

CITY OF NICHOLS HILLS, OKLAHOMA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORTS
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

Prepared By:
City of Nichols Hills Department of Finance
Kristi Hort, Finance Director

CITY OF NICHOLS HILLS, OKLAHOMA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 AND ACCOMPANYING INDEPENDENT AUDITOR'S REPORT
 TABLE OF CONTENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Page</u>
<u>INTRODUCTION SECTION:</u>	
Letter of Transmittal	1-2
List of Principal Officials	3
City Government Organizational Chart	4
Certificate of Achievement for Excellence in Financial Reporting	5
<u>FINANCIAL SECTION:</u>	
INDEPENDENT AUDITOR'S REPORT	7-8
REQUIRED SUPPLEMENTARY INFORMATION:	
Management's Discussion and Analysis	9-14
BASIC FINANCIAL STATEMENTS:	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Assets	15
Statement of Activities	16
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	17
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets	18
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental Funds	19
Reconciliation of Statement of Revenues, Expenditures, and Changes In Fund Balances of Governmental Funds to Statement of Activities	20
Statement of Net Assets – Proprietary Fund	21
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	22
Statement of Cash Flows - Proprietary Fund	23
Notes to the Financial Statements	24-50

CITY OF NICHOLS HILLS, OKLAHOMA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 AND ACCOMPANYING INDEPENDENT AUDITOR'S REPORT
 TABLE OF CONTENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

REQUIRED SUPPLEMENTARY INFORMATION:

Schedule of Funding Progress – Defined Benefit Retirement Plan	51
Schedule of OPEB Status and Funding Progress	52
Budgetary Comparison Schedule (Budgetary Basis) – General Fund	53-54
Notes to Required Supplementary Information – Budgetary Comparison Schedule	55-56

OTHER SUPPLEMENTARY INFORMATION:

Combining Balance Sheet – General Fund Accounts	57
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance – General Fund Accounts	58
Combining Balance Sheet – Nonmajor Governmental Funds	59
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds	60
Budgetary Comparison Schedule – Nonmajor Governmental Funds	61-62
Budgetary Comparison Schedule – Major Governmental Funds	63
Combining Schedule of Net Assets – Enterprise Fund Accounts	64
Combining Schedule of Revenues, Expenses, and Changes in Net Assets – Enterprise Fund Accounts	65
Schedule of Promissory Note Coverage	66
Schedule of Promissory Note Reserve Account Balances	67

STATISTICAL SECTION:

Table

Net Assets by Component - Last Eight Fiscal Years	1	68
Changes in Net Assets - Last Eight Fiscal Years	2	69-70
Fund Balances, Governmental Funds – Last Eight Fiscal Years	3	71
Changes in Fund Balances, Governmental Funds – Last Eight Fiscal Years	4	72

CITY OF NICHOLS HILLS, OKLAHOMA
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 AND ACCOMPANYING INDEPENDENT AUDITOR'S REPORT
 TABLE OF CONTENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<u>STATISTICAL SECTION, (Continued):</u>	<u>Table</u>	
Governmental Activities Tax Revenues by Source – Last Ten Fiscal Years	5	75
Assessed Value and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years	6	76
Property Tax Rates, Direct and Overlapping Governments (Per \$1,000 of Assessed Value) - Ten Fiscal Years	7	77
Principal Property Taxpayers – Current and Nine Years Ago	8	78
Property Tax Levies and Collections – Last Ten Fiscal Years	9	79
Sales Tax Rates of Direct and Overlapping Governments – Last Ten Fiscal Years	10	80
Taxable Sales by Category – Last Six Fiscal Years	11	81
Ratio of Outstanding Debt by Type – Last Ten Fiscal Years	12	82
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita – Last Ten Fiscal Years	13	83
Computation of Direct and Overlapping Debt	14	84
Legal Debt Margin Information – Last Eight Fiscal Years	15	85
Municipal Authority Pledged Revenue Coverage – Last Ten Fiscal Years	16	86
Building Permits and Construction – Last Ten Calendar Years	17	87
Demographic and Economic Statistics – Last Ten Calendar Years	18	88
Principal Employers – Current Year	19	89
Capital Asset Statistics by Function/Program – Last Six Fiscal Years	20	90
Full-Time Equivalent City Government Employees by Function/Program – Last Six Fiscal Years	21	91
Operating Indicators by Function/Program – Last Six Fiscal Years	22	92

INTERNAL CONTROL AND COMPLIANCE:

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	93-94
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CITY OF NICHOLS HILLS, OKLAHOMA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
AND ACCOMPANYING INDEPENDENT AUDITOR'S REPORT
TABLE OF CONTENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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CITY OF NICHOLS HILLS

December 30, 2011

To the Honorable Mayor and Members of the City Council of the
City of Nichols Hills, Oklahoma:

We are pleased to submit to you the Comprehensive Annual Financial Report (hereafter referred to as CAFR) of the City of Nichols Hills for the fiscal year ended June 30, 2011. We believe the information, as presented, is accurate in all material aspects and that all disclosures necessary to enable the reader to gain an adequate understanding of the City's financial affairs have been included. The Management's Discussion and Analysis on pages 9-14 provide additional narrative and detailed analysis of the city's financial affairs. It is the responsibility of the management of the City to prepare the CAFR.

The City of Nichols Hills provides many municipal services including public safety, streets, parks, general administration, and public utilities. For financial reporting purposes, all funds, agencies, boards, commissions and authorities over which the City Council has financial accountability are included in this report. Financial accountability is determined by several different factors including fiscal dependence, ability to impose will upon the entity's governing body, provision of specific financial burdens or benefits and separate legal entity status. After a careful evaluation of these factors, the City has included in this financial report the Nichols Hills Municipal Authority, as well as all funds of the City.

Governmental Structure

The City of Nichols Hills operates as a Council/Manager form of government. The legislative authority of the City is vested in a three member elected City Council. The mayor is elected from among the council itself. The City Council also serves as trustees of the Nichols Hills Municipal Authority. The Mayor and Council appoint a City Manager, who is the chief executive officer of the city, and also appoint a City Treasurer. Responsibility for the day-to-day operations of the City rests with the City Manager.

Economic Condition and Outlook

Nichols Hills is a small community covering approximately two and one half square miles with the majority of the town being residential in nature. The two major sources of operational income are sales tax and water revenues. The sales tax increased by almost \$327,976 over the last fiscal year while water revenue increased by approximately \$966,845 over the same period.

Water sales are dependent upon weather conditions and are very hard to predict. The city changed all of the water meters in town and installed new more accurate meters. These included a radio read system which made for a more efficient system allowing us to capture as much revenue as possible. We are hopeful that water sales will hold steady or increase in the future.

Declining sales tax continues to be at the forefront our concern. The only grocery store in Nichols Hills closed in late October 2011. Thus stimulating ongoing concern of the continued decline of tenants in the Nichols Hills Plaza and increased business growth on the borders of our city limits haunt potential sales tax revenues.

Major Initiatives

The City of Nichols Hills will continue use of General Obligation Bonds to improve infrastructure. Street repair continues as the main focus. Among the streets scheduled for upcoming repairs are Coventry/Guilford and Dorchester/Camden projects, along with the painting of the 2 million gallon ground storage tank.

Independent Audit

The financial statements of the City and its component units for the fiscal year ended June 30, 2011, have been audited by a firm of Independent Public Accountants, and their opinion is included in the Financial Section of this report.

The financial statements are the responsibility of the City. The responsibility of the Independent Public Accountants is to express an opinion on the City's financial statements based on their audit. An audit is conducted in accordance with generally accepted auditing standards and Government Auditing Standards. Those standards require that the audit be planned and performed in a manner to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Nichols Hills for its Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 1997 through 2010. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which conform to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

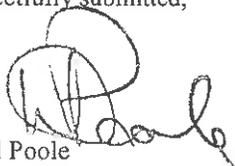
A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgment

We would like to thank our consultants, Crawford & Associates, P.C., for their professional guidance and experience. And also, thanks to our auditors, Arledge & Associates, P.C. for their assistance in this process.

Finally, to the Nichols Hills City Council we extend heartfelt thanks for their support. It is their commitment to financial reporting excellence that allows the citizens of Nichols Hills to be fully informed about their municipal government finances. We are proud to convey the Council's commitment to our citizens and to all readers of the 2010-11 CAFR.

Respectfully submitted,



David Poole
City Manager



Kristi Hort
Finance Director

CITY OF NICHOLS HILLS, OKLAHOMA

LIST OF PRINCIPAL OFFICIALS

JUNE 30, 2011

City Council

Sody Clements, Mayor
E Peter Hoffman, Jr., Vice-Mayor
Steven J. Goetzinger, Member

Administration

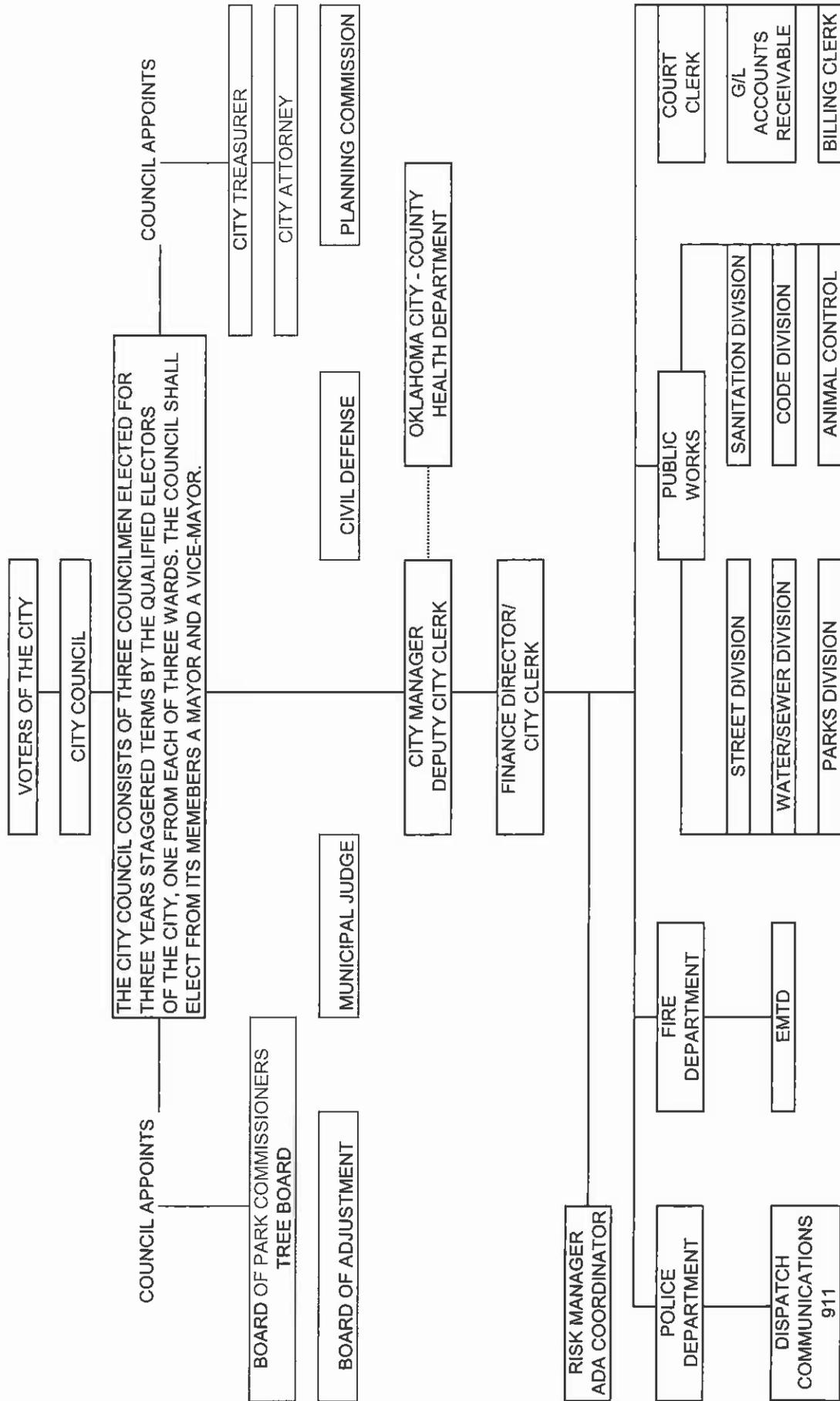
David Poole	City Manager
Kristi Hort	City Clerk
John E. Frank	City Treasurer
John Michael Williams	City Attorney
Lindy Stormont	Risk Manager
Charles Hooper	Director of Public Works
Keith Bryan	Fire Chief
Richard Mask	Police Chief

Finance Department

Kristi Hort	Finance Director
Sherry Dickson	Accounts Payable/Payroll Clerk
Sydney Myers	Court Clerk
Nikki Brown	Utility Billing Clerk

CITY OF NICHOLS HILLS, OKLAHOMA

(A City Council/City Manager Form of Government with a Charter)



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Nichols Hills, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nichols Hills, Oklahoma 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 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 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 the retirement plan and other post-employment benefits funding schedules, 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 introductory section, other supplementary information, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information, as listed in the Table of Contents, 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. The introductory and statistical sections, as listed in the Table of Contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Arledge & Associates, P.C.

Edmond, Oklahoma
December 27, 2011

CITY OF NICHOLS HILLS, OKLAHOMA
MANAGEMENT'S DISCUSSION & ANALYSIS
For the fiscal year ended June 30, 2011

Our discussion and analysis of the City of Nichols Hills financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- For the fiscal year ended June 30, 2011, the City's total net assets increased by \$2,231,817 or 10.5% from the prior year.
- During the year, the City's expenses for governmental activities were \$7,039,624 and were funded by program revenues of \$1,401,432 and other general revenues that totaled \$6,648,989. This resulted in an increase in governmental activities net assets of \$758,319.
- The City's business-type activities reported revenues and transfers of \$3,884,203 and expenses of \$2,410,705, resulting in an increase in net assets of \$1,473,498.
- At June 30, 2011, the General Fund reported an unassigned fund balance of \$2,545,242, which is an increase of 9.4% from the prior year.
- For budgetary reporting purposes, the General Fund reported resources available for appropriation in excess of estimates of \$250,597 or 4.6%, while expenditures were over the final appropriations by \$49,522 or 0.9%.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Nichols Hills (the "City") and its component unit using the integrated approach as prescribed by GASB Statement No. 34. Included in this report are governmental-wide statements for each of two categories of activities – governmental and business-type.

The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately and combined. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt).

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most frequently asked questions about the City's finances is, "Has the City's financial condition improved, declined or remained steady over the last year?" 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. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them from the prior year. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial condition, or position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. However, you must consider other nonfinancial factors, such as changes in the City's tax base and the condition of the City's roads, to assess the overall health of the City.

As mentioned above, in the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- **Governmental activities** -- Most of the City's basic services are reported here, including the police, fire, general administration, streets, and parks. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities.

CITY OF NICHOLS HILLS, OKLAHOMA
MANAGEMENT'S DISCUSSION & ANALYSIS
For the fiscal year ended June 30, 2011

- Business-type activities – For these activities, the City charges a fee to customers to help cover all or most of the cost of the services it provides. The City's water and wastewater utilities are reported here.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money.

Governmental funds -- Most 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. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. 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 determine 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 charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that business-type activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

A FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets increased from \$21.3 million to \$23.5 million between fiscal years 2010 and 2011. Looking at the net assets of governmental and business-type activities separately, governmental activities increased and the business-type activities decreased.

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Current assets	\$ 12,117,860	\$ 10,535,307	15%	\$ 1,406,718	\$ 642,720	119%	\$ 13,524,578	\$ 11,178,027	21%
Capital assets, net	13,482,225	10,942,414	23%	19,184,874	18,721,928	2%	32,667,099	29,664,342	10%
Total assets	\$ 25,600,085	\$ 21,477,721	19%	\$ 20,591,592	\$ 19,364,648	6%	\$ 46,191,677	\$ 40,842,369	13%
Long-term debt outstanding	21,286,841	18,133,856	17%	272,577	497,858	-45%	21,559,418	18,631,514	16%
Other liabilities	1,055,599	844,538	25%	83,411	104,885	-20%	1,139,010	949,423	20%
Total liabilities	\$ 22,342,440	\$ 18,978,394	18%	\$ 355,988	\$ 602,543	-41%	\$ 22,698,428	\$ 19,580,937	16%
Net asset									
Invested in capital assets, net of related debt	(7,597,775)	(2,302,260)	230%	18,952,874	18,266,928	4%	11,355,099	15,964,668	-29%
Restricted	482,303	363,430	33%	450,593	437,468	3%	932,896	800,898	16%
Unrestricted	10,373,117	4,438,157	134%	832,137	57,709	1342%	11,205,254	4,495,866	149%
Total net assets	\$ 3,257,645	\$ 2,499,327	30%	\$ 20,235,604	\$ 18,762,105	8%	\$ 23,493,249	\$ 21,261,432	10%

**CITY OF NICHOLS HILLS, OKLAHOMA
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the fiscal year ended June 30, 2011

The increase in current assets and long-term debt outstanding reported in the governmental activities is due to the 2011 GO Bond issue proceeds. The increase in capital assets reported in the governmental activities is due to the addition of a fire truck and a drainage project in the current year. The increase in other liabilities reported in the governmental activities is mainly due to the increase in net pension and OPEB obligations. The increase in current assets and unrestricted net assets reported in the business-type activities is due to a decrease in internal balances and an increase in accounts receivable. The decrease in long-term debt outstanding is due to the OWRB loan balance only having one year remaining.

