

**THE CITY OF HENRYETTA,
OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORTS**

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2016

**CITY OF HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council of the
City of Henryetta, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis 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 the City of Henryetta, Oklahoma, (the "City") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits in accordance with auditing standards 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 from material misstatement.

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

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

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the Henryetta Hospital Authority, a legally separate component unit of the City. The modified cash basis of accounting requires financial data for the City's legally separate component units to be reported with the financial data of the City's primary government unless the City also issues financial statements of the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amount by which this omission would affect the assets, liabilities, net assets, revenues, and expenses of the aggregate discretely presented component units is not determinable.

Adverse Opinion on Discretely Presented Component Units

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Aggregate

Discretely Presented Component Units” paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2016, or the changes in financial position for the year then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2016, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City’s basic financial statements. The accompanying supplemental combining schedules – modified cash basis, schedule of federal and state awards, and debt service coverage information, and the other information including management’s discussion and analysis and budgetary comparison information, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual schedules – modified cash basis, federal and state awards information, and debt service coverage information, as listed in the table of contents, were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual schedules, federal and state awards information, and debt service coverage information are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the modified cash basis of accounting described in Note 1.

Management’s discussion and analysis and the budgetary comparison information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Arlidge & Associates, P.C.

December 2, 2016

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CITY OF HENRYETTA, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2016

The management of the City of Henryetta is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2016. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net position increased by \$3,632,789, and the assets of the City exceed its liabilities at June 30, 2016, by \$6,545,568 (Net Position). Of this amount, \$2,098,352 (Unrestricted Net Position) is available to meet the government's ongoing needs.
- At June 30, 2016, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$3,098,450.
- At the end of fiscal year 2016, unassigned fund balance on a modified cash basis for the General Fund was \$1,889,477 or 71% of General Fund revenues.

ABOUT THE CITY

The City of Henryetta is an incorporated municipality with a population of approximately 5,510 located in east central Oklahoma. The City is a Council/Manager form of government and operates under a charter that provides for three branches of government:

- Legislative – the City Council is a five-member governing body elected by the citizens at large
- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and certain utility services including water, wastewater, and sanitation.

The City's Financial Reporting Entity

With the exception of one component unit, this annual report includes all activities for which the City Council is financially accountable. These activities, defined as the City's financial reporting entity, are operated within separate legal entities.

The City's financial reporting entity includes the primary government and the component units as follows:

- **The City of Henryetta** – that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities.
- **The City of Henryetta Municipal Authority** – that operates the water, wastewater, sanitation, transfer sanitation and EMS activities of the City.
- **The Henryetta Economic Development Authority** – that operates to finance, develop and promote economic development activities of the City. – *reported as a discretely-presented component unit*
- **The Henryetta Hospital Authority** is also a component unit of the City that issues a separate financial statement report, but management has elected to exclude the financial activities of the Authority in this financial statement report, which would have been included as a discretely presented component unit. The reason for the Hospital Authority's exclusion from this financial statement report is that the Hospital Authority's annual financial statements are prepared using a different financial reporting framework than that of the City. The Hospital Authority provides physical facilities (in the form of a tenant-renter relationship), improvements and services for the purpose of providing public health care. Separate financial statements can be obtained by contacting the Hospital administration at 918-650-1301.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the primary government and discretely-presented component unit presented herein include all of the activities of the City of Henryetta (the “City”), the Henryetta Municipal Authority (the “Authority”), and the Henryetta Economic Development Authority (the “HEDA”). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type, in addition to a separate presentation for the discretely presented component unit.

The government-wide financial statements present the complete financial picture of the City from the modified cash basis of accounting. These statements include all assets of the City as well as all liabilities, resulting from modified cash basis transactions. They present governmental and business-type activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

The Statement of Net Position and Statement of Activities

One of the most important questions to ask about the City's finances is, “Has the City's overall financial condition improved, declined or remained steady as a result of the year's activities?” The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base, the condition of the City's roads, and quality of service to assess the overall health of the City. You will also need to keep in mind that these government-

CITY OF HENRYETTA, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2016

wide statements are prepared in accordance with the modified cash basis of accounting and include only those City assets and liabilities resulting from cash transactions with selected modifications.

In the Statement of Net Position and the Statement of Activities, we divide the City's primary government into two kinds of activities: *Governmental activities* - Most of the City's basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* - Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City's water, sewer, and sanitation utilities are reported as business-type activities. Also included in business-type activities are EMS activities.

Reporting the City's Most Significant Funds - Fund Financial Statements

Fund Financial Statements

The fund financial statements provide detailed information about the City's most significant (major) funds -- not the City as a whole. Some funds are required to be established by State law and by debt covenants. However, the City Council may also establish certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary funds - When the City, through the Municipal Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. The City's proprietary fund is also reported on the modified cash basis of accounting. The City's proprietary fund is the Henryetta Municipal Authority which accounts for the operation of the water, sewer, and sanitation activities.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 26-41 of this report.

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Management's Discussion and Analysis
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Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund, combining and individual fund financial statements and schedules, a schedule of federal and state award expenditures and debt service coverage and reserve schedules.

THE CITY AS A WHOLE

For the year ended June 30, 2016, net position on a modified cash basis for the governmental and business-type activities increased \$3,632,789. Following is a summary of Net Position reported on a modified cash basis for the City of Henryetta primary government.

Net Position (Modified Cash Basis)
June 30, 2016
(In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2016	2015		2016	2015		2016	2015	
Current assets	\$ 3,102	\$ 2,581	20%	\$ 3,735	\$ 617	505%	\$ 6,837	\$ 3,198	114%
Total assets	<u>3,102</u>	<u>2,581</u>	20%	<u>3,735</u>	<u>617</u>	505%	<u>6,837</u>	<u>3,198</u>	114%
Current liabilities	4	4	-	288	281	2%	292	285	2%
Total liabilities	<u>4</u>	<u>4</u>	-	<u>288</u>	<u>281</u>	2%	<u>292</u>	<u>285</u>	2%
Net position									
Restricted	1,066	1,235	-14%	3,381	57	5838%	4,447	1,292	244%
Unrestricted	2,032	1,342	51%	66	279	-77%	2,098	1,621	29%
Total net position	<u>\$ 3,098</u>	<u>\$ 2,577</u>	20%	<u>\$ 3,447</u>	<u>\$ 336</u>	925%	<u>\$ 6,545</u>	<u>\$ 2,913</u>	125%

In the governmental activities, unrestricted net position increased approximately \$690,000 from the prior year due primarily to a utility rate increase in the business-type activities and the excess funds are then transferred to the governmental activities. In business-type activities, the current assets increased by approximately \$3,117,000 due to the issuance of the 2015 Utility System and Sales Tax Revenue Note. The issuance of the note also caused restricted net position to increase by approximately \$3,324,000 for capital outlay and debt service.

