

**THE CITY OF HENRYETTA,
OKLAHOMA**

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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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**CITY OF HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the City prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As also discussed in Note 1, the City has elected to exclude the financial activities of the Henryetta Hospital Authority, which should be included as a discretely presented component unit in the City's 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.

In our opinion, because of the omission of the Henryetta Hospital Authority, as discussed above, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the aggregate discretely presented component units as of June 30, 2011, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2011, and the respective changes in financial position – modified cash basis and, where applicable, cash flows – modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2011, 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* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund financial statements and debt service coverage information are presented for purposes of additional analysis and are not a required part of the financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Arledge & Associates, P.C.

Edmond, Oklahoma
December 30, 2011

CITY OF HENRYETTA, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

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, 2011. 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 assets increased by \$1,673,671, and the assets of the City exceed its liabilities at June 30, 2011, by \$16,577,551 (net assets). Of this amount, \$1,646,762 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2011, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$3,904,436.
- At the end of fiscal year 2011, unassigned fund balance on a modified cash basis for the General Fund was \$719,833 or 31.7% of General Fund revenues.
- The City implemented GASB Statement 54 – Fund Balance Reporting and Governmental Fund Type Definitions which resulted in the reclassification of some fund types and presentation of fund balance in the new categories of nonspendable, restricted, assigned and unassigned.

ABOUT THE CITY

The City of Henryetta is an incorporated municipality with a population of approximately 6,096 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

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 is not included in this financial statement report. The Hospital Authority provides physical facilities, 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 presented herein include all of the activities of the City of Henryetta (the “City”) and the Henryetta Municipal Authority (the “Authority”). 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 economic resources measurement focus as applicable to the modified cash basis of accounting. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt), resulting from modified cash basis transactions. They present governmental 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 Assets 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 Assets 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-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 Assets 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 certain limited recreation 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. The City's two kinds of funds – *governmental and proprietary* - use different accounting approaches.

During the year the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," which provides a more clearly defined fund balance category structure and clarifies fund type definitions. As a result of this implementation, four non-major governmental funds, the Library Memorial Fund, the Airport Fund, the Street Improvement Fund, and the Police Special Response Fund were reclassified to the General Fund as they no longer met the definition of a special revenue fund. As a result of this reclassification beginning fund balances have been restated appropriately, see also Note 11 for additional information.

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 and current financial resources measurement focus that is different from other funds. 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. Proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. The City's proprietary fund is the Henryetta Municipal Authority that 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 26-48 of this report.

CITY OF HENRYETTA, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund, pension plan funding status schedules, combining financial statements and schedules, and debt service coverage and reserve schedules.

THE CITY AS A WHOLE

For the year ended June 30, 2011, net assets on a modified cash basis for the governmental and business-type activities increased \$1,673,671. Following is a summary of net assets reported on a modified cash basis for the City of Henryetta primary government.

Net Assets (Modified Cash Basis)
June 30, 2011
(In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Current assets	\$ 3,907	\$ 4,516	-13%	\$ 979	\$ 895	9%	\$ 4,886	\$ 5,411	-10%
Capital assets, net	3,714	2,991	24%	17,784	9,657	84%	21,498	12,648	70%
Other non-current assets	-	-	0%	378	404	-6%	378	404	-6%
Total assets	<u>7,621</u>	<u>7,507</u>	2%	<u>19,141</u>	<u>10,956</u>	75%	<u>26,762</u>	<u>18,463</u>	45%
Current liabilities	57	72	-21%	974	659	48%	1,031	731	41%
Non-current liabilities	271	324	-16%	8,883	2,504	255%	9,154	2,828	224%
Total liabilities	<u>328</u>	<u>396</u>	-17%	<u>9,857</u>	<u>3,163</u>	212%	<u>10,185</u>	<u>3,559</u>	186%
Net assets									
Invested in capital assets, net of related debt	3,389	2,598	30%	8,189	6,701	22%	11,578	9,299	25%
Restricted	2,673	-	100%	680	603	13%	3,353	603	456%
Unrestricted	1,231	4,513	-73%	415	489	-15%	1,646	5,002	-67%
Total net assets	<u>\$ 7,293</u>	<u>\$ 7,111</u>	3%	<u>\$ 9,284</u>	<u>\$ 7,793</u>	19%	<u>\$ 16,577</u>	<u>\$ 14,904</u>	11%

Capital assets increased for business-type activities by approximately \$8,127,000 (84%) due to the ongoing water and sewer construction and improvements.

Long-term liabilities also increased for business-type activities by approximately \$6,379,000 (255%) due to the draw-down of new OWRB debt.

The largest portion of the City's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. This year the investment in capital assets, net of related debt, amounted to \$11,578,279.

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.

A portion of the City's net assets, \$3,352,510, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$1,646,762, may be used to meet the government's ongoing needs.

CITY OF HENRYETTA, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

Changes in Net Assets (Modified Cash Basis)
Year Ended June 30, 2011
(In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Revenues									
Charges for service	\$ 223	\$ 255	-13%	\$ 2,956	\$ 2,833	4%	\$ 3,179	\$ 3,088	1%
Operating grants and contributions	139	64	117%	-	31	-100%	139	95	46%
Capital grants and contributions	615	46	1237%	522	2,779	-81%	1,137	2,825	-60%
Sales and use tax	2,542	2,520	1%	-	-	-	2,542	2,520	1%
Other taxes	240	238	1%	-	-	-	240	238	1%
Other general revenues	209	263	-21%	8	12	-33%	217	275	-21%
Total revenues	3,968	3,386	17%	3,486	5,655	-38%	7,454	9,041	-18%
Expenses									
General government	661	824	-20%	-	-	-	661	824	-20%
Public safety	1,952	1,845	6%	-	-	-	1,952	1,845	6%
Streets and Highways	421	358	18%	-	-	-	421	358	18%
Culture and recreation	173	194	-11%	-	-	-	173	194	-11%
Cemetery	117	116	1%	-	-	-	117	116	1%
Airport	75	76	-1%	-	-	-	75	76	-1%
Interest on long-term debt	15	16	-6%	-	-	-	15	16	-6%
Payment to component unit	102	101	1%	-	-	-	102	101	1%
Water	-	-	-	1,154	1,066	8%	1,154	1,066	8%
Sewer	-	-	-	613	655	-6%	613	655	-6%
Sanitation	-	-	-	405	420	-4%	405	420	-4%
EMS	-	-	-	93	94	-1%	93	94	-1%
Total expenses	3,516	3,530	1%	2,265	2,235	1%	5,781	5,765	1%
Excess (deficiency) before transfers	452	(144)	414%	1,221	3,420	-64%	1,673	3,276	-49%
Transfers	(270)	1,218	-122%	270	(1,218)	122%	-	-	-
Change in net assets	182	1,074	-83%	1,491	2,202	-32%	1,673	3,276	-49%
Beginning net assets	7,111	6,037	18%	7,793	5,591	39%	14,904	11,628	28%
Ending net assets	\$ 7,293	\$ 7,111	3%	\$ 9,284	\$ 7,793	19%	\$ 16,577	\$ 14,904	11%

Governmental Activities

The City's governmental activities had an increase in net assets of \$182,612. The increase is due primarily to receipt of \$615,257 in capital grant revenue.

Net Revenue/Expense Governmental Activities (Modified Cash Basis)
(In Thousands)

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2011	2010		2011	2010	
General government	\$ 661	\$ 824	-20%	\$ (54)	\$ (794)	93%
Public safety	1,952	1,845	6%	(1,766)	(1,613)	-9%
Highways and streets	421	358	18%	(341)	(303)	-13%
Culture and recreation	173	194	-11%	(110)	(180)	39%
Cemetery	117	116	1%	(110)	(109)	-1%
Airport	75	76	-1%	(41)	(50)	18%
Interest on long-term debt	15	16	-6%	(15)	(16)	6%
Total expenses	3,414	3,429		(2,437)	(3,065)	
Payment to component unit	102	101	1%	(102)	(101)	-1%
Total	\$ 3,516	\$ 3,530	1%	\$ (2,539)	\$ (3,166)	20%

CITY OF HENRYETTA, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

Business-type Activities

The business-type activities had an increase in net assets of \$1,491,059. The increase is due in part to an increase in transfers of \$1,488,193.