Change in Net Assets

For the year ended June 30, 2011, net assets of the primary government changed as follows:

	Governmental Activities		% Inc (Dec)	Business-Type Activities		% Inc (Dec)	Total		% Inc (Dec)
	2011	2010		2011	2010		2011	2010	
Revenues									
Program revenues - Charges for services	\$ 1,015,033	\$ 956,405	6%	\$ 3,617,559	\$ 2,426,371	49%	\$ 4,633,492	\$ 3,382,776	37%
Program revenues - Other	385,499	303,429	27%	-	-	-	385,499	303,429	27%
Taxes and other general revenue	-	-	-	-	-	-	-	-	-
Taxes	6,210,736	5,798,725	7%	-	-	-	6,210,736	5,798,725	7%
Intergovernmental	47,100	42,143	12%	-	-	-	47,100	42,143	12%
Investment income	77,156	109,480	-30%	3,797	4,145	-8%	80,953	113,625	-29%
Miscellaneous	314,997	401,393	-22%	6,366	-	100%	324,366	401,393	-19%
Total revenues	8,051,421	7,811,555	6%	3,630,725	2,430,516	49%	11,682,148	10,042,071	16%
Expenses									
General government	1,615,627	1,689,504	-4%	-	-	-	1,615,627	1,689,504	-4%
Public safety	3,273,946	3,351,398	-2%	-	-	-	3,273,946	3,351,398	-2%
Highways and streets	387,524	592,325	-35%	-	-	-	387,524	592,325	-35%
Culture and recreation	155,427	161,284	-4%	-	-	-	155,427	161,284	-4%
Public works	936,069	716,987	31%	-	-	-	936,069	716,987	31%
Interest on long-term debt	671,031	662,507	1%	-	-	-	671,031	662,507	1%
Water	-	-	-	1,980,153	1,513,517	31%	1,980,153	1,513,517	31%
Wastewater	-	-	-	430,552	872,318	-51%	430,552	872,318	-51%
Total expenses	7,039,624	7,174,005	-2%	2,410,705	2,385,835	1%	9,450,329	9,559,840	-1%
Excess (deficiency) before transfers	1,011,797	437,550	131%	1,220,020	44,681	2631%	2,231,817	482,231	363%
Transfers	(253,478)	153,410	-265%	253,478	(153,410)	-265%	-	-	-
Change in net assets	\$ 758,319	\$ 500,960	28%	\$ 1,473,498	\$ (108,729)	-1455%	\$ 2,231,817	\$ 482,231	363%

The increase in other program revenues reported in the governmental activities is due to grant revenue related to capital projects. Investment income decreased due to the decrease in interest rates. Miscellaneous revenue decreased in the governmental activities due to a large insurance reimbursement in the prior year. Program revenues in the business-type activities increased and water expense increased due to increased water consumption. The transfers between the governmental and business-type activities is directly related to construction projects funded through general obligation issue proceeds and fluctuate from year to year.

Governmental Activities

To aid in the understanding of the Statement of Activities some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenditures, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the City's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing through fees and grants or contributions. All other governmental revenues are reported as general. It is important to note all taxes are classified as general revenue even if restricted for a specific purpose.

**CITY OF NICHOLS HILLS, OKLAHOMA
MANAGEMENT'S DISCUSSION & ANALYSIS**
For the fiscal year ended June 30, 2011

For the year ended June 30, 2011, total expenses for governmental activities amounted to approximately \$7 million. Of these total expenses, the program revenues funded \$1.4 million through service charges and grants and other contributions, while taxpayers and other general revenues funded the remainder of \$6.4 million. As a result, governmental activities net assets increased by \$758,319.

Net Revenue (Expense) of Governmental Activities

	<u>Total Expense of Services</u> <u>2011</u>	<u>Net Revenue (Expense) of Services</u> <u>2011</u>	<u>Total Expense of Services</u> <u>2010</u>	<u>Net Revenue (Expense) of Services</u> <u>2010</u>
General government	\$1,615,627	(\$1,336,373)	\$1,689,504	(\$1,371,420)
Public safety	3,273,946	(2,731,314)	3,351,398	(2,998,091)
Highways and streets	387,524	(348,371)	592,325	(557,660)
Culture and recreation	155,427	(155,427)	161,284	(161,284)
Public Works	936,069	(395,676)	716,987	(163,209)
Interest on long-term debt	671,031	(671,031)	662,507	(662,507)
Total	<u><u>\$7,039,624</u></u>	<u><u>(\$5,638,192)</u></u>	<u><u>\$7,174,005</u></u>	<u><u>(\$5,914,171)</u></u>

Business-Type Activities

Net Revenue (Expense) of Business-Type Activities

	<u>Total Expense of Services</u> <u>2011</u>	<u>Net Revenue (Expense) of Services</u> <u>2011</u>	<u>Total Expense of Services</u> <u>2010</u>	<u>Net Revenue (Expense) of Services</u> <u>2010</u>
Water	\$1,980,153	\$697,902	\$1,513,517	\$185,799
Wastewater	430,552	508,952	872,318	(145,263)
Total	<u><u>\$2,410,705</u></u>	<u><u>\$1,206,854</u></u>	<u><u>\$2,385,835</u></u>	<u><u>\$40,536</u></u>

In the business-type activities, the charges for services in FY2011 were sufficient to cover expenses.

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 \$11.2 million or a 14.7% increase from the prior year. The enterprise fund reported net assets of \$20.2 million or a 7.9% increase from 2010.

At June 30, 2011, the General Fund reported an unassigned fund balance of \$2,545,242, which is an increase of 9.2% from prior year. The City issued Series 2011 General Obligation Bonds in the amount of \$5,400,000 for capital projects.

CITY OF NICHOLS HILLS, OKLAHOMA
MANAGEMENT'S DISCUSSION & ANALYSIS
For the fiscal year ended June 30, 2011

General Fund Budgetary Highlights

Over the course of the year, the City Council minor budget revisions. The General Fund reported resources available for appropriations in excess of estimates of \$250,597 (4.56%) and expenditures over final appropriations by \$49,522 (0.9%). The excess resource available is due to actual beginning fund balance exceeding the estimate by 89.6%.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2011, the City had approximately \$32.7 million invested in capital assets, net of depreciation, including police and fire equipment, buildings, park facilities, water lines, sewer lines and systems. (See table below).

Primary Government Capital Assets
(Net of accumulated depreciation)

	Governmental		Business-Type		Total	
	Activities		Activities			
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>
Land	\$88,000	\$88,000	\$195,742	\$195,742	\$283,742	\$283,742
Buildings	86,121	373,061	255,688	233,960	341,809	607,021
Imp. other than buildings	37,430	40,516	616,986	570,860	654,416	611,376
Machinery, furniture and equipment	794,204	1,579,894	407,918	408,944	1,202,122	1,988,838
Infrastructure	5,827,209	8,895,583	-	-	5,827,209	8,895,583
Utility improvements	-	-	14,470,116	17,037,803	14,470,116	17,037,803
Construction in progress	4,109,450	2,505,171	2,775,478	737,565	6,884,928	3,242,736
Totals	<u>\$10,942,414</u>	<u>\$13,482,225</u>	<u>\$18,721,928</u>	<u>\$19,184,874</u>	<u>\$29,664,342</u>	<u>\$32,667,099</u>

This year's more significant capital asset additions are street and drainage improvement projects totaling approximately \$3.0 million, while the depreciation expense for all assets totaled \$1.4 million. See Note 3.D. for additional information.

Long-Term Debt Administration

At year-end, the City had approximately \$21.6 million in outstanding long-term debt. (See table below). These debts are further detailed below and excludes any unamortized debt premiums, discounts, or refunding charges.

**CITY OF NICHOLS HILLS, OKLAHOMA
MANAGEMENT'S DISCUSSION & ANALYSIS
For the fiscal year ended June 30, 2011**

Primary Government Long-Term Debt

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>		<u>Total Percentage Change</u>
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2009-2010</u>
	G.O. Bonds payable	\$17,950,000	\$21,080,000	-	-	\$17,950,000	\$21,080,000
Notes payable	-	-	\$455,000	\$235,000	455,000	235,000	-48.4%
Accrued comp absences	198,868	206,841	22,338	16,806	221,206	223,647	1.1%
Utility deposits	-	-	20,320	20,770	20,320	20,770	2.2%
Totals	\$18,148,868	\$21,286,841	\$497,658	\$272,576	\$18,646,526	\$21,559,417	15.6%

For the year ended June 30, 2011, the City incurred an additional \$5.4 million of general obligation bonds for capital improvements. See Note 3.E. for additional information.

Economic Factors and Next Year's Budget and Rates

The City of Nichols Hills will continue use of General Obligation Bonds to improve infrastructure. Street repair continues as the main focus. Among the streets scheduled for upcoming repairs are Coventry/Guilford and Dorchester/Camden projects, along with the painting of the 2 million gallon ground storage tank.

Declining sales tax continues to be at the forefront our concern. The continued decline of tenants in the Nichols Hills Plaza and increased business growth on the borders of our city limits haunt potential sales tax revenues.

Contacting the City's Financial Management

This financial 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 6407 Avondale Dr., Nichols Hills, Oklahoma 73116 or phone at (405) 843-6637.

**City of Nichols Hills
Statement of Net Assets
June 30, 2011**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 841,446	\$ 927,586	\$ 1,769,032
Investments	9,556,627	501,194	10,057,821
Deposits with insurance pool	192,485	-	192,485
Interest receivable	22,807	93	22,900
Accounts receivable, net	-	604,335	604,335
Franchise tax receivable	48,649	-	48,649
Court fines receivable, net	152,300	-	152,300
Other receivables	361	-	361
Internal balances	626,490	(626,490)	-
Due from other governments	435,774	-	435,774
Prepaid assets	48,835	-	48,835
Capital assets			
Non-depreciable assets	2,593,171	933,307	3,526,478
Depreciable assets, net	10,889,054	18,251,567	29,140,621
Unamortized debt issuance costs	192,086	-	192,086
Total assets	<u>\$ 25,600,085</u>	<u>\$ 20,591,592</u>	<u>\$ 46,191,677</u>
LIABILITIES			
Accounts payable and accrued expenses	464,740	77,423	542,163
Accrued interest	-	5,988	5,988
Long-term liabilities			
Due within one year			
Compensated absences	20,684	1,681	22,365
Bonds and notes payable	2,100,000	235,000	2,335,000
Due in more than one year			
Meter deposit liability	-	20,770	20,770
Bonds and notes payable	18,980,000	-	18,980,000
Compensated absences	186,157	15,126	201,283
Net pension obligation	525,673	-	525,673
Net OPEB obligation	65,186	-	65,186
Total liabilities	<u>22,342,440</u>	<u>355,988</u>	<u>22,698,428</u>
NET ASSETS			
Invested in capital assets, net of related debt	(7,597,775)	18,952,874	11,355,099
Restricted for:			
Debt service	412,472	450,593	863,065
Streets	45,251	-	45,251
Public safety	24,580	-	24,580
Unrestricted	10,373,117	832,137	11,205,254
Total net assets	<u>\$ 3,257,645</u>	<u>\$ 20,235,604</u>	<u>\$ 23,493,249</u>

See accompanying notes to the basic financial statements

City of Nichols Hills
Statement of Activities
For the Year Ended June 30, 2011

Functions/Programs Primary government	Program Revenue			Net (Expense) Revenue and Changes in Net Assets Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities							
General Government	\$ 1,615,627	\$ 218,627	\$ -	\$ 60,627	\$ (1,336,373)	\$ -	\$ (1,336,373)
Public Safety	3,273,946	256,913	285,719	-	(2,731,314)	-	(2,731,314)
Highways and Streets	387,524	-	39,153	-	(348,371)	-	(348,371)
Public Works	936,069	540,393	-	-	(395,676)	-	(395,676)
Culture and Recreation	155,427	-	-	-	(155,427)	-	(155,427)
Interest on Long-term debt	671,031	-	-	-	(671,031)	-	(671,031)
Total governmental activities	<u>7,039,624</u>	<u>1,015,933</u>	<u>324,872</u>	<u>60,627</u>	<u>(5,638,192)</u>	<u>-</u>	<u>(5,638,192)</u>
Business-type activities							
Water	1,980,153	2,678,055	-	-	-	697,902	697,902
Wastewater	430,552	939,504	-	-	-	508,952	508,952
Total business-type activities	<u>2,410,705</u>	<u>3,617,559</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,206,854</u>	<u>1,206,854</u>
Total primary government	<u>\$ 9,450,329</u>	<u>\$ 4,633,492</u>	<u>\$ 324,872</u>	<u>\$ 60,627</u>	<u>(5,638,192)</u>	<u>-</u>	<u>(4,431,338)</u>
General revenues:							
Taxes:							
Sales tax					2,926,222	-	2,926,222
Property taxes, levied for debt service					2,920,432	-	2,920,432
Franchise taxes					359,748	-	359,748
E911 taxes					4,334	-	4,334
Intergovernment not restricted to specific programs					47,100	-	47,100
Unrestricted investment earnings					77,156	3,797	80,953
Miscellaneous					314,997	9,369	324,366
Transfers					(253,478)	253,478	-
Total general revenues, and transfers					<u>6,396,511</u>	<u>266,644</u>	<u>6,663,155</u>
Change in net assets					758,319	1,473,498	2,231,817
Net assets - beginning					2,499,326	18,762,106	21,261,432
Net assets - ending					<u>\$ 3,257,645</u>	<u>\$ 20,235,604</u>	<u>\$ 23,493,249</u>

See accompanying notes to the basic financial statements

City of Nichols Hills
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Debt Service Fund	Capital Improvement Fund	GO Bond Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 606,471	\$ 16,062	\$ -	\$ 151,636	\$ 67,277	\$ 841,446
Investments	1,254,756	300,000	115,000	7,886,871	-	9,556,627
Deposits with insurance pool	192,485	-	-	-	-	192,485
Prepaid items	48,835	-	-	-	-	48,835
Receivables:						
Accrued interest receivable	1,931	44	32	20,800	-	22,807
Due from other funds	1,358,210	-	-	1,065	685	1,359,960
Due from other governments	335,413	96,366	-	-	3,995	435,774
Franchise taxes receivable	48,649	-	-	-	-	48,649
Court fines receivable, net	152,300	-	-	-	-	152,300
Other receivables	-	-	-	-	361	361
Total assets	\$ 3,999,050	\$ 412,472	\$ 115,032	\$ 8,060,372	\$ 72,318	\$ 12,659,244

LIABILITIES AND FUND BALANCES

Liabilities:						
Accounts payable	\$ 104,061	\$ -	\$ -	\$ 252,179	\$ 2,487	\$ 358,727
Due to other funds	1,750	-	731,720	-	-	733,470
Escrow liabilities	2,450	-	-	-	-	2,450
Deferred revenue	130,894	68,443	-	13,651	-	212,988
Retainage payable	-	-	-	103,563	-	103,563
Total liabilities	239,155	68,443	731,720	369,393	2,487	1,411,198

Fund balances:

Restricted for:						
Streets	-	-	-	-	44,245	44,245
Public safety	-	-	-	-	24,580	24,580
Donations	22,168	-	-	-	-	22,168
Debt service	-	334,618	-	-	-	334,618
Capital projects	-	-	-	7,647,315	-	7,647,315
Assigned for:						
Streets	-	-	-	-	1,006	1,006
Economic development	1,000,000	-	-	-	-	1,000,000
Insurance premiums	192,485	-	-	-	-	192,485
Debt service	-	9,411	-	-	-	9,411
Capital projects	-	-	-	43,664	-	43,664
Unassigned	2,545,242	-	(616,688)	-	-	1,928,554
Total fund balances	3,759,895	344,029	(616,688)	7,690,979	69,831	11,248,046
Total liabilities and fund balances	\$ 3,999,050	\$ 412,472	\$ 115,032	\$ 8,060,372	\$ 72,318	\$ 12,659,244

See accompanying notes to the basic financial statements

City of Nichols Hills

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011

Total fund balance, governmental funds	\$ 11,248,046
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 the funds, net of accumulated depreciation of \$9,367,373.	<u>13,482,225</u>
Certain other long-term assets are not available to pay current fund liabilities and therefore, are deferred in the funds:	
Court fines receivable	129,691
Interest receivable	14,898
Receivable from other governments	68,399
	<u>212,988</u>
Certain assets are not reported in the funds on the current financial resources measurement focus however, in the government-wide financial statements are reported due to the use of the economic resources focus:	
Unamortized bond issue costs	<u>192,086</u>
Certain liabilities are not due and payable from current financial resources and therefore, are not reported in the funds:	
General obligation bonds payable, net of unamortized refunding cost	(21,080,000)
Accrued compensated absences	(206,841)
Net pension obligation	(525,673)
Other postemployment benefits	(65,186)
	<u>(21,877,700)</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 3,257,645</u>

