

City of
Frederick, Oklahoma



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

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

THE CITY OF FREDERICK, OKLAHOMA

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

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

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

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Frederick, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of City of Frederick, Oklahoma (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2013, 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 and budgetary comparison information, 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 regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Arledge & Associates, P.C.

Edmond, Oklahoma
August 9, 2013

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

The management of the City of Frederick is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2011. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net assets increased by \$1,027,215, and the assets of the City exceed its liabilities at June 30, 2011, by \$1,382,929. Of this amount, \$257,182 were considered to be unrestricted net assets.
- At June 30, 2011, the City's governmental funds reported a combined ending fund balance on a modified cash basis of (\$1,320,201).
- At the end of fiscal year 2011, the unassigned fund balance (deficit) on a modified cash basis for the General Fund was (\$1,122,676) or 65.6% of General Fund revenues.

ABOUT THE CITY

The City of Frederick is a Council/Manager form of government with a population of approximately 4,600 located in Tillman County in southwestern Oklahoma. The City is governed by a five-member council and operates under state law and City ordinances through the three branches of democratic government.

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

The City provides typical municipal services such as public safety, street and alley maintenance, parks and recreation, streets, cemetery, electric, water, sewer, sanitation and economic development services.

The City's Financial Reporting Entity

This annual report includes all activities for which the City Council is financially accountable. These activities, defined as the City's financial reporting entity, are operated within separate legal entities.

The City's financial reporting entity includes the following separate legal entities.

- **The City of Frederick** – that operates the public safety, street and alley maintenance, parks and recreation, and cemetery services

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- **The Frederick Public Works Authority (FPWA)** – public trust created August 18, 1969, pursuant to 60 O.S. § 176 that operates the electric, water, sewer, and sanitation services of the City
- **The Frederick Economic Development Authority (FEDA)** – public trust created November 3, 1986, pursuant to 60 O.S. § 176 that operates the economic development services of the City

For the above public trusts, the City of Frederick is the beneficiary of the trust and the entire City Council serves as the governing body of the trusts. In addition, as required by state law, all debt obligations incurred by the trust must be approved by two-thirds vote of the City Council. This is considered sufficient imposition of will to include the trust within the City's financial reporting entity. These public trusts do not issue separate annual financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the primary government presented herein include all of the activities of the City of Frederick (the "City"), the Frederick Public Works Authority (the "FPWA"), and the Frederick Economic Development Authority (the "FEDA"). Included in this report are government-wide statements for each of the 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 modified cash basis of accounting. They present governmental activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

The Statement of Net Assets and Statement of Activities

One of the most important questions to ask about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base, the condition of the City's roads, and quality of service to assess the overall health of the City. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those City assets and liabilities resulting from cash transactions with selected modifications.

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

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City's electric, water, sewer, and sanitation utilities are reported as business-type activities. Also included in business-type activities are certain limited recreation activities.

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

Fund Financial Statements

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

Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting and current financial resources measurement focus that is different from other funds. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Proprietary funds - When the City, through the Public Works Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. The City's proprietary funds are the Frederick Public Works Authority that accounts for the operation of the electric, water, sewer, and sanitation activities and the Frederick Economic Development Authority that operates the economic development of the City.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 24-41 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund, federal and state award schedules, and combining financial schedules.

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

THE CITY AS A WHOLE

For the year ended June 30, 2011, net assets on a modified cash basis for the governmental and business-type activities increased \$1,027,215.

Following is a summary of net assets reported on a modified cash basis for the City of Frederick primary government.

Net Assets (Modified Cash Basis)
June 30, 2011

TABLE 1
NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Current assets	\$ (887)	\$ (424)	-109%	\$ 2,984	\$ 2,061	45%	\$ 2,097	\$ 1,637	28%
Total assets	<u>(887)</u>	<u>(424)</u>	-109%	<u>2,984</u>	<u>2,061</u>	45%	<u>2,097</u>	<u>1,637</u>	28%
Current liabilities	433	717	-40%	281	564	-50%	714	1,281	-44%
Total liabilities	<u>433</u>	<u>717</u>	-40%	<u>281</u>	<u>564</u>	-50%	<u>714</u>	<u>1,281</u>	-44%
Net assets									
Restricted	575	147	291%	551	554	-1%	1,126	701	61%
Unrestricted	(1,895)	(1,288)	-47%	2,152	943	128%	257	(345)	174%
Total net assets	<u>\$ (1,320)</u>	<u>\$ (1,141)</u>	-16%	<u>\$ 2,703</u>	<u>\$ 1,497</u>	81%	<u>\$ 1,383</u>	<u>\$ 356</u>	288%

A portion of the City's net assets, \$1,125,747, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets is \$257,182.

The current assets of the governmental activities decreased approximately \$463,000 due to the reclassification of interfund balances as transfers because they are considered to be uncollectible. Current liabilities decreased approximately \$284,000 from a decrease in the cash overdraft from prior year.

