 | 0 | 28,630 |
| | | | | |
| Total assets | 485,592 | 957,288 | 143,899 | 1,586,779 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Customer deposits | 0 | 0 | 300 | 300 |
| Accounts payable | 0 | 0 | 0 | 0 |
| | | | | |
| Total liabilities (Note 2) | 0 | 0 | 300 | 300 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Capital outlay/improvements | 0 | 957,288 | 0 | 957,288 |
| Unreserved, reported in: | | | | |
| General fund | 485,592 | 0 | 0 | 485,592 |
| Special revenue funds | 0 | 0 | 143,599 | 143,599 |
| | | | | |
| Total fund balances | 485,592 | 957,288 | 143,599 | 1,586,479 |
| Total liabilities and fund balances | \$ 485,592 | 957,288 | 143,899 | |
| Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because: | | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not required in the funds. | | | | 1,597,698 |
| Accrued compensated absences | | | | (62,808) |
| Net assets of governmental activities | | | | \$ 3,121,369 |

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, 2008

| | General Fund | Capital Projects Fund | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|-----------------------------|--------------------------------|--------------------------------|
| REVENUES | | | | |
| Taxes | \$ 1,925,713 | 0 | 153,915 | 2,079,628 |
| Intergovernmental | 27,604 | 336,887 | 62,544 | 427,035 |
| Licenses and permits | 34,541 | 0 | 0 | 34,541 |
| Charge for services | 377,495 | 118,016 | 1,315 | 496,826 |
| Fines and forfeitures | 59,865 | 0 | 0 | 59,865 |
| Interest | 8,886 | 35,724 | 748 | 45,358 |
| Miscellaneous | 32,802 | 0 | 2,000 | 34,802 |
| Total revenues | <u>2,466,906</u> | <u>490,627</u> | <u>220,522</u> | <u>3,178,055</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 542,397 | 380,829 | 108,244 | 1,031,470 |
| Managerial | 57,747 | 0 | 0 | 57,747 |
| Office | 187,682 | 0 | 0 | 187,682 |
| Police | 562,174 | 54,715 | 2,901 | 619,790 |
| Fire | 261,114 | 34,440 | 0 | 295,554 |
| Senior citizens center | 31,047 | 27,288 | 0 | 58,335 |
| Parks | 0 | 138,322 | 0 | 138,322 |
| Contract services | 19,154 | 0 | 0 | 19,154 |
| Debt service | 0 | 0 | 97,378 | 97,378 |
| Total expenditures | <u>1,661,315</u> | <u>635,594</u> | <u>208,523</u> | <u>2,505,432</u> |
| Excess (deficiency) of revenues over expenditures | <u>805,591</u> | <u>(144,967)</u> | <u>11,999</u> | <u>672,623</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 30,000 | 410,059 | 0 | 440,059 |
| Transfers out | (820,118) | (124,801) | 0 | (944,919) |
| Total other financing sources and uses | <u>(790,118)</u> | <u>285,258</u> | <u>0</u> | <u>(504,860)</u> |
| Net change in fund balances | 15,473 | 140,291 | 11,999 | 167,763 |
| Fund balances-beginning | 470,119 | 816,997 | 131,600 | 1,418,716 |
| Fund balances-ending | <u>\$ 485,592</u> | <u>957,288</u> | <u>143,599</u> | <u>1,586,479</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, 2008

Net change in fund balances - total governmental funds \$ 167,763

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 | 425,710 |
| Depreciation expense | (202,130) |
| | 223,580 |

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.

| | |
|--|----------|
| Change in accrued compensated absences | (25,924) |
| | (25,924) |

Change in net assets of governmental activities. \$ 365,419

City of Harrah, Oklahoma
Proprietary Funds
Statement of Net Assets
June 30, 2008

| | | Enterprise Funds <hr/> Harrah Public Works Authority |
|--|----|--|
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ | 147,869 |
| Receivables, accounts | | |
| Accounts, net of allowance for uncollectibles | | 91,815 |
| Due from other funds | | 5,385 |
| Restricted assets - cash and investments | | 501,007 |
| Total current assets | | <hr/> 746,076 |
| Non-current assets: | | |
| Bond issuance costs, net of accumulated amortization | | 179,843 |
| Capital assets, net of accumulated depreciation | | 8,656,514 |
| Total non-current assets | | <hr/> 8,836,357 |
| Total assets | | <hr/> <hr/> 9,582,433 |
| <u>LIABILITIES</u> | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | | 3,446 |
| Accrued interest payable | | 42,168 |
| Due to other funds | | 27,158 |
| Current portion of long-term obligations | | 303,317 |
| Total current liabilities | | <hr/> 376,089 |
| Non-current liabilities: | | |
| Notes payable | | 3,489,037 |
| Accrued compensated absences | | 33,917 |
| Total non-current liabilities | | <hr/> 3,522,954 |
| Total liabilities | | <hr/> 3,899,043 |
| <u>NET ASSETS</u> | | |
| Invested in capital assets, net of related debt | | 4,868,691 |
| Restricted: | | |
| Debt service | | 46,698 |
| Unrestricted | | 768,001 |
| Total net assets | \$ | <hr/> <hr/> 5,683,390 |