See accompanying notes to the basic financial statements

City of Nichols Hills
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Improvement Fund</u>	<u>GO Bond Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES						
Property taxes	\$ -	\$ 2,919,381	\$ -	\$ -	\$ -	\$ 2,919,381
Taxes	\$3,285,970	-	-	-	4,334	3,290,304
Fees and fines	\$184,079	-	-	-	-	184,079
Licenses and permits	\$218,627	-	-	-	-	218,627
Intergovernmental	\$393,446	-	-	-	39,153	432,599
Charges for services	\$633,173	-	-	-	-	633,173
Investment earnings	\$13,092	9,411	973	43,663	-	67,139
Miscellaneous	\$272,199	-	-	-	1,006	273,205
Total revenues	\$5,000,586	2,928,792	973	43,663	44,493	8,018,507
EXPENDITURES						
Current:						
General government	1,469,727	520	-	313	-	1,470,560
Public safety	3,114,500	-	-	-	420	3,114,920
Highways and streets	196,949	-	-	-	24,717	221,666
Public works	719,225	-	-	-	-	719,225
Culture and recreation	152,025	-	-	-	-	152,025
Debt service:						
Principal	-	2,270,000	-	-	-	2,270,000
Interest and other charges	-	656,019	-	-	-	656,019
Bond issuance costs	-	-	-	49,741	-	49,741
Capital outlay	-	-	521,454	3,883,688	-	4,405,142
Total expenditures	5,652,426	2,926,539	521,454	3,933,742	25,137	13,059,288
Excess (deficiency) of revenues over expenditures	(651,840)	2,253	(520,481)	(3,890,079)	19,356	(5,040,791)
OTHER FINANCING SOURCES (USES)						
Proceeds of long-term debt	-	-	-	5,400,000	-	5,400,000
Transfers in	1,104,001	-	115,000	-	-	1,219,001
Transfers out	(134,732)	-	-	-	-	(134,732)
Total other financing sources and uses	969,269	-	115,000	5,400,000	-	6,484,269
Net change in fund balances	317,429	2,253	(405,481)	1,509,921	19,356	1,443,478
Fund balances - beginning	3,442,466	341,776	(211,207)	6,181,058	50,475	9,804,588
Fund balances - ending	\$ 3,759,895	\$ 344,029	\$ (616,688)	\$ 7,690,979	\$ 69,831	\$ 11,248,046

See accompanying notes to the basic financial statements

City of Nichols Hills

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2011**

Net change in fund balances - total governmental funds: \$ 1,443,478

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report capital outlays and bond issue costs as expenditures while governmental activities report depreciation and amortization expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	3,028,713
Bond issue costs capitalized	49,215
Amortization of issue costs	(23,691)
Amortization of refunding costs	(15,012)
Depreciation expense	(488,903)
	<u>2,550,322</u>

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

Deferred revenue	<u>32,914</u>
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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:

Bond proceeds received	(5,400,000)
General obligation bond principal payments	2,270,000
	<u>(3,130,000)</u>

Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:

Accrued compensated absences	(7,973)
Net pension obligation	(97,829)
Other postemployment benefits	(32,593)
	<u>(138,395)</u>

Change in net assets of governmental activities	<u>\$ 758,319</u>
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See accompanying notes to the basic financial statements

City of Nichols Hills
Statement of Net Assets
Proprietary Funds
June 30, 2011

	Enterprise Fund
	Nichols Hills Municipal Authority
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 450,235
Restricted cash and cash equivalents	222,024
Investments	501,194
Accounts receivable, net	604,335
Accrued interest receivable	93
Total current assets	1,777,881
Non-current assets:	
Restricted cash and cash equivalents	255,327
Capital assets:	
Non-depreciable assets	933,307
Depreciable assets, net	18,251,567
Total non-current assets	19,440,201
Total assets	21,218,082
LIABILITIES	
Current liabilities:	
Accounts payable	77,423
Accrued interest payable	5,988
Due to other funds	626,490
Compensated absences, current portion	1,681
Notes payable, current portion	235,000
Total current liabilities	946,582
Non-current liabilities:	
Compensated absences	15,126
Meter deposit liability	20,770
Total non-current liabilities	35,896
Total liabilities	982,478
NET ASSETS	
Invested in capital assets, net of related debt	18,952,874
Restricted for debt service	450,593
Unrestricted	832,137
Total net assets	\$ 20,235,604

See accompanying notes to the basic financial statements

City of Nichols Hills
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2011

	<u>Enterprise Fund</u> <u>Nichols Hills</u> <u>Municipal</u> <u>Authority</u>
REVENUES	
Charges for services:	
Water charges	\$ 2,632,575
Wastewater charges	939,504
Water taps	22,950
Penalties	22,530
Total operating revenues	<u>3,617,559</u>
OPERATING EXPENSES	
Administrative	497,156
Water and wastewater operations	981,684
Depreciation expense	911,563
Amortization expense	2,291
Total operating expenses	<u>2,392,694</u>
Operating income	<u>1,224,865</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest and investment revenue	3,797
Miscellaneous revenue	9,369
Interest expense	<u>(18,011)</u>
Total non-operating revenue (expenses)	<u>(4,845)</u>
Income before contributions and transfers	1,220,020
Capital contributions	1,337,747
Transfers in	64,826
Transfers out	<u>(1,149,095)</u>
Change in net assets	1,473,498
Total net assets - beginning	18,762,106
Total net assets - ending	<u>\$ 20,235,604</u>

See accompanying notes to the basic financial statements

City of Nichols Hills
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

	<u>Enterprise Fund</u>
	<u>Nichols Hills Municipal Authority</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 3,428,455
Payments to suppliers	(899,020)
Payments to employees	(601,221)
Receipts of customer meter deposits	12,263
Refunds of customer meter deposits	(11,813)
Interfund receipts/payments	(324,682)
Net cash provided by operating activities	1,603,982
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	64,826
Transfers to other funds	(1,149,095)
Net cash provided by (used in) noncapital financing activities	(1,084,269)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(36,762)
Principal paid on debt	(220,000)
Interest and fiscal agent fees paid on debt	(23,615)
Net cash provided by (used in) capital and related financing activities	(280,377)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(400,630)
Interest and dividends	3,981
Net cash provided by (used in) Investing activities	(396,649)
Net increase (decrease) in cash and cash equivalents	(157,313)
Balances - beginning of year	1,084,899
Balances - end of year	\$ 927,586
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 450,235
Restricted cash and cash equivalents - current	222,024
Restricted cash and cash equivalents - noncurrent	255,327
Total cash and cash equivalents, end of year	\$ 927,586
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income	\$ 1,224,865
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	911,563
Amortization expense	2,291
Miscellaneous revenue	9,369
Change in assets and liabilities:	
Due from other funds	98,505
Due to other funds	(423,187)
Accounts receivable	(198,473)
Accounts payable	(15,870)
Deposits subject to refund	450
Accrued compensated absences	(5,531)
Net cash provided by operating activities	\$ 1,603,982
Noncash activities:	
Contributed capital assets	\$ 1,337,747

See accompanying notes to the basic financial statements

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
INDEX

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. FINANCIAL REPORTING ENTITY
- B. BASIS OF PRESENTATION
- C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING
- D. ASSETS, LIABILITIES AND EQUITY
- E. REVENUES, EXPENDITURES AND EXPENSES
- F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES
- G. USE OF ESTIMATES

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. FUND ACCOUNTING REQUIREMENTS
- B. REVENUE RESTRICTIONS
- C. DEBT RESTRICTIONS AND COVENANTS
- D. FUND EQUITY/NET ASSET RESTRICTIONS

NOTE 3. DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

- A. CASH AND INVESTMENTS
- B. RESTRICTED ASSETS
- C. ACCOUNTS RECEIVABLE
- D. CAPITAL ASSETS
- E. LONG-TERM DEBT
- F. INTERFUND TRANSACTIONS AND BALANCES

NOTE 4. OTHER NOTES

- A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS
- B. RISK MANAGEMENT
- C. COMMITMENTS, CONTINGENCIES

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City's accounting and financial reporting policies conform with accounting principles generally accepted in the United States of America (GAAP). Accounting principles generally accepted in the United States of America (GAAP) includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity is comprised of the following:

- Primary Government: City of Nichols Hills
- Blended Component Unit: Nichols Hills Municipal Authority

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 of which the City appointed a voting majority of the units board and the City is financially accountable.

The component unit is a Public Trust established pursuant to Title 60 of Oklahoma State law. A public trust (Authority) has no taxing power. The Authority is 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 Authority generally retains 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 of the Authority to the Trustees on a long-term basis. The City, as beneficiary of the Public Trust, receives title to any residual assets when the Public Trust is dissolved.

BLENDED COMPONENT UNIT

A blended component unit is a separate legal entity that meets the component unit criteria described above and whose governing body is the same or substantially the same as the City Council or the component unit provides services entirely to the City. The component unit fund is blended into those of the City's by appropriate fund category to comprise the primary government presentation.

The component unit that is blended into the reporting fund categories of the City's report is presented below.

<u>Component Unit</u>	<u>Brief Description/Inclusion Criteria</u>	<u>Reporting Fund</u>
Nichols Hills Municipal Authority (NHMA)	Created December 29, 1987, to finance, develop and operate the water and waste-water activities of the City. Current City Council serves as entire governing body (Trustees). Debt issued by the Authority requires 2/3rds approval of City Council.	Enterprise Fund

This component unit does not issue a separate annual financial report.

1.B. BASIS OF PRESENTATION

Government-Wide Financial Statements:

The statement of net assets and statement of activities display information about the City as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The City presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

GOVERNMENTAL FUNDS

General Fund

The General Fund is the primary operating fund of the City. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the City. The reporting entity includes the following special revenue funds:

Street and Alley Fund
E-911

Debt Service Fund

The Debt Service Fund is used to account for ad-valorem taxes levied by the City for use in retiring general obligation bonds, court-assessed judgments, and their related interest expense and fiscal agent fees. State law refers to this fund as the Sinking Fund.

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

Capital Project Funds

Capital Project Funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes the following capital project funds:

Capital Improvement Fund
GO Bond Fund

PROPRIETARY FUNDS

Enterprise Fund

Enterprise funds 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 following enterprise fund:

Nichols Hills Municipal Authority Fund (Water and Wastewater)

MAJOR AND NON-MAJOR FUNDS

The funds are further classified as major or non-major as follows:

Major:

General Fund

Debt Service Fund

Capital Project Funds:

Capital Improvement Fund
GO Bond Fund

Enterprise Fund:

Nichols Hills Municipal Authority

Non-Major:

Special Revenue Funds:

Street and Alley Fund
E-911 Fund

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Assets and the Statement of Activities both governmental and business-type activities are presented using the economic resources measurement focus as defined in item 2. below.

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

1. All governmental fund types utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
2. Proprietary fund types utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent, financial or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred. All proprietary funds utilize the accrual basis of accounting.

1.D. ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents, includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less. Investments in open-ended mutual fund shares are also considered cash equivalents and are reported at the fund's current share price.

Investments

Investments are reported at fair value which is determined using selected bases. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. All non-negotiable certificates of deposit are carried at cost. Additional cash and investment disclosures are presented in 3.A.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales tax, franchise tax, grants and court fines. Business-type activities report utilities and interest earnings as its major receivables.

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available". Material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, court fine receivables, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Available has been defined by the City as collected within 60 days of year end. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with the modified accrual basis, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if available to pay current liabilities since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings comprise the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

Due to their immaterial nature, the City has chosen to record consumable materials and supplies as expenditures/expenses at the time of purchase, and, therefore, no balances for inventory on-hand are reported on the balance sheet.

Capital Assets

The accounting treatment over property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. The threshold for capital asset additions is \$1,000.

Government-Wide Statements

In the government-wide financial statements, property, plant and equipment are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated capital assets which are recorded at their estimated fair value at the date of donation.

Prior to July 1, 2003, governmental activities' infrastructure assets were not capitalized. These assets have not yet been valued or recorded as capital assets. Only infrastructure additions after July 1, 2003 have been included in the balances of capital assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset of the City is as follows:

Buildings	20-50 years
Equipment	1-20 years
Wastewater lines	50 years
Waterlines	50 years
Streets	20-50 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

Restricted Assets

Restricted assets reported in the fund financial statements include current assets that are legally restricted as to their use. The primary restricted assets are related to utility customer deposits and trustee accounts restricted for debt service.

Long-Term Debt

Accounting treatment of long-term debt varies depending upon the source of repayment and whether the debt is reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of general obligation bonds payable, notes payable, and accrued compensated absences.

Long-term debt of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payments of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as it is in the government-wide statements.

Compensated Absences

The City's policies regarding vacation and compensatory time permit employees to accumulate varying amounts as determined by management and contracts with employee groups.

The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources if due and payable at period end for terminated employees, while the proprietary funds report the liability as it is incurred.

Equity Classification

Government-Wide Financial Statements:

Equity is classified as net assets and displayed in three components:

1. 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 improvement of those assets.
2. 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 or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
3. 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.

Fund Financial Statements:

Governmental fund equity is classified as fund balance. The City has implemented GASB54, Fund balance and governmental fund definitions. Due to this statement's implementation, fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

- 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 (a) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (b) law 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 or 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, or represents deficit fund balances in non-general governmental funds.

It is the City’s policy to first use restricted fund balances prior to the use of unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balances 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.

Proprietary fund equity is classified the same as in the government-wide statements.

1.E. REVENUES, EXPENDITURES AND EXPENSES

Sales Tax

The City presently levies a four-cent sales tax on taxable sales within the City. The sales tax is collected by the Oklahoma Tax Commission and remitted to the City in the month following receipt by the Tax Commission. Sales tax proceeds are recorded in the General Fund. Sales tax accrued is included under the caption “Due from other governments”.

Property Tax

Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and any court-assessed judgments.

At the present time the City levies a property tax to fund the annual debt service requirements of thirteen general obligation bond issues.

The property tax levy, as determined by the City’s debt service needs, is submitted to the County Excise Board for approval. County assessors, elected officials, determine the taxable value of real estate and personal property in the County. A State Board of Equalization hears complaints on real estate values with the power to equalize assessments. Under present State law, the ratio of assessed value to true value cannot be less than 11 percent nor more than 13 ½ percent.

Property taxes levied by the City are billed and collected by the County Treasurer’s Office and remitted to the City in the month following collection. Property taxes are levied normally in October and are due in equal installments on December 31 and March 31. Property taxes unpaid for the fiscal year are attached by an enforceable lien on property in the following October. Property taxes levied, but not collected during the year or within 60 days of year-end are reported as deferred revenue.

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

For the year ended June 30, 2011, the City's net assessed valuation of taxable property was \$113,357,714. The taxes levied by the City per \$1,000 of net assessed valuation for the year ended June 30, 2011 was \$29.37.

Program Revenues

In the Statement of Activities, revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues in each activity:

General government	Licenses and permits, other charges, capital grants
Public safety	Court fines and animal license fees; pension plans on-behalf payments by state; capital grants.
Highways and streets	Operating grants and contributions include motor fuel and commercial vehicle intergovernmental revenues.
Public works	Sanitation service charges.

All other governmental revenues are reported as general. It is important to note that all taxes are classified as general revenue even if restricted for a specific purpose.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Non-operating revenues and expenses are those related to capital and related financing, non-capital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are reported on the accrual basis and are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures/expenses are classified as follows:

Governmental Funds - By Character:	Current (further classified by function)
	Capital Outlay
	Debt Service

Proprietary Funds - By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to the use of economic resources.

1.F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES

In the process of aggregating the financial information for the government-wide statement of net assets and statement of activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements:

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

1. Interfund loans - amounts provided with a requirement for repayment are reported as interfund receivables and payables.
2. Interfund services - sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
3. Interfund reimbursements - repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures/expenses in the respective funds.
4. Interfund transfers - flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

Government-Wide Financial Statements:

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal balances - amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
2. Internal activities - amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide statement of activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers - Internal Activities.

The effect of interfund services between funds are not eliminated in the statement of activities.

1.G. USE OF ESTIMATES

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

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the City and its component unit are subject to various federal, state and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows:

2.A. FUND ACCOUNTING REQUIREMENTS

The City complies, in all material respects, with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the City include the following.

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

<u>Fund</u>	<u>Required By</u>
Debt Service Fund (Sinking Fund)	State Law
Municipal Authority Fund	Bond Indenture

2.B. REVENUE RESTRICTIONS

The City complied, in all material respects, with the restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Gasoline Excise & Commercial Vehicle Tax	Street and Alley Purposes
Water and Wastewater Revenue	Debt Service and Utility Operations
Ad-Valorem Tax	Debt Service on General Obligation Bonds
E-911 Revenue	E-911 Emergency Services Purposes
Sinking Fund Interest Income	Retirement of General Obligation Bond Debt
Net Surplus Revenue of Municipal Authority	Transfer to City General Fund

2.C. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

Article 10, Sections 26 and 27 of the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10% of net assessed valuation. For the year ended June 30, 2011, the City complied with the legal debt limit. Of the \$21,080,000 outstanding general obligation bonded debt, all but \$938,500 is utility and street related.

Oklahoma Water Resources Board (OWRB) Promissory Note

The loan agreement relating to the promissory note of the Nichols Hills Municipal Authority contains a number of restrictions or covenants that are financial related. These include covenants such as a required flow of funds through special accounts, a coverage requirement and required reserve account balances. The following schedule presents a brief summary of the most significant requirements and the Authority's level of compliance thereon as of June 30, 2011.

<u>Requirement</u>	<u>Level of Compliance</u>
a. Flow of Funds - Debt Service, Debt Service Reserve	The Authority maintained all required accounts and made the required payments into such accounts.
b. Promissory Note Coverage Requirement - Net operating revenues available must equal 125% of maximum annual debt service on all obligations payable from the Authority.	For the year ended June 30, 2011, the City met the maximum annual debt service requirement with net operating revenues being 860% of maximum annual debt service.
c. Reserve Account Requirement - Account balance should be no less than \$235,286.	Balance in account at June 30, 2011, was \$255,327.