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

TABLE 2
CHANGES IN NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2009	
Revenues									
Charges for services	\$ 559	\$ 378	48%	\$ 8,463	\$ 7,604	11%	\$ 9,022	\$ 7,982	13%
Operating grants and contributions	59	56	5%	7	1	-	66	57	16%
Capital grants and contributions	54	128	-58%	4,260	770	453%	4,314	898	380%
Taxes	959	1,190	-19%	-	-	-	959	1,190	-19%
Intergovernmental revenue	64	65	-2%	-	-	-	64	65	-2%
Investment income	5	3	67%	4	4	0%	9	7	29%
Miscellaneous	72	134	-46%	34	32	6%	106	166	-36%
Total revenues	1,772	1,954	-9%	12,768	8,411	52%	14,540	10,365	40%
Expenses									
General government	134	132	2%	-	-	-	134	132	2%
Public safety	1,521	1,327	15%	-	-	-	1,521	1,327	15%
Highway and streets	476	503	-5%	-	-	-	476	503	-5%
Culture and recreation	126	129	-2%	-	-	-	126	129	-2%
Cemetery	112	96	17%	-	-	-	112	96	17%
Airport	189	202	-6%	-	-	-	189	202	-6%
Administration	-	-	-	741	740	0%	741	740	0%
Electric	-	-	-	3,650	3,526	4%	3,650	3,526	4%
Water	-	-	-	5,304	1,699	212%	5,304	1,699	212%
Sewer	-	-	-	182	163	12%	182	163	12%
Sanitation	-	-	-	511	537	-5%	511	537	-5%
Lake	-	-	-	121	105	15%	121	105	15%
Swimming pool	-	-	-	32	34	-6%	32	34	-6%
Economic development	-	-	-	185	530	-65%	185	530	-65%
Sales tax payments to hospital	229	295	-22%	-	-	-	229	295	-22%
Total expenses	2,787	2,684	4%	10,726	7,334	46%	13,513	10,018	35%
Excess (deficiency) before transfers	(1,015)	(730)	-39%	2,042	1,077	90%	1,027	347	196%
Transfers	836	(372)	325%	(836)	372	-325%	-	-	-
Change in net assets	(179)	(1,102)	84%	1,206	1,449	-17%	1,027	347	196%
Beginning net assets	(1,141)	(39)	-2826%	1,497	48	3019%	356	9	3856%
Ending net assets	\$ (1,320)	\$ (1,141)	-16%	\$ 2,703	\$ 1,497	81%	\$ 1,383	\$ 356	288%

Governmental Activities

The City's governmental activities had a decrease in net assets of \$178,830. The decrease is due in part to a decrease in tax revenue and grant revenue from the prior year.

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

TABLE 3
Net Revenue (Expense) of Governmental Activities
(In Thousands)

	<u>Total Expense of Services</u>		<u>% Inc. (Dec.)</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. (Dec.)</u>
	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>	
General government	\$ 134	\$ 132	2%	\$ (80)	\$ (5)	-1500%
Public safety	1,521	1,327	15%	(1,482)	(1,296)	-14%
Highways and streets	476	503	-5%	(435)	(462)	6%
Culture, parks and recreation	126	129	-2%	(111)	(115)	3%
Cemetery	112	96	17%	(68)	(43)	-58%
Airport	189	202	-6%	291	94	210%
Sales tax payments to hospital	229	295	-22%	(229)	(295)	22%
Total	\$ 2,787	\$ 2,684	4%	\$ (2,114)	\$ (2,122)	0%

Business-type Activities

The business-type activities had an increase in net assets of \$1,206,045.

TABLE 4
Net Revenue (Expense) of Business-Type Activities
(In Thousands)

	<u>Total Expense of Services</u>		<u>% Inc. (Dec.)</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. (Dec.)</u>
	<u>2011</u>	<u>2010</u>		<u>2011</u>	<u>2010</u>	
Administration	\$ 741	\$ 740	0%	\$ (741)	\$ (740)	0%
Electric	3,650	3,526	4%	5,076	2,079	144%
Water	5,304	1,699	212%	(2,686)	(113)	2277%
Sewer	182	163	12%	240	95	153%
Sanitation	511	537	-5%	131	73	79%
Lake	121	105	15%	(110)	(89)	24%
Swimming pool	32	34	-6%	(24)	(26)	-8%
Economic development	185	530	-65%	118	(237)	-150%
Total	\$ 10,726	\$ 7,334	46%	\$ 2,004	\$ 1,042	92%

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2011 fiscal year, the governmental funds reported a combined fund balance (deficit) of (\$1,320,201). For the year ended June 30, 2011, the General Fund's total fund balance decreased by \$24,164 to a fund balance deficit of (\$423,767) or 24.7% of annual revenues.

The Frederick Public Works Authority Fund reported total net assets of \$2,703,130 which is an increase of 80.6% from the prior year.

Budgetary Highlights

For the year ended June 30, 2011, the General Fund reported actual budgetary basis revenues under final estimates by \$118,512 or a 4.8% unfavorable variance. General Fund actual expenditures were over final appropriations by \$192,464 or a 7.7% unfavorable variance.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

- The FY 2012 budget is consistent to the prior year.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate 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 200 W. Grand, Frederick, Oklahoma 73542-0399 or telephone at 580-335-7551.

**CITY OF FREDERICK, OKLAHOMA
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BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF FREDERICK, OKLAHOMA
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Statement of Net Assets (Modified Cash Basis) – June 30, 2011

	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 50	\$ 1,324,860	\$ 1,324,910
Investments	258,029	513,626	771,655
Internal balances	(1,145,103)	1,145,103	-
Due from employees	-	76	76
Total Assets	<u>(887,024)</u>	<u>2,983,665</u>	<u>2,096,641</u>
LIABILITIES			
Cash overdraft	414,355	-	414,355
Deposit liability	-	267,607	267,607
Due to employees	1,419	-	1,419
Due to other governments	17,403	12,928	30,331
Total Liabilities	<u>433,177</u>	<u>280,535</u>	<u>713,712</u>
NET ASSETS (DEFICIT)			
Restricted for:			
Airport	444,259	-	444,259
Cemetery	130,212	-	130,212
Debt service	-	282,945	282,945
Other purposes	-	268,331	268,331
Unrestricted (deficit)	(1,894,672)	2,151,854	257,182
Total Net Assets (Deficit)	<u>\$ (1,320,201)</u>	<u>\$ 2,703,130</u>	<u>\$ 1,382,929</u>

See accompanying notes to the basic financial statements.