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

	<u>Total Expense</u> <u>of Services</u>		<u>% Inc.</u> <u>Dec.</u>	<u>Net Revenue</u> <u>(Expense)</u> <u>of Services</u>		<u>% Inc.</u> <u>Dec.</u>
	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>	
Water	\$ 1,154	\$ 1,066	8%	\$ 377	\$ 2,267	-83%
Sewer	613	655	-6%	565	917	-38%
Sanitation	405	420	-4%	271	224	21%
EMS	93	94	-1%	-	-	0%
Total	<u>\$ 2,265</u>	<u>\$ 2,235</u>	1%	<u>\$1,213</u>	<u>\$3,408</u>	-64%

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2011 fiscal year, the governmental funds reported a combined fund balance of \$3,904,436. For the year ended June 30, 2011, the General Fund's total fund balance decreased by \$218,681 to \$1,224,287 or 53.9% of annual revenues.

Budgetary Highlights

For the year ended June 30, 2011, the General Fund reported actual budgetary basis revenues under final estimates by \$28,232 or a 1.7% negative variance. General Fund actual expenditures were under final appropriations by \$196,809 or a 5.0% positive variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2011, the City had approximately \$21.5 million invested in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, buildings, machinery, furniture, equipment, and park facilities. This represents a net increase of \$8,849,413 from last year.

CITY OF HENRYETTA, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2011

Below are details regarding the change in the City's capital assets for the year ended June 30, 2011.¹

Capital Assets
Net of Accumulated Depreciation
(In Thousands)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Land	\$ 119	\$ 119	\$ 399	\$ 399	\$ 518	\$ 518
Buildings	528	536	68	65	596	601
Imp. other than buildings	240	252	-	-	240	252
Machinery, furniture and equipment	1,095	961	722	699	1,817	1,660
Infrastructure	1,640	1,123	-	-	1,640	1,123
Utility property	-	-	4,240	4,250	4,240	4,250
Construction in progress	92	-	12,355	4,244	12,447	4,244
Totals	\$ 3,714	\$ 2,991	\$ 17,784	\$ 9,657	\$ 21,498	\$ 12,648

This year's more significant capital asset additions include the following:

- E911 system - \$118,996
- Streetscape improvements - \$569,829
- CIP – Water and Sewer Improvements - \$8,389,322

Debt Administration

At year-end, the City had \$3,350,009 in long-term debt outstanding, reported on a modified cash basis, which represents an increase of \$950,480 from the prior year, resulting from normal debt retirements and the issuance of \$309,006 of new capital leases and draw downs of \$3,824,271 OWRB notes payable in 2011.

Long-term Debt
(In Thousands)

	Governmental		Business-Type		Total		Total Percentage Change
	Activities		Activities				
	2011	2010	2011	2010	2011	2010	
Notes payable	\$ -	\$ -	\$ 9,467	\$ 2,722	\$ 9,467	\$ 2,722	247.8%
Capital leases	325	394	171	234	496	628	-21.0%
Totals	\$ 325	\$ 394	\$ 9,638	\$ 2,956	\$ 9,963	\$ 3,350	197.4%

¹ For more detailed information on capital asset activity please refer to pages 35, Note 3. Capital Assets and Depreciation

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following information outlines significant known factors that will affect subsequent year finances:

- The FY 2012 budget is consistent to prior years.

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.

**CITY OF HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Statement of Net Assets (Modified Cash Basis) – June 30, 2011

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental</u>	<u>Business-type</u>	<u>Total</u>	<u>Henryetta</u>
	<u>Activities</u>	<u>Activities</u>		<u>Economic</u>
				<u>Development</u>
				<u>Authority</u>
ASSETS				
Cash and cash equivalents	\$ 3,460,160	\$ 624,493	\$ 4,084,653	\$ 94,117
Investments	449,254	352,506	801,760	1,003,288
Due from others	-	-	-	-
Internal balances	(2,055)	2,055	-	-
Unamortized bond issuance costs	-	377,499	377,499	-
Capital assets:				
Land and construction in progress	211,312	12,754,146	12,965,458	103,710
Other capital assets, net of depreciation	3,502,510	5,030,035	8,532,545	-
Total assets	<u>7,621,181</u>	<u>19,140,734</u>	<u>26,761,915</u>	<u>1,201,115</u>
LIABILITIES				
Due to depositors	2,923	258,884	261,807	-
Long-term liabilities				
Due within one year	53,982	715,175	769,157	7,104
Due in more than one year	270,795	8,882,605	9,153,400	95,846
Total liabilities	<u>327,700</u>	<u>9,856,664</u>	<u>10,184,364</u>	<u>102,950</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,389,045	8,189,234	11,578,279	-
Restricted for:				
Enabling legislation	2,573,933	679,593	3,253,526	-
Statutory requirements	88,516	-	88,516	-
External contracts	10,468	-	10,468	-
Unrestricted	1,231,519	415,243	1,646,762	1,098,165
Total net assets	<u>\$ 7,293,481</u>	<u>\$ 9,284,070</u>	<u>\$ 16,577,551</u>	<u>\$ 1,098,165</u>

See accompanying notes to the basic financial statements.

CITY OF HENRYETTA, OKLAHOMA
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As of and for the Year Ended June 30, 2011

Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Henryetta Economic Development Authority
Primary government								
Governmental activities:								
General government	\$ 661,423	\$ 19,062	\$ -	\$ 588,080	\$ (54,281)	\$ -	\$ (54,281)	\$ -
Public safety	1,951,967	158,630	-	27,177	(1,766,160)	-	(1,766,160)	-
Highways and streets	421,321	15	80,721	-	(340,585)	-	(340,585)	-
Culture and recreation	172,691	4,018	58,239	-	(110,434)	-	(110,434)	-
Cemetery	116,866	7,268	-	-	(109,598)	-	(109,598)	-
Airport	75,097	34,221	-	-	(40,876)	-	(40,876)	-
Interest on long-term debt	15,081	-	-	-	(15,081)	-	(15,081)	-
HEDA (payments to component unit)	101,781	-	-	-	(101,781)	-	(101,781)	-
Total governmental activities	<u>3,516,227</u>	<u>223,214</u>	<u>138,960</u>	<u>615,257</u>	<u>(2,538,796)</u>	<u>-</u>	<u>(2,538,796)</u>	<u>-</u>
Business-type activities:								
Water	1,154,116	1,363,753	-	167,460	-	377,097	377,097	-
Sewer	612,676	823,136	-	354,591	-	565,051	565,051	-
Sanitation	405,096	676,040	-	-	-	270,944	270,944	-
EMS	93,085	93,085	-	-	-	-	-	-
Total business-type activities	<u>2,264,973</u>	<u>2,956,014</u>	<u>-</u>	<u>522,051</u>	<u>-</u>	<u>1,213,092</u>	<u>1,213,092</u>	<u>-</u>
Total primary government	<u>\$ 5,781,200</u>	<u>\$ 3,179,228</u>	<u>\$ 138,960</u>	<u>\$ 1,137,308</u>	<u>(2,538,796)</u>	<u>1,213,092</u>	<u>(1,325,704)</u>	<u>-</u>
Component Units:								
Henryetta Economic Development Authority	\$ 12,747	\$ -	\$ -	\$ -	-	-	-	(12,747)
General revenues:								
Taxes:								
Sales and use taxes					2,542,472	-	2,542,472	-
Franchise taxes and public service taxes					239,798	-	239,798	-
Intergovernmental revenue not restricted to specific programs					64,807	-	64,807	-
Unrestricted investment earnings					8,406	7,854	16,260	16,492
Miscellaneous					136,038	-	136,038	-
Payment from primary government					-	-	-	101,781
Transfers					(270,113)	270,113	-	-
Total general revenues and transfers					<u>2,721,408</u>	<u>277,967</u>	<u>2,999,375</u>	<u>118,273</u>
Change in net assets					182,612	1,491,059	1,673,671	105,526
Net assets - beginning					7,110,869	7,793,011	14,903,880	992,639
Net assets - ending					<u>\$ 7,293,481</u>	<u>\$ 9,284,070</u>	<u>\$ 16,577,551</u>	<u>\$ 1,098,165</u>

See accompanying notes to the basic financial statements.