CITY OF NICHOLS HILLS, OKLAHOMA
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2011

2.D. FUND EQUITY / NET ASSET RESTRICTIONS

Restricted Net Assets

Restricted net assets at the government-wide financial statements are required to restrict funds in accordance with various laws and regulations, specifically those laws and regulations dealing with debt service and the use of restricted revenues. See Note 3.G. for details of restricted net assets.

Budgetary Compliance

For the year ended June 30, 2011, the City complied, in all material respects, with the applicable budget laws with the following noted exceptions of expenditures exceeding final budget:

General Fund - Council	(22)
General Fund - Treasurer	(10,687)
General Fund - Sanitation	(70,790)
General Fund - Transfer out	(134,733)

NOTE 3. DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues and expenditures/expenses.

3.A. CASH AND INVESTMENTS

The City of Nichols Hills held the following deposits and investments at June 30, 2011:

<u>Type of Deposits and Investments</u>	<u>Carrying Value</u>				
Deposits:					
Demand deposits	\$ 1,137,391				
Time deposits	10,232,881				
Investments:					
Open-ended Mutual Funds -trustee accounts	456,581				
	<table style="margin-left: 100px; border-collapse: collapse;"> <tr> <td style="border-bottom: 1px solid black; width: 100px;">Maturity</td> <td style="border-bottom: 1px solid black; width: 100px;">Credit Rating</td> </tr> <tr> <td>N/A</td> <td>AAAm</td> </tr> </table>	Maturity	Credit Rating	N/A	AAAm
Maturity	Credit Rating				
N/A	AAAm				
Total Deposits and Investments	\$ 11,826,853				
Reconciliation to Statement of Net Assets:					
Cash and cash equivalents	\$ 1,769,032				
Investments	10,057,821				
	\$ 11,826,853				

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

Custodial Credit Risk – Exposure to custodial credit risk related to deposits exists when the City holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City’s name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the City holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City’s name.

At June 30, 2011, all deposits were collateralized. Custody credit risk is not applicable to mutual funds because they are not evidenced by a specific security.

Investment Credit Risk – Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investments by reporting the credit quality ratings of investments in debt securities as determined by nationally recognized statistical rating organizations—rating agencies—as of the year end. Investments of a City (excluding Public Trusts) are limited by State law to the following:

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

Public trusts created under O.S. Title 60, are not subject to the above noted investment limitations and are primarily governed by any restrictions in their trust or bond indentures. For the year ended June 30, 2011, the City and its included component unit complied, in all material respects, with the above noted investment restrictions.

Unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

As noted in the schedule of deposits and investments above, at June 30, 2011, all of the City’s investments were in mutual funds rated AAAM by Standard and Poor’s.

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 formal investment interest rate risk policy. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments.

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

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 formal concentration of investment credit risk policy.

At June 30, 2011, the City had no concentration of credit risk as defined above.

3.B. RESTRICTED ASSETS

The amounts reported as restricted assets in the proprietary fund financial statements are comprised of cash and cash equivalents held by the trustee bank on behalf of the public trust (Authority) related to its promissory note accounts as described in Note 2.C, in addition to utility deposits held for refund. The restricted assets as of June 30, 2011 were as follows:

<u>Type of Restricted Assets</u>	<u>Current Assets</u>	<u>Non-Current Assets</u>
Cash and Cash Equivalents:		
Utility Deposits	\$20,770	-
Promissory Note Trustee Accounts:		
Debt Service Account	201,254	-
Reserve Account	<u>-</u>	<u>\$255,327</u>
 Total Restricted Assets	 <u>\$222,024</u>	 <u>\$255,327</u>

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consist of customer utilities. Receivables detail at June 30, 2011 is as follows:

Service receivables	\$629,031	Court receivable	\$671,064
Allowance for doubtful accounts	<u>(24,696)</u>	Allowance for doubtful accounts	<u>(518,764)</u>
Total accounts receivable	<u>\$604,335</u>	Total accounts receivable	<u>\$152,300</u>

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

3.D. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$88,000	-	-	\$88,000
Construction in progress	4,109,450	\$1,759,172	\$3,363,451	2,505,171
Total capital assets not being depreciated	<u>4,197,450</u>	<u>1,759,172</u>	<u>3,363,451</u>	<u>2,593,171</u>
Other capital assets:				
Buildings	486,094	288,533	-	774,627
Improvements	135,809	5,778	-	141,587
Machinery, furniture and equipment	2,770,085	975,230	-	3,745,315
Infrastructure	12,231,446	3,363,452	-	15,594,898
Total other capital assets at historical cost	<u>15,623,434</u>	<u>4,632,993</u>	<u>-</u>	<u>20,256,427</u>
Less accumulated depreciation for:				
Buildings	399,973	1,593	-	401,566
Improvements	98,379	2,692	-	101,071
Machinery, furniture and equipment	1,975,881	189,540	-	2,165,421
Infrastructure	6,404,237	295,078	-	6,699,315
Total accumulated depreciation	<u>8,878,470</u>	<u>488,903</u>	<u>-</u>	<u>9,367,373</u>
Other capital assets, net	<u>6,744,964</u>	<u>4,144,090</u>	<u>-</u>	<u>10,889,054</u>
Governmental activities capital assets, net	<u>\$10,942,414</u>	<u>\$5,903,262</u>	<u>\$3,363,451</u>	<u>\$13,482,225</u>

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$195,742	-	-	\$195,742
Construction in progress	2,775,478	\$1,320,019	\$3,357,932	737,565
Total capital assets not being depreciated	<u>2,971,220</u>	<u>1,320,019</u>	<u>3,357,932</u>	<u>933,307</u>
Other capital assets:				
Buildings	564,061	-	-	564,061
Improvements	924,618	-	-	924,618
Machinery, furniture and equipment	1,141,453	54,491	-	1,195,944
Utility improvements	25,817,049	3,357,931	-	29,174,980
Total other capital assets at historical cost	<u>28,447,181</u>	<u>3,412,422</u>	<u>-</u>	<u>31,859,603</u>
Less accumulated depreciation for:				
Buildings	308,373	21,728	-	330,101
Improvements	307,632	46,126	-	353,758
Machinery, furniture and equipment	733,535	53,465	-	787,000
Utility improvements	11,346,933	790,244	-	12,137,177
Total accumulated depreciation	<u>12,696,473</u>	<u>911,563</u>	<u>-</u>	<u>13,608,036</u>
Other capital assets, net	<u>15,750,708</u>	<u>2,500,859</u>	<u>-</u>	<u>18,251,567</u>
Business-type activities capital assets, net	<u>\$18,721,928</u>	<u>\$3,820,878</u>	<u>\$3,357,932</u>	<u>\$19,184,874</u>

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

Depreciation expense was charged to functions in the Statement of Activities as follows:

Governmental Activities:	
General Government	\$54,575
Public Safety	131,546
Highways and Streets	164,870
Culture and Recreation	2,965
Public Works	<u>134,947</u>
Total depreciation expense for governmental activities	<u>\$ 488,903</u>
Business-Type Activities:	
Water	\$506,427
Wastewater	<u>405,136</u>
Total depreciation expense for business-type activities	<u>\$ 911,563</u>

3.E. LONG-TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental Activities

At June 30, 2011, the governmental long-term debt of the financial reporting entity consisted of the following:

General Obligation Bonds:

\$1,665,000 General Obligation Bonds, Series 1997, due in annual installments of \$120,000 through July 1, 2011, with interest at 4.5% to 7.5% with final payment of \$105,000 due July 1, 2012, with interest at 4.5%.	\$105,000
\$1,245,000 General Obligation Bonds, Series 1998, due in annual installments of \$90,000 through July 1, 2012, with interest at 4.25% to 6.5% with final payment of \$75,000 due July 1, 2013, with interest at 4.6%.	165,000
\$1,500,000 General Obligation Bonds, Series 2001, due in annual installments of \$125,000, with interest at 4.00% to 4.45%, with final installment due July 1, 2014.	375,000
\$1,320,000 General Obligation Bonds, Series 2002, due in annual installments of \$110,000, with interest at 4.85% to 6.85%, with final installment due July 1, 2015	440,000
\$2,160,000 General Obligation Bonds, Series 2003, due in annual installments of \$180,000, with interest at 2.25% to 4.40%, with final installment due July 1, 2016	900,000
\$2,635,000 General Obligation Bonds, Series 2004, due in annual installments of \$215,000 through July 1, 2016, with interest at 3.0% to 4.5% with final payment of \$270,000 due July 1, 2017, with interest at 4.3%.	1,345,000
\$2,500,000 General Obligation Bonds, Series 2005, due in annual installments of \$205,000 through July 1, 2017, with interest at 2.9% to 4.0% with final payment of \$245,000 due July 1, 2018, with interest at 3.8%.	1,475,000
\$2,500,000 General Obligation Bonds, Series 2006, due in annual installments of \$205,000 through July 1, 2018, with interest at 3.65% to 5.0% with final payment of \$245,000 due July 1, 2019, with interest at 3.9%.	1,680,000

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

\$2,500,000 General Obligation Bonds, Series 2007, due in annual installments of \$205,000 through July 1, 2019, with interest at 3.625% to 5.0% with final payment of \$245,000 due July 1, 2020, with interest at 3.875%.	1,885,000
\$2,800,000 General Obligation Bonds, Series 2008, due in annual installments of \$230,000 through July 1, 2020, with interest at 2.9% to 4.5% with final payment of \$270,000 due July 1, 2021, with interest at 3.85%.	2,340,000
\$2,800,000 General Obligation Bonds, Series 2009, due in annual installments of \$230,000 through July 1, 2021, with interest at 1.95% to 3.5% with final payment of \$270,000 due July 1, 2022, with interest at 3.5%.	2,570,000
\$2,400,000 General Obligation Bonds, Series 2010, due in annual installments of \$200,000 through July 1, 2022, with interest at 2.25% to 5.0% with final payment of \$200,000 due July 1, 2022, with interest at 3.15%.	2,400,000
\$5,400,000 General Obligation Bonds, Series 2011, due in annual installments of \$450,000 through July 30, 2025, with interest at 2.00% to 3.4% with final payment of \$450,000 due July 1, 2025, with interest at 3.40%.	<u>5,400,000</u>
Total General Obligation Bonds Payable	<u>\$21,080,000</u>
Current portion	\$2,100,000
Non-current portion	<u>18,980,000</u>
Net General Obligation Bonds Payable	<u>\$21,080,000</u>

Accrued Compensated Absences:

Current portion	\$ 20,684
Non-current portion	<u>186,157</u>
Total Accrued Compensated Absences	<u>\$206,841</u>

Business-Type Activities

At June 30, 2011, the long-term debt payable from enterprise fund resources consisted of the following:

Note Payable:

Note payable to Oklahoma Water Resources Board, payable in annual installments of \$75,000 to \$235,000 with interest at 6.454%, final payment due August 15, 2011.	<u>\$235,000</u>
Current portion	\$ 235,000
Total Note Payable	<u>\$235,000</u>

Accrued Compensated Absences:

Current portion	\$ 1,681
Non-current portion	<u>15,126</u>
Total Accrued Compensated Absences	<u>\$16,807</u>

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

<u>Type of Debt</u>	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2011</u>	<u>Amount Due Within One Year</u>
Governmental Activities:					
General Obligation Bonds Payable	\$ 17,950,000	\$ 5,400,000	\$ 2,270,000	\$ 21,080,000	\$ 2,100,000
Accrued Compensated Absences	198,868	102,493	94,520	206,841	20,684
Total Governmental Activities	\$ 18,148,868	\$ 5,502,493	\$ 2,364,520	\$ 21,286,841	\$ 2,120,684
Business-Type Activities:					
Notes Payable	\$ 455,000	\$ -	\$ 220,000	\$ 235,000	\$ 235,000
Accrued Compensated Absences	22,338	3,816	9,348	16,806	1,681
Total Business-Type Activities	\$ 477,338	\$ 3,816	\$ 229,348	\$ 251,806	\$ 236,681

Governmental accrued compensated absences are liquidated by the general fund.

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2011, are as follows:

<u>Year Ended June 30,</u>	<u>G.O. Bonds Payable</u>		<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$2,100,000	\$954,104	\$235,000	\$8,043
2013	1,980,000	1,152,178	-	-
2014	2,355,000	931,704	-	-
2015	2,230,000	859,033	-	-
2016	2,120,000	790,666	-	-
2017-2021	7,825,000	3,098,921	-	-
2022-2026	2,470,000	804,888	-	-
Totals	\$21,080,000	\$8,591,494	\$235,000	\$8,043

Pledge of Future Revenues

Utility Net Revenues Pledge -- The City has pledged future net water and wastewater revenues to repay \$235,000 of the 1991 Series OWRB Note Payable. Proceeds from the note provided financing for utility system capital assets. The note is payable through 2012. The total principal and interest payable for the remainder of the life of these bonds and notes is \$243,043. The note is payable from the above-mentioned utility net revenues. The debt service payments on the note this year were \$243,615 which was 11.4% of pledged net utility revenues of \$2,142,516.

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

3.F. INTERFUND TRANSACTIONS AND BALANCES

Interfund receivables and payables at June 30, 2011 were as follows:

<u>Payable To</u>	<u>Receivable From</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Municipal Authority	\$ 70,257	Sanitation revenues to be transferred to General Fund
General Fund	Municipal Authority	556,233	Expenditures paid by other fund
General Fund	Capital Improvement Fund	731,720	Expenditures paid by other fund
GO Bond Fund	General Fund	1,065	Expenditures paid by other fund
Street and Alley Fund	General Fund	685	Expenditures paid by other fund
		<u>\$ 1,359,960</u>	

Reconciliation to Fund Financial Statements:

	<u>Due To</u>	<u>Due From</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 1,359,960	\$ (733,470)	\$ 626,490
Proprietary Funds	-	(626,490)	(626,490)
	<u>\$ 1,359,960</u>	<u>\$ (1,359,960)</u>	<u>-</u>

Interfund transfers for the year ended June 30, 2011, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose</u>
Municipal Authority Fund	General Fund	\$ 1,104,001	Trust indenture requirement of net profits
Municipal Authority CIF	Municipal Authority Fund	\$ 36,762	Capital asset transfer
Municipal Authority Fund	Municipal Authority CIF	\$ 8,332	Reimburse expenses
General Fund	Municipal Authority CIF	\$ 19,732	Reimburse expenses
General Fund	Capital Improvement Fund	\$ 115,000	Reimburse expenses
		<u>\$ 1,283,827</u>	

Reconciliation to Fund Financial Statements/Statement of Activities:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Contributed Capital Transfer</u>	<u>Net Transfers</u>
Governmental Funds	\$ 1,219,001	\$ (134,732)	\$ (1,337,747)	\$ (253,478)
Proprietary Funds	64,826	(1,149,095)	1,337,747	253,478
	<u>\$ 1,283,827</u>	<u>\$ (1,283,827)</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 4. OTHER NOTES

4.A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

The City participates in three employee pension systems as follows:

<u>Name of Plan/System</u>	<u>Type of Plan</u>
Oklahoma Police Pension and Retirement Fund	Cost Sharing Multiple Employer - Defined Benefit Plan
Oklahoma Firefighters Pension and Retirement Fund	Cost Sharing Multiple Employer - Defined Benefit Plan
Oklahoma Municipal Retirement Fund (OMRF)	Agent Multiple Employer - Defined Benefit Plan

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

Oklahoma Police and Firefighter's Pension and Retirement Systems

The City of Nichols Hills, as the employer, participates in two statewide cost-sharing multiple employer defined benefit plans on behalf of the police officers and firefighters. The systems are funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

A. Eligibility Factors, Contribution Methods, and Benefit Provisions

	<u>Oklahoma Police Pension and Retirement System</u>	<u>Oklahoma Firefighter's Pension and Retirement System</u>
Obtaining separately issued financial statements	Police Pension and Retirement 1001 N.W. 63rd St., Suite 605 Oklahoma City, OK 73116-7335	Firefighters Pension & Retirement 4545 N. Lincoln Blvd., Suite 265 Oklahoma City, OK 73105-3414
Eligibility to participate	All full-time officers, employed by a participating municipality, not less than 21 years of age or more than 45 years of age when hired.	All full-time or voluntary firefighters of a participating municipality hired before age 45.
Authority establishing contribution obligations and benefits	State Statute	State Statute
Employee's contribution rate (percent of covered payroll)	8%	8%
City's contribution rate (percent of covered payroll)	13%	13%
State obligation	11.2%	21.9%
Period required to vest	10 years	10 years
Eligibility and benefits for distribution (full-time)	20 years credited service, 2.5% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.	20 years credited service 2.5% of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Eligibility and benefits for distribution (volunteer)	-	20 years credited service equal to \$5.46 per month per year of service, with a maximum of 30 years considered.
Deferred retirement option	Yes, 20 years credited service with continued service for a maximum of 5 years.	Yes, 20 years credited service with continued service for a maximum of 30 or more years.

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

Provisions for:		
Cost of living adjustments (normal retirement)	Yes	Yes, if vested by 5/83
Death (duty, non-duty, post retirement)	Yes	Yes
Disability (duty, non-duty)	Yes	Yes
Cost of living allowances	Yes	Yes

B. Trend Information

City contributions required by State statute:

<u>Fiscal Year</u>	<u>Oklahoma Police Pension and Retirement System</u>		<u>Oklahoma Firefighter's Pension and Retirement System</u>	
	<u>Required Contribution</u>	<u>Percentage Contributed</u>	<u>Required Contribution</u>	<u>Percentage Contributed</u>
2009	104,575	100%	107,438	100%
2010	108,348	100%	118,203	100%
2011	105,561	100%	156,134	100%

The state made on-behalf payments to the Oklahoma Police Pension and Retirement System and the Oklahoma Firefighter's Pension and Retirement System of \$69,492 (or 9.1% of covered payroll) and \$216,227 (or 24.6% of covered payroll), respectively, for the fiscal year. These are recorded as both a revenue and expense.