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General Government	\$ 133,806	\$ -	\$ -	\$ 54,000	\$ (79,806)	\$ -	\$ (79,806)
Public Safety	1,520,794	30,496	7,953	-	(1,482,345)	-	(1,482,345)
Highways and Streets	475,900	-	40,457	-	(435,443)	-	(435,443)
Culture and Recreation	125,993	3,573	11,008	-	(111,412)	-	(111,412)
Cemetery	112,661	45,095	-	-	(67,566)	-	(67,566)
Airport	189,197	480,063	-	-	290,866	-	290,866
Sales Tax Payments to Hospital	228,769	-	-	-	(228,769)	-	(228,769)
Total governmental activities	2,787,120	559,227	59,418	54,000	(2,114,475)	-	(2,114,475)
Business-type activities:							
Administration	740,952	-	-	-	-	(740,952)	(740,952)
Electric	3,650,459	5,349,717	7,381	3,369,497	-	5,076,136	5,076,136
Water	5,303,684	1,727,337	-	890,266	-	(2,686,081)	(2,686,081)
Sewer	181,673	421,443	-	-	-	239,770	239,770
Sanitation	510,764	642,097	-	-	-	131,333	131,333
Lake	121,107	11,059	-	-	-	(110,048)	(110,048)
Swimming Pool	32,366	8,526	-	-	-	(23,840)	(23,840)
Economic Development	184,960	302,755	-	-	-	117,795	117,795
Total business-type activities	10,725,965	8,462,934	7,381	4,259,763	-	2,004,113	2,004,113
Total primary government	\$ 13,513,085	\$9,022,161	\$ 66,799	\$ 4,313,763	(2,114,475)	2,004,113	(110,362)
General revenues:							
Taxes:							
Sales and use tax					849,928	-	849,928
Franchise and public service taxes					108,536	-	108,536
Intergovernmental revenue not restricted to specific programs					64,248	-	64,248
Investment income					4,679	3,732	8,411
Miscellaneous					72,338	34,116	106,454
Transfers - Internal activity					835,916	(835,916)	-
Total general revenues and transfers					1,935,645	(798,068)	1,137,577
Change in net assets					(178,830)	1,206,045	1,027,215
Net assets (deficit) - beginning					(1,141,371)	1,497,085	355,714
Net assets (deficit) - ending					\$ (1,320,201)	\$ 2,703,130	\$1,382,929

See accompanying notes to the basic financial statements.

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

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2011

	General Fund	Capital Improvement Fund	Cemetery Trust Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 50	\$ -	\$ -	\$ 50
Investments	245,385	-	12,644	258,029
Due from other funds	516,385	-	117,944	634,329
Total Assets	\$ 761,820	\$ -	\$ 130,588	\$ 892,408
LIABILITIES AND FUND BALANCES				
Liabilities:				
Cash overdraft	\$ -	\$ 414,355	\$ -	\$ 414,355
Due to employees	1,419	-	-	1,419
Due to other governments	17,403	-	-	17,403
Due to other funds	1,166,765	612,667	-	1,779,432
Total Liabilities	1,185,587	1,027,022	-	2,212,609
Fund Balance (Deficit):				
Restricted for:				
Airport	444,259	-	-	444,259
Cemetery	-	-	130,212	130,212
Assigned to:				
Cemetery	22,222	-	376	22,598
Capital outlay	232,428	-	-	232,428
Unassigned (Deficit)	(1,122,676)	(1,027,022)	-	(2,149,698)
Total Fund Balance (Deficit)	(423,767)	(1,027,022)	130,588	(1,320,201)
Total Liabilities and Fund Balances	\$ 761,820	\$ -	\$ 130,588	\$ 892,408

See accompanying notes to the basic financial statements.

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

	General Fund	Capital Improvement Fund	Cemetery Trust Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 969,990	\$ -	\$ -	\$ 969,990
Intergovernmental	112,141	54,000	-	166,141
Charges for services	214,654	-	5,166	219,820
Fines and forfeitures	11,776	-	-	11,776
Investment income	4,265	38	376	4,679
Miscellaneous	399,655	300	13	399,968
Total Revenues	1,712,481	54,338	5,555	1,772,374
Expenditures:				
Current:				
General Government:				
Managerial	122,273	-	-	122,273
Public Safety:				
Police	693,431	-	-	693,431
Dispatchers	90,000	-	-	90,000
Fire	475,023	-	-	475,023
Emergency management	4,486	-	-	4,486
Highways and streets:				
Streets	226,756	-	-	226,756
Culture and Recreation				
Parks	35,319	-	-	35,319
Library	70,682	-	-	70,682
Airport	189,197	-	-	189,197
Cemetery	105,488	-	-	105,488
Capital outlay	59,188	155,755	-	214,943
Debt service:				
Principal	166,658	-	-	166,658
Interest	14,306	-	-	14,306
Total Expenditures	2,252,807	155,755	-	2,408,562
Excess (deficiency) of revenues over expenditures	(540,326)	(101,417)	5,555	(636,188)
Other Financing Sources (Uses):				
Sales tax payments to hospital	(228,769)	-	-	(228,769)
Transfers in	1,209,593	7,125	-	1,216,718
Transfers out	(464,662)	(65,929)	-	(530,591)
Total Other Financing Sources (Uses)	516,162	(58,804)	-	457,358
Net change in fund balances	(24,164)	(160,221)	5,555	(178,830)
Fund balances (deficit) - beginning	(399,603)	(866,801)	125,033	(1,141,371)
Fund balances (deficit) - ending	\$ (423,767)	\$ (1,027,022)	\$ 130,588	\$ (1,320,201)

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS -- PROPRIETARY FUNDS

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

	Frederick Public Works Authority	Frederick Economic Development Authority	Totals
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,900	\$ -	\$ 1,900
Restricted cash and cash equivalents	1,322,960	-	1,322,960
Restricted investments	395,180	118,446	513,626
Due from employee	76	-	76
Due from other funds	771,725	667,348	1,439,073
Total Assets	2,491,841	785,794	3,277,635
LIABILITIES			
Current Liabilities:			
Due to other governments	12,928	-	12,928
Due to other funds	206,284	87,686	293,970
Deposit liability	267,607	-	267,607
Total Liabilities	486,819	87,686	574,505
NET ASSETS			
Restricted for debt service	164,499	118,446	282,945
Restricted for other purposes	268,331	-	268,331
Unrestricted	1,572,192	579,662	2,151,854
Total Net Assets	\$ 2,005,022	\$ 698,108	\$ 2,703,130

See accompanying notes to the basic financial statements.