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, 2008

| | Enterprise Funds <hr/> Harrah Public Works Authority |
|--|--|
| <u>OPERATING REVENUES:</u> | |
| Charges for services | |
| Water | \$ 359,812 |
| Wastewater | 213,487 |
| Other | 46,706 |
| Total operating revenues | <hr/> 620,005 <hr/> |
| <u>OPERATING EXPENSES:</u> | |
| Personal services | 450,281 |
| Maintenance and operations | 195,634 |
| Depreciation and amortization | 347,521 |
| Total operating expenses | <hr/> 993,436 <hr/> |
| Operating income (loss) | <hr/> (373,431) <hr/> |
| <u>NONOPERATING REVENUES (EXPENSES):</u> | |
| Miscellaneous revenues | 14,333 |
| Grant income | 69,884 |
| Interest income | 14,780 |
| Interest expense and fiscal charges | (120,704) |
| Total nonoperating revenues (expenses) | <hr/> (21,707) <hr/> |
| <u>OPERATING TRANSFERS</u> | |
| Transfers in | 504,860 |
| Transfers out | 0 |
| Total operating transfers | <hr/> 504,860 <hr/> |
| Change in net assets | <hr/> 109,722 <hr/> |
| Net assets - beginning | 5,573,668 |
| Net assets-ending | <hr/> \$ 5,683,390 <hr/> |

See accompanying notes to the basic financial statement.

City of Harrah, Oklahoma
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2008

| | Enterprise Funds <u>Harrah Public Works Authority</u> |
|---|---|
| <u>CASH FLOWS FROM OPERATING ACTIVITIES</u> | |
| Receipts from customers | \$ 621,046 |
| Payments to suppliers | (185,089) |
| Payments to employees | (440,784) |
| Net cash provided (used) by operating activities | <u>(4,827)</u> |
| <u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u> | |
| Miscellaneous revenues | 14,333 |
| Operating transfers in (out) | 504,860 |
| Net cash provided (used) by noncapital financing activities | <u>519,193</u> |
| <u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u> | |
| Proceeds from long-term financing | 1,406,685 |
| Principal paid on long-term debt | (1,330,665) |
| Interest expense and fiscal charges | (120,704) |
| Grant income | 69,884 |
| (Increase) decrease in restricted assets | (343,705) |
| (Acquisition) disposition of capital assets | (409,051) |
| Net cash provided (used) by capital and related financing activities | <u>(727,556)</u> |
| <u>CASH FLOWS FROM INVESTING ACTIVITIES</u> | |
| Interest received | 14,780 |
| Net cash provided (used) by investing activities | <u>14,780</u> |
| Net increase (decrease) in cash and cash equivalents | (198,410) |
| Cash and cash equivalents, beginning of the year | 346,279 |
| Cash and cash equivalents, end of the year | <u>\$ 147,869</u> |
| <u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u> | |
| Operating income (loss) | (373,431) |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Cash flows reported in other categories: | |
| Depreciation expense | 347,521 |
| Change in assets and liabilities: | |
| (Increase) decrease in receivables | 700 |
| Increase (decrease) in accounts payable and accrued expenses | 20,383 |
| Total adjustments | <u>368,604</u> |
| Net cash provided by (used in) operating activities | <u>\$ (4,827)</u> |

See accompanying notes to the basic financial statement.

City of Harrah, Oklahoma
Statement of Fiduciary Net Assets
Agency Funds
June 30, 2008

| | Agency Funds | |
|---------------------------|-------------------------|-----------------------|
| | Municipal Court Fund | Meter Deposit Fund |
| ASSETS | | |
| Cash and cash equivalents | \$ 1,472 | 52,440 |
| Total assets | 1,472 | 52,440 |
| LIABILITIES | | |
| Customer deposits | 0 | 47,055 |
| Due to bondholders | 0 | 0 |
| Due to other funds | 1,472 | 5,385 |
| Total liabilities | 1,472 | 52,440 |
| NET ASSETS | \$ 0 | 0 |

See accompanying notes to the basic financial statement.

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

I. Organization

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.

II. Summary of significant accounting policies

A. Reporting entity

The accompanying financial statements present 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.

Blended component units. The Harrah Public Works Authority (the Authority) serves all the citizens of the City and is governed by a board comprised of the City's elected council (Trustees). The rates for user charges and debt authorization are approved by the city council. The Authority was created December 1, 1961, to finance, develop, and operate the water, wastewater, and solid waste activities of the City. The Authority is reported as an enterprise fund type. The Harrah Industrial and Economic Development Trust (the Trust) was created on December 6, 1990, to assist the City of Harrah in promoting, securing and developing industry and promoting economic development for the community. The Beneficiary of the Trust is the City of Harrah. The Trust is reported as special revenue fund.

Separate financial statements have not been prepared for this component unit.

B. Government-wide and fund financial statements

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

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

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

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

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

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

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial recourses of the general government, except those required to be accounted for in another fund.

The capital improvements fund accounts for the resources accumulated from a portion of sales tax revenues and payments made for capital improvements and debt.

The City reports the following major proprietary funds:

The Harrah Public Works Authority accounts for the City's utility operations including water, wastewater.

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the city. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, savings accounts, money market accounts, and certificates of deposit or short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in obligations of the U.S. Treasury; time deposits with financial institutions, if such deposits are fully insured by federal depository insurance or pledged collateral; and debt securities issued by the State of Oklahoma, an Oklahoma County, school district, or municipality.