CITY OF HENRYETTA, OKLAHOMA
Management's Discussion and Analysis
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Changes in Net Position (Modified Cash Basis)
Year Ended June 30, 2016
(In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2016	2015		2016	2015		2016	2015	
Revenues									
Charges for services	\$ 206	\$ 193	7%	\$ 3,470	\$ 3,317	5%	\$ 3,676	\$ 3,510	5%
Operating grants and contributions	149	72	107%	-	-	-	149	72	107%
Capital grants, debt proceeds and contributions	-	83	-100%	4,490	25	17860%	4,490	108	4057%
Sales and use tax	2,774	2,678	4%	-	-	-	2,774	2,678	4%
Other taxes	306	306	-	-	-	-	306	306	-
Other general revenues	245	238	3%	3	2	50%	248	240	3%
Total revenues	3,680	3,570	3%	7,963	3,344	138%	11,643	6,914	68%
Expenses									
General government	1,131	939	20%	-	-	-	1,131	939	20%
Public safety	2,000	1,910	5%	-	-	-	2,000	1,910	5%
Streets and Highways	293	642	-54%	-	-	-	293	642	-54%
Culture and recreation	310	211	47%	-	-	-	310	211	47%
Cemetery	139	134	4%	-	-	-	139	134	4%
Airport	65	52	25%	-	-	-	65	52	25%
Interest on long-term debt	18	23	-22%	-	-	-	18	23	-22%
Payment to component unit	110	107	3%	-	-	-	110	107	3%
Water	-	-	-	2,956	2,131	39%	2,956	2,131	39%
Sewer	-	-	-	668	1,145	-42%	668	1,145	-42%
Sanitation	-	-	-	297	296	-	297	296	-
EMS	-	-	-	89	91	-2%	89	91	-2%
Total expenses	4,066	4,018	1%	4,010	3,663	9%	8,076	7,681	5%
Excess (deficiency) before transfers	(386)	(448)	14%	3,953	(319)	-1339%	3,567	(767)	-565%
Transfers from component unit	65	58	12%	-	-	-	65	58	12%
Transfers	842	190	343%	(842)	(190)	-343%	-	-	-
Change in net position	521	(200)	47%	3,111	(509)	711%	3,632	(709)	612%
Beginning net position	2,577	2,777	-7%	336	845	-60%	2,913	3,622	-20%
Ending net position	\$ 3,098	\$ 2,577	20%	\$ 3,447	\$ 336	926%	\$ 6,545	\$ 2,913	125%

Governmental Activities

The City's governmental activities had an increase in net position of \$521,934.

Capital grants and contributions decreased by approximately \$83,420 due to an ODOT grant received in the prior year. Street expenditures decreased by approximately \$349,881 due to street overlay and signal projects in the prior year. Culture and recreation expenditures exceeded prior year expenditures by \$98,121 due to various park projects. Net transfers increased due primarily to an increase in business-type fund transfers to the General Fund.

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Management's Discussion and Analysis
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Net Revenue/Expense Governmental Activities (Modified Cash Basis)
(In Thousands)

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2016	2015		2016	2015	
	General government	\$ 1,131		\$ 939	20%	
Public safety	2,000	1,910	5%	(1,861)	(1,776)	-5%
Highways and streets	293	642	-54%	(240)	(587)	59%
Culture and recreation	310	211	47%	(300)	(201)	-49%
Cemetery	139	134	4%	(130)	(128)	-2%
Airport	65	52	25%	(47)	(31)	-52%
Interest on long-term debt	18	23	-22%	(18)	(23)	22%
Total expenses	3,956	3,911		(3,602)	(3,563)	
Payment to component unit	110	107	3%	(110)	(107)	3%
Total	\$ 4,066	\$ 4,018	1%	\$(3,712)	\$ (3,670)	-1%

Business-type Activities

The business-type activities had an increase in capital grants and contributions of approximately \$4,465,350 from prior year due to loan proceeds for the 2015 utility system and sales tax note payable of \$4,480,000 for capital improvements and equipment. Water expenses exceeded prior year expenses by approximately \$824,570 due to activity related to the 2015 note payable. . The sewer expenses decreased from prior year expenses by approximately \$476,661 primarily due to the OWRB promissory note being paid off in the current fiscal year.

Net Revenue/Expense Business-type Activities (Modified Cash Basis)
(In Thousands)

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	2016	2015		2016	2015	
	Water	\$ 2,956		\$ 2,131	39%	
Sewer	668	1,145	-42%	267	(237)	213%
Sanitation	297	296	-	470	481	2%
EMS	89	91	-2%	-	-	-
Total	\$ 4,010	\$ 3,663	9%	\$ 3,950	\$ (321)	1331%

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2016 fiscal year, the governmental funds reported a combined fund balance of \$3,098,450. For the year ended June 30, 2016, the General Fund's total fund balance increased by \$685,031 to \$2,005,817 or 76% of annual revenues.

Budgetary Highlights

For the year ended June 30, 2016, the General Fund reported actual budgetary basis revenues above final estimates by \$299,245 or a 6.4% positive variance. General Fund actual expenditures were under final appropriations by \$132,075 or a 3% positive variance.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Over the past couple of fiscal years, the City continued careful review of its financial condition and made minimal changes in personnel and other expenditures to ensure a continuous improvement of their financial condition. The FY 2017 budget was prepared with this in mind.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers 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 Clerk's Office at 115 S. 4th Street, Henryetta, Oklahoma 74437 or phone (918) 652-3348.

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BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

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Statement of Net Position (Modified Cash Basis) – June 30, 2016

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>	<u>Henryetta</u> <u>Economic</u> <u>Development</u> <u>Authority</u>
ASSETS				
Cash and cash equivalents	\$ 2,820,794	\$ 3,564,504	\$ 6,385,298	\$ 257,906
Investments	294,649	156,953	451,602	1,039,206
Internal balances	(13,358)	13,358	-	-
Total assets	<u>3,102,085</u>	<u>3,734,815</u>	<u>6,836,900</u>	<u>1,297,112</u>
LIABILITIES				
Due to other governments	632	-	632	-
Due to depositors	3,003	287,697	290,700	-
Total liabilities	<u>3,635</u>	<u>287,697</u>	<u>291,332</u>	<u>-</u>
NET POSITION				
Restricted for:				
Capital & Debt Service	650,890	3,309,783	3,960,673	-
Debt Service	-	70,817	70,817	-
Cemetery	89,832	-	89,832	-
Public Safety	232,516	-	232,516	-
Culture & Recreation	93,378	-	93,378	-
Unrestricted	2,031,834	66,518	2,098,352	1,297,112
Total net position	<u>\$ 3,098,450</u>	<u>\$ 3,447,118</u>	<u>\$ 6,545,568</u>	<u>\$ 1,297,112</u>

See accompanying notes to the basic financial statements.

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Statement of Activities (Modified Cash Basis) – For the Fiscal Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants, Loan Proceeds, and Contributions	Governmental Activities	Business-type Activities	Total	Henryetta Economic Development Authority
Primary government								
Governmental activities:								
General government	\$ 1,131,252	\$ 35,649	\$ 90,027	\$ -	\$ (1,005,576)	\$ -	\$ (1,005,576)	\$ -
Public safety	1,999,777	138,767	-	-	(1,861,010)	-	(1,861,010)	-
Highways and streets	292,542	-	52,921	-	(239,621)	-	(239,621)	-
Culture and recreation	309,449	3,788	5,686	-	(299,975)	-	(299,975)	-
Cemetery	139,283	9,435	-	-	(129,848)	-	(129,848)	-
Airport	65,475	18,775	-	-	(46,700)	-	(46,700)	-
Interest on long-term debt	18,287	-	-	-	(18,287)	-	(18,287)	-
HEDA (payments to component unit)	109,512	-	-	-	(109,512)	-	(109,512)	-
Total governmental activities	<u>4,065,577</u>	<u>206,414</u>	<u>148,634</u>	<u>-</u>	<u>(3,710,529)</u>	<u>-</u>	<u>(3,710,529)</u>	<u>-</u>
Business-type activities:								
Water	2,955,851	1,678,703	-	4,490,350	-	3,213,202	3,213,202	-
Sewer	667,844	934,836	-	-	-	266,992	266,992	-
Sanitation	297,203	767,118	-	-	-	469,915	469,915	-
EMS	89,084	89,569	-	-	-	485	485	-
Total business-type activities	<u>4,009,982</u>	<u>3,470,226</u>	<u>-</u>	<u>4,490,350</u>	<u>-</u>	<u>3,950,594</u>	<u>3,950,594</u>	<u>-</u>
Total primary government	<u>\$ 8,075,559</u>	<u>\$ 3,676,640</u>	<u>\$ 148,634</u>	<u>\$ 4,490,350</u>	<u>(3,710,529)</u>	<u>3,950,594</u>	<u>240,065</u>	<u>-</u>
Component Units:								
Henryetta Economic Development Authority	<u>\$ 127,477</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(127,477)</u>
General revenues:								
Taxes:								
Sales and use taxes					2,773,936	-	2,773,936	-
Franchise taxes and public service taxes					214,930	-	214,930	-
Hotel/Motel taxes					90,650	-	90,650	-
Intergovernmental revenue not restricted to specific programs					64,882	-	64,882	-
Unrestricted investment earnings					3,393	2,676	6,069	8,565
Miscellaneous					177,019	-	177,019	-
Payment from primary government					-	-	-	109,512
Transfer from component unit					65,238	-	65,238	-
Transfers					842,415	(842,415)	-	-
Total general revenues and transfers					<u>4,232,463</u>	<u>(839,739)</u>	<u>3,392,724</u>	<u>118,077</u>
Change in net position					521,934	3,110,855	3,632,789	(9,400)
Net position - beginning					2,576,516	336,263	2,912,779	1,306,512
Net position - ending					<u>\$ 3,098,450</u>	<u>\$ 3,447,118</u>	<u>\$ 6,545,568</u>	<u>\$ 1,297,112</u>