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

	Frederick Public Works Authority	Frederick Economic Development Authority	Totals
Operating Revenues:			
Charges for services:			
Water	\$ 1,705,321	\$ -	\$ 1,705,321
Sewer	416,071	-	416,071
Sanitation	633,913	-	633,913
Electric	5,281,531	-	5,281,531
Penalties	67,665	-	67,665
Lake fees	11,059	-	11,059
Swimming pool	8,526	-	8,526
Leases and rent	8,259	294,496	302,755
Other miscellaneous	36,093	-	36,093
Total Operating Revenues	<u>8,168,438</u>	<u>294,496</u>	<u>8,462,934</u>
Operating Expenses:			
Administrative	739,711	-	739,711
Water	759,638	-	759,638
Sewer	148,548	-	148,548
Sanitation	510,764	-	510,764
Electric	3,647,629	-	3,647,629
Lake	111,160	-	111,160
Swimming pool	32,366	-	32,366
Economic development	-	2,238	2,238
Total Operating Expenses	<u>5,949,816</u>	<u>2,238</u>	<u>5,952,054</u>
Operating Income	2,218,622	292,258	2,510,880
Non-Operating Revenues (Expenses):			
Investment income	1,933	1,799	3,732
Grant revenue	7,381	-	7,381
Miscellaneous	14,431	19,685	34,116
Bond proceeds	3,369,497	-	3,369,497
Capital outlay	(3,370,737)	-	(3,370,737)
Debt service:			
Principal retirement	(1,174,698)	(110,000)	(1,284,698)
Interest expense and fees	(195,543)	(72,722)	(268,265)
Total Non-Operating Revenues (Expenses)	<u>(1,347,736)</u>	<u>(161,238)</u>	<u>(1,508,974)</u>
Net Income Before Transfers	870,886	131,020	1,001,906
Contributed capital	890,266	-	890,266
Transfers in	294,698	248,015	542,713
Transfers out	(1,228,840)	-	(1,228,840)
Change in net assets	827,010	379,035	1,206,045
Total net assets - beginning	1,178,012	319,073	1,497,085
Total net assets - ending	<u>\$ 2,005,022</u>	<u>\$ 698,108</u>	<u>\$ 2,703,130</u>

See accompanying notes to the basic financial statements.

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

Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2011

	Frederick Public Works Authority	Frederick Economic Development Authority	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 8,168,438	\$ 294,496	\$ 8,462,934
Payments to suppliers	(4,780,483)	(2,238)	(4,782,721)
Payments to employees	(1,165,987)	-	(1,165,987)
Payments to other funds	(272,939)	(382,745)	(655,684)
Receipts of customer utility deposits	52,215	-	52,215
Refunds of customer utility deposits	(44,124)	-	(44,124)
Other receipts	21,812	19,685	41,497
Net Cash Provided by (Used in) Operating Activities	<u>1,978,932</u>	<u>(70,802)</u>	<u>1,908,130</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	294,698	248,015	542,713
Transfers to other funds	(1,228,840)	-	(1,228,840)
Net Cash Provided by Noncapital Financing Activities	<u>(934,142)</u>	<u>248,015</u>	<u>(686,127)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(3,370,737)	-	(3,370,737)
Principal paid on debt	(284,432)	(110,000)	(394,432)
Interest and fiscal agent fees paid on debt	(195,543)	(72,722)	(268,265)
Bond proceeds	3,369,497	-	3,369,497
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(481,215)</u>	<u>(182,722)</u>	<u>(663,937)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	1,933	1,799	3,732
Change in investments	(31,716)	3,710	(28,006)
Net Cash Provided by (Used in) Investing Activities	<u>(29,783)</u>	<u>5,509</u>	<u>(24,274)</u>
Net Increase in Cash and Cash Equivalents	533,792	-	533,792
Balance - beginning of the year	791,068	-	791,068
Balance - end of the year	<u>\$ 1,324,860</u>	<u>\$ -</u>	<u>\$ 1,324,860</u>
Reconciliation to Statement of Net Assets:			
Cash and cash equivalents	\$ 1,900	\$ -	\$ 1,900
Restricted cash and cash equivalents - current	1,322,960	-	1,322,960
Total cash and cash equivalents	<u>\$ 1,324,860</u>	<u>\$ -</u>	<u>\$ 1,324,860</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 2,218,622	\$ 292,258	\$ 2,510,880
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Other receipts	21,812	19,685	41,497
Change in assets and liabilities:			
Due from other funds	(273,385)	(382,745)	(656,130)
Due to other governments	3,346	-	3,346
Due to other funds	446	-	446
Deposit liability	8,091	-	8,091
Net cash provided by (used in) operating activities	<u>\$ 1,978,932</u>	<u>\$ (70,802)</u>	<u>\$ 1,908,130</u>

See accompanying notes to the basic financial statements.