**CITY OF HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF HENRYETTA, OKLAHOMA
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As of and for the Year Ended June 30, 2011

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2011

	<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	\$ 780,007	\$ 2,383,897	\$ 296,256	\$ 3,460,160
Investments	449,254	-	-	449,254
Due from other funds	9	-	-	9
Total assets	<u>\$ 1,229,270</u>	<u>\$ 2,383,897</u>	<u>\$ 296,256</u>	<u>\$ 3,909,423</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 2,060	\$ -	\$ 4	\$ 2,064
Due to depositors	2,923	-	-	2,923
Total liabilities	<u>4,983</u>	<u>-</u>	<u>4</u>	<u>4,987</u>
Fund balances:				
Restricted	-	2,382,531	290,386	2,672,917
Assigned	504,454	1,366	5,866	511,686
Unassigned	719,833	-	-	719,833
Total fund balances	<u>1,224,287</u>	<u>2,383,897</u>	<u>296,252</u>	<u>3,904,436</u>
Total liabilities and fund balances	<u>\$ 1,229,270</u>	<u>\$ 2,383,897</u>	<u>\$ 296,256</u>	<u>\$ 3,909,423</u>

See accompanying notes to the basic financial statements.

CITY OF HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
(Modified Cash Basis) – Year Ended June 30, 2011

	<u>General Fund</u>	<u>Restricted Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,694,144	\$ 1,017,817	\$ -	\$ 2,711,961
Intergovernmental	221,069	588,080	9,875	819,024
Charges for services	44,078	-	76,805	120,883
Fines and forfeitures	162,342	-	-	162,342
Licenses and permits	10,298	-	-	10,298
Investment income	4,791	1,366	2,249	8,406
Miscellaneous	132,421	-	3,617	136,038
Total revenues	<u>2,269,143</u>	<u>1,607,263</u>	<u>92,546</u>	<u>3,968,952</u>
EXPENDITURES				
Current:				
General government	598,227	21	-	598,248
Public Safety	1,784,146	-	129,675	1,913,821
Highway and streets	329,369	-	-	329,369
Culture and recreation	162,266	-	-	162,266
Cemetery	116,160	-	-	116,160
Airport	153,328	-	-	153,328
Capital Outlay	12,489	1,622,731	56,832	1,692,052
Debt Service:				
Principal	-	68,888	-	68,888
Interest and other charges	-	15,081	-	15,081
Total expenditures	<u>3,155,985</u>	<u>1,706,721</u>	<u>186,507</u>	<u>5,049,213</u>
Excess (deficiency) of revenues over expenditures	<u>(886,842)</u>	<u>(99,458)</u>	<u>(93,961)</u>	<u>(1,080,261)</u>
OTHER FINANCING SOURCES (USES)				
Sales tax payment to HEDA	(101,781)	-	-	(101,781)
Transfers in	1,386,882	161,210	-	1,548,092
Transfers out	(616,940)	(358,006)	-	(974,946)
Total other financing sources and (uses)	<u>668,161</u>	<u>(196,796)</u>	<u>-</u>	<u>471,365</u>
Net change in fund balances	(218,681)	(296,254)	(93,961)	(608,896)
Fund balances - beginning	1,442,968	2,680,151	390,213	4,513,332
Fund balances - ending	<u>\$ 1,224,287</u>	<u>\$ 2,383,897</u>	<u>\$ 296,252</u>	<u>\$ 3,904,436</u>

See accompanying notes to the basic financial statements.

**CITY OF HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

Total fund balance, governmental funds	\$	3,904,436
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		3,713,822
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		(324,777)
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$</u>	<u>7,293,481</u>

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net change in fund balances - total governmental funds:	\$	(608,896)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
Capital asset purchases capitalized		1,024,301
Depreciation expense		(301,681)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Principal payments on long-term debt		68,888
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>182,612</u>

See accompanying notes to the basic financial statements.

**CITY OF HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUND

CITY OF HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Proprietary Fund Statement of Net Assets (Modified Cash Basis) – June 30, 2011

	<u>Henryetta Municipal Authority</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 35,639
Restricted:	
Restricted cash and cash equivalents	588,854
Restricted investments	352,506
Due from other funds	2,397
Total current assets	979,396
Non-current assets:	
Capital assets:	
Land and construction in progress	12,754,146
Other capital assets, net of accumulated depreciation	5,030,035
Unamortized note issue costs	377,499
Total non-current assets	18,161,680
Total assets	19,141,076
LIABILITIES	
Current liabilities:	
Due to other funds	342
Deposits subject to refund	258,884
Capital lease obligation (current portion)	66,212
Notes payable (current portion)	648,963
Total current liabilities	974,401
Non-current liabilities:	
Capital lease obligation	104,415
Notes payable	8,778,190
Total non-current liabilities	8,882,605
Total liabilities	9,857,006
NET ASSETS	
Invested in capital assets, net of related debt	8,189,234
Restricted for debt service	679,593
Unrestricted	415,243
Total net assets	\$ 9,284,070

See accompanying notes to the basic financial statements.

CITY OF HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2011

	<u>Henryetta Municipal Authority</u>
OPERATING REVENUES	
Water charges	\$ 1,330,512
Water taps	4,817
Sewer charges	805,332
Sewer taps	600
Sanitation charges	648,263
Transfer station fees	6,114
EMS assessment	93,085
Penalty charges	32,021
Miscellaneous	35,270
Total Operating Revenues	2,956,014
OPERATING EXPENSES	
Water	287,631
Utility office operations	186,824
Water treatment plant operations	509,761
Sewer operations	97,002
Sewer treatment plant operations	207,869
Sanitation	133,198
Transfer station operations	168,810
EMS contract	93,085
Depreciation	405,781
Total Operating Expenses	2,089,961
Operating income	866,053
NON-OPERATING REVENUES (EXPENSES)	
Investment income	7,854
Amortization of bond issue costs	(25,993)
Interest expense	(149,019)
Total non-operating revenue (expenses)	(167,158)
Income before contributions and transfers	698,895
Capital contributions	1,365,310
Transfers in	974,946
Transfers out	(1,548,092)
Change in net assets	1,491,059
Total net assets - beginning	7,793,011
Total net assets - ending	\$ 9,284,070

See accompanying notes to the basic financial statements.

CITY OF HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2011

	Henryetta Municipal Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 2,956,156
Payments to suppliers	(835,777)
Payments to employees	(848,403)
Interfund receipts (payments)	(14)
Receipts of customer meter deposits	52,054
Refunds of customer meter deposits	(49,864)
Net cash provided by operating activities	<u>1,274,152</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	974,946
Transfers to other funds	(1,548,092)
Net cash provided by (used in) noncapital financing activities	<u>(573,146)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(7,521,855)
Proceeds from note	7,574,334
Principal paid on debt	(537,588)
Interest and fiscal agent fees paid on debt	(139,800)
Net cash provided by (used in) capital and related financing activities	<u>(624,909)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(3,364)
Interest	7,854
Net cash provided by investing activities	<u>4,490</u>
Net increase (decrease) in cash and cash equivalents	80,587
Balances - beginning of year	<u>543,906</u>
Balances - end of year	<u>\$ 624,493</u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 35,639
Restricted cash and cash equivalents - current	588,854
Total cash and cash equivalents, end of year	<u>\$ 624,493</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 866,053
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	405,781
Change in assets and liabilities:	
Due from other funds	27
Due to other funds	(41)
Due from others	142
Deposits subject to refund	2,190
Net cash provided by operating activities	<u>\$ 1,274,152</u>
Noncash activities:	
Forgiveness of debt, ARRA funds	<u>\$ 354,591</u>

See accompanying notes to the basic financial statements.

**CITY OF HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

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 (City of Henryetta) and discretely-presented component unit 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*
- **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 is not included in this financial statement report. The Hospital Authority provides physical facilities, 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.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, 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.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net assets 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 modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- capital assets and the depreciation of those assets, where applicable

CITY OF HENRYETTA, OKLAHOMA
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- bond issue costs and related amortization, where applicable
- long-term debt
- 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 and royalties
- Public safety: Fine revenue, operating and capital grants
- Highways and Streets: Gas excise taxes, commercial vehicle taxes and cemetery lot sales
- Culture and recreation: Operating and capital grants
- Cemetery: Cemetery lot fee and stone setting fees
- Airport: Hangar rent and gasoline revenue

For business-type activities, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Council (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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 income measurement similar to the private sector. The reporting entity includes the Tuttle Public Works Authority enterprise fund. This fund accounts for activities of the public trust in providing, water, gas, 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
- 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

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 and current financial resources measurement focus. 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. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

Proprietary Fund:

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

Enterprise Fund:

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

The proprietary fund is reported on a modified cash basis, as defined above, and economic resources measurement focus. Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Council (APB) opinions issued on or before November 30, 1989, have been applied as applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

For purposes of the statement of revenues, expenses and changes in fund net assets, 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.