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

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Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2016

	<u>General Fund</u>	<u>Restricted Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 1,699,486	\$ 693,546	\$ 427,762	\$ 2,820,794
Investments	294,649	-	-	294,649
Due from other funds	17,311	-	-	17,311
Total assets	<u>\$ 2,011,446</u>	<u>\$ 693,546</u>	<u>\$ 427,762</u>	<u>\$ 3,132,754</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other governments	\$ 632	\$ -	\$ -	\$ 632
Due to other funds	1,994	22,667	6,008	30,669
Due to depositors	3,003	-	-	3,003
Total liabilities	<u>5,629</u>	<u>22,667</u>	<u>6,008</u>	<u>34,304</u>
Fund balances:				
Restricted	2,500	650,890	413,226	1,066,616
Assigned	113,840	19,989	8,528	142,357
Unassigned	1,889,477	-	-	1,889,477
Total fund balances	<u>2,005,817</u>	<u>670,879</u>	<u>421,754</u>	<u>3,098,450</u>
Total liabilities and fund balances	<u>\$ 2,011,446</u>	<u>\$ 693,546</u>	<u>\$ 427,762</u>	<u>\$ 3,132,754</u>

See accompanying notes to the basic financial statements.

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Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
(Modified Cash Basis) – For the Fiscal Year Ended June 30, 2016

	<u>General Fund</u>	<u>Restricted Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 2,052,592	\$ 876,096	\$ 90,650	\$ 3,019,338
Intergovernmental	213,516	-	-	213,516
Charges for services	29,654	-	67,804	97,458
Fines and forfeitures	142,393	-	-	142,393
Licenses and permits	26,741	-	-	26,741
Investment income	2,179	374	840	3,393
Miscellaneous	177,019	-	-	177,019
Total revenues	<u>2,644,094</u>	<u>876,470</u>	<u>159,294</u>	<u>3,679,858</u>
EXPENDITURES				
Current:				
General government	1,044,716	5,017	-	1,049,733
Public Safety	1,595,651	-	227,184	1,822,835
Highway and streets	287,614	-	-	287,614
Culture and recreation	146,729	-	6,517	153,246
Cemetery	115,076	-	-	115,076
Airport	65,475	-	-	65,475
Capital Outlay	144,934	85,171	104,227	334,332
Debt Service:				
Principal	-	110,810	15,608	126,418
Interest and other charges	-	16,879	1,408	18,287
Total expenditures	<u>3,400,195</u>	<u>217,877</u>	<u>354,944</u>	<u>3,973,016</u>
Excess (deficiency) of revenues over expenditures	<u>(756,101)</u>	<u>658,593</u>	<u>(195,650)</u>	<u>(293,158)</u>
OTHER FINANCING SOURCES (USES)				
Sales tax payment to HEDA	(109,512)	-	-	(109,512)
Transfers in	2,341,542	-	127,576	2,469,118
Transfers out	(790,898)	(753,616)	-	(1,544,514)
Total other financing sources and (uses)	<u>1,441,132</u>	<u>(753,616)</u>	<u>127,576</u>	<u>815,092</u>
Net change in fund balances	685,031	(95,023)	(68,074)	521,934
Fund balances - beginning	1,320,786	765,902	489,828	2,576,516
Fund balances - ending	<u>\$ 2,005,817</u>	<u>\$ 670,879</u>	<u>\$ 421,754</u>	<u>\$ 3,098,450</u>

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUND

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Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2016

	<u>Henryetta Municipal Authority</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 53,159
Restricted:	
Restricted cash and cash equivalents	3,511,345
Restricted investments	156,953
Due from other funds	22,986
Total current assets	<u>3,744,443</u>
Total assets	<u>3,744,443</u>
 LIABILITIES	
Current liabilities:	
Due to other funds	9,628
Deposits subject to refund	287,697
Total liabilities	<u>297,325</u>
 NET POSITION	
Restricted for capital outlay	3,309,783
Restricted for debt service	70,817
Unrestricted	66,518
Total net position	<u>\$ 3,447,118</u>

See accompanying notes to the basic financial statements.

CITY OF HENRYETTA, OKLAHOMA
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Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis) – For the Fiscal Year Ended June 30, 2016

	<u>Henryetta Municipal Authority</u>
OPERATING REVENUES	
Water charges	\$ 1,604,471
Water taps	11,543
Sewer charges	919,328
Sewer taps	345
Sanitation charges	749,423
Transfer station fees	5,252
EMS assessment	89,569
Penalty charges	35,460
Miscellaneous	54,834
Total Operating Revenues	3,470,225
OPERATING EXPENSES	
Water	1,490,120
Utility office operations	149,062
Water treatment plant operations	524,162
Sewer operations	116,885
Sewer treatment plant operations	267,665
Sanitation	141,688
Transfer station operations	155,515
EMS contract	89,084
Total Operating Expenses	2,934,181
Operating income	536,044
NON-OPERATING REVENUES (EXPENSES)	
Investment income	2,676
Principal payments	(761,846)
Interest expense	(297,002)
Grant revenue	10,350
Proceeds from capital debt	4,480,000
Total non-operating revenue (expenses)	3,434,178
Income before transfers	3,970,222
Transfers in	1,499,728
Transfers out	(2,359,094)
Change in net position	3,110,856
Total net position - beginning	336,262
Total net position - ending	\$ 3,447,118

See accompanying notes to the basic financial statements.

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Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2016

	Henryetta Municipal Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 3,470,225
Payments to suppliers	(2,113,366)
Payments to employees	(820,815)
Receipts of customer meter deposits	57,923
Refunds of customer meter deposits	(51,570)
Other receipts	10,350
Net cash provided by operating activities	<u>552,747</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	1,499,728
Transfers to other funds	(2,359,094)
Net cash provided by (used in) noncapital financing activities	<u>(859,366)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from capital debt	4,480,000
Principal paid on debt	(761,848)
Interest and fiscal agent fees paid on debt	(297,002)
Net cash provided by capital and related financing activities	<u>3,421,150</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale (purchase) of investments	(789)
Interest income	2,677
Net cash provided by investing activities	<u>1,888</u>
Net increase in cash and cash equivalents	3,116,419
Balances - beginning of year	<u>448,085</u>
Balances - end of year	<u>\$ 3,564,504</u>
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	\$ 53,159
Restricted cash and cash equivalents - current	3,511,345
Total cash and cash equivalents, end of year	<u>\$ 3,564,504</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 536,044
Adjustments to reconcile operating income to net cash provided by operating activities:	
Grant revenue	10,350
Change in assets and liabilities:	
Due from other funds	151
Due to other funds	(151)
Deposits subject to refund	6,353
Net cash provided by operating activities	<u>\$ 552,747</u>

See accompanying notes to the basic financial statements.