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

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

- **The City of Frederick** – that operates the public safety, street and alley maintenance, parks and recreation, transportation and cemetery services, governed by the City Council
- **The Frederick Public Works Authority (FPWA)** – public trust created August 18, 1969, pursuant to 60 O.S. § 176 that operates the electric, water, sewer, and sanitation services of the City, governed by trustees comprised of the entire City Council
- **The Frederick Economic Development Authority (FEDA)** – public trust created November 3, 1986, pursuant to 60 O.S. § 176 that operates the economic development services of the City, governed by trustees comprised of the entire City Council

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

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

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net assets and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

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

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

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

- General government: Flex spending account employee contributions and capital grants
- Public safety: Fine revenue, dispatching and officer fees, operating and capital grants
- Highways and streets: Gas excise taxes, commercial vehicle taxes and capital grants
- Culture and recreation: Library fines, operating grants
- Cemetery: Lot sales, opening and closing fees
- Airport: Hanger rent, fuel sales, farming lease

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

Governmental Funds:

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

Major Funds:

- General Fund – The general fund is the general operating fund of the City. It is used to account for all financial resources except for those required to be accounted for in another fund.
- Capital Improvement Fund – Accounts for capital improvement activities.
- Cemetery Trust Fund – Accounts for 12.5% of cemetery revenue restricted by state law for cemetery capital improvements.

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

Proprietary Funds:

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

Enterprise Funds:

- Frederick Public Works Authority – accounts for the operation of the electric, water, sewer, and sanitation activities.

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- Frederick Economic Development Authority – accounts for the economic development of the City.

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

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

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three months or less, and money market accounts. Investments consist of long-term certificates of deposits, Goldman Sachs Financial Square Treasury Obligations, Federated Treasury Obligations, and Federal Home Loan Bank Mortgage Corporation Securities and are reported at cost.

D. Long-Term Debt

The City's long-term debt is not reported in the accompanying financial statements due to its modified cash basis of accounting. However, the City's long-term debt is disclosed in the commitment section of these notes and not recorded in the financial statements.

E. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due to employees upon termination is reported as a commitment in Note 8.

F. Fund Balances and Net Assets

Fund Balances:

Fund balances generally reported in the governmental funds financial statements are generally displayed in five components:

a. *Nonspendable* – includes amounts that cannot be spent because they are either (a) not in a 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 creditor, grantors, contributors, or laws and regulations of other governments, or (b) law through constitutional provisions or enabling legislation.

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H. Use of Estimates

Certain estimates are made in the preparation of the financial statements. Estimates are based on management's best judgments and may vary from actual results.

2. Deposits and Investments

For the year ended June 30, 2011, the City recognized \$8,411 of investment income.

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

<u>Primary Government:</u>	<u>Carrying</u>	
	<u>Value</u>	
Deposits:		
Demand deposits	\$ 810,125	
Time deposits	146,848	
		<u>Credit</u>
		<u>Rating</u>
Investments:		
Goldman Sachs Financial Square Treasury Obligations Fund	80,559	Aaa
Cavanal Hill Cash Management Fund	100,428	Aaa
Pinnacle Shares of Money Market Portion	1,048	*
Federated Treasury Obligations	367,298	Aaa
Federal Home Loan Bank Mortgage Corporation	175,904	Aaa
Total Deposits and Investments	\$ 1,682,210	
Reconciliation to Statement of Net Assets:		
Cash and cash equivalents	\$ 1,324,910	
Cash overdraft (See Note below)	(414,355)	
Investments	771,655	
	\$ 1,682,210	

* Credit rating not available at time of report.

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Cash Overdraft

The City's unrestricted cash balances were negative due to outstanding checks on the City's books.

Custodial Credit Risk

Exposure to custodial credit 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. The City's policy as it relates to custodial credit risk is to comply with state law and secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued interest thereon. Acceptable collateral is defined in state statutes and includes U.S. Treasury securities and direct debt obligations of municipalities, counties, and school districts in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. At June 30, 2011, the City had sufficient collateral pledged to cover its uninsured deposits.

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. Title 60 public trusts are not limited by the same investment limitations of their municipal beneficiary. The investments held by the Public Works Authority are part of the 2005 and 2006 revenue bond trustee accounts, which are covered and authorized under the said indentures and the utility deposits in the mutual securities account. The City's marketable investments at June 30, 2011 are listed in the table above.

Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity.

Concentration of Investment Credit Risk

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no investment policy regarding concentration of credit risk. At June 30, 2011, the City had no concentration of credit risk as defined above.

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Restricted Cash and Investments – The amounts reported as restricted assets on the proprietary fund statement of net assets are comprised of amounts restricted for debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2011 are as follows:

<u>Type of Restricted Assets</u>	<u>Current Cash and Cash Equivalents</u>	<u>Current Investments</u>
Utility Deposits	\$ 141,707	\$ 51,959
Water Surcharge	1,077,804	832
Sewer Surcharge	29	-
Lake & Recreation	-	68
Landfill Escrow	-	268,331
Sales Tax Reserve	-	7,927
2004 Bond Trust Accounts	-	118,446
Water Treatment Plant	-	4,983
1996 Revenue Bonds	100,429	-
2006 Bond Trust Accounts	2,991	61,080
	<u>\$ 1,322,960</u>	<u>\$ 513,626</u>
Total Restricted Assets		

3. Sales Tax Revenue

Sales tax revenue represents a 3.5 cent local tax on each dollar of taxable sales within the City, of which 1.5 cents is voter-restricted for debt service on FPWA and FEDA debt and 1 cent is voter-restricted for the hospital in accordance with City ordinances. All three and a half cents of the sales tax are received and recorded in the General Fund and then transferred to the FPWA and FEDA for debt service with the remaining unused portion transferred back to the General Fund, and one cent paid to the hospital.