Trend information showing the progress of the Systems in accumulating sufficient assets to pay benefits when due is presented in their respective separate annual financial reports.

C. Related Party Investments

As of June 30, 2011, the Systems held no related-party investments of the City or of its related entities.

Oklahoma Municipal Retirement Fund (OMRF)

A. Plan Description, Eligibility Factors, Contribution Methods, and Benefit Provisions

1. Plan Description

As authorized by City ordinance, effective March 1, 1977, the City began contributing to the City of Nichols Hills 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. Administration of the City's individual plan, including establishing or amending plan revisions, rests with the City Council. The overall operations of OMRF are supervised by a nine-member Board of Trustees elected by the participating municipalities. Bank One Trust Company of Oklahoma City acts as administrator and securities custodian. OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 100 N. Broadway, Oklahoma City, Oklahoma, 73102.

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

2. Eligibility Factors, Contribution Methods and Benefit Provisions

<u>Provision</u>	<u>OMRF Plan</u>
a. Eligible to Participate	Full-time, non-uniformed employees of the City or Authority upon hire if less than age 60.
b. Contribution Requirements:	
- Authorization	By City ordinance
- Actuarially Determined	Yes
- Employer Rate	19.41% of covered payroll (Actuarially determined 28.41%)
- Employee Rate	9% of earnings
c. Period Required to Vest	7 years of credited service
d. Eligibility for Distribution	- Normal retirement at the earlier of: Age 65 with 7 years of service; Age 55 with 80 points and 7 or more years of service - Early retirement at age 55 with 7 years of service - Disability retirement upon disability with 7 years of service - Death benefit with 7 years of service for married employees
e. Benefit Determination Base	Final average salary - the average of the five highest consecutive annual salaries out of the last 10 years of service.
f. Benefit Determination Methods:	
- Normal Retirement	2.625% 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	Benefit computed as for normal retirement based on average salary and service as of the date of disability.
- Death Benefit	50% of employee's accrued benefit, but terminates upon spouse remarriage.
- Prior to 7 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.

B. Annual Pension Costs and Net Pension Obligation

1. Current Year Contribution Information

The City contributed \$288,133 of covered wages and the employees contributed \$176,082.

2. Actuarial Assumptions:

Date of Last Actuarial Valuation

For Plan Year July 1, 2011

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

a.	Actuarial Cost Method	Aggregate actuarial cost method
b.	Rate of Return on Investments	7.5%
c.	Projected Salary Increase	rates by age
d.	Post Retirement Cost-of-Living Increase	3.0%
e.	Inflation Rate	Separate Inflation rate not available; inflation included in projected salary increase.
f.	Amortization Method of Unfunded Actuarial Accrued Liability	Level percentage of projected payroll.
g.	Remaining Amortization Period	Due to the use of the aggregate actuarial cost method, unfunded actuarial liabilities are not amortized.
h.	Asset Valuation Method	A tentative actuarial value, calculated as a 7.5% yield on the actuarial value at the beginning of the period, increased or decreased by a cumulative adjustment using a range of 90% to 110% of the current market value of the fund.

3. Net Pension Obligation

The change in net pension obligation for the fiscal year is as follows:

Annual required contribution	\$ 387,836
Interest on net pension obligation	31,124.00
Adjustment to annual required contribution	<u>(33,890.00)</u>
Annual NPO cost (expense)	385,070
Contributions made	<u>(287,241)</u>
Increase in net pension obligation	97,829
Net pension obligation—beginning of year	<u>427,844</u>
Net pension obligation—end of year	<u><u>\$ 525,673</u></u>

C. Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Excess)
June 30, 2005	\$259,579	53%	\$318,834
June 30, 2006	\$294,499	70%	\$406,844
June 30, 2007	\$323,082	128%	\$314,536
June 30, 2008	\$288,167	90%	\$343,172
June 30, 2009	\$275,380	103%	\$312,460
June 30, 2010	\$389,405	71%	\$427,844
June 30, 2011	\$385,070	75%	\$525,673

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

Actuarial valuation information for the current year is as follows (expressed in millions of dollars):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) -- Projected Unit	Unfunded AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
1/1/11	\$4.9	\$7.3	\$2.3	67.9%	\$1.5	150.9%

This method does not identify or separately amortize unfunded actuarial accrued liabilities information about funded status and funding progress is presented using the entry age actuarial cost method and that the information presented is intended to serve as a surrogate for the funded status and funding progress of the plan.

The schedule of funding progress for postemployment defined benefit plan immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

D. Annual OPEB Cost and Net OPEB Obligation.

Plan Description: The City provides post-retirement benefit options for health care, and prescription drug benefits for retired employees and their dependents that elect to make required contributions. The benefits are provided in accordance with State law, police and firefighter's union contracts and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The relationship for these benefits is not formalized in a contract or plan document, only a few sentences in the administrative policy. These benefits are considered for accounting purposes to be provided in accordance with a single employer substantive plan. A substantive plan is one in which the plan terms are understood by the city and plan members. This understanding is based on communications between the employers and plan member and the historical pattern of practice with regard to the sharing of benefit costs. Substantially all of the government's employees may become eligible for those post-retirement benefits if they reach normal retirement age while working for the City. As of June 30, 2011, 2 retired employees are receiving benefits under this plan.

Funding Policy. The contribution requirement of the City is an implicit subsidy. The implicit subsidy is not a direct payment from the employer on behalf of the member but rather stems from retiree contribution levels that are less than the claims cost at retiree ages. Since claims experience for employees and non-Medicare eligible retirees are pooled when determining premiums, these retired members pay a premium based on a pool of members that, on average, are younger and healthier. There is an implicit subsidy from the employee group since the premiums paid by the retirees are lower than they would have been if the retirees were insured separately. The subsidies are valued using the difference between the age-based claims costs and the premium paid by the retiree.

The amount required to fund the implicit rate is based on projected pay-as-you-go financing requirements. For fiscal year 2011, the City contributed \$10,604 to the plan. Plan members receiving benefits contributed \$10,604, or 100 percent of the total premiums, through their required contribution of \$338.51 per month for retiree-only coverage and \$406.22 for retiree and spouse medical coverage.

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost, the amount actually contributed to the plan, and changes in the City's net OPEB obligation for the year ended June 30, 2011:

CITY OF NICHOLS HILLS, OKLAHOMA
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2011

Annual required contribution	\$	43,197
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
Annual OPEB cost (expense)		43,197
Contributions made		(10,604)
Increase in net OPEB obligation		32,593
Net OPEB obligation—beginning of year		32,593
Net OPEB obligation—end of year	\$	<u>65,186</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net unfunded OPEB obligation for 2011 was as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Unfunded OPEB Obligation</u>
6/30/10	\$43,197	24.6%	\$32,593
6/30/11	\$43,197	24.6%	\$65,186

Funded Status and Funding Progress. As of December 14, 2010, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$442,164, and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of \$442,164. The covered payroll (annual payroll of active employees covered by the plan) was \$1.6 million, and the ratio of the UAAL to the covered payroll was 28.3 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the December 14, 2010, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7 percent initially, reduced by decrements to an ultimate rate of 5 percent in 2014, based upon dependent rates. There were no assets to determine the actuarial value of assets. The UAAL is being amortized over 30 years as level payments. The remaining

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

amortization period at June 30, 2011, was twenty-eight years.

4.B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of asset; errors and omissions; injuries to employees; employees health and life; and natural disasters. The City manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
a. Torts, errors and omissions, asset loss and natural disasters	Purchased commercial insurance	None
b. Worker's Compensation - Employee injuries	Participates in Oklahoma Municipal Assurance Group (OMAG) risk entity pool. Participant fee includes an actuarially determined amount held by OMAG as the loss reserve fund, to pay claims incurred. Claims are administered by the State Insurance Fund.	(1) Specific aggregate stop loss coverage is provided by the State Insurance Fund and covers all claims above the loss reserve fund.
c. Health and Life: - Medical - Life	Purchased commercial insurance	None

Management believes such 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.

(1) Oklahoma Municipal Assurance Group (OMAG)

Worker's Compensation Plan

The title to all assets acquired by the Plan are vested in the Plan. In the event of termination of the Plan, such property shall belong to the then members of the Plan in equal shares. Each participating city pays for all costs, premiums, or other fees attributable to its respective participation in the Plan, policy or service established under the agreement establishing the Oklahoma Municipal Assurance Group, and is responsible for its obligations under any contract entered into with the Plan.

Reserves for policy and contract claims provide for reported claims on a case basis and a provision for incurred but not reported claims limited to specific retention levels for each member as outlined in the Plan's reinsurance agreement.

The Plan's worker's compensation coverage is reinsured for losses in excess of respective retention levels. The reinsurance agreement covers losses incurred within the effective period of the agreement. Each Plan member's liability for claims losses is limited to their individual retention levels as outlined in the Plan's reinsurance agreement.

CITY OF NICHOLS HILLS, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

4.C. COMMITMENTS AND CONTINGENCIES

Commitments:

Construction Contracts

The City is involved in following construction contracts at June 30, 2011:

	<u>Payable Fund</u>	<u>Original Contract</u>	<u>Outstanding Balance at June 30, 2011</u>
Booster House	GO Bond Fund	\$ 593,860	\$ 17,689
Booster Pump House	GO Bond Fund	\$ 444,900	\$ 16,350
Coventry & Guilford Paving	GO Bond Fund	\$ 1,191,692	\$ 89,033
City-Wide Paving Rehab	GO Bond Fund	\$ 293,950	\$ 66,547

Contingencies:

Litigation

The City is a party to various legal proceedings which normally occur in the course of governmental operations. State statutes provide for the levy of an ad valorem tax over a three-year period by the City's "Sinking Fund" for the payment of any court-assessed judgment rendered against the City. This provision is not applicable to the Nichols Hills Municipal Authority.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NICHOLS HILLS, OKLAHOMA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION PLAN FUNDING PROGRESS

JUNE 30, 2011

OMRF Agent Multiple Employer Defined Pension Plan

Schedule of Pension Plan Funding Progress

Actuarial Date	Actuarial Assets	Actuarial Accrued -- Entry Age	Unfunded AAL	Ratio	(1) Payroll	Unfunded AAL as a % of Covered Payroll
1/1/04	\$3,084,133	\$3,699,413	\$615,280	83.4%	\$1,120,387	54.9%
1/1/05	\$3,209,670	\$4,243,568	\$1,033,898	75.6%	\$1,228,514	84.2%
1/1/06	\$3,423,970	\$4,502,719	\$1,078,749	76.0%	\$1,203,909	89.6%
1/1/07	\$3,915,407	\$5,192,276	\$1,276,869	75.4%	\$1,344,313	95.0%
1/1/08	\$4,341,640	\$5,761,506	\$1,419,866	75.4%	\$1,430,027	99.3%
1/1/09	\$4,469,828	\$6,548,341	\$2,078,513	68.3%	\$1,584,844	131.1%
1/1/10	\$4,529,559	\$6,902,069	\$2,372,511	65.6%	\$1,564,837	151.6%
1/1/11	\$4,922,833	\$7,253,960	\$2,331,127	67.9%	\$1,544,818	150.9%

(1) Payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year.

CITY OF NICHOLS HILLS
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF OPEB STATUS AND FUNDING PROGRESS
JUNE 30, 2011

Required Supplementary Information

The funded status and funding progress of the City's defined benefit OPEB plan for the most recent actuarial valuations is as follows:

	July 1, 2009
Actuarial accrued liability - AAL (a)	\$442,164
Actuarial value of plan assets (b)	-
Unfunded actuarial accrued liability – UAAL (funding excess) (a) – (b)	\$442,164
Funded ratio (b)/(a)	0%
Covered payroll (c)	\$1,564,837
UAAL (funding excess) as a % of covered payroll [UAAL/(c)]	28.3%

Three year trend information is not available because only one actuarial valuation has been done since GASB 45 implementation.

CITY OF NICHOLS HILLS, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS) -
 GENERAL FUND
 For the year ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	<u>\$1,791,032</u>	<u>\$1,791,032</u>	<u>\$3,396,110</u>	<u>\$1,605,078</u>
Resources (Inflows):				
Taxes:				
Sales and use tax	2,510,000	2,632,800	2,926,222	293,422
Franchise tax	340,250	340,250	359,748	19,498
Total Taxes	<u>2,850,250</u>	<u>2,973,050</u>	<u>3,285,970</u>	<u>312,920</u>
Intergovernmental:				
Alcoholic beverage tax	5,650	5,650	6,668	1,018
Cigarette tax	-	-	40,410	40,410
Grant revenue	-	-	60,627	60,627
Total Intergovernmental	<u>5,650</u>	<u>5,650</u>	<u>107,705</u>	<u>102,055</u>
Charges for services:				
Garbage charges	565,000	565,000	540,393	(24,607)
Ambulance charges	51,500	51,500	50,700	(800)
Other fees	43,500	43,500	42,080	(1,420)
Total Charges for Services	<u>660,000</u>	<u>660,000</u>	<u>633,173</u>	<u>(26,827)</u>
Fines and Forfeitures	<u>220,000</u>	<u>220,000</u>	<u>184,079</u>	<u>(35,921)</u>
Licenses and Permits:				
Building permits	45,500	45,500	55,927	10,427
Plumbing permits	20,500	20,500	24,854	4,354
Plumbing licenses	25,000	25,000	31,119	6,119
Animal licenses	2,500	2,500	2,035	(465)
Electrical licenses	7,500	7,500	13,198	5,698
Electrical permits	12,075	12,075	14,185	2,110
Alcoholic beverage licenses and permits	4,000	400	4,658	4,258
Miscellaneous	9,530	80,680	72,651	(8,029)
Total Licenses and Permits	<u>126,605</u>	<u>194,155</u>	<u>218,627</u>	<u>24,472</u>
Investment Income	<u>22,500</u>	<u>22,500</u>	<u>8,631</u>	<u>(13,869)</u>
Miscellaneous:				
Lease revenue	172,000	172,000	159,656	(12,344)
Other	38,355	37,905	35,074	(2,831)
Total Miscellaneous	<u>210,355</u>	<u>209,905</u>	<u>194,730</u>	<u>(15,175)</u>
Other Financing Sources:				
Insurance proceeds	-	-	3,306	3,306
Transfers from other funds	1,204,365	1,204,365	1,104,001	(100,364)
Total Other Financing Sources	<u>1,204,365</u>	<u>1,204,365</u>	<u>1,107,307</u>	<u>(97,058)</u>
Total Resources (Inflows)	<u>5,299,725</u>	<u>5,489,625</u>	<u>5,740,222</u>	<u>250,597</u>
Amounts available for appropriation	<u>7,090,757</u>	<u>7,280,657</u>	<u>9,136,332</u>	<u>1,855,675</u>

(Continued)

CITY OF NICHOLS HILLS, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE (BUDGETARY BASIS) -
 GENERAL FUND
 For the year ended June 30, 2011

(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Charges to Appropriations (Outflows):				
GENERAL GOVERNMENT:				
Council	775	775	797	(22)
Manager/Clerk	400,415	411,875	404,814	7,061
Treasurer	7,460	2,640	2,294	346
Attorney	100,000	121,000	119,052	1,948
Engineer	55,000	95,000	82,408	12,592
Building and Code Division	170,985	182,785	174,817	7,968
Safety/Risk	123,100	132,400	143,087	(10,687)
General Government	404,050	444,350	407,707	36,643
Information Systems	140,750	140,950	139,404	1,546
TOTAL GENERAL GOVERNMENT	1,402,535	1,531,775	1,474,380	57,395
PUBLIC SAFETY:				
Court	71,360	71,360	70,206	1,154
Police	1,561,505	1,571,905	1,512,891	59,014
Fire	1,267,575	1,269,075	1,262,798	6,277
TOTAL PUBLIC SAFETY	2,900,440	2,912,340	2,845,895	66,445
HIGHWAYS AND STREETS	186,490	201,290	198,568	2,722
PUBLIC WORKS:				
Sanitation	519,405	538,955	609,745	(70,790)
Public Works	128,030	133,680	115,268	18,412
TOTAL PUBLIC WORKS	647,435	672,635	725,013	(52,378)
PARKS AND RECREATION	162,825	163,485	152,458	11,027
Other Financing Uses:				
Transfers to other funds	-	-	134,733	(134,733)
Total Other Financing Uses	-	-	134,733	(134,733)
Total Charges to Appropriations	5,299,725	5,481,525	5,531,047	(49,522)
Ending Budgetary Fund Balance	\$1,791,032	\$1,799,132	\$3,605,285	\$1,806,153

See the accompanying footnotes to the budgetary comparison schedules

**CITY OF NICHOLS HILLS, OKLAHOMA
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Budget Law

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

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

Per State law, the legal level of control at which expenditures may not legally exceed appropriations is the department level within a fund.

All transfers of appropriation between departments and supplemental appropriations require City Council approval. The City Manager may transfer appropriations between object categories within a department without City Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.