Investments for the City, as well as for its component units are reported at fair value.

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

3. *Inventories and prepaid items*

Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. *Restricted assets*

Certain resources set aside for the repayment of Harrah Public Works Authority sales tax revenue notes and utility refunding bonds, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts, and their use is limited by applicable debt covenants. The debt service fund accounts are used to segregate resources accumulated for debt service payments over the next 12 months. The debt service reserve accounts are used to report resources set aside to make up potential future deficiencies in the debt service account.

5. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

| Assets | Years |
|--------------------------------------|-------|
| Buildings | 40 |
| Water and sewer lines | 40 |
| Water tower | 40 |
| Improvements other than buildings | 40 |
| Equipment and vehicles | 5-7 |

6. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The liability for unpaid accumulated sick leave for vested employees is accrued for one-half of their accrued sick leave up to a maximum of four hundred hours. All vacation pay is accrued when incurred in the government-wide and proprietary financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

8. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

III. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance - total governmental funds and net assets - governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds. The details of this difference are as follows:

| | | |
|--|----|------------------------|
| Long-term liabilities | \$ | 0 |
| Accrued compensated absences | | <u>(62,808)</u> |
| Net adjustment to reduce fund balance - total governmental funds to arrive at net assets - governmental activities | \$ | <u><u>(62,808)</u></u> |

Another difference concerns capital asset reporting. The cost of capital assets, net of accumulated depreciation, are reported on the government-wide statement of net assets, but not on the governmental fund financial statements since they are not financial resources. The details of this difference are as follows:

| | | |
|--|----|------------------|
| Capital assets, net of accumulated depreciation | \$ | 1,597,698 |
| Net adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities | | <u>1,597,698</u> |

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that 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. The details of this difference are as follows:

| | | |
|--|----|-----------------------|
| Capital outlay, net of retirements | \$ | 425,710 |
| Depreciation expense | | <u>(202,130)</u> |
| Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities | \$ | <u><u>223,580</u></u> |

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

Another element of that reconciliation states that "some expenses reported in the statement of activities do not require the use of current financial resources, and therefore, are not reported as expenditures in governmental funds." The details of this difference are as follows:

| | | |
|--|----|-----------------|
| Repayment of long-term debt | \$ | 0 |
| Change in accrued compensated absences | | <u>(25,924)</u> |
| Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities | \$ | <u>(25,924)</u> |

IV. Stewardship, compliance, and accountability

Budgetary information

The City has adopted the provisions of the Municipal Budget Act of 1979 (the "Budget Act"). In accordance with the Budget Act, the following process is used to adopt the annual budget:

- a. Prior to June 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
- b. Public hearings are conducted to obtain citizen comments. At least one public hearing must be held no later than 15 days prior to July 1.
- c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is adopted by resolution of the City Council.
- d. By July 1, the adopted budget is filed with the Office of the State Auditor and Inspector.

All funds (except those of the Public Trust component units) with revenues and expenditures are required to have annual budgets approved by the City Council. The legal level of control at which expenditures may not legally exceed appropriations is the total department level within a fund. The Budget Act recognizes the following object categories as a control level by department within a fund:

- | | |
|------------------------------|-----------------------|
| - Personal Services | - Capital Outlay |
| - Materials and supplies | - Debt Service |
| - Other Services and Charges | - Interfund Transfers |

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

All transfers of appropriation between funds and supplemental appropriations require City Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.

In accordance with Title 60 of the Oklahoma State Statutes, the Harrah Public Works Authority (accounted for as a blended component units in this report) is required to prepare an annual budget and submit a copy to the City as beneficiary. However, there are no further requirements such as form of budget, approval of the budget or definition of a legal level of control; and, therefore no budget and actual financial presentations for the public trusts are included in this report.

The City prepares its budgets for all funds on the modified accrual basis of accounting.

The City utilizes encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation. All appropriations and encumbrances outstanding at year-end lapse and any open commitments to be honored in the subsequent budget year are reappropriated in the new year's budget. As a result, encumbrances outstanding at year-end are not treated as expenditures in the budget and actual financial statements until the year they become expenditures.

For the year ended June 30, 2008, the City complied, in all material respects, with the applicable budget laws as discussed in Note 1. Supplemental appropriations reflected in the budget amounts reported in the financial statements were properly approved by the City Council. For the year ended June 30, 2008, the following supplemental appropriations were approved:

| <u>Fund Type</u> | <u>Original Appropriations</u> | <u>Increase In Appropriations</u> | <u>Revised Appropriations</u> |
|----------------------------|------------------------------------|---------------------------------------|-----------------------------------|
| General Fund | \$ 2,897,916 | \$ 140,000 | \$ 3,037,916 |
| Harrah Utilities Authority | 1,432,961 | 0 | 1,432,961 |
| Capital Projects Fund | 1,887,275 | (16,106) | 1,871,169 |

V. Detailed notes on all funds

A. Deposits and investments

The City of Harrah's carrying amount of deposits was \$1,995,136 as of June 30, 2008, and the bank balances totaled \$1,743,015. Deposits held by trustee banks totaled \$501,007. Collateral for the City's deposits and investments is categorized to give an indication of the level of risk assumed by the City at year-end.