**CITY OF HENRYETTA, OKLAHOMA
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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City's financial reporting entity includes the primary government (the City), a blended component unit (HMA) and two discretely-presented component units as follows:

- **The City of Henryetta** – that operates the public safety, health and welfare, streets and highways, parks and recreation, and administrative activities
- **The City of Henryetta Municipal Authority** – that operates the water, wastewater, sanitation, transfer sanitation and EMS activities of the City - *considered part of the primary government presentation for reporting purposes as a blended component unit*
- **The Henryetta Economic Development Authority** – that operates to finance, develop and promote economic development activities of the City – *reported as a discretely presented component unit*
- **The Henryetta Hospital Authority** is also a discretely presented component unit of the City that issues a separate financial statement report, but management has elected to exclude the financial activities of the Authority in this financial statement report. The reason for the Hospital Authority's exclusion from this financial statement report is that the Hospital Authority's annual financial statements are prepared using a different financial reporting framework than that of the City. The Hospital Authority provides physical facilities (in the form of tenant-renter relationship), improvements and services for the purpose of providing public health care. Separate financial statements can be obtained by contacting the Hospital administration at 918-650-1301.

With the exception of one component unit, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, as amended by Statement 61, and includes all component units for which the City is financially accountable.

The component units are Public Trusts established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the City has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

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Basis of Presentation and Accounting

Government-Wide Financial Statements:

The Statements of Net Position and Activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for the following modifications that have substantial support in generally accepted accounting principles and are recommended by the GFOA small government annual financial report model. These modifications include adjustments for the following balances arising from cash transactions:

- cash-based interfund receivables and payables
- other cash-based receivables/payables
- utility deposit liabilities

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

Program revenues within the statement of activities are derived directly from each activity or from parties outside the City's taxpayers. The City has the following program revenues in each activity:

- General government: License and permits, rents, royalties and operating grants
- Public safety: Fine revenue
- Highways and Streets: Gas excise taxes and commercial vehicle taxes
- Culture and recreation: Library fines, operating and capital grants
- Cemetery: Cemetery lot fee and stone setting fees
- Airport: Hangar rent and gasoline revenue

Governmental Funds:

General Fund – The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special Revenue Funds – are used to account for and report the proceeds of specific revenues sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Capital Project Funds – are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Proprietary Fund:

Enterprise Fund – are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net position changes similar to the private sector. The reporting entity includes the Henryetta Municipal

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Authority, a blended component unit enterprise fund. This fund accounts for activities of the public trust in providing, water, EMS, wastewater, and sanitation services to the public.

The City's governmental funds are comprised of the following:

Major Funds:

- General Fund – accounts for all activities not accounted for in other special-purpose funds. For financial statement reporting purposes the General Fund contains the following combining accounts: Library Account, Airport Account, Street Improvement Account, Police Special Response Account, and REAP Grant Account.
- Restricted Sales Tax – a capital project fund that accounts for one and two-thirds cent sales tax restricted for capital expenditures.

Non-Major Funds (Reported as Other Governmental Funds):

Special Revenue Funds:

- E-911 Fund – accounts for the City's share of E-911 customer assessment that is restricted for public safety use.
- Hotel/Motel Tax Fund – accounts for hotel/motel taxes the City receives and is to be used for the promotion of tourism and development and maintenance of parks and recreation.

Capital Project Funds:

- Police Equipment – accounts for the donation revenue received to be used for police equipment.
- Cemetery Care Fund – accounts for 12.5 percent of cemetery revenue restricted for cemetery capital improvements.

The governmental funds are reported on a modified cash basis of accounting. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period.

Proprietary Fund:

The City's proprietary fund is comprised of the following:

Enterprise Fund:

- Henryetta Municipal Authority – that operates the water, sewer, EMS, and sanitation services of the City

The proprietary fund is also reported on a modified cash basis, as defined above.

For purposes of the statement of revenues, expenses and changes in fund net position, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

B. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less, and money market accounts. Investments consist of long-term certificates of deposit and are reported at cost.

C. Fund Balances and Net Position

Fund Balances:

Governmental fund equity is classified as fund balance. Fund balance can be further classified as nonspendable, restricted, committed, assigned and unassigned. More information is provided in Note 3. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.
- d. Assigned – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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Net Position:

Net Position is displayed in two components:

- a. *Restricted Net Position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- b. *Unrestricted Net Position* - All other net position that does not meet the definition of “restricted.”

It is the City’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

D. Internal and Interfund Balances and Transfers

The City’s policy is to eliminate interfund transfers and balances in the statement of activities and net position to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

2. Deposits and Investments

For the year ended June 30, 2016, the City recognized \$6,069 of investment income. Due to the minimal rates of return on allowable investments in the current environment, all of the City’s deposits are in demand and short-term time deposits.

At June 30, 2016, the primary government held the following deposits and investments:

Type	Carrying Value
Primary Government	
Deposits:	
Petty Cash	\$ 629
Demand Deposits	6,385,298
Time deposit - certificates of deposit	450,973
	\$ 6,836,900
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	\$ 6,385,298
Investments	451,602
	\$ 6,836,900
Component Units	
Henryetta Economic Development Authority:	
Demand Deposits	\$ 257,906
Time deposit - certificates of deposit	1,039,206
	1,297,112
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	\$ 257,906
Investments	1,039,206
	\$ 1,297,112

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Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2016, the City was not exposed to custodial credit risk as defined above.

Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable.

At June 30, 2016, the City's investments with maturity dates were limited to time deposits that were not exposed to interest rate risk.

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and (5) government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts.

As of June 30, 2016, the City was not exposed to investment credit risk as defined above.

Concentration of Investment Credit Risk

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no investment policy regarding concentration of credit risk.

At June 30, 2016, the City had no concentration of credit risk as defined above.

Restricted Cash and Investments – The amounts reported as restricted assets on the proprietary fund Statement of Net Position are comprised of amounts restricted for meter deposits, debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2016 are as follows:

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<u>Type of Restricted Assets</u>	Current	
	Cash and cash equivalents	Investments
Utility Deposits	\$ 130,745	\$ 156,953
Bond and Note Indenture Accounts:		
Notes Accounts	3,380,600	-
Total Bond and Note Indenture Accounts	3,380,600	-
Total Proprietary Fund	\$ 3,511,345	\$ 156,953

3. Fund Balance and Net Position

The following tables show the fund balance classifications as shown on the Governmental Funds Balance Sheet and Proprietary Fund Statement of Net Position:

	Major Capital Project Fund		Other Governmental Funds	TOTAL
	General Fund	Restricted Sales Tax		
Fund Balances:				
Restricted for:				
Capital and/or capital debt service	\$ -	\$ 650,890	\$ -	\$ 650,890
Cemetery	-	-	89,832	89,832
Public Safety	-	-	232,516	232,516
Culture and Recreation	2,500	-	90,878	93,378
Sub-total Restricted	2,500	650,890	413,226	1,066,616
Assigned to:				
Capital and/or capital debt service	-	19,989	-	19,989
Cemetery	-	-	288	288
E911	-	-	5,439	5,439
Public Safety	53	-	2,460	2,513
Airport	63,259	-	-	63,259
Culture and Recreation	50,528	-	341	50,869
Highway and streets	-	-	-	-
Sub-total Assigned	113,840	19,989	8,528	142,357
Unassigned:	1,889,477	-	-	1,889,477
TOTAL FUND BALANCES	\$ 2,005,817	\$ 670,879	\$ 421,754	\$ 3,098,450

Enterprise Fund:

Restricted for Capital Outlay	\$ 3,309,783
Restricted for Debt Service	70,817
Total Enterprise Fund Restricted for debt service	\$ 3,380,600

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4. Sales Tax Revenue

Sales tax revenue represents a 4 cents tax on each dollar of taxable sales. In September of 2014, the City approved a change to the sales tax allocation. The change became effective in December of 2014 and is recorded as follows:

- 2 2/3 cents is recorded in the General Fund of which 1 cent is pledged and transferred to the HMA to assist in HMA debt service coverage requirements per Ordinance No. 623; 1/6 of one cent is transferred to the Henryetta Economic Development Authority, and 1 1/2 cent is retained by the General Fund
- 1 1/3 cent is recorded in the Restricted Sales Tax Fund with one cent pledged toward HMA debt in accordance with Ordinance No. 1001 effective November 2007 and 1/3 cent restricted for the purchase of capital assets or debt related to the purchase of capital assets with Ordinance No. 987.