C. 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.

D. Receivables

Due to the use of the modified cash basis of accounting, the City only reports receivables that are a result of a cash transaction.

E. Capital Assets and Depreciation

Reported capital assets are limited to those acquired with cash and cash equivalents consistent with the modified cash basis of accounting. The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery, furniture, and equipment, and infrastructure. A capitalization threshold of \$1,000 is used to report capital assets. Capital assets are reported at actual or estimated historical cost, if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1992. Prior to July 1, 1992, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 1992 are recorded at cost.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 50 years
- Improvements other than buildings 20-30 years
- Machinery, furniture and equipment 3-24 years
- Utility property and improvements 15-50 years
- Infrastructure 15-50 years

F. Long-Term Debt

Reported long-term debt is limited to debt arising from cash transactions consistent with the modified cash basis of accounting. Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund types or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities in the

fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

G. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 11.

H. Fund Balances and Net Assets

Fund Balances:

Governmental fund equity is classified as fund balance. Since the City has implemented GASB Statement 54, fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. Beginning fund balances have been restated to reflect the below stated classifications in compliance with GASB Statement 54. More information is provided in Note 11. 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.

Net Assets:

Net assets are displayed in three components:

- a. *Invested in capital assets, net of related debt* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net assets* - Consists of net assets 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.
- c. *Unrestricted net assets* - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

I. Internal and Interfund Balances and Transfers

The City’s policy is to eliminate interfund transfers and balances in the statement of activities and net assets 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.

J. Use of Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management’s best judgments and may vary from actual results.

2. Deposits and Investments

For the year ended June 30, 2011, the City recognized \$16,260 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.

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At June 30, 2011, the primary government held the following deposits and investments:

Type	Carrying Value
Primary Government	
Deposits:	
Petty Cash	650
Demand Deposits	4,084,003
Time deposit - certificates of deposit	801,760
	\$ 4,886,413
 Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 4,084,653
Investments	801,760
	\$ 4,886,413
 Component Units	
Henryetta Economic Development Authority:	
Demand Deposits	\$ 94,117
Time deposit - certificates of deposit	1,003,288
	1,097,405
 Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 94,117
Investments	1,003,288
	\$ 1,097,405

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, 2011, 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, 2011, the City's investments with maturity dates were limited to time deposits that were not exposed to interest rate risk.

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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, 2011, 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, 2011, 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 assets are comprised of amounts restricted for meter deposits, debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2011 are as follows:

<u>Type of Restricted Assets</u>	<u>Current</u>	
	<u>Cash and cash equivalents</u>	<u>Investments</u>
Utility Deposits	\$ 106,578	\$ 152,306
Bond and Note Indenture Accounts:		
Sales Tax Account	6,262	200,200
Notes Accounts	476,014	-
Total Bond and Note Indenture Accounts	<u>482,276</u>	<u>200,200</u>
Total Proprietary Fund	<u>\$ 588,854</u>	<u>\$ 352,506</u>

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3. Capital Assets and Depreciation

For the year ended June 30, 2011, capital assets balances changed as follows:

	Balance at July 01, 2010	Additions	Disposals	Balance at June 30, 2011
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 118,955	\$ -	\$ -	\$ 118,955
Construction in progress	-	92,357	-	92,357
Total capital assets not being depreciated	<u>118,955</u>	<u>92,357</u>	<u>-</u>	<u>211,312</u>
Other capital assets:				
Buildings	1,228,450	31,838	-	1,260,288
Improvements	578,402	5,850	-	584,252
Infrastructure	1,246,306	569,830	-	1,816,136
Machinery, furniture and equipment	3,532,561	324,426	84,000	3,772,987
Total other capital assets at historical cost	<u>6,585,719</u>	<u>931,944</u>	<u>84,000</u>	<u>7,433,663</u>
Less accumulated depreciation for:				
Buildings	691,978	40,525	-	732,503
Improvements	326,236	18,570	-	344,806
Infrastructure	123,140	52,576	-	175,716
Machinery, furniture and equipment	2,572,118	190,010	84,000	2,678,128
Total accumulated depreciation	<u>3,713,472</u>	<u>301,681</u>	<u>84,000</u>	<u>3,931,153</u>
Other capital assets, net	<u>2,872,247</u>	<u>630,263</u>	<u>-</u>	<u>3,502,510</u>
Governmental activities capital assets, net	<u>\$ 2,991,202</u>	<u>\$ 722,620</u>	<u>\$ -</u>	<u>\$ 3,713,822</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 399,327	\$ -	\$ -	\$ 399,327
Construction in progress	4,243,600	8,389,322	278,103	12,354,819
Total capital assets not being depreciated	<u>4,642,927</u>	<u>8,389,322</u>	<u>278,103</u>	<u>12,754,146</u>
Other capital assets:				
Buildings	197,254	8,300	-	205,554
Machinery, furniture and equipment	1,972,346	134,953	-	2,107,299
Utility property improvements	30,766,948	278,102	-	31,045,050
Total other capital assets at historical cost	<u>32,936,548</u>	<u>421,355</u>	<u>-</u>	<u>33,357,903</u>
Less accumulated depreciation for:				
Buildings	131,864	5,499	-	137,363
Machinery, furniture and equipment	1,273,095	112,682	-	1,385,777
Utility property improvements	26,517,128	287,600	-	26,804,728
Total accumulated depreciation	<u>27,922,087</u>	<u>405,781</u>	<u>-</u>	<u>28,327,868</u>
Other capital assets, net	<u>5,014,461</u>	<u>15,574</u>	<u>-</u>	<u>5,030,035</u>
Business-type activities capital assets, net	<u>\$ 9,657,388</u>	<u>\$ 8,404,896</u>	<u>\$ 278,103</u>	<u>\$ 17,784,181</u>

Component Unit:

	Balance at July 01, 2010	Additions	Disposals	Balance at June 30, 2011
Component Unit:				
Capital assets not being depreciated:				
Land	\$ 62,000	\$ 38,000	\$ -	\$ 100,000
Construction in progress	3,710	-	-	3,710
Total capital assets not being depreciated	<u>65,710</u>	<u>38,000</u>	<u>-</u>	<u>103,710</u>
Component unit capital assets, net	<u>\$ 65,710</u>	<u>\$ 38,000</u>	<u>\$ -</u>	<u>\$ 103,710</u>

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Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

Governmental Activities:		Business-Type Activities:	
General government	\$ 50,387	Water	\$ 158,605
Public safety	137,735	Sewer	195,781
Highways and streets	78,934	Sanitation	51,395
Culture and recreation	15,993		<u>\$ 405,781</u>
Cemetery	3,148		
Airport	15,484		
	<u>\$ 301,681</u>		

4. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2011, the reporting entity's long-term debt changed as follows:

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Governmental activities long-term debt payable from taxes and other general revenues at June 30, 2011 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%, final payment due August 10, 2014.	\$ 257,244
\$120,467 lease obligation for the purchase of INCODE software, payable in 58 monthly installments of \$2,364 with an annual interest rate of 6.58%, final payment due January 2014	67,533
Total Capital Leases Payable	<u>\$ 324,777</u>
Current portion	\$ 53,982
Noncurrent portion	270,795
Total Capital Leases Payable	<u>\$ 324,777</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, \$719,059 available to be drawn, 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. \$ 6,590,941

OWRB Promissory Note dated December 21, 2009, original amount \$3,650,000, \$1,032,336 available to be drawn, 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. 1,490,544

OWRB Promissory Note dated March 28, 2000, original amount \$1,991,463, payable in semi-annual installments each February 15 and August 15 beginning August 2000, final installment due August 15, 2015 with a 0% interest rate and an administration fee of .5% payable semi-annually based on the principal outstanding. 484,409

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. 61,979

OWRB Promissory Note dated May 27, 2004, original amount \$1,955,000, payable in semi-annual installments each March 15 and September 15, beginning March 2004, final installment due September 15, 2015 with an annual interest rate of 2.12% and an administration fee of .5% payable semi-annually based on the principal outstanding. 840,000

	Total Notes Payable	9,467,873
	Less: Unamortized Charge on Refunding	(40,719)
	Total Notes Payable	<u>\$ 9,427,154</u>

	Current portion	\$ 648,963
	Noncurrent portion	8,778,191
	Total Notes Payable	<u>\$ 9,427,154</u>

Capital Lease Payable:

\$162,207 lease obligation for the purchase of a sanitation truck, payable in monthly installments of \$2,993 with an annual interest rate of 4%, final payment due January 2014 \$ 85,269

\$162,277 lease obligation for the purchase of a sanitation truck, payable in monthly installments of \$2,997 with an annual interest rate of 4%, final payment due January 2014 85,358

	Total Capital Leases Payable	<u>\$ 170,627</u>
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	Current portion	\$ 66,212
	Noncurrent portion	104,415
	Total Capital Leases Payable	<u>\$ 170,627</u>

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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.