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

- Category 1 - Insured or collateralized with securities held by the entity or by its agent in the entity's name.
- Category 2 - Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
- Category 3 - Uncollateralized.

| | Category | | | Bank | Carrying |
|---------------------------|----------|-----------|-----|-----------|-----------|
| | 1 | 2 | 3 | Balances | Value |
| | | | | 06/30/08 | 06/30/08 |
| Deposits: | | | | | |
| Cash & investments | \$ 0 | 1,743,015 | 745 | 1,743,760 | 1,494,129 |
| Deposits held by trustees | 0 | 501,007 | 0 | 501,007 | 501,007 |
| Total deposits | \$ 0 | 2,244,022 | 745 | 2,244,767 | 1,995,136 |

Oklahoma Statutes allow the City to invest in bonds of cities, school districts, or counties within the State of Oklahoma; public trusts revenue bonds, except industrial revenue bonds; bonds of the State of Oklahoma and wholly owned corporations of the United States; short-term obligations of the United States; and certificates of deposit. All City funds have been invested in accordance with *Oklahoma Statutes*.

B. Receivables

Receivables as of June 30, 2008, 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:

| | General Fund | Nonmajor Governmental Funds | Harrah Public Works Authority | Total |
|------------------------------------|-----------------|-----------------------------------|-------------------------------------|---------|
| Receivables: | | | | |
| Taxes | \$ 208,093 | - | - | 208,093 |
| Accounts | - | - | 91,815 | 91,815 |
| Due from other governments | - | 3,796 | - | 3,796 |
| Accrued interest | - | - | - | - |
| Gross receivables | 208,093 | 3,796 | 91,815 | 303,714 |
| Less: allowance for uncollectibles | - | - | - | - |
| Net total receivables | \$ 208,093 | 3,796 | 91,815 | 303,714 |

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

C. Restricted assets

The Harrah Public Works Authority has issued Utility System and Sales Tax Revenue Notes, Series 2008 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.

| | 2008 Sales Tax Revenue Notes | Totals |
|-------------------------|------------------------------------|----------------|
| Restricted assets: | | |
| Debt service | \$ 46,698 | 46,698 |
| Debt service reserve | - | - |
| Project funds | 454,309 | 454,309 |
| Total restricted assets | \$ <u>501,007</u> | <u>501,007</u> |

D. Capital assets

Capital asset balances and activities for the year ended June 30, 2008, were as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|------------------|-----------|--------------------|
| Governmental activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | 59,005 | 42,523 | 0 | 101,528 |
| Total capital assets, not being depreciated | <u>59,005</u> | <u>42,523</u> | <u>0</u> | <u>101,528</u> |
| Capital assets, being depreciated: | | | | |
| General government buildings and equipment | 559,135 | 109,688 | 0 | 668,823 |
| Fire department building and equipment | 920,279 | 1,279 | 0 | 921,558 |
| Police department | 552,461 | 51,960 | 0 | 604,421 |
| Park department | 985,800 | 220,260 | 0 | 1,206,060 |
| Total capital assets, being depreciated | <u>3,017,675</u> | <u>383,187</u> | <u>0</u> | <u>3,400,862</u> |
| Less accumulated depreciation for: | | | | |
| General government building and equipment | (311,526) | (21,025) | 0 | (332,551) |
| Fire department building and equipment | (639,768) | (64,589) | 0 | (704,357) |
| Police department | (407,382) | (50,626) | 0 | (458,008) |
| Park department | (343,886) | (65,890) | 0 | (409,776) |
| Total accumulated depreciation | <u>(1,702,562)</u> | <u>(202,130)</u> | <u>0</u> | <u>(1,904,692)</u> |
| Total capital assets, being depreciated, net | <u>1,315,113</u> | <u>181,057</u> | <u>0</u> | <u>1,496,170</u> |
| Governmental activities capital assets, net | <u>1,374,118</u> | <u>223,580</u> | <u>0</u> | <u>1,597,698</u> |

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|-----------|-----------|-------------------|
| Business-type activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | 0 | 0 | 0 | 0 |
| Construction in progress | 0 | 0 | 0 | 0 |
| Total capital assets, not being depreciated | 0 | 0 | 0 | 0 |
| Capital assets, being depreciated: | | | | |
| Buildings | 405,000 | 0 | 0 | 405,000 |
| Equipment and vehicles | 633,541 | 24,089 | 0 | 657,630 |
| Water and sewer infrastructure | 12,528,356 | 385,062 | 0 | 12,913,418 |
| Industrial Park | 372,826 | 0 | 0 | 372,826 |
| Fire station | 205,853 | 0 | 0 | 205,853 |
| Total capital assets, being depreciated | 14,145,576 | 409,151 | 0 | 14,554,727 |
| Less accumulated depreciation: | | | | |
| Buildings | (215,063) | (10,125) | 0 | (225,188) |
| Equipment and vehicles | (491,215) | (33,137) | 0 | (524,352) |
| Water and sewer infrastructure | (4,670,966) | (276,029) | 0 | (4,946,995) |
| Industrial Park | (100,757) | (9,321) | 0 | (110,078) |
| Fire station | (86,454) | (5,146) | 0 | (91,600) |
| Total accumulated depreciation | (5,564,455) | (333,758) | 0 | (5,898,213) |
| Total capital assets, being depreciated, net | 8,581,121 | 75,393 | 0 | 8,656,514 |
| Business-type activities capital assets, net | 8,581,121 | 75,393 | 0 | 8,656,514 |