5. Property Tax Levy

The City presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the City.

6. Internal and Interfund Balances and Transfers

Balances:

Interfund balances between activities at June 30, 2016, were as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
General Fund	HMA	\$ 1,991	Vendor and payroll reimbursements payable
General Fund	Restricted Sales Tax Fund	3,512	Reimburse expenditures paid
E911 Fund	General Fund	6,004	Reclassification of transaction
Restricted Sales Tax Fund	HMA Sewer Depreciation Account	19,155	Reimburse expenditures paid
Street Improvement Fund	General Fund	3	Reclassification of transaction
Cemetery Care Fund	General Fund	4	Reclassification of transaction
HMA Operating Account	General Fund	7,788	Payroll reimbursements payable
Meter Deposit Account	HMA Operating Account	1,840	Meter deposit refunds
Total		<u>\$ 40,297</u>	

Reconciliation to Fund Financial Statements:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 17,311	\$ (30,669)	\$ (13,358)
Proprietary Funds	22,986	(9,628)	13,358
Total	<u>\$ 40,297</u>	<u>\$ (40,297)</u>	<u>\$ -</u>

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Transfers:

Internal transfers between funds and activities for the year ended June 30, 2016, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
HMA	General Fund	\$ 2,207,076	Return of residual revenue for debt coverage
General Fund	HMA	657,072	Sales tax transfer
General Fund	HMA	6,250	Debt service payments
General Fund	E911 Fund	127,576	Transfer payroll expense
HMA Sewer Depreciation Account	General Fund	69,228	Operating subsidy
Restricted Sales Tax Fund	HMA	753,616	Debt service payments
HMA	2009 CWSRF	82,790	Debt service payments
Total		<u>\$ 3,903,608</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 2,469,118	\$ (1,544,514)	\$ 924,604
Proprietary Funds	1,499,728	(2,359,094)	(859,366)
	<u>\$ 3,968,846</u>	<u>\$ (3,903,608)</u>	<u>\$ 65,238</u>

Reconciliation to Statement of Activities:

Net Transfers	\$ 924,604
Transfer water and sewer activity to business-type activities	(16,951)
Transfer from component unit	(65,238)
Transfers - internal activity	<u>\$ 842,415</u>

7. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

8. Pension Plan Participation

The City of Henryetta participates in four pension or retirement plans:

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
3. Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust (OMRF-DBP) – an agent multiple-employer defined benefit plan
4. OMRF Defined Contribution – an agent multiple-employer defined contribution plan

OFPRS:

Plan Summary Information. The City of Henryetta, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ full-time or volunteer firefighters.

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The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

Funding Policy. OFPRS plan members that are volunteer firefighters are not required to contribute to the plan. OFPRS plan members are required to contribute 9% to the plan. The City is required by state law to contribute 14% per year of covered payroll per paid firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OFPRS contributions are as follows:

Fiscal Year	Required Contributions	Amount Contributed
2014	\$ 67,009	\$ 67,009
2015	\$ 66,799	\$ 66,799
2016	\$ 71,165	\$ 71,165

OPPRS:

Plan Summary Information. The City of Henryetta, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Police Pension and Retirement System (OPPRS). The OPPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ a certain number of fulltime police officers.

The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OPPRS
1001 N.W. 63rd St., Suite 605
Oklahoma City, OK 73116-7335

Funding Policy. The City is required by state law to contribute 13% of covered payroll per year for each police officer. Employees contribute 8% of covered payroll. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OPPRS contributions are as follows:

Fiscal Year	Required Contributions	Amount Contributed
2014	\$ 53,627	\$ 53,627
2015	\$ 55,116	\$ 55,116
2016	\$ 55,418	\$ 55,418

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OMRF Defined Benefit Plan:

The City contributes to the City of Henryetta Plan and Trust in the form of The Oklahoma Municipal Retirement System Master Defined Benefit Plan and Trust, an agent multiple employer - defined benefit plan, for all eligible employees except for those covered by the Police and Firefighter Pension Systems. Administration of the City's individual plan rests with the City Council. The overall operations of OMRF are supervised by a nine-member Council of Trustees elected by the participating municipalities. JP Morgan Chase of Oklahoma City acts as administrator and securities custodian.

Eligibility Factors, Contribution Methods and Benefit Provisions

Provision	OMRF Plan
a. Eligible to Participate	Full-time, non-uniformed employees of the City upon hire.
b. Contribution Requirements:	
-Authorization	By City ordinance
-Actuarially Determined	Yes
-Employer Rate	9.31% of covered payroll
-Employee Rate	0.65% of earnings
c. Period Required to Vest	10 years of credited service
d. Eligibility for Distribution	-Normal retirement at age 65 with 10 years of service -Early retirement at age 55 with 10 years of service -Disability retirement with 10 years of service -Marital death benefit with 10 years of service
e. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
f. Benefit Determination Methods:	
-Normal Retirement	1.875% of final average salary multiplied by credited years of service
-Early Retirement	Actuarially reduced benefit based upon age and years of service at termination
-Disability Retirement	Same as normal retirement
-Death Benefit	50% of employee's accrued benefit, but terminates upon spouse remarriage
-Prior to 10 Years Service	Return of employee contributions with accrued interest
g. Form of Benefit Payments	Normal form is a 60 months certain and life thereafter basis. Employee may elect, with City consent, optional form based on actuarial equivalent.

For the year ended June 30, 2016, the City's employer contribution to the plan was \$113,822 which was equal to the actuarial required contribution.

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, Oklahoma, 73105.

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OMRF Defined Contribution Plan:

Plan Summary Information. The City has provided a defined contribution plan and trust available to the City Manager. The trust is in the form of The Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF). OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. Benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to immediately participate upon being hired.

Funding Policy. Employees participating in the Plan are required to contribute at least 3%. By City ordinance, the City, as employer, is required to make contributions to the plan, at a current rate of 7% of covered payroll. The City's contributions for each employee (and interest allocated to the employee's account) are vested 100% upon participations in the plan. The authority to establish and amend the provisions of the plan rests with the City Council. Currently all eligible employees have opted not to participate in the plan for fiscal year 2016.