	\$	102,950
Total Notes Payable	\$	<u>102,950</u>
Current portion	\$	7,104
Noncurrent portion		<u>95,846</u>
Total Notes Payable	\$	<u>102,950</u>

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

<u>Year Ending June 30,</u>	Governmental Activities	
	Capital Lease obligations	
	Principal	Interest
2012	\$ 53,982	\$ 11,931
2013	56,132	9,880
2014	44,070	12,388
2015	<u>170,593</u>	<u>1,133</u>
Totals	<u>\$ 324,777</u>	<u>\$ 35,332</u>

<u>Year Ending June 30,</u>	Business Type Activities			
	Capital Lease Obligations		Notes Payable	
	Principal	Interest	Principal	Interest
2012	\$ 66,212	\$ 5,720	\$ 641,860	\$ 386,653
2013	68,962	2,968	681,288	312,031
2014	35,452	426	702,927	294,415
2015	-	-	714,918	276,238
2016	-	-	583,443	257,616
2017-2021	-	-	2,346,286	1,072,229
2022-2026	-	-	2,685,200	684,485
2027-2031	-	-	<u>2,863,346</u>	<u>234,845</u>
Totals	<u>\$ 170,626</u>	<u>\$ 9,114</u>	\$ 11,219,268	<u>\$ 3,518,512</u>
	Amount remaining loan proceeds to be drawn		<u>(1,751,395)</u>	
		Total	<u>\$ 9,467,873</u>	

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<u>Year Ending June 30,</u>	Component Unit Activities	
	Notes Payable	
	Principal	Interest
2012	\$ 7,104	\$ -
2013	7,104	-
2014	7,104	-
2015	7,104	-
2016	7,104	-
2017-2021	35,520	-
2022-2026	31,910	-
Totals	\$ 102,950	\$ -

Capital Lease Property

The following is an analysis of the governmental fund leased property under capital leases by major classes:

Machinery & Equipment	\$495,256
Less Accumulated Depreciation	<u>(134,480)</u>
Net Machinery and Equipment under Capital Leases	<u>\$360,776</u>

The following is an analysis of the proprietary fund leased property under capital leases by major classes:

Machinery & Equipment	\$324,484
Less Accumulated Depreciation	<u>(55,883)</u>
Net Machinery and Equipment under Capital Leases	<u>\$268,601</u>

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 \$1,991,463, \$1,955,000, \$3,650,000, and \$9,500,000 1997 OWRB SRF, OWRB CWSRF, 2009 OWRB CWSRF, and 2009 OWRB DWSRF notes payable, respectively. Proceeds from the notes provided financing for capital assets. The notes are payable from pledged sales tax revenues and net utility revenues and are payable through 2031. The total principal and interest payable for the remainder of the life of these notes is \$14,675,801. Pledged sales taxes received in the current year were \$1,221,380 and net utility revenues were \$1,271,834. Debt service payments of \$599,255 for the current fiscal year were 24% of both pledged sales taxes and utility revenues of \$2,493,214.

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5. Fund Balance and Net Assets

The following tables show the fund balance classifications as shown on the Governmental Funds Balance Sheet in accordance with GASB Statement 54 and Proprietary Fund Statement of Net Assets:

	Major Capital Project Fund		Other Governmental Funds	TOTAL
	General Fund	Restricted Sales Tax		
Fund Balances:				
Restricted for:				
Capital and/or capital debt service	\$ -	\$ 2,382,531	\$ -	\$ 2,382,531
Cemetery capital	-	-	88,516	88,516
E-911	-	-	191,402	191,402
Police Equipment	-	-	10,468	10,468
Sub-total Restricted	-	2,382,531	290,386	2,672,917
Assigned to:				
Balance Subsequent Years Budget	504,454	-	-	504,454
Capital and/or capital debt service	-	1,366	-	1,366
Cemetery	-	-	39	39
E911	-	-	2,210	2,210
Police	-	-	3,617	3,617
Sub-total Assigned	504,454	1,366	5,866	511,686
Unassigned:	719,833	-	-	719,833
TOTAL FUND BALANCES	1,224,287	2,383,897	296,252	3,904,436

Enterprise Fund:

 Restricted for Debt Service:

 Cash and investments \$ 679,593

Total Enterprise Fund Restricted for debt service \$ 679,593

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Restricted Net Assets – Governmental Activities

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Restricted sales tax	Enabling legislation	\$ 2,382,531
E-911	Enabling legislation	191,402
		<u>\$ 2,573,933</u>
Cemetery	Statutory requirement	<u>\$ 88,516</u>
Police equipment	External contract	<u>\$ 10,468</u>

6. Sales Tax Revenue

Sales tax revenue represents a 4 cents tax on each dollar of taxable sales of which is recorded as follows:

- 2 1/3 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 1/6 cent is retained by the General Fund
- 1 2/3 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 2/3 cent restricted for the purchase of capital assets or debt related to the purchase of capital assets with Ordinance No. 987.

7. 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.

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8. Internal and Interfund Balances and Transfers

Balances:

Interfund balances between activities at June 30, 2011, were as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
General Fund	HMA	\$ 69	Reclassification of transaction
General Fund	HMA	1,991	Reclassification of transaction
Cemetery Care Fund	General Fund	4	Reclassification of transaction
Meter Deposit Fund	HMA	337	Meter deposit refunds
HMA	General Fund	5	Meter deposit refunds
Total		<u>\$ 2,406</u>	

Reconciliation to Fund Financial Statements:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 9	\$ (2,064)	\$ (2,055)
Proprietary Funds	2,397	(342)	2,055
Total	<u>\$ 2,406</u>	<u>\$ (2,406)</u>	<u>\$ -</u>

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2011, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
HMA	General Fund	\$ 1,386,882	Operating subsidy
General Fund	HMA	610,690	Sales tax transfer
General Fund	HMA	6,250	Debt service payments
HMA	Restricted Sales Tax Fund	161,210	Debt service payments
Restricted Sales Tax Fund	HMA	358,006	Debt service payments
Total		<u>\$ 2,523,038</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 1,548,092	\$ (974,946)	\$ 573,146
Proprietary Funds	974,946	(1,548,092)	(573,146)
	<u>\$ 2,523,038</u>	<u>\$ (2,523,038)</u>	<u>\$ -</u>

Reconciliation to Statement of Activities:

Governmental funds net transfers	\$ 573,146
Transfer of capital outlay	(843,259)
	<u>\$ (270,113)</u>

9. 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.

10. 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.

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 8% to the plan. The City is required by state law to contribute 13% 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
2009	\$ 55,208	\$ 55,208
2010	\$ 63,943	\$ 63,943
2011	\$ 58,136	\$ 58,136

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.

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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:

<u>Fiscal Year</u>	<u>Required Contributions</u>	<u>Amount Contributed</u>
2009	\$ 50,111	\$ 50,111
2010	\$ 51,560	\$ 51,560
2011	\$ 51,174	\$ 51,174

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.

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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	7.97% 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, 2011, the City's employer contribution to the plan was \$70,460 which was equal to the actuarial required contribution.