Depreciation expense was charged to functions/programs as follows:

| | |
|---|------------|
| Governmental activities: | |
| General government | \$ 21,025 |
| Fire department | 64,589 |
| Police department | 50,626 |
| Park department | 65,890 |
| Total depreciation expense - governmental activities | \$ 202,130 |
| Business-type activities: | |
| Water and sewer | \$ 328,612 |
| Fire station | 5,146 |
| Total depreciation expense - business-type activities | \$ 333,758 |

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

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, 2008, cash and investments included \$52,440 available for refund of customer deposits, while the liability to customers was \$47,055.

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, 2008, \$0 was being held that was subject to refund.

F. Long-term debt

Long-term liabilities of the City of Harrah as of June 30, 2008, are as summarized as follows:

Business-type activities

Notes payable:

| | | |
|--|----|-----------|
| \$2,220,000 promissory note, Series 2004, to the Oklahoma Water Resources Board, dated December 16, 2004, payable in semi-annual installments over 20 years plus interest at 2.600% payable semi-annually, secured by pledged sales taxes, water, and sewer. | \$ | 2,032,760 |
|--|----|-----------|

| | | |
|--|--|---------|
| \$1,379,564 promissory note, Series 1995, to the Oklahoma Water Resources Board, dated July 31, 1995, payable in semi-annual installments over 15 years plus interest at 2.934% payable semi-annually, secured by equipment, land, and utility revenues. | | 289,594 |
|--|--|---------|

| | | |
|--|--|------------------|
| \$1,470,000 Utility 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 pledged sales taxes, water and sewer revenues. | | <u>1,470,000</u> |
|--|--|------------------|

| | | |
|---------------------|--|------------------|
| Total notes payable | | <u>3,792,354</u> |
|---------------------|--|------------------|

| | | |
|--------------------------------|----|-------------------------|
| Total business-type activities | \$ | <u><u>3,792,354</u></u> |
|--------------------------------|----|-------------------------|

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

Long-term liabilities transactions for the year ended June 30, 2008, and changes therein were as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> | <u>Amounts Due Within One Year</u> |
|-----------------------------------|------------------------------|---------------------|---------------------|---------------------------|--|
| Business-type activities | | | | | |
| Notes payable: | | | | | |
| OWRB Series 2004 | \$ 2,130,060 | \$ 0 | \$ 97,300 | \$ 2,032,760 | \$ 110,000 |
| OWRB Series 1995 | 399,658 | 0 | 110,064 | 289,594 | 113,317 |
| Revenue Note Series 2008 | 0 | 1,470,000 | 0 | 1,470,000 | 80,000 |
| OWRB Series 2001 | 509,600 | 0 | 509,600 | 0 | 0 |
| OWRB Series 2002 | <u>613,700</u> | <u>0</u> | <u>613,700</u> | <u>0</u> | <u>0</u> |
| Total business-type Activities | <u>3,653,018</u> | <u>1,470,000</u> | <u>1,330,664</u> | <u>3,792,354</u> | <u>303,317</u> |
| Total government | \$ <u>3,653,018</u> | \$ <u>1,470,000</u> | \$ <u>1,330,664</u> | \$ <u>3,792,354</u> | \$ <u>303,317</u> |

Annual debt service requirements to maturity for notes payable are as follows:

| <u>Year Ending June 30,</u> | <u>Business-type Activities</u> |
|--|-------------------------------------|
| 2009 | \$ 428,697 |
| 2010 | 431,432 |
| 2011 | 373,392 |
| 2012 | 305,582 |
| 2013 | 298,411 |
| 2014-2018 | 1,468,803 |
| 2019-2023 | 1,091,065 |
| 2024-2028 | <u>351,065</u> |
| Total principal and interest | 4,748,447 |
| Less interest | <u>956,093</u> |
| Principal outstanding at June 30, 2008 | <u>\$ 3,792,354</u> |

G. Debt issuance costs

Debt issuance costs of \$179,843 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, 2006, \$13,764 in debt issuance costs was amortized.

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

H. Compensated absences

Full-time employees earn vacation at the following rate:

| Number of Years of Service | Hours Earned |
|----------------------------|--------------|
| One to five years | 84 |
| Five to ten years | 96 |
| Greater than ten 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 as follows:

| | |
|----------------------------|-----------|
| Governmental activities: | |
| Current | \$ 62,808 |
| Business-type activities | 33,917 |
| Total compensated absences | \$ 96,725 |

The Fraternal Order of Police accrue sick leave at eight hours per month, with the maximum limit changing yearly, based on a contract. 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.