9. Commitments and Contingencies

Long-term Debt and Debt Service Requirements:

For the year ended June 30, 2016, the reporting entity's long-term debt changed as follows:

<u>Type of Debt</u>	<u>Balance July 01, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>	<u>Due Within One Year</u>
Governmental Activities:					
Capital lease payable	\$ 562,311	\$ -	\$ 126,417	\$ 435,894	\$ 131,389
Total Governmental Activities	<u>\$ 562,311</u>	<u>\$ -</u>	<u>\$ 126,417</u>	<u>\$ 435,894</u>	<u>\$ 131,389</u>
Business-Type Activities:					
Notes payable	\$ 8,360,265	\$ 4,480,000	\$ 761,848	\$ 12,078,417	\$ 752,369
Total Business-Type Activities	<u>8,360,265</u>	<u>4,480,000</u>	<u>761,848</u>	<u>12,078,417</u>	<u>752,369</u>
Total Long-Term Debt	<u>\$ 8,922,576</u>	<u>\$ 4,480,000</u>	<u>\$ 888,265</u>	<u>\$ 12,514,311</u>	<u>\$ 883,758</u>
Component Unit:					
HEDA:					
Notes Payable	\$ 74,550	\$ -	\$ 7,692	\$ 66,858	\$ 6,508
Total Component Unit	<u>\$ 74,550</u>	<u>\$ -</u>	<u>\$ 7,692</u>	<u>\$ 66,858</u>	<u>\$ 6,508</u>

Governmental activities long-term debt payable from taxes and other general revenues at June 30, 2016 include the following:

Capital Lease Payable:

Capital lease payable to American Exchange Bank for a fire truck, original amount of \$309,005, payable in 60 monthly installments, interest rate at 4.0%, refinanced in FY 15, final payment due August 10, 2019.	\$ 106,986
\$84,828 lease obligation for the purchase of a water truck, payable in monthly installments of \$1,540 with an annual interest rate of 3.40%, final payment due June 2018	34,289
Capital lease payable to American Exchange Bank for a fire truck, original amount of \$498,918, payable in 96 monthly installments, interest rate at 3.4%, final payment due June 1, 2020.	263,101
Capital lease payable to American Exchange Bank for a fire truck, original amount of \$77,901, payable in monthly installments of \$1,418, interest rate at 3.4%, final payment due June 2018.	31,518
Total Capital Leases Payable	<u>\$ 435,894</u>

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Business-type activities long-term debt payable from net revenues generated by the utility revenue and pledged sales tax include the following:

Notes Payable:

OWRB Promissory Note dated September 29, 2009, original amount \$9,500,000, payable in semi-annual installments each March 15 and September 15 beginning March 2011, final installment due September 15, 2030 with a 3.07% interest rate and an administration fee of .5% payable semi-annually based on the principal outstanding.	\$ 5,028,731
OWRB Promissory Note dated December 21, 2009, original amount \$3,650,000, payable in semi-annual installments each March 15 and September 15 beginning September 2011, final installment due March 15, 2031 with a 2.73% interest rate and an administration fee of .5% payable semi-annually based on the principal outstanding.	1,639,477
Series 2014 Utility System and Sales Tax Revenue Note, original amount \$1,040,000, payable in semi-annual installments each June 1 and December 1 beginning June 1, 2016, final installment due June 1, 2019 with a 1.95% interest rate.	900,000
Series 2015 Utility System and Sales Tax Revenue Note, original amount \$4,480,000, payable in semi-annual installments each June 1 and December 1 beginning June 1, 2017, final installment due June 1, 2029 with a 2.64% interest rate.	4,480,000
Oklahoma Department of Commerce note dated March 16, 1998, authorized amount of \$125,000, payable in monthly installments of \$521, including principal with a 0% interest rate, with final payment due October 2018.	<u>30,209</u>
Total Notes Payable	<u><u>\$ 12,078,417</u></u>

Component unit - HEDA:

Oklahoma Department of Commerce note dated March 17, 2005, authorized amount of \$142,000, payable in monthly installments of \$592, including principal with a 0% interest rate, with a final payment due December 2025.	\$ 66,858
Total Notes Payable	<u><u>\$ 66,858</u></u>

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Long-term debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	Capital Lease obligations	
	<u>Principal</u>	<u>Interest</u>
2017	131,389	13,306
2018	133,216	8,556
2019	104,907	4,293
2020	66,382	1,107
Totals	\$ 435,894	\$ 27,262

	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
	2017	752,369
2018	764,505	310,993
2019	780,924	291,972
2020	762,589	272,203
2021	803,767	250,415
2022-2026	4,372,756	896,997
2027-2031	3,841,507	255,318
Totals	\$ 12,078,417	\$ 2,628,587

<u>Year Ending June 30,</u>	<u>Component Unit Activities</u>	
	Notes Payable	
	<u>Principal</u>	<u>Interest</u>
2017	6,508	-
2018	7,100	-
2019	7,100	-
2020	7,100	-
2021	7,100	-
2022-2026	31,950	-
Totals	\$ 66,858	\$ -

Pledge of Future Revenues

Sales Tax and Net Utility Revenues Pledge - The City has pledged two cents (or 50%) of future sales tax revenues and net utility revenues to repay the 2009 OWRB CWSRF \$3,650,000, 2009 OWRB DWSRF \$9,500,000, 2014 Utility System and Sales Tax Revenue \$1,040,000 notes payable and the 2015 Utility System and Sales Tax Revenue \$4,480,000 notes payable. Proceeds from the notes provided financing for capital assets. The notes are payable from pledged sales tax revenues and net utility revenues and are

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payable through 2031. The total principal and interest payable for the remainder of the life of these notes is \$14,676,796. Pledged sales taxes received in the current year were \$1,314,144 and net utility revenues were \$536,044. Debt service payments of \$1,052,599 for the current fiscal year were 57% of both pledged sales taxes and net utility revenues of \$1,849,703.

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and compensation leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2016, is summarized as follows:

- Governmental activities \$194,688
- Business-type activities \$43,316

Litigation:

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City. These statutory provisions do not apply to the City's public trust Authorities. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Federal and State Award Programs:

The City of Henryetta participates in various federal or state grant/loan programs from year to year. In 2016, the City's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

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SUPPLEMENTARY AND OTHER INFORMATION

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Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2016

	General Fund			
	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance	\$ 1,113,425	\$ 1,113,425	\$ 1,205,390	\$ 91,965
Resources (Inflows):				
Taxes	1,969,900	1,969,900	2,052,592	82,692
Intergovernmental	121,500	184,902	207,830	22,928
Charges for services	14,000	14,000	10,879	(3,121)
Fines and forfeitures	128,700	128,700	142,393	13,693
Licenses and Permits	10,800	10,800	26,741	15,941
Investment Income	2,400	2,400	2,155	(245)
Miscellaneous	177,500	177,500	173,678	(3,822)
Other Financing Sources - Transfers In	2,170,363	2,170,363	2,341,542	171,179
Total Resources	<u>4,595,163</u>	<u>4,658,565</u>	<u>4,957,810</u>	<u>299,245</u>
Amount available for appropriation	<u>5,708,588</u>	<u>5,771,990</u>	<u>6,163,200</u>	<u>391,210</u>
Charges to Appropriations (Outflows):				
Departmental:				
General Government:				
General government	1,038,361	1,099,811	1,080,889	18,922
Public Safety	1,689,392	1,648,192	1,619,895	28,297
Street	300,447	353,849	292,542	61,307
Culture and Recreation	135,543	214,943	203,408	11,535
Cemetery	114,232	119,332	115,076	4,256
Airport	38,854	39,154	39,027	127
Transfers to Other Funds	801,791	908,041	900,410	7,631
Total Charges to Appropriations	<u>4,118,620</u>	<u>4,383,322</u>	<u>4,251,247</u>	<u>132,075</u>
Ending Budgetary Fund Balance	<u>\$ 1,589,968</u>	<u>\$ 1,388,668</u>	<u>\$ 1,911,953</u>	<u>\$ 523,285</u>
Reconciliation to Statement of Revenues, Expenditures, and Change in Fund Balance:				
Library Account Balance			50,528	
Airport Account Balance			43,286	
Street Improvement Account Balance			(3)	
Police Special Response Account Balance			53	
Total General Fund Fund Balance			<u>\$ 2,005,817</u>	

Footnotes to Budgetary Comparison Schedule:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a department of a fund require the approval of the City Manager. All other transfers and supplemental appropriations require the approval of the City Council. Supplemental appropriations must be filed with the Office of the State Auditor and Inspector.