Actuarial Assumptions

For Plan Year July 1, 2010 (Date of Last Actuarial Valuation)

a. Actuarial Cost Method	Entry age normal
b. Rate of Return on Investments	7.5%
c. Projected Salary Increase	Rates by age
d. Post Retirement Cost-of-Living Increase	N/A
e. Inflation Rate	Separate inflation rate not available; inflation included in projected salary increase
f. Mortality	UP 94 mortality
g. Asset Valuation Method	Actuarial method

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Funded Status and Funding Progress

As of July 1, 2011, the funded status of the OMRF agent multiple employer defined benefit plan is as follows:

Actuarial accrued liability (AAL)	\$	2,691,039
Actuarial value of plan assets		2,380,945
Unfunded actuarial accrued liability (UAAL)		310,094
Funded ratio (actuarial value of plan assets/AAL)		88.5%
Annual covered payroll (active plan members)		1,097,979
UAAL as a percentage of covered payroll		28.2%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

11. Restatement of Beginning Fund Balance

During the year the City implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions*,” which provides a more clearly defined fund balance category structure and clarifies fund type definitions. As a result of this implementation, four non-major governmental funds, the Library Fund, the Airport Fund, the Street Improvement Fund, and the Police Special Response Fund were reclassified to the General Fund as they no longer met the definition of a special revenue fund. The beginning fund balances have been restated as follows:

	General Fund	Other Governmental Funds
Balances at June 30, 2010, as originally reported	\$ 1,272,409	\$ 560,772
Restatement related to Library Fund	46,907	(46,907)
Restatement related to Airport Fund	56,424	(56,424)
Restatement related to Street Improvement Fund	67,175	(67,175)
Restatement related to Police Special Response Fund	53	(53)
	\$ 1,442,968	\$ 390,213
Balances at June 30, 2010, as restated		

12. Commitments and Contingencies

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, 2011, is summarized as follows:

- Governmental activities \$236,655
- Business-type activities \$40,779

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 2011, the City's involvement in federal and state award programs was 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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REQUIRED SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2011

	General Fund			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Budgeted Amounts</u>		<u>Actual Amounts, Budgetary Basis</u>	
	<u>Original</u>	<u>Final</u>		
Beginning Budgetary Fund Balance	\$ 1,224,342	\$ 1,224,342	\$ 1,272,409	\$ 48,067
Resources (Inflows):				
Taxes	1,693,000	1,693,000	1,694,144	1,144
Intergovernmental	123,000	123,000	212,953	89,953
Charges for services	8,100	8,100	9,857	1,757
Fines and forfeitures	213,700	213,700	162,342	(51,358)
Licenses and Permits	15,175	15,175	10,298	(4,877)
Investment Income	3,000	3,000	4,727	1,727
Miscellaneous	174,400	174,400	127,278	(47,122)
Other Financing Sources - Transfers In	1,406,338	1,406,338	1,386,882	(19,456)
Total Resources	<u>3,636,713</u>	<u>3,636,713</u>	<u>3,608,481</u>	<u>(28,232)</u>
Amount available for appropriation	<u>4,861,055</u>	<u>4,861,055</u>	<u>4,880,890</u>	<u>19,835</u>
Charges to Appropriations (Outflows):				
Departmental:				
General Government:				
General government	826,058	714,168	598,227	115,941
Public Safety	1,750,017	1,822,317	1,796,635	25,682
Street	287,398	332,998	329,369	3,629
Culture and Recreation:	217,403	196,393	150,560	45,833
Cemetery	120,635	120,635	116,160	4,475
Airport	22,631	37,631	34,849	2,782
Economic Development	101,563	-	-	-
Transfers to Other Funds	615,625	717,188	718,721	(1,533)
Total Charges to Appropriations	<u>3,941,330</u>	<u>3,941,330</u>	<u>3,744,521</u>	<u>196,809</u>
Ending Budgetary Fund Balance	<u>\$ 919,725</u>	<u>\$ 919,725</u>	<u>\$ 1,136,369</u>	<u>\$ 216,644</u>
Reconciliation to Statement of Revenues, Expenditures, and Change in Fund Balance:				
Library Fund Balance			48,460	
Airport Fund Balance			(27,803)	
Street Improvement Fund Balance			67,208	
Police Special Response Fund Balance			53	
Total General Fund Fund Balance			<u>\$ 1,224,287</u>	

Footnotes to Budgetary Comparison Schedule:

- The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
- The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require the approval of the City Manager. All supplemental appropriations require the approval of the City Council. Supplemental appropriations must be filed with the Office of the State Auditor and Inspector.
- In the General Fund, the City had negative variances in the following department and for the following amount:

General Fund – Transfers out (\$1,533)

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OMRF Agent Multiple Employer Defined Benefit Pension Plan - Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2004	\$ 2,010,076	\$ 2,010,585	\$ 509	100.0%	\$ 963,556	0.1%
1/1/2005	2,100,084	1,931,128	(168,956)	108.7%	965,707	-17.5%
1/1/2006	2,195,655	2,081,789	(113,866)	105.5%	996,077	-11.4%
1/1/2007	2,303,757	2,023,048	(280,709)	113.9%	829,693	-33.8%
1/1/2008	2,435,857	2,169,471	(266,386)	112.3%	925,718	-28.8%
1/1/2009	2,219,431	2,275,447	56,016	97.5%	1,003,589	5.6%
1/1/2010	2,267,841	2,447,348	179,507	92.7%	1,036,657	17.3%
1/1/2011	2,380,945	2,691,039	310,094	88.5%	1,097,979	28.2%

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SUPPLEMENTARY INFORMATION

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Non-Major Governmental Funds Combining Balance Sheet (Modified Cash Basis) – June 30, 2011

	<u>Special Revenue</u>	<u>Capital Project</u>		
	<u>E911 Fund</u>	<u>Cemetery Care Fund</u>	<u>Police Equipment Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 193,612	\$ 88,559	\$ 14,085	\$ 296,256
Total assets	<u>\$ 193,612</u>	<u>\$ 88,559</u>	<u>\$ 14,085</u>	<u>\$ 296,256</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ -	\$ 4	\$ -	\$ 4
Total liabilities	<u>-</u>	<u>4</u>	<u>-</u>	<u>4</u>
 Fund balances:				
Restricted	191,402	88,516	10,468	290,386
Assigned	2,210	39	3,617	5,866
Total fund balances	<u>193,612</u>	<u>88,555</u>	<u>14,085</u>	<u>296,252</u>
Total liabilities and fund balances	<u>\$ 193,612</u>	<u>\$ 88,559</u>	<u>\$ 14,085</u>	<u>\$ 296,256</u>

CITY OF HENRYETTA, OKLAHOMA
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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, 2011

	<u>Special Revenue</u>	<u>Capital Project</u>		<u>Total-Other Governmental Funds</u>
	<u>E911 Fund</u>	<u>Cemetery Care Fund</u>	<u>Police Equipment Fund</u>	
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 9,875	\$ 9,875
Charges for services	70,309	6,496	-	76,805
Investment earnings	2,210	39	-	2,249
Miscellaneous	-	-	3,617	3,617
Total revenues	<u>72,519</u>	<u>6,535</u>	<u>13,492</u>	<u>92,546</u>
EXPENDITURES				
Current:				
Public Safety	129,675	-	-	129,675
Capital Outlay	55,190	38	1,604	56,832
Total Expenditures	<u>184,865</u>	<u>38</u>	<u>1,604</u>	<u>186,507</u>
Excess (deficiency) of revenues over expenditures	<u>(112,346)</u>	<u>6,497</u>	<u>11,888</u>	<u>(93,961)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	-	-
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(112,346)	6,497	11,888	(93,961)
Fund balances - beginning	305,958	82,058	2,197	390,213
Fund balances - ending	<u>\$ 193,612</u>	<u>\$ 88,555</u>	<u>\$ 14,085</u>	<u>\$ 296,252</u>

CITY OF HENRYETTA, OKLAHOMA
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Combining Balance Sheet Schedule (Modified Cash Basis) – Henryetta General Fund Accounts - June 30, 2011

	<u>General Fund</u>	<u>Library Fund</u>	<u>Airport Fund</u>	<u>Street Improvement Fund</u>	<u>Police Special Response Fund</u>	<u>Total</u>
ASSETS						
Cash and cash equivalents	\$ 634,589	\$ 45,960	\$ 32,197	\$ 67,208	\$ 53	\$ 780,007
Investments	446,754	2,500	-	-	-	449,254
Due from other funds	60,009	-	(60,000)	-	-	9
Total assets	<u>\$ 1,141,352</u>	<u>\$ 48,460</u>	<u>\$ (27,803)</u>	<u>\$ 67,208</u>	<u>\$ 53</u>	<u>\$ 1,229,270</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Due to other funds	\$ 2,060	\$ -	\$ -	\$ -	\$ -	\$ 2,060
Due to depositors	2,923	-	-	-	-	2,923
Total liabilities	<u>4,983</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,983</u>
Fund balances:						
Assigned	388,733	48,460	-	67,208	53	504,454
Unassigned	747,636	-	(27,803)	-	-	719,833
Total fund balances	<u>1,136,369</u>	<u>48,460</u>	<u>(27,803)</u>	<u>67,208</u>	<u>53</u>	<u>1,224,287</u>
Total liabilities and fund balances	<u>\$ 1,141,352</u>	<u>\$ 48,460</u>	<u>\$ (27,803)</u>	<u>\$ 67,208</u>	<u>\$ 53</u>	<u>\$ 1,229,270</u>