Budgetary Accounting

The annual operating budgets are prepared and presented on a non-GAAP budgetary basis of accounting. This basis records revenues when available and measurable and expenditures in the month preceding payment approval by the governing body. The exceptions to this basis are the transactions related to the City's participation in a worker's compensation insurance pool, which are recorded at net for budgetary purposes, state pension on-behalf payments, and payable accruals.

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	<u>General Fund</u>
Sources/Inflows of resources	
Actual amounts (budgetary basis) "total resources" from the budgetary comparison schedule	\$5,740,222
Differences – budget to GAAP:	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(1,104,001)
State payments made on-behalf of police and fire pension not considered a budgetary resource	285,719
Risk pool refund not considered a budgetary resource	71,361
Risk pool interest not considered a budgetary resource	<u>4,461</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$4,997,762</u>

**CITY OF NICHOLS HILLS, OKLAHOMA
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011
 (Continued)**

Uses/Outflows of resources

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule \$5,531,047

Differences – budget to GAAP:

State payments made on-behalf of police and fire pensions	285,719
The City budgets expenditures in the period approved by the governing body, rather than on a modified accrual basis.	<u>(171,235)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$5,645,531</u>

SUPPLEMENTAL INFORMATION SCHEDULES

**City of Nichols Hills
Combining Balance Sheet Accounts
General Fund Accounts
June 30, 2011**

	<u>General Fund</u>	<u>Designated Accounts Fund</u>	<u>Total General Fund</u>
ASSETS			
Cash and cash equivalents	\$ 583,829	\$ 22,642	\$ 606,471
Investments	1,254,756	-	1,254,756
Deposits with insurance pool	192,485	-	192,485
Prepaid expenses	48,835	-	48,835
Receivables:			
Accrued interest receivable	1,931	-	1,931
Due from other funds	1,358,210	-	1,358,210
Due from other governments	335,413	-	335,413
Franchise tax receivable	48,649	-	48,649
Court fines receivable, net	152,300	-	152,300
Total assets	\$ 3,976,408	\$ 22,642	\$ 3,999,050
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 103,587	\$ 474	\$ 104,061
Due to other funds	1,750	-	1,750
Escrow liabilities	2,450	-	2,450
Deferred revenue	130,894	-	130,894
Total liabilities	238,681	474	239,155
 Fund balances:			
Restricted for:			
Donations	-	22,168	22,168
Assigned for:			
Economic development	1,000,000	-	1,000,000
Insurance premiums	192,485	-	192,485
Unassigned	2,545,242	-	2,545,242
Total fund balances	3,737,727	22,168	3,759,895
Total liabilities and fund balances	\$ 3,976,408	\$ 22,642	\$ 3,999,050

City of Nichols Hills
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
General Fund Accounts
For the Year Ended June 30, 2011

	<u>General Fund</u>	<u>Designated Accounts Fund</u>	<u>Total General Fund</u>
REVENUES			
Taxes	\$3,285,970	-	\$3,285,970
Fees and fines	184,079	-	184,079
Licenses and permits	218,627	-	218,627
Intergovernmental	393,446	-	393,446
Charges for services	633,173	-	633,173
Investment earnings	13,092	-	13,092
Miscellaneous	269,375	\$2,824	272,199
Total revenues	<u>4,997,762</u>	<u>2,824</u>	<u>5,000,586</u>
EXPENDITURES			
Current:			
General government	1,469,727	-	1,469,727
Public safety	3,108,087	6,413	3,114,500
Highways and roads	196,949	-	196,949
Public works	718,743	482	719,225
Culture and recreation	152,025	-	152,025
Total Expenditures	<u>5,645,531</u>	<u>6,895</u>	<u>5,652,426</u>
Excess (deficiency) of revenues over expenditures	<u>(647,769)</u>	<u>(4,071)</u>	<u>(651,840)</u>
OTHER FINANCING SOURCES (USES)			
Transfers In	1,104,001	-	1,104,001
Transfers out	<u>(134,732)</u>	-	<u>(134,732)</u>
Total other financing sources and uses	<u>969,269</u>	-	<u>969,269</u>
SPECIAL ITEM			
Net change in fund balances	321,500	(4,071)	317,429
Fund balances - beginning	3,416,227	26,239	3,442,466
Fund balances - ending	<u>\$ 3,737,727</u>	<u>\$ 22,168</u>	<u>\$ 3,759,895</u>

**City of Nichols Hills
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011**

	<u>Street and Alley Fund</u>	<u>E-911 Fund</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 43,034	\$ 24,243	\$ 67,277
Due from other funds	685	-	685
Due from other governments	3,995	-	3,995
Other receivables	-	361	361
Total assets	\$ 47,714	\$ 24,604	\$ 72,318
 LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,463	\$ 24	\$ 2,487
Escrow liabilities	-	-	-
Total liabilities	2,463	24	2,487
 Fund balances:			
Restricted for:			
Streets	44,245	-	44,245
Public safety	-	24,580	24,580
Assigned for:			
Streets	1,006	-	1,006
Total fund balances	45,251	24,580	69,831
Total liabilities and fund balances	\$ 47,714	\$ 24,604	\$ 72,318

City of Nichols Hills
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	<u>Street and Alley</u> <u>Fund</u>	<u>E-911 Fund</u>	<u>Total Nonmajor</u> <u>Governmental</u> <u>Funds</u>
REVENUES			
Taxes	\$ -	\$ 4,334	\$ 4,334
Intergovernmental	39,153	-	39,153
Miscellaneous	1,006	-	1,006
Total revenues	<u>40,159</u>	<u>4,334</u>	<u>44,493</u>
EXPENDITURES			
Current:			
Public safety	-	420	420
Highways and roads	24,717	-	24,717
Total Expenditures	<u>24,717</u>	<u>420</u>	<u>25,137</u>
Excess (deficiency) of revenues over expenditures	<u>15,442</u>	<u>3,914</u>	<u>19,356</u>
 Net change in fund balances	 15,442	 3,914	 19,356
Fund balances - beginning	29,809	20,666	50,475
Fund balances - ending	<u>\$ 45,251</u>	<u>\$ 24,580</u>	<u>\$ 69,831</u>

CITY OF NICHOLS HILLS, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE
 NONMAJOR GOVERNMENTAL FUNDS
 For the fiscal year ended June 30, 2011

	SPECIAL REVENUE - STREET & ALLEY FUND				SPECIAL REVENUE - DESIGNATED ACCOUNTS			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
Revenues:								
Taxes	-	-	-	-	-	-	-	-
Intergovernmental	\$ 30,000	\$ 30,000	\$ 39,153	\$ 9,153	18	\$ -	\$ -	\$ (18)
Investment Income	300	300	-	(300)	-	-	-	-
Miscellaneous	-	-	1,006.00	1,006.00	11,177	2,824	2,824	(8,353)
Total Revenues	<u>30,300</u>	<u>30,300</u>	<u>40,159</u>	<u>9,859</u>	<u>11,195</u>	<u>2,824</u>	<u>2,824</u>	<u>(8,371)</u>
Expenditures:								
Current:								
General government	-	-	-	-	\$ 18	\$ 18	-	18.00
Public safety	-	-	-	-	10,428	10,428	6,413	4,015
Highways and streets	30,300	30,300	24,717	5,583	-	-	-	-
Public works	-	-	-	-	749	749	482	267.00
Total Expenditures	<u>30,300</u>	<u>30,300</u>	<u>24,717</u>	<u>5,583</u>	<u>11,195</u>	<u>6,895</u>	<u>6,895</u>	<u>4,300</u>
Excess (deficiency) of revenues over expenditures	-	-	15,442	15,442	-	(4,071)	(4,071)	(4,071)
Net change in fund balances	-	-	15,442	15,442	-	(4,071)	(4,071)	(4,071)
Fund Balance - beginning of year	-	-	29,809	29,809	-	26,239	26,239	26,239
Fund Balance - end of year	<u>-</u>	<u>-</u>	<u>\$ 45,251</u>	<u>\$ 45,251</u>	<u>\$ -</u>	<u>\$ 22,168</u>	<u>\$ 22,168</u>	<u>\$ 22,168</u>

(Continued)

CITY OF NICHOLS HILLS, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE
 NONMAJOR GOVERNMENTAL FUNDS
 For the fiscal year ended June 30, 2011

(Continued)

SPECIAL REVENUE - E-911 FUND				
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 2,945	\$ 2,945	\$ 4,334	\$ 1,389
Intergovernmental	-	-	-	-
Investment income	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	<u>2,945</u>	<u>2,945</u>	<u>4,334</u>	<u>1,389</u>
Expenditures:				
Current:				
General government	-	-	-	-
Public safety	22,220	22,220	420	21,800
Highways and streets	-	-	-	-
Public works	-	-	-	-
Total Expenditures	<u>22,220.00</u>	<u>22,220.00</u>	<u>420</u>	<u>21,800</u>
Excess (deficiency) of revenues over expenditures	<u>(19,275)</u>	<u>(19,275)</u>	<u>3,914</u>	<u>23,189</u>
Net change in fund balances	(19,275)	(19,275)	3,914	23,189
Fund Balance - beginning of year	19,275	19,275	20,666	1,391
Fund Balance - end of year	<u>-</u>	<u>-</u>	<u>\$ 24,580</u>	<u>\$ 24,580</u>

CITY OF NICHOLS HILLS, OKLAHOMA
 BUDGETARY COMPARISON SCHEDULE
 MAJOR GOVERNMENTAL FUNDS
 For the fiscal year ended June 30, 2011

	DEBT SERVICE				CAPITAL PROJECT - CAPITAL IMPROVEMENT			
	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Beginning Budgetary Fund Balance	-	-	\$ 341,776	\$ 341,776	\$ 165,000	\$ 165,000	\$ (211,207)	\$ (376,207)
Resources (Inflows):								
Taxes	2,943,898	\$ 2,943,898	2,919,381	(24,517)	-	-	-	-
Investment income	-	-	9,411	9,411	-	-	973	973
Transfer in	-	-	-	-	206,300	358,300	115,000	(243,300)
Amounts available for appropriation	2,943,898	2,943,898	3,270,568	326,670	371,300	523,300	(95,234)	(618,534)
Charges to appropriations (outflows):								
Capital outlay	-	-	-	-	371,300	523,300	521,454	1,846
Debt service	2,943,898	2,943,898	2,926,539	17,359	-	-	-	-
Total Charges to Appropriations	2,943,898	2,943,898	2,926,539	17,359	371,300	523,300	521,454	1,846
Ending Budgetary Fund Balance	\$ -	\$ -	\$ 344,029	\$ 344,029	\$ -	\$ -	\$ (616,688)	\$ (616,688)

City of Nichols Hills
Combining Schedule of Net Assets
Enterprise Fund Accounts
June 30, 2011

	<u>Nichols Hills</u> <u>Municipal</u> <u>Authority</u>	<u>Nichols Hills</u> <u>Municipal</u> <u>Authority CIF</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 255,027	\$ 195,208	\$ 450,235
Restricted cash and cash equivalents	222,024	-	222,024
Investments	501,194	-	501,194
Accounts receivable, net	604,335	-	604,335
Accrued interest receivable	93	-	93
Total current assets	1,582,673	195,208	1,777,881
Non-current assets:			
Restricted cash and cash equivalents	255,327	-	255,327
Capital Assets:			
Non-depreciable assets	933,307	-	933,307
Other capital assets, net of depreciation	18,251,567	-	18,251,567
Total non-current assets	19,440,201	-	19,440,201
Total assets	21,022,874	195,208	21,218,082
LIABILITIES			
Current liabilities:			
Accounts payable	77,423	-	77,423
Accrued interest payable	5,988	-	5,988
Due to other funds	626,490	-	626,490
Compensated absences, current portion	1,681	-	1,681
Claims and judgments	-	-	-
Note payable, current portion	235,000	-	235,000
Total current liabilities	946,582	-	946,582
Non-current liabilities:			
Compensated absences	15,126	-	15,126
Meter deposit liability	20,770	-	20,770
Total non-current liabilities	35,896	-	35,896
Total liabilities	982,478	-	982,478
NET ASSETS			
Invested in capital assets, net of related debt	18,952,874	-	18,952,874
Restricted for debt service	450,593	-	450,593
Unrestricted	636,929	195,208	832,137
Total net assets	\$ 20,040,396	\$ 195,208	\$ 20,235,604

City of Nichols Hills
Combining Schedule of Revenues, Expenses and Changes in Fund Net Assets
Enterprise Fund Accounts
For the Year Ended June 30, 2011

	<u>Nichols Hills Municipal Authority</u>	<u>Nichols Hills Municipal Authority CIF</u>	<u>Total</u>
REVENUES			
Charges for Service:			
Water charges	\$ 2,632,575	\$ -	\$ 2,632,575
Wastewater charges	939,504	-	939,504
Water taps	22,950	-	22,950
Penalties	22,530	-	22,530
Total operating revenues	<u>3,617,559</u>	<u>-</u>	<u>3,617,559</u>
OPERATING EXPENSES			
Administrative	493,361	3,795	497,156
Water and wastewater operations	981,684	-	981,684
Insurance claims and expenses	-	-	-
Depreciation expense	911,563	-	911,563
Amortization expense	2,291	-	2,291
Total operating expenses	<u>2,388,899</u>	<u>3,795</u>	<u>2,392,694</u>
Operating income (loss)	<u>1,228,660</u>	<u>(3,795)</u>	<u>1,224,865</u>
NON-OPERATING REVENUES (EXPENSES)			
Interest and investment revenue	2,949	848	3,797
Miscellaneous revenue	9,369	-	9,369
Interest expense	(18,011)	-	(18,011)
Total non-operating revenue (expenses)	<u>(5,693)</u>	<u>848</u>	<u>(4,845)</u>
Income (loss) before contributions and transfers	<u>1,222,967</u>	<u>(2,947)</u>	<u>1,220,020</u>
Capital contributions	1,337,747	-	1,337,747
Transfers in	36,762	28,064	64,826
Transfers out	(1,112,333)	(36,762)	(1,149,095)
Change in net assets	<u>1,485,143</u>	<u>(11,645)</u>	<u>1,473,498</u>
Total net assets - beginning	<u>18,555,253</u>	<u>206,853</u>	<u>18,762,106</u>
Total net assets - ending	<u>\$ 20,040,396</u>	<u>\$ 195,208</u>	<u>\$ 20,235,604</u>

CITY OF NICHOLS HILLS, OKLAHOMA
SCHEDULE OF PROMISSORY NOTE COVERAGE
For the fiscal year ended June 30, 2011

Gross Revenue Available for Debt Service:	
Operating revenues - water and sewer system	\$3,617,559
Investment income	3,797
Total Gross Revenues Available	3,621,356
Authority Operating Expenses	1,478,840
Net Revenues Available for Debt Service	\$2,142,516
Debt Service Requirements:	
Maximum annual debt service - OWRB Note	\$249,230
Computed Coverage	860%
Coverage Requirement	125%

Note: Authority operating expenses include only maintenance and operation expenses of the water and sewer systems, excluding all non-cash expenses (depreciation, and amortization).

CITY OF NICHOLS HILLS, OKLAHOMA
SCHEDULE OF PROMISSORY NOTE RESERVE ACCOUNT BALANCES
June 30, 2011

	<u>RESERVE ACCOUNT</u>
Required Balances:	
91 OWRB Promissory Note Reserve (125% of average annual principal and interest)	<u>\$235,286</u>
Assets in Account at June 30, 2011:	
Cash and cash equivalents	<u>255,327</u>
Excess of account assets over required balance	<u><u>\$20,041</u></u>

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STATISTICAL SECTION

This part of the City of Nichols Hills' comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the city's overall financial health

Such statistical information includes:

- Financial Trends – These schedules contain trend information to help the reader understand how the city's financial performance and well-being have changed over time
- Revenue Capacity – These schedules contain information to help the reader assess the city's most significant local revenue sources, gas and sales tax revenues.
- Debt Capacity – These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the city's ability to issue additional debt in the future.
- Demographic and Economic Information – These schedules offer demographic and economic indicators to help the reader understand the environment within which the city's financial activities take place
- Operating Information – These schedules contain service and infrastructure data to help the reader understand how the information in the city's financial report relates to the services the city provides and the activities it performs.

CITY OF NICHOLS HILLS, OKLAHOMA
NET ASSETS BY COMPONENT
 Last Eight Fiscal Years
TABLE 1

	Fiscal Year							
	2004	2005	2006	2007	2008	2009	2010	2011
Governmental activities								
Invested in capital assets, net of related debt	\$ (2,742,784)	\$ (2,310,907)	\$ (4,417,209)	\$ (3,606,626)	\$ (3,334,232)	\$ (3,868,818)	\$ (2,302,260)	\$ (7,597,775)
Restricted	1,036,349	1,790,502	1,881,569	2,300,109	2,461,157	2,778,396	363,430	482,303
Unrestricted	2,195,912	794,445	3,020,362	2,914,171	3,027,138	2,914,631	4,438,157	10,373,117
Total governmental activities net assets	\$ 489,477	\$ 264,040	\$ 484,722	\$ 1,607,654	\$ 2,154,063	\$ 1,824,209	\$ 2,499,327	\$ 3,257,645
Business-type activities								
Invested in capital assets, net of related debt	\$ 13,159,825	\$ 13,773,019	\$ 14,700,332	\$ 15,266,365	\$ 16,610,548	\$ 18,211,920	\$ 18,266,928	\$ 18,952,874
Restricted	374,616	385,559	401,029	398,113	413,729	424,620	437,468	450,593
Unrestricted	993,588	1,224,375	1,401,449	1,126,460	472,552	364,174	57,709	832,137
Total business-type activities net assets	\$ 14,528,029	\$ 15,382,953	\$ 16,502,810	\$ 16,790,938	\$ 17,496,829	\$ 19,000,714	\$ 18,762,105	\$ 20,235,604
Primary government								
Invested in capital assets, net of related debt	\$ 10,417,041	\$ 11,462,112	\$ 10,283,123	\$ 11,659,739	\$ 13,276,316	\$ 14,343,102	\$ 15,964,668	\$ 11,355,099
Restricted	1,410,965	2,166,061	2,282,598	2,698,222	2,874,886	3,203,016	800,898	932,896
Unrestricted	3,199,500	2,018,820	4,421,811	4,040,631	3,499,690	3,278,805	4,495,866	11,205,254
Total primary government net assets	\$ 15,017,506	\$ 15,646,993	\$ 16,987,532	\$ 18,398,592	\$ 19,650,892	\$ 20,824,923	\$ 21,261,432	\$ 23,493,249

NOTE: The new financial reporting model as prescribed by GASB Statement 34 was implemented by the City in FY 2004. As a result, only eight years of data as presented in this Table is available.