I. Grants and contracts

During the year ended June 30, 2008, the City of Harrah received and expended a variety of grant funds to include the following:

| | |
|--|------------|
| U.S. Department of Housing and Urban Development | \$ 62,544 |
| Federal Emergency Management Agency | 107,217 |
| U.S. Department of Transportation | 21,985 |
| Oklahoma Water Resource Board | 70,000 |
| Oklahoma Department of Agriculture | 5,100 |
| Oklahoma Centennial Commission | \$ 250,000 |
| Total grants and contracts | 516,846 |

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

J. Interfund receivables, payables, and transfers

The composition of interfund balances as of June 30, 2008, is as follows:

Due to/from other funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|------------------|
| General fund | HPWA | \$ 27,158 |
| General fund | Municipal court | 1,472 |
| Total | | <u>\$ 28,630</u> |

Interfund transactions:

| | <u>Transfers In</u> | | <u>Totals</u> |
|----------------|--|----------------------------|-------------------|
| | <u>Capital Improvements Fund</u> | <u>Enterprise Fund</u> | |
| Transfers out: | | | |
| General fund | \$ 285,258 | \$ 504,860 | \$ 790,118 |
| Totals | <u>\$ 285,258</u> | <u>\$ 504,860</u> | <u>\$ 790,118</u> |

VI. Other information

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; and natural disasters. The city has insurance for the major risks such as property, general liability, workers' compensation, and unemployment. Commercial insurance is used to cover general liability claims and the risk of loss to City buildings and mobile equipment.

B. Contingent liabilities

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

The City is party to legal proceedings which normally occur in governmental operations. The legal proceedings are not likely to have a material adverse impact on the affected funds of the City.

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

C. Employee retirement systems and pension plans

The City of Harrah participates in the Oklahoma State Police Pension and Retirement System (OPPRS) and the Oklahoma State Firefighters' Pension and Retirement System (OFPRS), both of which are cost-sharing multi-employer defined benefit pension plans administered by the State of Oklahoma. Additionally, for other City employees not covered by the other plans, the City of Harrah maintains a defined benefit plan and an optional deferred compensation plan (the Plan).

Oklahoma State Police Pension and Retirement System

Plan Description - The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the state legislature. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the police employees of the City. That report may be obtained by writing to the Oklahoma State Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 305, Oklahoma City, Oklahoma 73116-7339, or by calling 1-405-840-3555.

Funding Policy - Plan members are required to contribute 8.0% of their annual covered salary, and the City of Harrah contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OPPRS for the year ended June 30, 2008, for employees and employer were \$23,371 and \$37,979, respectively, on covered payroll of \$292,876.

Oklahoma State Firefighters' Pension and Retirement System

Plan Description - The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the state legislatures. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the firefighting employees of the City. That report may be obtained by writing to the Oklahoma State Firefighters' Pension and Retirement System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105, or by calling 1-405-525-7813.

Funding Policy - Plan members are required to contribute 8.0% of their annual covered salary, and the City of Harrah contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OFPRS for the year ended June 30, 2008, for employees and employer were \$10,733 and \$17,442, respectively, on covered payroll of \$134,164.

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

Oklahoma Municipal Retirement Fund Employee Retirement System

Plan Description - The Oklahoma Municipal Retirement Fund Employee Retirement System, (the Plan) is a defined benefit retirement 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 Bank One 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. Effective July 1, 1999, employees who retire at age 65 or completion of five years of service, if later, 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.

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.

Funding Policy - 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.

City of Harrah, Oklahoma
Notes to Financial Statements
June 30, 2008

The actuarial accrued liability was computed as part of an actuarial valuation dated March 31, 2008. 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 5.0% per year.

Net assets available for benefits at actuarial value were less than the total actuarial liability (entry age normal) by \$326,823 at January 1, 2008, (the most recent information available) as follows:

| | |
|---|------------|
| Actuarial liability: | |
| Retirees, survivors, and deferred vested | \$ 418,002 |
| Active employees | 888,626 |
| Total | 1,306,628 |
| Net assets available for benefits (actuarial value) | (979,805) |
| Unfunded actuarial liability | \$ 326,823 |

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 payroll over a period of 30 years.

For the year ended June 30, 2008, the City's payroll for all employees and the City's total covered payroll were \$929,782 and \$502,742, respectively. 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, 2008, 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, 2008, was 12.0%. Contributions to the Plan for payroll for the year ended June 30, 2008, for employees and employer were \$26,394 and \$60,329, respectively.

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 Financial Statements
June 30, 2008

The schedule of funding progress for the Plan for the past ten years (only information available) is as follows:

| Actuarial Valuation Date | Value of Assets Available For Benefits | Actuarial Accrued Liability | Unfunded Actuarial Accrued Liability | Percentage Funded | Annual Covered Payroll | Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll |
|--------------------------------|--|-----------------------------------|---|----------------------|------------------------------|---|
| 01/01/08 | \$ 979,806 | 1,306,628 | 326,823 | 75.0% | 501,262 | 65.2% |
| 01/01/07 | 860,483 | 1,209,241 | 348,757 | 71.2% | 525,339 | 66.4% |
| 01/01/06 | 746,898 | 914,504 | 167,606 | 81.7% | 443,631 | 37.8% |
| 01/01/05 | 667,117 | 911,455 | 244,339 | 73.2% | 452,879 | 54.0% |
| 01/01/04 | 576,303 | 835,434 | 259,132 | 69.0% | 443,315 | 58.5% |
| 01/01/03 | 503,062 | 808,773 | 305,711 | 62.2% | 379,684 | 80.5% |
| 01/01/02 | 491,674 | 619,075 | 127,401 | 79.4% | 353,607 | 36.0% |
| 01/01/01 | 455,044 | 592,156 | 137,112 | 76.8% | 382,004 | 35.9% |
| 01/01/00 | 394,445 | 524,089 | 129,644 | 75.3% | 388,627 | 33.4% |
| 01/01/99 | 314,568 | 456,721 | 142,153 | 68.9% | 307,265 | 46.3% |

The amounts shown for valuation prior to January 1, 1998, are the pension benefit obligation (PBO) as defined in GASB Statement No. 5, *Accounting for Contingencies*. GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, which replaced GASB Statement No. 5, requires that the actuarial accrued liability used to fund the Plan be used to measure funding progress.