CITY OF HENRYETTA, OKLAHOMA
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**Combining Schedule of Revenues, Expenses, and Changes in Fund Balance (Modified Cash Basis) –
Henryetta General Fund Accounts - Year Ended June 30, 2011**

	<u>General Fund</u>	<u>Library Fund</u>	<u>Airport Fund</u>	<u>Street Improvement Fund</u>	<u>Police Special Response Fund</u>	<u>Total</u>
REVENUES						
Taxes	\$ 1,694,144	\$ -	\$ -	\$ -	\$ -	\$ 1,694,144
Intergovernmental	212,953	8,116	-	-	-	221,069
Charges for services	9,857	-	34,221	-	-	44,078
Fines and forfeitures	162,342	-	-	-	-	162,342
Licenses and permits	10,298	-	-	-	-	10,298
Investment earnings	4,727	-	31	33	-	4,791
Miscellaneous	127,278	5,143	-	-	-	132,421
Total revenues	<u>2,221,599</u>	<u>13,259</u>	<u>34,252</u>	<u>33</u>	<u>-</u>	<u>2,269,143</u>
EXPENDITURES						
Current:						
General government	598,227	-	-	-	-	598,227
Public Safety	1,784,146	-	-	-	-	1,784,146
Highways and streets	329,369	-	-	-	-	329,369
Culture and recreation	150,560	11,706	-	-	-	162,266
Cemetery	116,160	-	-	-	-	116,160
Airport	34,849	-	118,479	-	-	153,328
Capital Outlay	12,489	-	-	-	-	12,489
Total Expenditures	<u>3,025,800</u>	<u>11,706</u>	<u>118,479</u>	<u>-</u>	<u>-</u>	<u>3,155,985</u>
Excess (deficiency) of revenues over expenditures	<u>(804,201)</u>	<u>1,553</u>	<u>(84,227)</u>	<u>33</u>	<u>-</u>	<u>(886,842)</u>
OTHER FINANCING SOURCES (USES)						
Sales tax payment to HEDA	(101,781)	-	-	-	-	(101,781)
Transfers in	1,386,882	-	-	-	-	1,386,882
Transfers out	(616,940)	-	-	-	-	(616,940)
Total other financing sources and uses	<u>668,161</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>668,161</u>
Net change in fund balances	(136,040)	1,553	(84,227)	33	-	(218,681)
Fund balances - beginning	1,272,409	46,907	56,424	67,175	53	1,442,968
Fund balances - ending	<u>\$ 1,136,369</u>	<u>\$ 48,460</u>	<u>\$ (27,803)</u>	<u>\$ 67,208</u>	<u>\$ 53</u>	<u>\$ 1,224,287</u>

CITY OF HENRYETTA, OKLAHOMA
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Combining Schedule of Net Assets (Modified Cash Basis) – Henryetta Municipal Authority
Enterprise Fund Accounts - June 30, 2011

	<u>HMA</u>	<u>Meter Deposit</u>	<u>Sewer Depreciation</u>	<u>87 Bond (Sales Tax)</u>	<u>OWRB FAP Loan</u>	<u>CDBG Water Project</u>	<u>2009 CWSRF</u>	<u>2009 DWSRF</u>	<u>TOTALS</u>
ASSETS									
Current assets:									
Cash and cash equivalents	\$ 704	\$ 34,935	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,639
Restricted cash and cash equivalents	-	106,578	473,181	6,262	-	-	1,452	1,381	588,854
Restricted investments	-	152,306	-	200,200	-	-	-	-	352,506
Due from other funds	406	-	-	1,991	-	-	-	-	2,397
Total current assets	<u>1,110</u>	<u>293,819</u>	<u>473,181</u>	<u>208,453</u>	<u>-</u>	<u>-</u>	<u>1,452</u>	<u>1,381</u>	<u>979,396</u>
Non-current assets:									
Restricted:									
Land and construction in progress	12,754,146	-	-	-	-	-	-	-	12,754,146
Other capital assets, net of accumulated depreciation	5,030,035	-	-	-	-	-	-	-	5,030,035
Unamortized note issue costs	-	-	24,961	-	29,034	-	90,303	233,201	377,499
Total non-current assets	<u>17,784,181</u>	<u>-</u>	<u>24,961</u>	<u>-</u>	<u>29,034</u>	<u>-</u>	<u>90,303</u>	<u>233,201</u>	<u>18,161,680</u>
Total assets	<u>17,785,291</u>	<u>293,819</u>	<u>498,142</u>	<u>208,453</u>	<u>29,034</u>	<u>-</u>	<u>91,755</u>	<u>234,582</u>	<u>19,141,076</u>
LIABILITIES									
Current Liabilities:									
Due to other funds	5	337	-	-	-	-	-	-	342
Meter deposit liability	-	258,884	-	-	-	-	-	-	258,884
Capital lease obligation	66,212	-	-	-	-	-	-	-	66,212
Notes payable	-	-	287,647	-	-	6,250	73,992	281,074	648,963
Total current liabilities	<u>66,217</u>	<u>259,221</u>	<u>287,647</u>	<u>-</u>	<u>-</u>	<u>6,250</u>	<u>73,992</u>	<u>281,074</u>	<u>974,401</u>
Non-current liabilities:									
Capital lease obligation	104,415	-	-	-	-	-	-	-	104,415
Notes payable	-	-	996,043	-	-	55,729	1,416,551	6,309,867	8,778,190
Total non-current liabilities	<u>104,415</u>	<u>-</u>	<u>996,043</u>	<u>-</u>	<u>-</u>	<u>55,729</u>	<u>1,416,551</u>	<u>6,309,867</u>	<u>8,882,605</u>
Total liabilities	<u>170,632</u>	<u>259,221</u>	<u>1,283,690</u>	<u>-</u>	<u>-</u>	<u>61,979</u>	<u>1,490,543</u>	<u>6,590,941</u>	<u>9,857,006</u>
NET ASSETS									
Invested in capital assets, net of related debt	17,613,554	-	(1,283,690)	-	-	(61,979)	(1,489,091)	(6,589,560)	8,189,234
Restricted for debt service	-	-	473,131	206,462	-	-	-	-	679,593
Unrestricted	1,105	34,598	25,011	1,991	29,034	-	90,303	233,201	415,243
Total net assets (deficit)	<u>\$ 17,614,659</u>	<u>\$ 34,598</u>	<u>\$ (785,548)</u>	<u>\$ 208,453</u>	<u>\$ 29,034</u>	<u>\$ (61,979)</u>	<u>\$ (1,398,788)</u>	<u>\$ (6,356,359)</u>	<u>\$ 9,284,070</u>

CITY OF HENRYETTA, OKLAHOMA
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Combining Schedule of Revenues, Expenses, and Changes in Net Assets (Modified Cash Basis) –
Henryetta Municipal Authority Enterprise Fund Accounts - Year Ended June 30, 2011