CITY OF NICHOLS HILLS, OKLAHOMA
CHANGES IN NET ASSETS
 Last Eight Fiscal Years
TABLE 2

	Fiscal Year							
	2004	2005	2006	2007	2008	2009	2010	2011
Expenses								
Government activities:								
General government	\$ 1,498,766	\$ 1,433,455	\$ 1,260,679	\$ 1,473,741	\$ 1,756,081	\$ 1,399,829	\$ 1,689,504	\$ 1,615,627
Public safety	2,365,324	2,430,811	2,487,770	3,087,682	3,131,510	3,179,578	3,351,398	3,273,946
Highways and streets	365,145	386,110	327,157	410,147	358,041	490,454	592,325	387,524
Culture and recreation	122,348	110,139	111,325	79,739	182,347	185,370	161,284	155,427
Public works	572,268	606,106	705,876	747,004	832,490	687,172	716,987	936,069
Interest on long-term debt	536,304	501,104	557,462	585,234	636,140	657,163	662,507	671,031
Total governmental activities expenses	<u>5,460,155</u>	<u>5,447,725</u>	<u>5,450,269</u>	<u>6,383,547</u>	<u>6,896,609</u>	<u>6,599,566</u>	<u>7,174,005</u>	<u>7,039,624</u>
Business-type activities:								
Water	1,481,422	1,487,186	1,360,410	1,204,821	1,565,768	1,091,412	1,513,517	1,980,153
Wastewater	1,027,142	1,002,793	1,125,170	1,189,103	639,539	1,167,338	872,318	430,552
Total business-type activities expenses	<u>2,508,564</u>	<u>2,489,979</u>	<u>2,485,580</u>	<u>2,393,924</u>	<u>2,205,307</u>	<u>2,258,750</u>	<u>2,385,835</u>	<u>2,410,705</u>
Total primary government expenses	<u>\$ 7,968,719</u>	<u>\$ 7,937,704</u>	<u>\$ 7,935,849</u>	<u>\$ 8,777,471</u>	<u>\$ 9,101,916</u>	<u>\$ 8,858,316</u>	<u>\$ 9,559,840</u>	<u>\$ 9,450,329</u>
Program Revenues								
Government activities:								
Charges for services:								
General government	\$ 243,526	\$ 264,067	\$ 214,180	\$ 190,946	\$ 203,505	\$ 148,153	\$ 315,054	\$ 218,627
Public safety	239,907	227,107	207,128	193,188	233,155	169,205	87,573	256,913
Highways and streets	-	-	-	36,944	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-	-
Public works	497,663	557,495	571,897	559,695	497,180	511,577	553,778	540,393
Operating grants and contributions	37,288	42,840	-	392,756	434,077	313,607	296,861	324,872
Capital grants and contributions	62,186	-	169,653	-	6,500	270,099	6,568	60,627
Total governmental activities program revenues	<u>1,080,570</u>	<u>1,091,509</u>	<u>1,162,858</u>	<u>1,373,529</u>	<u>1,374,417</u>	<u>1,412,641</u>	<u>1,259,834</u>	<u>1,401,432</u>

(Continued)

TABLE 2
(Continued)

	Fiscal Year							
	2004	2005	2006	2007	2008	2009	2010	2011
Business-type activities:								
Charges for services:								
Water	1,428,064	1,340,964	2,061,573	1,739,445	1,928,996	1,870,309	1,699,316	2,678,055
Wastewater	814,217	783,092	888,503	796,957	775,849	771,974	727,055	939,504
Total business-type activities program revenues	2,242,281	2,124,056	2,950,076	2,536,402	2,704,845	2,642,283	2,426,371	3,617,559
Total primary government program revenues	\$ 3,322,851	\$ 3,215,565	\$ 4,112,934	\$ 3,909,931	\$ 4,079,262	\$ 4,054,924	\$ 3,686,205	\$ 5,018,991
Net (Expense)/Revenue								
Government activities	\$ (4,379,585)	\$ (4,356,216)	\$ (4,287,411)	\$ (5,010,018)	\$ (5,522,192)	\$ (5,186,925)	\$ (5,914,171)	\$ (5,638,192)
Business-type activities	(266,283)	(365,923)	464,496	142,478	499,598	383,533	40,536	1,206,854
Total primary government net expense	\$ (4,645,868)	\$ (4,722,139)	\$ (3,822,915)	\$ (4,867,540)	\$ (5,022,654)	\$ (4,803,392)	\$ (5,873,635)	\$ (4,431,338)
General Revenues and Other Changes in Net Assets								
Government activities:								
Taxes:								
Sales and use taxes	\$ 2,197,665	\$ 2,242,808	\$ 2,717,331	\$ 2,658,081	\$ 2,668,337	\$ 2,738,897	\$ 2,598,246	\$ 2,926,222
Property taxes	1,921,697	2,400,839	2,332,307	2,517,460	2,401,835	2,289,388	2,849,982	2,920,432
Franchise and public service taxes	235,257	253,767	273,384	278,452	306,846	288,909	347,501	359,748
Other taxes	2,707	2,725	2,841	3,201	3,233	3,070	2,996	4,334
Unrestricted grants and contributions	30,491	20,842	87,660	56,046	42,599	42,274	42,143	47,100
Investment earnings	83,039	140,109	295,372	414,480	475,180	225,520	109,460	77,156
Miscellaneous	298,522	251,236	234,001	243,164	303,749	369,517	401,393	314,997
Transfers	(592,187)	(1,188,879)	(795,317)	(37,934)	(133,178)	(1,100,502)	153,410	(253,478)
Total governmental activities	4,177,191	4,123,447	5,147,579	6,132,950	6,068,601	4,857,073	6,505,131	6,396,511
Business-type activities:								
Investment earnings	23,620	31,538	77,767	101,300	57,125	13,317	4,145	3,797
Miscellaneous	-	430	11,823	6,416	16,050	6,533	-	9,369
Transfers	592,187	1,188,879	795,317	37,934	133,178	1,100,502	(153,410)	253,478
Total business-type activities	615,807	1,220,847	884,907	145,650	206,353	1,120,352	(149,265)	266,644
Total primary government	\$ 4,792,998	\$ 5,344,294	\$ 6,032,486	\$ 6,278,600	\$ 6,274,954	\$ 5,977,425	\$ 6,355,866	\$ 6,663,155
Change in Net Assets								
Government activities	\$ (202,394)	\$ (232,769)	\$ 860,168	\$ 1,122,932	\$ 546,409	\$ (329,852)	\$ 590,960	\$ 758,319
Business-type activities	349,524	854,924	1,349,403	288,128	705,891	1,503,885	(108,729)	1,473,498
Total primary government	\$ 147,130	\$ 622,155	\$ 2,209,571	\$ 1,411,060	\$ 1,252,300	\$ 1,174,033	\$ 482,231	\$ 2,231,817

NOTE: The new financial reporting model as prescribed by GASB Statement 34 was implemented by the City in FY 2004. As a result, only seven years of data as presented in this Table is available.

**CITY OF NICHOLS HILLS, OKLAHOMA
FUND BALANCES, GOVERNMENTAL FUNDS
Last Eight Fiscal Years
TABLE 3**

	Fiscal Year							
	2004	2005	2006	2007	2008	2009	2010	2011
General Fund								
Reserved	\$ 217,533	\$ 334,208	\$ 338,007	\$ 1,355,916	\$ 1,378,003	\$ 1,146,000	\$ 1,170,464	\$ -
Unreserved	1,787,455	1,735,547	2,788,466	1,928,968	1,949,328	2,236,868	2,245,765	-
Restricted	-	-	-	-	-	-	-	22,168
Assigned	-	-	-	-	-	-	-	1,192,485
Unassigned	-	-	-	-	-	-	-	2,545,242
Total general fund	\$ 2,004,988	\$ 2,069,755	\$ 3,126,473	\$ 3,284,884	\$ 3,327,331	\$ 3,382,868	\$ 3,416,229	\$ 3,759,895
All Other Governmental Funds								
Reserved	\$ -	\$ -	\$ 445,666	\$ 790,769	\$ 1,877,895	\$ 482,823	\$ -	\$ -
Unreserved, reported in:								
Special revenue funds	78,499	77,474	103,819	117,500	123,415	148,854	6,046,564	-
Debt service funds	1,224,431	2,006,698	2,100,478	2,530,271	2,717,154	2,657,453	341,776	-
Capital project funds	4,250,683	4,975,492	5,274,878	6,389,537	5,734,944	5,947,052	-	-
Restricted	-	-	-	-	-	-	-	8,050,758
Assigned	-	-	-	-	-	-	-	54,081
Unassigned	-	-	-	-	-	-	-	(616,688)
Total all other governmental funds	\$ 5,553,613	\$ 7,059,664	\$ 7,924,841	\$ 9,628,077	\$ 10,453,408	\$ 9,236,182	\$ 6,388,340	\$ 7,488,151
GRAND TOTAL	\$ 7,558,601	\$ 9,129,419	\$ 11,051,314	\$ 13,112,961	\$ 13,780,739	\$ 12,619,050	\$ 9,804,569	\$ 11,248,046

NOTE: The new financial reporting model as prescribed by GASB Statement 34 was implemented by the City in FY 2004. As a result, only seven years of data as presented in this Table is available.

CITY OF NICHOLS HILLS, OKLAHOMA
 CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
 Last Eight Fiscal Years
 TABLE 4

	Fiscal Year							
	2004	2005	2006	2007	2008	2009	2010	2011
Revenues:								
Taxes	\$ 4,344,818	\$ 4,900,828	\$ 5,318,040	\$ 5,476,963	\$ 5,372,130	\$ 5,310,285	\$ 5,731,377	\$ 6,209,685
Intergovernmental	127,921	60,510	257,313	485,746	476,559	625,980	345,572	432,589
Charges for services	541,370	601,957	615,577	803,154	550,017	555,078	640,785	633,173
Fines and forfeitures	200,516	220,284	177,213	176,345	193,197	185,055	170,123	184,079
Licenses and permits	203,929	210,007	171,605	147,487	203,505	148,153	174,055	218,627
Investment Income	83,259	130,882	266,247	425,373	496,645	231,588	107,240	67,139
Miscellaneous	300,566	254,408	234,001	243,164	248,991	326,516	569,914	270,381
Total Revenues	\$ 5,802,379	\$ 6,378,876	\$ 7,037,996	\$ 7,559,232	\$ 7,541,044	\$ 7,382,655	\$ 7,738,036	\$ 8,015,683
Expenditures:								
General government	1,037,702	1,197,480	1,111,324	1,468,607	1,730,852	1,350,096	1,481,626	2,197,460
Public safety	2,211,800	2,279,334	2,386,313	2,928,988	3,004,978	3,034,185	3,177,877	3,108,507
Highways and streets	150,518	196,067	188,190	203,345	250,475	208,236	297,729	221,666
Culture and recreation	111,230	101,418	105,221	150,913	178,054	183,896	160,077	152,025
Public works	502,601	538,574	579,606	617,334	612,239	668,750	693,681	718,743
Capital outlay	1,761,560	1,810,231	2,237,443	1,712,519	2,744,531	2,364,436	3,046,084	3,678,242
Debt service								
Principal	1,778,951	1,198,951	1,718,952	1,645,000	1,880,000	1,740,000	4,085,000	2,270,000
Interest	563,507	447,041	526,384	539,083	588,117	623,545	1,029,443	656,019
Payment of issue costs	26,846	31,365	34,969	28,839	29,875	30,237	29,660	49,741
Total Expenditures	\$ 8,144,715	\$ 7,800,459	\$ 8,890,402	\$ 9,294,728	\$ 10,817,121	\$ 10,203,381	\$ 14,001,177	\$ 13,052,403
Excess of revenues over(under) expenditures	(2,342,336)	(1,421,583)	(1,852,406)	(1,736,496)	(3,276,077)	(2,820,726)	(6,262,141)	(5,036,720)
Other financing sources(uses)								
Transfers in	659,161	485,069	1,511,216	1,711,443	1,355,585	1,634,672	1,047,660	1,219,001
Transfers out	(75,558)	-	(199,141)	(413,300)	(211,730)	(2,775,635)	-	(134,732)
Bond proceeds	6,500,000	2,500,000	2,500,000	2,500,000	2,800,000	2,800,000	2,400,000	5,400,000
Total other financing sources(uses)	\$ 7,083,603	\$ 2,985,069	\$ 3,812,075	\$ 3,798,143	\$ 3,943,855	\$ 1,659,037	\$ 3,447,660	\$ 6,484,269
Net change in fund balances	\$ 4,741,267	\$ 1,563,486	\$ 1,959,669	\$ 2,061,647	\$ 667,778	\$ (1,161,689)	\$ (2,814,481)	\$ 1,447,549
Debt service as a percentage of noncapital expenditures	36.7%	27.5%	33.7%	28.8%	28.1%	30.2%	46.7%	31.2%

NOTE: The new financial reporting model as prescribed by GASB Statement 34 was implemented by the City in FY 2004. As a result, only eight years of data as presented in this Table is available.

CITY OF NICHOLS HILLS, OKLAHOMA
GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE
 Last Ten Fiscal Years
TABLE 5

Fiscal Year	Ad Valorem Tax	Sales & Use Tax	Franchise Tax	Emergency Telephone Tax	Totals
2002	1,741,403	1,778,182	222,281	3,488	3,745,354
2003	1,672,233	1,857,951	223,077	2,532	3,755,793
2004	1,909,189	2,197,665	235,257	2,707	4,344,818
2005	2,401,528	2,242,808	253,767	2,725	4,900,828
2006	2,322,484	2,717,331	273,384	2,841	5,316,040
2007	2,537,229	2,658,081	278,452	3,201	5,476,963
2008	2,393,714	2,668,337	306,846	3,233	5,372,130
2009	2,279,409	2,738,897	288,909	3,070	5,310,285
2010	2,782,634	2,598,246	347,501	2,996	5,731,377
2011	2,919,381	2,926,222	48,649	4,334	5,898,586

CITY OF NICHOLS HILLS, OKLAHOMA
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years
TABLE 6

Fiscal Year	Real Property	Personal Property	Public Service Property	Total Assessed Value	Homestead Exemption	Net Total Assessed Value	Total Direct Tax Rate	Estimated Actual Value
2001	55,555,200	1,217,530	929,281	57,702,011	1,270,000	56,432,011	31.90	524,563,736
2002	58,900,226	1,289,319	956,457	61,146,002	1,230,000	59,916,002	28.75	555,872,745
2003	62,847,598	1,121,969	1,002,944	64,972,511	1,237,000	63,735,511	26.25	590,659,191
2004	66,275,178	1,265,830	991,555	68,532,563	1,235,000	67,297,563	28.62	623,023,300
2005	70,044,893	1,004,223	1,147,195	72,196,311	1,207,000	70,989,311	32.82	656,330,100
2006	74,874,146	1,191,626	1,114,211	77,179,983	1,205,000	75,974,983	30.79	701,636,209
2007	81,315,083	1,527,659	1,083,530	83,926,272	1,329,550	82,596,722	30.75	782,966,109
2008	88,060,162	1,681,144	994,474	90,735,780	1,395,223	89,340,557	26.97	824,870,727
2009	95,001,606	1,502,443	1,026,979	97,531,028	1,360,466	96,170,562	23.81	886,645,709
2010	102,481,956	1,693,498	1,194,004	105,369,458	1,348,594	104,020,864	26.99	957,904,164
2011	111,131,220	2,007,817	1,317,677	114,456,714	1,099,000	113,357,714	29.37	1,040,515,582

CITY OF NICHOLS HILLS, OKLAHOMA
PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS
(PER \$1,000 OF ASSESSED VALUE)
Last Ten Fiscal Years
TABLE 7

Fiscal Year	City	Overlapping Rates			Total Nichols Hills City Resident
	Direct Rate	Debt Service Fund	Independent School District (1)	Oklahoma County	
2002	28.75	63.36	22.29	114.40	
2003	26.25	75.09	22.35	123.69	
2004	28.62	69.89	23.15	121.66	
2005	32.82	63.78	18.21	114.81	
2006	30.79	73.47	10.97	115.23	
2007	30.75	72.52	22.81	126.08	
2008	26.97	72.18	10.36	109.51	
2009	23.81	67.93	11.25	102.99	
2010	26.99	73.88	12.86	113.73	
2011	26.54	74.15	24.27	124.96	
2012	29.37	77.54	24.06	130.97	

The levy certified to the tax rolls for the upcoming fiscal year is as follows:

Source: County Excise Board

Note: City property tax may only be levied to repay principal and interest on general obligation bonded debt approved by the voters and any court-assessed judgments.