Deferred Compensation Plan

Plan Description - The City of Harrah also offers a deferred compensation plan in accordance with Section 457 of the *Internal Revenue Code*. Employee participation is optional. The City makes no contributions to the Deferred Compensation Plan which the employees may contribute up to a maximum of 25% of compensation of \$7,500 annually, whichever is less. Vesting in such contributions is 100% immediately.

Funding Policy - For the year ended June 30, 2008, elective employee contributions totaled \$4,337.

City of Harrah, Oklahoma
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2008

| | Budget | | Actual | Variance with Final Budget Over |
|--|--------------|-----------|-----------|---------------------------------------|
| | Original | Final | | (Under) |
| REVENUES | | | | |
| Taxes | \$ 1,982,094 | 1,983,104 | 1,925,713 | (57,391) |
| Intergovernmental | 0 | 4,977 | 27,604 | 22,627 |
| Licenses and permits | 60,274 | 55,475 | 34,541 | (20,934) |
| Charge for services | 0 | 372,208 | 377,495 | 5,287 |
| Fines and forfeitures | 118,094 | 118,094 | 59,865 | (58,229) |
| Interest | 0 | 8,736 | 8,886 | 150 |
| Miscellaneous | 400,471 | 128,339 | 32,802 | (95,537) |
| Total revenues | 2,560,933 | 2,670,933 | 2,466,906 | (204,027) |
| EXPENDITURES | | | | |
| General government: | | | | |
| General government | 697,327 | 801,090 | 647,274 | 153,816 |
| Managerial | 67,838 | 68,291 | 57,747 | 10,544 |
| Office | 235,800 | 236,208 | 187,682 | 48,526 |
| Contract services | 19,344 | 19,344 | 19,154 | 190 |
| Public safety: | | | | |
| Police | 699,489 | 700,517 | 562,174 | 138,343 |
| Fire | 311,450 | 314,598 | 261,114 | 53,484 |
| Culture and recreation: | | | | |
| Senior citizen center | 30,000 | 31,200 | 31,047 | 153 |
| Total expenditures | 2,061,248 | 2,171,248 | 1,766,192 | 405,056 |
| Excess (deficiency) of revenues over (under) expenditures | 499,685 | 499,685 | 700,714 | 201,029 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers | (790,118) | (790,118) | (790,118) | 0 |
| Net change in fund balances | (290,433) | (290,433) | (89,404) | 201,029 |
| Fund balances - beginning | 290,433 | 290,433 | 470,119 | 179,686 |
| Fund balances - ending | \$ 0 | 0 | 380,715 | 380,715 |

See accompanying notes to the basic financial statements.

City of Harrah, Oklahoma
 Nonmajor Governmental Funds
 Combining Balance Sheet
 June 30, 2008

| | Special Revenue | | | | | Debt Service Fund | Total Nonmajor Governmental Funds |
|--------------------------------------|-------------------|------------------------------------|---------------|--------------------------|-------------|-------------------------|--|
| | Street & Alley | Harrah Ind. Econ. Dev. Trust | Park Funds | Dare Special Projects | K-9 Fund | | |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 77,231 | 35,975 | 14,685 | 55 | 849 | 11,308 | 140,103 |
| Investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Receivables, net | 3,796 | 0 | 0 | 0 | 0 | 0 | 3,796 |
| Due from other funds | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL | 81,027 | 35,975 | 14,685 | 55 | 849 | 11,308 | 143,899 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts payable | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deposits | 0 | 0 | 300 | 0 | 0 | 0 | 300 |
| Total Liabilities | 0 | 0 | 300 | 0 | 0 | 0 | 300 |
| Fund balances: | | | | | | | |
| Unreserved: | | | | | | | |
| Designated | 81,027 | 35,975 | 14,385 | 55 | 849 | 11,308 | 143,599 |
| Total Fund Balances | 81,027 | 35,975 | 14,385 | 55 | 849 | 11,308 | 143,599 |
| TOTAL | \$ 81,027 | 35,975 | 14,685 | 55 | 849 | 11,308 | 143,899 |