4. Property Tax Levy

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

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5. Internal and Interfund Balances and Transfers

Interfund Balances:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
General Fund	FPWA	\$ 257,524	Sales tax received not yet transferred
General Fund	FPWA	428,399	Negative cash
General Fund	Cemetery Trust Fund	6,495	12.5% of lot sales and openings not yet transferred
General Fund	FEDA	272,434	Sales tax received not yet transferred
Capital Improvement Fund	General Fund	9,725	Water run-off expenditures paid on behalf of another fund
Capital Improvement Fund	General Fund	131,957	Negative cash
Capital Improvement Fund	FEDA	339,915	Negative cash
Capital Improvement Fund	General Fund	9,909	Negative cash
Capital Improvement Fund	Cemetery Trust Fund	79,399	Negative cash
Capital Improvement Fund	General Fund	11,071	Negative cash
Capital Improvement Fund	General Fund	1,549	Negative cash
Capital Improvement Fund	General Fund	29,141	Expenditures paid on behalf of another fund
FEDA	General Fund	4,500	Hanger Rent not yet transferred
FEDA	FPWA	83,186	Expenditures paid on behalf of another fund
General Fund	FPWA	2,615	Expenditures paid on behalf of another fund
General Fund	Recoveries Account	10,273	Expenditures paid on behalf of another fund
Recoveries Account	General Fund	189,026	Negative cash
FPWA	Cemetery Trust Fund	32,050	Repayment of use of restricted funds
FPWA	General Fund	53,675	Expenditures paid on behalf of another fund
FPWA	General Fund	10,550	Repayment of use of restricted funds
FPWA	General Fund	55,009	Expenditures paid on behalf of another fund
FPWA	FEDA	55,000	Lease revenue not yet transferred
		<u>\$ 2,073,402</u>	

Reconciliation to Statement of Net Assets:

	<u>Due From</u>	<u>Due To</u>	<u>Internal Balances</u>
Governmental	\$ 634,329	\$ (1,779,432)	\$ (1,145,103)
Business-Type	1,439,073	(293,970)	1,145,103
Total	<u>\$ 2,073,402</u>	<u>\$ (2,073,402)</u>	<u>\$ -</u>

Interfund Receivables/Payables and Negative Cash:

The City has chosen to report negative shares of multiple pooled cash bank accounts as interfund receivables and payables within the funds. However, if certain funds have shares of pooled cash that are restricted, the city has chosen to report those restricted amounts at their positive value. This allows for a more accurate reporting of negative shares of unrestricted cash. The City has also elected to report in their fund financial statements unrestricted cash and cash equivalents in a net amount, i.e. all negative shares of pooled cash have been netted with other positive cash in each individual fund. Those funds whose overall unrestricted cash and cash equivalents result in a net amount that is negative are reported as a liability entitled "cash overdraft".

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TABLE OF CASH AND CASH EQUIVALENTS COMBINATIONS

	Book Balance of Bank Accounts	Intrafund Netting	Reclassifications for Interfund Receivables/Payables	Reported Cash Balance
<i>Capital Improvements Fund:</i>				
Cash	(384,606)	423,755	(39,149)	-
Pooled Cash-Disbursement Fund	(2,428)	(1,353,043)	941,116	(414,355)
	(387,034)	(929,288)	901,967	(414,355)
<i>Cemetery Trust Fund:</i>				
Cash	23,794	-	(23,794)	-
Pooled Cash-Disbursement Fund	55,605	-	(55,605)	-
	79,399	-	(79,399)	-
<i>FEDA:</i>				
Cash	561,668	(203,283)	(358,385)	-
Pooled Cash-Disbursement Fund	(36,521)	18,051	18,470	-
	525,147	(185,232)	(339,915)	-
<i>FPWA:</i>				
<i>Unrestricted:</i>				
Petty cash	1,900	-	-	1,900
Pooled Cash-Disbursement Fund	(142,965)	142,965	-	-
Cash - FPWA	(1,318,958)	48,022	1,270,936	-
	(1,460,023)	190,987	1,270,936	1,900
<i>Restricted:</i>				
Cash - W&L Deposit Fund	119,910	21,797	-	141,707
Cash - Water Surcharge	1,077,804	-	-	1,077,804
Cash - Lake & Recreation	(31)	-	31	-
Cash - Series 2006 Reserve	2,991	-	-	2,991
Cash - WTP	(1,555,578)	1,558,724	(3,146)	-
1996 Revenue Bonds	116,963	(16,535)	-	100,428
	(237,941)	1,563,986	(3,115)	1,322,930
<i>Flexible Spending Account:</i>				
Cash	2,018	(469)	(1,549)	-
<i>General Fund:</i>				
Cash - Gen Fund	\$ (17,548)	\$ 21,566	\$ (4,018)	\$ -
Cash - Park Donation Fund	187	-	(187)	-
Cash - DUI Fund	5,172	1,694	(6,866)	-
Pooled Cash-Disbursement Fund	(360,631)	(256,794)	617,425	-
Petty Cash - Airport Account	50	-	-	50
Cash - Airport Account	161,732	(3,029)	(158,703)	-
Pooled Cash-Disburse - Airport	(21,908)	(4,839)	26,747	-
Cash - Cemetery Care Account	2,153	1	(2,154)	-
Pooled Cash-Disburse - CC	7,755	-	(7,755)	-
Cash - Recoveries Account	306,540	-	(306,540)	-
Pooled Cash-Disburse - Recoveries	(5,464)	(112,050)	117,514	-
	78,038	(353,451)	275,463	50
TOTALS	\$ (1,400,396)	\$ 286,533	\$ 2,024,388	\$ 910,525

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Transfers:

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

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Nature of Transfer</u>
General Fund	FEDA	\$ 228,769	Sales tax allocation
General Fund	FPWA	228,769	Sales tax allocation
FPWA	General Fund	1,209,593	Operating Subsidy
FPWA	FEDA	19,246	Operating Subsidy
Capital Improvement Fund	FPWA	65,929	Reimbursement of expenses
Airport Fund	CIF	7,125	Reimbursement of expenses
		\$ 1,759,431	

Reconciliation to Statement of Changes in Net Assets:

	<u>Transfers In</u>	<u>Transfers Out</u>	Reclass Business-Type Activity to	
			<u>Governmental</u>	<u>Net Transfers</u>
Governmental	\$ 1,216,718	\$ (530,591)	\$ 149,789	\$ 835,916
Business-Type	542,713	(1,228,840)	(149,789)	(835,916)
Total	\$ 1,759,431	\$ (1,759,431)	\$ -	\$ -

6. Risk Management

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

7. Pension Plan Participation

The City of Frederick participates in three pension or retirement plans:

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

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OFPRS

The City of Frederick, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS) as a result of the employment of full-time firefighters. The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, Section 22-102, the City must participate in the plan if they employ fulltime or volunteer firefighters. OFPRS plan members are required to contribute 8% to the plan. The City is required by state law to contribute 13% per year of covered payroll for paid firefighters. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. For 2011, the City's annual required contribution was \$33,704 for the OFPRS plan and was equal to the City's actual contribution.