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Non-Major Governmental Funds Combining Balance Sheet (Modified Cash Basis) – June 30, 2016

	Special Revenue		Capital Project		Total Governmental Funds
	E911 Fund	Hotel Motel Tax Fund	Cemetery Care Fund	Police Equipment Fund	
ASSETS					
Cash and cash equivalents	\$ 221,092	\$ 91,219	\$ 90,124	\$ 25,327	\$ 427,762
Total assets	\$ 221,092	\$ 91,219	\$ 90,124	\$ 25,327	\$ 427,762
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other funds	\$ 6,004	\$ -	\$ 4	\$ -	\$ 6,008
Total liabilities	6,004	-	4	-	6,008
Fund balances:					
Restricted	209,649	90,878	89,832	22,867	413,226
Assigned	5,439	341	288	2,460	8,528
Total fund balances	215,088	91,219	90,120	25,327	421,754
Total liabilities and fund balances	\$ 221,092	\$ 91,219	\$ 90,124	\$ 25,327	\$ 427,762

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Non-Major Governmental Funds Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2016

	<u>Special Revenue</u>		<u>Capital Project</u>		<u>Total-Other Governmental Funds</u>
	<u>E911 Fund</u>	<u>Hotel Motel Tax Fund</u>	<u>Cemetery Care Fund</u>	<u>Police Equipment Fund</u>	
REVENUES					
Taxes	\$ -	\$ 90,650	\$ -	\$ -	\$ 90,650
Charges for services	60,178	-	7,626	-	67,804
Investment earnings	544	244	52	-	840
Total revenues	<u>60,722</u>	<u>90,894</u>	<u>7,678</u>	<u>-</u>	<u>159,294</u>
EXPENDITURES					
Current:					
Public Safety	227,183	-	-	1	227,184
Culture and recreation	-	6,517	-	-	6,517
Capital Outlay	5,445	71,764	8,599	18,419	104,227
Debt Service:					
Principal	-	-	15,608	-	15,608
Interest and other charges	-	-	1,408	-	1,408
Total Expenditures	<u>232,628</u>	<u>78,281</u>	<u>25,615</u>	<u>18,420</u>	<u>354,944</u>
Excess (deficiency) of revenues over expenditures	<u>(171,906)</u>	<u>12,613</u>	<u>(17,937)</u>	<u>(18,420)</u>	<u>(195,650)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	127,576	-	-	-	127,576
Total other financing sources and uses	<u>127,576</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>127,576</u>
Net change in fund balances	(44,330)	12,613	(17,937)	(18,420)	(68,074)
Fund balances - beginning	259,418	78,606	108,057	43,747	489,828
Fund balances - ending	<u>\$ 215,088</u>	<u>\$ 91,219</u>	<u>\$ 90,120</u>	<u>\$ 25,327</u>	<u>\$ 421,754</u>

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Combining Balance Sheet Schedule (Modified Cash Basis) – Henryetta General Fund Accounts – June 30, 2016

	<u>General Fund</u>	<u>Library Account</u>	<u>Airport Account</u>	<u>Street Improvement Account</u>	<u>Police Special Response Account</u>	<u>Total</u>
ASSETS						
Cash and cash equivalents	\$ 1,608,119	\$ 48,028	\$ 43,286	\$ -	\$ 53	\$ 1,699,486
Investments	292,149	2,500	-	-	-	294,649
Due from other funds	17,311	-	-	-	-	17,311
Total assets	<u>\$ 1,917,579</u>	<u>\$ 50,528</u>	<u>\$ 43,286</u>	<u>\$ -</u>	<u>\$ 53</u>	<u>\$ 2,011,446</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Due to other funds	\$ 1,991	\$ -	\$ -	\$ 3	\$ -	\$ 1,994
Payable to other governments	632	-	-	-	-	632
Due to depositors	3,003	-	-	-	-	3,003
Total liabilities	<u>5,626</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>5,629</u>
Fund balances:						
Restricted	2,500	-	-	-	-	2,500
Assigned	-	50,528	63,259	-	53	113,840
Unassigned (deficit)	1,909,453	-	(19,973)	(3)	-	1,889,477
Total fund balances	<u>1,911,953</u>	<u>50,528</u>	<u>43,286</u>	<u>(3)</u>	<u>53</u>	<u>2,005,817</u>
Total liabilities and fund balances	<u>\$ 1,917,579</u>	<u>\$ 50,528</u>	<u>\$ 43,286</u>	<u>\$ -</u>	<u>\$ 53</u>	<u>\$ 2,011,446</u>

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**Combining Schedule of Revenues, Expenses, and Changes in Fund Balance (Modified Cash Basis) -
General Fund Accounts - Year Ended June 30, 2016**

	<u>General Fund</u>	<u>Library Account</u>	<u>Airport Account</u>	<u>Street Improvement Account</u>	<u>Police Special Response Account</u>	<u>Total</u>
REVENUES						
Taxes	\$ 2,052,592	\$ -	\$ -	\$ -	\$ -	\$ 2,052,592
Intergovernmental	207,830	5,686	-	-	-	213,516
Charges for services	10,879	-	18,775	-	-	29,654
Fines and forfeitures	142,393	-	-	-	-	142,393
Licenses and permits	26,741	-	-	-	-	26,741
Investment earnings	2,155	-	24	-	-	2,179
Miscellaneous	173,678	3,341	-	-	-	177,019
Total revenues	<u>2,616,268</u>	<u>9,027</u>	<u>18,799</u>	<u>-</u>	<u>-</u>	<u>2,644,094</u>
EXPENDITURES						
Current:						
General government	1,044,716	-	-	-	-	1,044,716
Public Safety	1,595,651	-	-	-	-	1,595,651
Highways and streets	287,614	-	-	-	-	287,614
Culture and recreation	138,651	8,078	-	-	-	146,729
Cemetery	115,076	-	-	-	-	115,076
Airport	39,027	-	26,448	-	-	65,475
Capital Outlay	130,102	14,832	-	-	-	144,934
Total Expenditures	<u>3,350,837</u>	<u>22,910</u>	<u>26,448</u>	<u>-</u>	<u>-</u>	<u>3,400,195</u>
Excess (deficiency) of revenues over expenditures	<u>(734,569)</u>	<u>(13,883)</u>	<u>(7,649)</u>	<u>-</u>	<u>-</u>	<u>(756,101)</u>
OTHER FINANCING SOURCES (USES)						
Sales tax payment to HEDA	(109,512)	-	-	-	-	(109,512)
Transfers in	2,341,542	-	-	-	-	2,341,542
Transfers out	(790,898)	-	-	-	-	(790,898)
Total other financing sources and uses	<u>1,441,132</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,441,132</u>
Net change in fund balances	706,563	(13,883)	(7,649)	-	-	685,031
Fund balances - beginning	1,205,390	64,411	50,935	(3)	53	1,320,786
Fund balances - ending	<u>\$ 1,911,953</u>	<u>\$ 50,528</u>	<u>\$ 43,286</u>	<u>\$ (3)</u>	<u>\$ 53</u>	<u>\$ 2,005,817</u>

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Combining Schedule of Net Position (Modified Cash Basis) – Henryetta Municipal Authority
Enterprise Fund Accounts - June 30, 2016