	<u>HMA</u>	<u>Meter Deposit</u>	<u>Sewer Depreciation</u>	<u>87 Bond (Sales Tax)</u>	<u>OWRB FAP Loan</u>	<u>CDBG Water Project</u>	<u>2009 CWSRF</u>	<u>2009 DWSRF</u>	<u>Total</u>
Operating Revenues:									
Water charges	\$ 1,330,512	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,330,512
Water taps	4,817	-	-	-	-	-	-	-	4,817
Sewer charges	805,332	-	-	-	-	-	-	-	805,332
Sewer taps	600	-	-	-	-	-	-	-	600
Sanitation charges	648,263	-	-	-	-	-	-	-	648,263
Transfer station fees	6,114	-	-	-	-	-	-	-	6,114
EMS Assessments	93,085	-	-	-	-	-	-	-	93,085
Penalty charges	32,021	-	-	-	-	-	-	-	32,021
Miscellaneous	35,270	-	-	-	-	-	-	-	35,270
Total operating revenues	<u>2,956,014</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,956,014</u>
OPERATING EXPENSES									
Water operations	272,251	-	-	9,130	-	6,250	-	-	287,631
Utility office operations	186,824	-	-	-	-	-	-	-	186,824
Water treatment plant operations	509,761	-	-	-	-	-	-	-	509,761
Sewer operations	96,582	-	420	-	-	-	-	-	97,002
Sewer treatment plant operations	207,869	-	-	-	-	-	-	-	207,869
Sanitation operations	133,198	-	-	-	-	-	-	-	133,198
Transfer station operations	168,810	-	-	-	-	-	-	-	168,810
EMS contract	93,085	-	-	-	-	-	-	-	93,085
Depreciation	405,781	-	-	-	-	-	-	-	405,781
Total Operating Expenses	<u>2,074,161</u>	<u>-</u>	<u>420</u>	<u>9,130</u>	<u>-</u>	<u>6,250</u>	<u>-</u>	<u>-</u>	<u>2,089,961</u>
Operating income (loss)	<u>881,853</u>	<u>-</u>	<u>(420)</u>	<u>(9,130)</u>	<u>-</u>	<u>(6,250)</u>	<u>-</u>	<u>-</u>	<u>866,053</u>
NON-OPERATING REVENUES (EXPENSES)									
Interest and investment revenue	859	2,604	2,920	1,471	-	-	-	-	7,854
Amortization of bond issue costs	-	-	(5,878)	-	(2,571)	-	(4,881)	(12,663)	(25,993)
Interest expense	(8,192)	-	(36,581)	-	-	-	(10,643)	(93,603)	(149,019)
Total non-operating revenue (expenses)	<u>(7,333)</u>	<u>2,604</u>	<u>(39,539)</u>	<u>1,471</u>	<u>(2,571)</u>	<u>-</u>	<u>(15,524)</u>	<u>(106,266)</u>	<u>(167,158)</u>
Income (loss) before transfers	<u>874,520</u>	<u>2,604</u>	<u>(39,959)</u>	<u>(7,659)</u>	<u>(2,571)</u>	<u>(6,250)</u>	<u>(15,524)</u>	<u>(106,266)</u>	<u>698,895</u>
Capital contributions	843,259	-	-	-	-	167,460	354,591	-	1,365,310
Interaccount transfers in	7,623,440	-	446,686	-	-	-	8,122	-	8,078,248
Interaccount transfers out	(446,686)	-	(60,062)	-	-	-	(1,651,409)	(5,920,091)	(8,078,248)
Transfers in	682,572	-	-	-	-	6,250	2,521	283,603	974,946
Transfers out	(1,386,882)	-	-	-	-	(161,210)	-	-	(1,548,092)
Change in net assets	<u>8,190,223</u>	<u>2,604</u>	<u>346,665</u>	<u>(7,659)</u>	<u>(2,571)</u>	<u>6,250</u>	<u>(1,301,699)</u>	<u>(5,742,754)</u>	<u>1,491,059</u>
Total net assets (deficit) - beginning	<u>9,424,436</u>	<u>31,994</u>	<u>(1,132,213)</u>	<u>216,112</u>	<u>31,605</u>	<u>(68,229)</u>	<u>(97,089)</u>	<u>(613,605)</u>	<u>7,793,011</u>
Total net assets (deficit) - ending	<u>\$ 17,614,659</u>	<u>\$ 34,598</u>	<u>\$ (785,548)</u>	<u>\$ 208,453</u>	<u>\$ 29,034</u>	<u>\$ (61,979)</u>	<u>\$ (1,398,788)</u>	<u>\$ (6,356,359)</u>	<u>\$ 9,284,070</u>

**CITY OF HENRYETTA, OKLAHOMA
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Schedule of Debt Service Coverage Requirements – Year Ended June 30, 2011

Gross Revenue Available for Debt Service:

Operating revenues of leased systems (1)	\$	2,862,929
Sales tax pledged		<u>1,221,380</u>
 Total Gross Revenues Available		 4,084,309
 System Operating Expenses (1)		 <u>1,591,095</u>
 Net Revenues Available for Debt Service	\$	 <u><u>2,493,214</u></u>

Debt Service Requirements:

Maximum annual debt service - OWRB promissory note - SRF	\$	117,059
Maximum annual debt service - OWRB promissory note - CWSRF		203,042
Maximum annual debt service - OWRB promissory note - 2009 CWSRF		191,407
Maximum annual debt service - OWRB promissory note - 2009 DWSRF		<u>510,261</u>
 Total Debt Service Requirements	\$	 <u><u>1,021,769</u></u>

Coverage		<u>244%</u>
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Coverage Requirement		<u><u>125%</u></u>
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(1) Leased systems include water, sewer, sanitation and administration thereof.

CITY OF HENRYETTA, OKLAHOMA

**SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES**

June 30, 2011

CITY OF HENRYETTA, OKLAHOMA

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 30, 2011. The report on the aggregate discretely presented component units was an adverse opinion due to the omission of the Henryetta Hospital Authority. In addition our report was a special report on the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Except as discussed in the preceding sentences, 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 the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 also noted certain other matters that we reported to management of the City in a separate letter dated December 30, 2011.

This report is intended solely for the information and use of the Mayor, the City Council, management, 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.

Arledge & Associates, P.C.

Edmond, Oklahoma
December 30, 2011



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the City of Henryetta, Oklahoma's (the "City") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditure of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2011, and have issued our report thereon dated December 30, 2011, which contained unqualified opinions on those financial statements. The report on the aggregate discretely presented component units was an adverse opinion due to the omission of the Henryetta Hospital Authority. In addition our report was a special report on the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the City. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Mayor, the City Council, management, 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.

Arledge & Associates, P.C.

Edmond, Oklahoma
December 30, 2011

CITY OF HENRYETTA, OKLAHOMA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Program or Award Amount	Federal Expenditures
U.S. Dept. of Housing and Urban Development:				
Passed through the Oklahoma Department of Commerce:				
Community Development Block Grant	14.228	12055 CDBG CIP 05	\$ 12,500	\$ 6,250
Community Development Block Grant	14.228	12009 CDBG 05	171,500	161,210
Total U.S. Dept. of Housing and Urban Development			<u>184,000</u>	<u>167,460</u>
U.S. Dept. of Transportation:				
Passed through the Oklahoma Highway Safety Office:				
State and Community Highway Safety Grant	20.600	PT-10-03-17-02	13,030	1,631
State and Community Highway Safety Grant	20.600	PT-11-03-09-03	15,000	6,464
Total U.S. Dept. of Transportation			<u>28,030</u>	<u>8,095</u>
U.S. Dept. of Homeland Security				
Passed through the Oklahoma Department of Civil Emergency Management:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-1917-DR-OK	\$ 31,209	\$ 31,209
Total U.S. Department of Homeland Security			<u>31,209</u>	<u>31,209</u>
U.S. Environmental Protection Agency				
Passed through the Oklahoma Water Resources Board				
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458	ORF-09-0029-CW	\$ 354,591	\$ 354,591
Total U.S. Environmental Protection Agency			<u>354,591</u>	<u>354,591</u>
Total Federal Awards			<u>\$ 597,830</u>	<u>\$ 561,355</u>

Notes to Schedule of Expenditures of Federal Awards

Note 1. Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of the City of Henryetta (the "City") under programs of the federal government for the year ended June 30, 2011. The information in this schedule is presented in accordance with requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net assets or cash flows of the City.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule of expenditures of federal awards are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principals contained in OMB Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

CITY OF HENRYETTA, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unqualified: Governmental Activities;
Business-type activities; each major fund; and
aggregate remaining fund information

Adverse: The Aggregate Discretely Presented
Component Units

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Significant deficiency(ies) identified
not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? _____ yes X no

Reportable condition(s) identified
not considered to be material weakness(es)? _____ yes X none reported

Type of auditor's report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
OMB Circular A-133, Section .510(a)?

_____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.458	ARRA - Capitalization Grants for Clean Water State Revolving Funds

Dollar threshold used to distinguish
between Type A and Type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

_____ yes X no

CITY OF HENRYETTA, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

SECTION II - FINANCIAL STATEMENT FINDINGS

Compliance Findings

None

Internal Control Findings

None

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

None

Internal Control Findings

None