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

OFPRS

4545 N. Lincoln Blvd., Suite 265
Oklahoma City, OK 73105-3414

OPPRS

The City of Frederick, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Police Pension and Retirement System (OPPRS). The OPPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ a certain number of fulltime police officers. The City is required by state law to contribute 13% of covered payroll per year for each police officer. Employees contribute 8% of covered payroll. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. For 2011, the City's annual required contribution was \$41,542 for the OPPRS plan and was equal to the City's actual contribution.

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

OPPRS

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

Fiscal Year	OFPRS		OPPRS	
	Required Contribution	Amount Contributed	Required Contribution	Amount Contributed
2009	33,052	100%	38,364	100%
2010	33,703	100%	40,556	100%
2011	33,704	100%	41,542	100%

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OMRF Defined Benefit Plan

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

The OMRF plan has annual actuarial valuations that determine the actuarially required contribution. For the year ended June 30, 2011, such required contributions were 16.60 percent of covered payroll, of which 12.45 percent and 4.15 percent were the required contributions by the employer and employee respectively. For the year ended June 30, 2011, contributions to the plan amounted to \$165,728 which was more than the actuarially required contribution.

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

Provision	OMRF Plan
a. Eligible to Participate	Full-time, non-uniformed employees of the City
b. Contribution Requirements:	
-Authorization	By City ordinance
-Actuarially Determined	Yes
-Employer Rate	12.45% of covered payroll
-Employee Rate	4.15% of covered payroll
c. Period Required to Vest	10 years of credited service
d. Eligibility for Distribution	-Normal retirement at age 65 with 10 years of vesting service -Early retirement at age 55 with 10 or more years of vesting service -Disability retirement with 10 or more years of vesting service -Marital death benefit with 10 or more years of vesting service
e. Benefit Determination Base	Final average compensation - the average of the five highest consecutive annual salaries out of the last 10 calendar years of service
f. Benefit Determination Methods:	
-Normal Retirement	2.25% of final average salary multiplied by credited years of service
-Early Retirement	The accrued benefit payable starting at normal retirement age, or the accrued benefit reduced 5% per year for commencement prior to normal retirement age
-Disability Retirement	Same as normal retirement
-Death Benefit	50% of employee's accrued benefit, but terminates upon spouse remarriage
-Prior to 10 Years Service	Return of employee contributions with accrued interest
g. Form of Benefit Payments	Normal form is a 5 years certain and life thereafter basis. Employee may elect, with City consent, optional form based on actuarial equivalent.

The City's actuarially determined required contribution rate is 16.60% of covered payroll. The City funded 17.4% of covered payroll in the amount of \$165,728.

8. Commitments and Contingencies

Long-term Debt Commitments:

Governmental activities had the following long-term debt-related commitments outstanding for June 30, 2011:

Lease Agreements with Non-Appropriation Provisions:

\$115,362 lease agreement with the Bank of Commerce & Trust Co. for four police vehicles, payable in annual installments of \$40,456, final payment due May 2013 of \$40,456	74,906
\$45,500 lease agreement with C.L. Boyd Company for a John Deere Backhoe, payable in monthly installments of \$570, final payment due November 2011	31,728
\$83,800 lease agreement with John Deere Credit for a John Deere Backhoe, payable in monthly installments of \$1,329, final payment due February 2013 of \$43,000	<u>65,021</u>
Total Lease Agreements	<u>\$171,655</u>

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

Frederick Public Works Authority:

Notes Payable:

\$4,500,000 note payable to the Oklahoma Water Resources Board dated February 1, 2009, secured by capital assets, interest rate of 2.58%, final payment due March 15, 2031	\$2,739,319
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Capital Lease Obligations:

\$67,590 capital lease obligation for a 2011 John Deere backhoe, payable in monthly installments of \$1,198, interest rate of 3.59%, final payment of \$29,900 due January 2013.	\$50,255
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Revenue Bonds:

Mountain Park Master Conservancy District Taxable Revenue Bonds, Series 2005, original issue amount of \$14,955,000, dated June 1, 2005, issued by Frederick Public Works Authority, secured by gross utility revenues, interest rates varying from 6.10% to 7.25%, final payment due January 1, 2026. The City's proportionate share is 16.9%.	\$2,048,280
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**CITY OF FREDERICK, OKLAHOMA
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Frederick Public Works Authority Sales Taxable Revenue Note, Series 2006, original issue amount of \$1,865,000, dated April 1, 2006, issued by BancFirst, secured by pledged sales tax, interest rate of 4.48%, final payment due April 1, 2016.	<u>1,035,000</u>
Total Revenue Bonds Payable	<u>\$3,083,280</u>

Frederick Economic Development Authority:

Note Payable:

Frederick Economic Development Authority CDBG-ED Promissory Note, original issue amount of \$400,000, dated January 1, 2005, interest rate of 0%, final payment due December 1, 2024.	<u>\$270,000</u>
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Revenue Bonds:

Frederick Economic Development Authority Taxable Revenue Note, original issue amount of \$2,765,000, dated March 11, 2004, interest rate of 6.625%, final payment due January 1, 2019.	<u>\$1,000,000</u>
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Year Ended June 30,	Notes Payable		Revenue Bonds Payable	
	Principal	Interest	Principal	Interest
2012	\$ 20,000	\$ -	\$ 382,175	\$ 212,564
2013	20,000	-	395,555	193,220
2014	20,000	-	430,625	172,844
2015	20,000	-	444,850	150,687
2016	20,000	-	470,765	127,609
2017-2021	100,000	-	1,112,620	380,163
2022-2026	70,000	-	846,690	134,676
Total	\$ 270,000	\$ -	\$4,083,280	\$1,371,763