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, 2008

| | Special Revenue | | | | | Debt Service Fund | Total Nonmajor Governmental Funds |
|--|-------------------|------------------------------------|---------------|--------------------------|--------------|-------------------------|--|
| | Street & Alley | Harrah Ind. Econ. Dev. Trust | Park Funds | Dare Special Projects | K-9 Fund | | |
| REVENUES | | | | | | | |
| Taxes | \$ 45,789 | 0 | 0 | 0 | 0 | 108,126 | 153,915 |
| Intergovernmental | 0 | 62,544 | 0 | 0 | 0 | 0 | 62,544 |
| Charge for services | 0 | 0 | 1,315 | 0 | 0 | 0 | 1,315 |
| Interest | 0 | 135 | 48 | 0 | 5 | 560 | 748 |
| Miscellaneous | 0 | 0 | 0 | 0 | 2,000 | 0 | 2,000 |
| Total revenues | <u>45,789</u> | <u>62,679</u> | <u>1,363</u> | <u>0</u> | <u>2,005</u> | <u>108,686</u> | <u>220,522</u> |
| EXPENDITURES | | | | | | | |
| Maintenance & operations | 43,809 | 0 | 120 | 0 | 2,901 | 0 | 46,830 |
| Capital outlay | 0 | 64,315 | 0 | 0 | 0 | 0 | 64,315 |
| Debt service | 0 | 0 | 0 | 0 | 0 | 97,378 | 97,378 |
| Total expenditures | <u>43,809</u> | <u>64,315</u> | <u>120</u> | <u>0</u> | <u>2,901</u> | <u>97,378</u> | <u>208,523</u> |
| Excess (deficiency) of revenues over expenditures | <u>1,980</u> | <u>(1,636)</u> | <u>1,243</u> | <u>0</u> | <u>(896)</u> | <u>11,308</u> | <u>11,999</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Transfers in | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfers out | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total other financing sources and uses | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Net change in fund balances | 1,980 | (1,636) | 1,243 | 0 | (896) | 11,308 | 11,999 |
| Fund balances-beginning | 79,047 | 37,611 | 13,142 | 55 | 1,745 | 0 | 131,600 |
| Fund balances-ending | <u>\$ 81,027</u> | <u>35,975</u> | <u>14,385</u> | <u>55</u> | <u>849</u> | <u>11,308</u> | <u>143,599</u> |

See accompanying notes to the basic financial statement.

DILLON & ASSOCIATES, P.C.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Harrah, Oklahoma, as of and for the year ended June 30, 2008, which collectively comprise the City of Harrah, Oklahoma's basic financial statements and have issued our report thereon dated August 28, 2008. 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'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.

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 significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

08-1. Annual Financial Statement Preparation

Criteria - General accepted auditing standards require management to have individuals employed who possess the qualifications and training necessary to prepare the annual financial statements and notes to financial statements.

Condition - The City of Harrah relies on the audit firm to prepare draft financial statements and proposed accrual entries for their review and approval.

Cause - The City lacks individuals qualified or trained with skills necessary to prepare the annual financial statements.

Effect - The lack of qualified and trained individuals creates an internal control deficiency over financial reporting.

Recommendation - The City of Harrah should consider hiring or training current employees to prepare the annual financial statement and notes to the financial statement.

City's Response - We are reviewing the cost and benefits of hiring an individual qualified and trained in the preparation of annual financial statements in accordance with generally accepted accounting principles.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 significant deficiencies that are also considered to be material weaknesses. However of the significant deficiencies described above, we consider item 07-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Harrah, Oklahoma'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*.

We noted certain matters that we reported to management of the City of Harrah, Oklahoma in a separate letter dated August 28, 2008.

This report is intended solely for the information and use of the City Council and management of the City of Harrah, 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
August 28, 2008

City of Harrah, Oklahoma
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

| FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE | FEDERAL CFDA NUMBER | PASS - THROUGH GRANTOR NUMBER | PROGRAM OR AWARD AMOUNT | EXPENDITURES |
|--|---------------------------|-------------------------------------|-------------------------------|--------------|
| <u>Federal Emergency Management Agency</u> | | | | |
| Passed through Oklahoma Department of Civil Emergency Management: | | | | |
| Public Assistance Grant | 97.036 | FEMA-1712-DR-OK | 8,252 | 5,252 |
| Public Assistance Grant | 97.036 | FEMA-1735-DR-OK | 101,965 | 101,965 |
| Total Federal Emergency Management Agency | | | 110,217 | 107,217 |
| <u>U.S. Department of Housing and Urban Development</u> | | | | |
| EDI - Special Projects | 14.251 | B-05-SP_OK-0616 | 248,000 | 62,544 |
| Total U.S. Department of Housing and Urban Development | | | 248,000 | 62,544 |
| <u>U.S. Department of Transportation</u> | | | | |
| Passed through Oklahoma Department of Agriculture: | | | | |
| Highway Tree Planting Grant | 59.009 | SAFETEALU-07-22 | 25,000 | 21,985 |
| Total U.S. Department of Transportation | | | 25,000 | 21,985 |
| Total Federal Assistance | | | \$ 383,217 | 191,746 |
| STATE PROGRAMS | | | | |
| <u>State of Oklahoma</u> | | | | |
| Oklahoma Department of Agriculture | | | | |
| Rural Fire Program | | | 5,100 | 5,100 |
| Oklahoma Water Resource Board | | | | |
| Emergency Grant | | FAP-06-0018-G | 70,000 | 70,000 |
| Passed through the Oklahoma Centennial Commemoration Commission : | | | | |
| Harrah Amphitheater and Centennial Clock | | | 250,000 | 250,000 |
| Total State of Oklahoma | | | 325,100 | 325,100 |
| Total Federal and State Assistance | | | \$ 708,317 | 516,846 |

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.