(1) Includes levy for Metro Tech Vo-Tech #22, Oklahoma City Schools.

CITY OF NICHOLS HILLS, OKLAHOMA
Principal PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
TABLE 8

Taxpayer	Type of Business	2011			2002		
		Rank	Taxable Assessed Value	Percentage of Net Total Assessed Value	Rank	Taxable Assessed Value	Percentage of Net Total Assessed Value
Chesapeake Land Company, LLC	Oil and Gas	1	\$ 2,360,148	2.08%			
Oklahoma City Golf & Country Club	Recreation	2	906,050	0.80%	3	\$ 343,452	0.61%
Oklahoma Gas & Electric	Utility	3	555,984	0.49%	1	459,869	0.61%
NHOB LLC	Banking	4	544,271	0.48%			
Bennett Clayton I & Louise G	Resident	5	411,421	0.36%			
Hamm, Harold G & Sue A	Resident	6	330,091	0.29%			
Cox Communication, Inc	Utility	7	329,305	0.29%			
Mohamadi Monreh	Resident	8	317,110	0.28%			
Hood Henry J & Laura B	Resident	9	286,651	0.25%			
Wabb Virginia L & Drew D	Resident	10	258,606	0.23%			
Southwestern Bell Telephone LP	Telephone		-		2	360,174	0.64%
MEJ Properties	Trust		-		4	280,960	0.50%
Plaza North Limited	Retail		-		5	261,475	0.46%
Nichols Hills Development Company	Retail		-		6	258,770	0.46%
Kuykendall Kathleen	Construction		-		7	219,885	0.39%
NB Properties LLC	Banking		-		8	218,273	0.39%
Love Tim R & Susan S	Individual		-		9	197,262	0.35%
Kaigan Sievo M & Cairne M	Individual		-		10	195,858	0.35%
Totals			\$ 6,299,637	5.56%		\$ 2,795,978	4.96%

Source: County Assessors Office

**CITY OF NICHOLS HILLS, OKLAHOMA
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years
TABLE 9**

Fiscal Year	Total Tax Levy	Current Tax Collections	Percentage of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percentage of Total Collected to Total Levy	Net Assessed Value	Mill Levy
2002	1,722,503	1,725,991	100.00%	48,930	1,774,921	103.04%	59,916,002	28.75
2003	1,789,253	1,624,369	90.78%	46,796	1,671,165	93.40%	63,735,511	26.25
2004	1,925,888	1,873,923	97.30%	63,130	1,937,053	100.58%	67,297,563	28.62
2005	2,329,949	2,304,406	98.90%	51,562	2,355,968	101.12%	70,989,311	32.82
2006	2,339,954	2,315,228	98.94%	54,953	2,370,181	101.29%	75,974,983	30.79
2007	2,539,966	2,466,453	97.11%	62,355	2,528,808	99.56%	82,596,722	30.75
2008	2,409,918	2,393,714	99.33%	-	2,393,714	99.33%	89,340,557	26.97
2009	2,289,836	2,279,409	99.54%	-	2,279,409	99.54%	96,170,562	23.81
2010	2,808,007	2,711,838	96.58%	-	2,711,838	96.58%	104,020,864	26.99
2011	2,923,866	2,827,500	96.70%	67,101	2,894,601	99.00%	113,357,714	29.37

CITY OF NICHOLS HILLS, OKLAHOMA
SALES TAX RATES OF DIRECT AND OVERLAPPING GOVERNMENTS
Last Ten Fiscal Years
TABLE 10

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Oklahoma County	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
State of Oklahoma	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Total	8.50%									

CITY OF NICHOLS HILLS, OKLAHOMA
RATIO OF OUTSTANDING DEBT BY TYPE
Last Ten Fiscal Years
TABLE 12

Fiscal Year	Governmental Activities		Business-Type Activities		Total Primary Government	Per Capita	Per Estimated Actual Property Values
	General Obligation Bonds	Judgment Payable	Notes Payable				
2001	12,325,000	-	1,900,000		14,225,000	3,507	0.03
2002	12,470,000	-	1,780,000		14,250,000	3,513	0.03
2003	13,375,000	101,854	1,650,000		15,126,854	3,730	0.03
2004	14,450,000	67,903	1,510,000		16,027,903	3,952	0.03
2005	15,785,000	33,952	1,360,000		17,178,952	4,235	0.03
2006	16,600,000	-	1,200,000		17,800,000	4,389	0.03
2007	17,455,000	-	1,030,000		18,485,000	4,557	0.02
2008	18,575,000	-	850,000		19,425,000	4,789	0.02
2009	19,635,000	-	660,000		20,295,000	5,004	0.02
2010	17,950,000	-	455,000		18,405,000	4,538	0.02
2011	21,080,000	-	235,000		21,315,000	3,710	0.02

CITY OF NICHOLS HILLS, OKLAHOMA
RATIO OF NET GENERAL BONDED DEBT TO ASSESSED
VALUE AND NET BONDED DEBT PER CAPITA
Last Ten Fiscal Years
TABLE 13

Fiscal Year	Population	Net Assessed Value	Gross Bonded Debt (1)	Less Debt Service Funds	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
2002	4,010	59,916,002	12,470,000	1,751,978	10,718,022	17.89%	2,673
2003	4,040	63,735,511	13,375,000	1,644,300	11,730,700	18.41%	2,904
2004	4,030	67,297,563	14,450,000	1,231,762	13,218,238	19.64%	3,280
2005	4,056	70,989,311	15,785,000	2,006,698	13,778,302	19.41%	3,397
2006	4,056	75,974,983	16,600,000	2,100,478	14,499,522	19.08%	3,575
2007	4,056	82,596,722	17,455,000	2,530,271	14,924,729	18.07%	3,680
2008	4,056	89,340,557	18,575,000	2,717,154	15,857,846	17.75%	3,910
2009	4,056	96,170,562	19,635,000	2,713,515	16,921,485	17.60%	4,172
2010	4,056	104,020,864	17,950,000	409,167	17,540,833	16.86%	4,325
2011	3,710	113,357,714	21,080,000	456,581	20,623,419	18.19%	5,559

Note: Details regarding the city's outstanding debt can be found in the notes to the financial statements.

(1) Represents outstanding general obligation bonds financed through ad valorem and sales tax.

CITY OF NICHOLS HILLS, OKLAHOMA
COMPUTATION OF DIRECT AND OVERLAPPING DEBT
 June 30, 2011
 TABLE 14

<u>Jurisdiction</u>	<u>Net (1) Debt Outstanding</u>	<u>Percentage (2) Applicable to City of Nichols Hills</u>	<u>Amount Applicable to City of Nichols Hills</u>
City of Nichols Hills	\$21,080,000	100.00%	\$21,080,000

(1) Gross general bonded debt outstanding less debt service reserves.

(2) Determined by ratio of assessed valuation of property subject to taxation in overlapping unit to valuation of property subject to taxation in the City of Nichols Hills.

Note: Other than the direct debt of the City of Nichols Hills, there is no overlapping debt of other jurisdictions.

CITY OF NICHOLS HILLS, OKLAHOMA
LEGAL DEBT MARGIN INFORMATION
 Last seven Fiscal Years
TABLE 15

	Fiscal Year						
	2005	2006	2007	2008	2009	2010	2011
Debt limit	\$ 7,096,931	\$ 7,597,498	\$ 8,259,672	\$ 8,934,056	\$ 9,617,056	\$ 10,402,086	\$ 11,335,771
Total net debt applicable to limit	<u>150,000</u>	<u>150,000</u>	<u>150,000</u>	<u>137,700</u>	<u>125,400</u>	<u>950,800</u>	<u>938,500</u>
Legal debt margin	<u>\$ 6,946,931</u>	<u>\$ 7,447,498</u>	<u>\$ 8,109,672</u>	<u>\$ 8,796,356</u>	<u>\$ 9,491,656</u>	<u>\$ 9,451,286</u>	<u>\$ 10,397,271</u>
Total net debt applicable to the limit as a percentage of debt limit	2.11%	1.97%	1.82%	1.54%	1.30%	9.14%	8.28%

Legal Debt Margin Calculation for Fiscal Year 2011	
Net assessed valuation	\$ 113,357,714
Debt limit (10% of total assessed value)	11,335,771
Debt applicable to limit:	
General obligation bonds	21,080,000
Less: Street and public utility bonds outstanding	<u>(20,141,500)</u>
Total net debt applicable to limit	<u>938,500</u>
Legal debt margin	<u>\$ 10,397,271</u>

Note: Article 10, Section 26 of the Constitution of the State of Oklahoma limits municipal debt to 10% of net assessed valuation.
 Article 10, Section 27 of the Constitution of the State of Oklahoma limits municipal debt to non-utility or non-streel purposes.

Note: Ten years of information as required by generally accepted accounting principles is not available at this time.

CITY OF NICHOLS HILLS, OKLAHOMA
MUNICIPAL AUTHORITY
PLEDGED REVENUE COVERAGE
Last Ten Fiscal Years
TABLE 16

Fiscal Year	Gross Revenues	Direct Operating Expenses	Net Revenue Available for		Maximum Annual Debt Service (1)	Debt Service Coverage
			Debt Service	Debt Service		
2002	2,264,212	1,148,460	1,115,752	249,230	4.48	
2003	2,064,579	1,074,803	989,776	249,230	3.97	
2004	2,265,901	1,477,695	788,206	249,230	3.16	
2005	2,155,594	1,153,590	1,002,004	249,230	4.02	
2006	3,027,843	1,293,512	1,734,331	249,230	6.96	
2007	2,637,702	1,369,987	1,267,715	249,230	5.09	
2008	2,764,660	1,286,620	1,478,040	249,230	5.93	
2009	2,655,600	1,275,427	1,380,173	249,230	5.54	
2010	2,430,516	1,426,155	1,004,361	249,230	4.03	
2011	3,630,725	1,478,840	2,151,885	249,230	8.63	

(1) Maximum annual debt service includes principal, interest and fee payments to fiscal agents for promissory note payable secured by or for which debt service is paid from trust revenues.

CITY OF NICHOLS HILLS, OKLAHOMA
BUILDING PERMITS AND CONSTRUCTION
 Last Ten Calendar Years
TABLE 17

Calendar Year	Number of Building Permits	Construction Values			Estimated Actual Value of Taxable Property
		Residential	Commercial	Total	
2002	113	11,368,655	2,889,597	14,258,252	555,872,745
2003	204	8,882,752	2,914,597	11,797,349	590,659,191
2004	175	15,944,260	55,000	15,999,260	623,023,300
2005	174	7,309,951	116,000	7,425,951	656,330,100
2006	159	14,832,016	1,155,656	15,987,672	701,636,209
2007	148	19,592,037	-	19,592,037	762,966,109
2008	153	27,824,574	-	27,824,574	824,870,727
2009	123	17,347,175	300,100.00	17,647,275	886,645,709
2010	110	13,487,136	63,400.00	13,550,536	957,904,164
2011	133	12,358,584	1,177,000.00	13,535,584	956,847,189

CITY OF NICHOLS HILLS, OKLAHOMA
DEMOGRAPHIC AND ECONOMIC STATISTICS
 Last Ten Calendar Years
TABLE 18

<u>Year</u>	<u>Population (1)</u>	<u>Median Age of Population (2)</u>	<u>School Enrollment (3) (in thousands)</u>	<u>Unemployment Rate (4)</u>
2002	4,010	44.2	41	4.2%
2003	4,040	44.2	40	4.0%
2004	4,030	44.2	38	5.3%
2005	4,056	44.2	37	4.5%
2006	4,056	44.2	35	4.1%
2007	4,056	44.2	35	4.1%
2008	4,056	44.2	35	4.1%
2009	4,083	44.2	35	4.1%
2010	4,099	44.2	41	6.9%
2011	3,710	49.8	43	6.9%

Sources:

(1) From U.S. Census Data and INCOG

(2) ODOC per 2000 Census

(3) Oklahoma City Public School District Enrollment

(4) Oklahoma Employment Security Commission, for the Oklahoma City metropolitan area

Note: Personal income and income per capita is not available for Nichols Hills area only.

**CITY OF NICHOLS HILLS, OKLAHOMA
PRINCIPAL EMPLOYERS
CURRENT YEAR
TABLE 19**

2011

<u>Employer</u>	<u>Product/Business</u>	<u>Rank</u>	<u>Employees</u>
Oklahoma City Golf & Country Club	Private Club	1	197
City of Nichols Hills	Municipal Government	2	68
Christ the King School & Church	Private School	3	42
Mamasita's Restaurant	Restaurant	4	29
Cool Greens	Restaurant	5	25
Coach House Restaurant	Restaurant	6	22
Crescent Market	Grocery	7	20
Saturn Grill	Restaurant	8	18
Starbucks	Restaurant	9	12
Gil's Inc.	Retail	10	12
Totals			<u>445</u>

Note: Nine Years Ago information as required by generally accepted accounting principles is not available at this time.

CITY OF NICHOLS HILLS, OKLAHOMA
Capital Asset Statistics by Function/Program
Last Six Fiscal Years
TABLE 20

<u>Function/Program</u>	<u>Fiscal Year</u> <u>2006</u>	<u>Fiscal Year</u> <u>2007</u>	<u>Fiscal Year</u> <u>2008</u>	<u>Fiscal Year</u> <u>2009</u>	<u>Fiscal Year</u> <u>2010</u>	<u>Fiscal Year</u> <u>2011</u>
General Government						
Buildings	1	1	1	1	1	1
Police						
Stations	1	1	1	1	1	1
Patrol units	4	4	4	4	4	4
Unmarked Units						
Motorcycles	1	1	0	0	0	0
Fire						
Stations	1	1	1	1	1	1
Trucks	2	2	2	2	2	2
Streets						
Street miles	29	29	29	29	29	29
Traffic signals	1	1	1	1	1	1
Parks and recreation						
Parks	34	34	34	34	34	34
Playgrounds	2	2	2	2	2	2
Baseball/softball diamonds	2	2	2	2	2	2
Soccer/football fields	1	1	1	1	1	1
Water						
Water mains (miles)	31	31	31	31	31	31
Fire hydrants	236	236	236	236	236	236
Storage capacity	5,500,000	5,500,000	5,500,000	5,500,000	5,000,000	9,000,000
Wastewater						
Sanitary sewers (miles)	52	52	52	52	52	52

Note: Similar information for years prior to 2006 is not readily available. This table will be expanded to ultimately include ten fiscal years, starting with 2006.

CITY OF NICHOLS HILLS, OKLAHOMA
Full-Time Equivalent City Government Employees by Function/Program
Last Six Fiscal Years
TABLE 21

<u>Function/Program</u>	<u>Fiscal Year</u> <u>2006</u>	<u>Fiscal Year</u> <u>2007</u>	<u>Fiscal Year</u> <u>2008</u>	<u>Fiscal Year</u> <u>2009</u>	<u>Fiscal Year</u> <u>2010</u>	<u>Fiscal Year</u> <u>2011</u>
General Government:						
City clerk	1	1	1	1	1	1
City treasurer	-	-	-	-	-	-
General government	6	6	6	6	5	5
Total General Government	7	7	7	7	6	6
Public Safety and Judiciary:						
City attorney	1	1	1	1	1	1
Police	21	21	21	21	21	21
Municipal court	2	2	2	2	2	2
Fire	14	14	14	14	14	14
Total Public Safety and Judiciary	38	38	38	38	38	38
Transportation:						
Streets	2	2	2	2	2	2
Total Transportation	2	2	2	2	2	2
Cultural, Parks and Recreation:						
Parks	2	2	2	2	2	2
Total Cultural, Parks and Recreation	2	2	2	2	2	2
Public Works:						
Water and Sewer	11	11	11	10	10	10
Sanitation				9	9	9
Building and Code	2	2	2	2	2	2
Total Public Works	13	13	13	21	21	21

Note: Similar information for years prior to 2006 is not readily available. This table will be expanded to ultimately include ten fiscal years, starting with 2006.

CITY OF NICHOLS HILLS, OKLAHOMA
Operating Indicators By Function/Program
Last Six Fiscal Years
TABLE 22

Function/Program	2006	2007	2008	2009	2010	2011
Public Safety						
Police						
Number of Violations (Citations)	3,249	2,902	3,288	3,094	2,985	2,508
Fire						
Call Responses	613	678	633	444	438	589
Highways and Streets						
Asphalt Repairs (tons)	30	130	336	42	846	116
Culture and Recreation						
Acreage	40	40	40	40	40	40
Water and Wastewater Operations						
Number of Water Consumers	1,869	1,878	1,844	1,863	1,871	1,870
Average Daily Water Consumption						
(millions of gallons)	1.5	1.4	1.4	1.4	1.5	1.6
Number of Sewer Consumers	1,850	1,855	1,844	1,844	1,851	1,849
Solid Waste Operations						
Refuse collected (cubic yards per day)	30	25	21.5	25.0	25.0	22.0
Active Refuse Accounts	1,877	1,891	1,953	1,954	1,879	1,828

Source: City Departments

Note: Similar information for years prior to 2006 is not readily available. This table will be expanded to ultimately include ten fiscal years, starting with 2006.



**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
City of Nichols Hills, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Nichols Hills, 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 27, 2011. 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

Management of the City is responsible for establishing and maintaining effective 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 City'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*.

This report is intended solely for the information and use of the governing body, 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 27, 2011