	<u>HMA</u>	<u>Meter Deposit</u>	<u>Sewer Depreciation</u>	<u>87 Bond (Sales Tax)</u>	<u>CDBG Water Project</u>	<u>2009 CWSRF</u>	<u>TOTALS</u>
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 10,285	\$ 42,823	\$ 50	\$ -	\$ 1	\$ -	\$ 53,159
Restricted cash and cash equivalents	99,505	130,744	-	-	1	3,281,095	3,511,345
Restricted investments	-	156,953	-	-	-	-	156,953
Due from other funds	1,840	-	19,155	1,991	-	-	22,986
Total assets	<u>111,630</u>	<u>330,520</u>	<u>19,205</u>	<u>1,991</u>	<u>2</u>	<u>3,281,095</u>	<u>3,744,443</u>
LIABILITIES							
Current liabilities:							
Due to other funds	7,788	1,840	-	-	-	-	9,628
Meter deposit liability	-	287,697	-	-	-	-	287,697
Total liabilities	<u>7,788</u>	<u>289,537</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>297,325</u>
NET POSITION							
Restricted for debt service	51,097	-	-	-	-	19,720	70,817
Restricted for capital outlay	48,408	-	-	-	-	3,261,375	3,309,783
Unrestricted	4,337	40,983	19,205	1,991	2	-	66,518
Total net position	<u>\$ 103,842</u>	<u>\$ 40,983</u>	<u>\$ 19,205</u>	<u>\$ 1,991</u>	<u>\$ 2</u>	<u>\$ 3,281,095</u>	<u>\$ 3,447,118</u>

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Combining Schedule of Revenues, Expenses, and Changes in Net Position (Modified Cash Basis) –
Henryetta Municipal Authority Enterprise Fund Accounts - Year Ended June 30, 2016

	HMA	Meter Deposit	Sewer Depreciation	87 Bond (Sales Tax)	CDBG Water Project	2009 CWSRF	Total
Operating Revenues:							
Water charges	\$ 1,604,471	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,604,471
Water taps	11,543	-	-	-	-	-	11,543
Sewer charges	919,328	-	-	-	-	-	919,328
Sewer taps	345	-	-	-	-	-	345
Sanitation charges	749,423	-	-	-	-	-	749,423
Transfer station fees	5,252	-	-	-	-	-	5,252
EMS Assessments	89,569	-	-	-	-	-	89,569
Penalty charges	35,460	-	-	-	-	-	35,460
Miscellaneous	54,834	-	-	-	-	-	54,834
Total operating revenues	<u>3,470,225</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,470,225</u>
OPERATING EXPENSES							
Water operations	254,995	-	-	5,335	10,350	1,219,440	1,490,120
Utility office operations	149,062	-	-	-	-	-	149,062
Water treatment plant operations	524,162	-	-	-	-	-	524,162
Sewer operations	116,885	-	-	-	-	-	116,885
Sewer treatment plant operations	267,665	-	-	-	-	-	267,665
Sanitation operations	141,688	-	-	-	-	-	141,688
Transfer station operations	155,515	-	-	-	-	-	155,515
EMS contract	89,084	-	-	-	-	-	89,084
Total Operating Expenses	<u>1,699,056</u>	<u>-</u>	<u>-</u>	<u>5,335</u>	<u>10,350</u>	<u>1,219,440</u>	<u>2,934,181</u>
Operating income (loss)	<u>1,771,169</u>	<u>-</u>	<u>-</u>	<u>(5,335)</u>	<u>(10,350)</u>	<u>(1,219,440)</u>	<u>536,044</u>
NON-OPERATING REVENUES (EXPENSES)							
Interest and investment revenue	548	1,147	157	1	-	823	2,676
Principal payments	(606,995)	-	(148,603)	-	(6,249)	-	(761,847)
Interest expense	(233,552)	-	(372)	-	-	(63,078)	(297,002)
Grants	-	-	-	-	10,350	-	10,350
Proceeds from capital debt	-	-	-	-	-	4,480,000	4,480,000
Total non-operating revenue (expenses)	<u>(839,999)</u>	<u>1,147</u>	<u>(148,818)</u>	<u>1</u>	<u>4,101</u>	<u>4,417,745</u>	<u>3,434,177</u>
Income (loss) before transfers	<u>931,170</u>	<u>1,147</u>	<u>(148,818)</u>	<u>(5,334)</u>	<u>(6,249)</u>	<u>3,198,305</u>	<u>3,970,221</u>
Transfers in	1,410,688	-	-	-	6,250	82,790	1,499,728
Transfers out	<u>(2,289,866)</u>	<u>-</u>	<u>(69,228)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,359,094)</u>
Change in net position	51,992	1,147	(218,046)	(5,334)	1	3,281,095	3,110,855
Total net position - beginning	51,850	39,836	237,251	7,325	1	-	336,263
Total net position - ending	<u>\$ 103,842</u>	<u>\$ 40,983</u>	<u>\$ 19,205</u>	<u>\$ 1,991</u>	<u>\$ 2</u>	<u>\$ 3,281,095</u>	<u>\$ 3,447,118</u>

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Schedule of Expenditures of Federal and State Awards – Year Ended June 30, 2016

Federal/State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Agency or Pass Thru Number	Program or Award Amount	Federal/State Expenditures
FEDERAL AWARDS:				
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
Passed through Oklahoma Department of Emergency Management:				
Disaster Relief	97.036	FEMA-4222-DR-OK	63,402	63,402
Disaster Relief	97.036	FEMA-4222-DR-OK	17,606	17,606
			<u>81,008</u>	<u>81,008</u>
<u>U.S. DEPARTMENT HOUSING AND URBAN DEVELOPMENT:</u>				
Passed through Oklahoma Department of Commerce:				
CDBG Grant	14.228	16068 CDBG 14	10,350	10,350
			<u>10,350</u>	<u>10,350</u>
TOTAL FEDERAL AWARDS			\$ 91,358	\$ 91,358
STATE AWARDS:				
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Rural Fire Grant	N/A	N/A	4,290	4,290
<u>OKLAHOMA DEPARTMENT OF CIVIL EMERGENCY MANAGEMENT:</u>				
Disaster Recovery	N/A	N/A	4,729	4,729
<u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u>				
State Aid 2016	N/A	N/A	5,686	5,686
State Aid 2015	N/A	N/A	6,138	40
TOTAL STATE AWARDS			\$ 20,843	\$ 14,745

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Schedule of Debt Service Coverage Requirements – Year Ended June 30, 2016

Gross Revenue Available for Debt Service:

Operating revenues of leased systems (1)	\$	3,380,656
Sales tax pledged		<u>1,314,144</u>
 Total Gross Revenues Available		 4,694,800
 System Operating Expenses (1)		 <u>2,845,097</u>
 Net Revenues Available for Debt Service	 \$	 <u><u>1,849,703</u></u>

Debt Service Requirements:

Maximum annual debt service - OWRB promissory note - 2009 CWSRF	\$	134,320
Maximum annual debt service - OWRB promissory note - 2009 DWSRF		437,301
Maximum annual debt service - 2014 Utility System and Sales Tax Revenue Bonds		310,143
Maximum annual debt service - 2015 Utility System and Sales Tax Revenue Bonds		<u>499,716</u>
 Total Debt Service Requirements	 \$	 <u><u>1,381,480</u></u>

Coverage		<u><u>134%</u></u>
 Coverage Requirement		 <u><u>125%</u></u>

(1) Leased systems include water, sewer, sanitation and administration thereof.

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ANNUAL FINANCIAL REPORT
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INTERNAL CONTROL AND COMPLIANCE INFORMATION



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and City Council of the
City of Henryetta, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Holdenville, Oklahoma (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 2, 2016. Our report included an emphasis of matter paragraph related to the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We issued an adverse opinion on the aggregately discretely presented component units.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

Purpose of this Report

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

Arlidge & Associates, P.C.

December 2, 2016