Pledge of Future Revenues

Utility Net Revenues Pledge – The City has pledged future net water revenues to repay \$14,955,000 of the Mountain Park Master Conservancy District Taxable Revenue Bonds, Series 2005. Proceeds from the note provided financing for utility system capital assets. The note is payable through 2026. The total principal and interest payable for the remainder of the life of these bonds is \$2,981,593. The note is payable from the above-mentioned utility net revenues. The debt service payment on the bonds this year was \$199,769 which was 23.7% of pledged net utility revenues of \$841,362.

The City has also pledged future net water revenues to repay the \$4,500,000 Oklahoma Water Resources Board note. Proceeds from the note provided financing for utility system capital assets. The note is payable through 2031. The note has not been fully advanced as of June 30, 2011. The note is payable from the above-mentioned utility net revenues. The debt service payment on the bonds this year was \$916,586, which was 109% of pledged net utility revenues of \$841,362.

**CITY OF FREDERICK, OKLAHOMA
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Sales Tax Pledge - The City has pledged 1.5 cents (or 43%) of future sales tax revenues to repay the \$1,865,000 Series 2006 Frederick Public Works Authority Sales Taxable Revenue Note. Proceeds from the notes provided for the purchase or construction of capital assets. The note is payable from pledged sales tax revenues. The notes are payable through 2016. The total principal and interest payable for the remainder of the life of the note is \$1,166,712. Pledged sales taxes received in the current year were \$228,769. Debt service payments of \$232,416 for the current fiscal year were 102% of pledged sales taxes.

Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation, sick and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2011 is \$196,139.

Litigation:

The City and its public trusts are parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a Sinking Fund for the payment of any court assessed judgment rendered against the City. (This provision is not available to public trusts.) While the outcome of the above noted proceedings or threatened litigation cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Federal and State Award Programs:

The City of Frederick participates in various federal or state grant/loan programs from year to year. In 2011, the City expended \$953,801 of federal awards and \$16,805 of state awards. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

9. Landfill Closure and Post-Closure Requirements

At June 30, 2011, the Frederick Public Works Authority had deposited \$268,331 for the closure and post-closure requirements dictated by the U.S. Environmental Protection Agency and the Oklahoma Department of Environmental Quality into a trust account established as the facility financial assurance mechanism. This amount represented the cumulative amount of such costs reported to date based on the use of approximately 68% of the estimated capacity of the landfill. It is estimated that an additional \$126,079 will be deposited to the trust account as closure and post-closure expense between the current balance sheet date and the date the landfill is expected to be filled to capacity. However, the actual cost of closure and post-closure may be higher due to inflation, changes in technology, or changes in landfill laws and regulation. The City expects to close the landfill in 2026. The estimated remaining landfill life is 15 years.

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

REQUIRED SUPPLEMENTARY INFORMATION

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

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

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ -	\$ -	\$ (807,061)	\$ (807,061)
Resources (Inflows):				
Taxes	955,000	914,000	969,990	55,990
Intergovernmental	66,625	50,000	102,313	52,313
Charges for services	90,000	225,742	62,222	(163,520)
Fines and Forfeitures	120,000	120,000	11,776	(108,224)
Licenses and Permits	40,000	40,000	-	(40,000)
Investment Income	100	-	1,675	1,675
Miscellaneous	10,000	9,500	23,161	13,661
Other Financing Sources - Transfers In	1,362,964	1,140,000	1,209,593	69,593
Total Resources	<u>2,644,689</u>	<u>2,499,242</u>	<u>2,380,730</u>	<u>(118,512)</u>
Amounts available for appropriation	<u>2,644,689</u>	<u>2,499,242</u>	<u>1,573,669</u>	<u>(925,573)</u>
Charges to Appropriations (Outflows):				
Managerial	338,500	321,855	105,264	216,591
Police	734,500	633,236	803,579	(170,343)
Dispatch	90,000	228,387	90,000	138,387
Fire	526,000	444,524	529,808	(85,284)
Streets	282,189	275,125	242,706	32,419
Parks	51,500	83,273	35,319	47,954
Library	88,000	91,344	81,910	9,434
Cemetery	99,500	78,998	112,328	(33,330)
Emergency Management	5,500	5,000	4,486	514
Other Financing Uses - Sales Tax Payments to Hospital	-	-	228,769	(228,769)
Other Financing Uses - Transfers Out	429,000	337,500	457,537	(120,037)
Total Charges to Appropriations	<u>2,644,689</u>	<u>2,499,242</u>	<u>2,691,706</u>	<u>(192,464)</u>
Ending Budgetary Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,118,037)</u>	<u>\$ (1,118,037)</u>

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

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Supplemental appropriations require City Council approval.
3. In the General Fund the City had negative variances in the following departments and for the following amounts:

General Fund – Police	(\$ 170,343)
General Fund – Fire	(\$ 85,284)
General Fund – Cemetery	(\$ 33,330)
General Fund – Sales tax payments to hospital	(\$ 228,769)
General Fund – Transfers out	(\$ 120,037)

4. For financial reporting purposes there was one fund added to the General Fund, but for budgetary comparison purposes, these funds are not included:

General Fund, Ending Budgetary fund balance	\$(1,118,037)
Flex Spending Account fund balance	<u>(4,639)</u>
	<u><u>\$(1,122,676)</u></u>

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

SUPPLEMENTARY INFORMATION

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

Combining Balance Sheet - General Fund Accounts (Modified Cash Basis) – June 30, 2011

	<u>General Fund</u>	<u>Airport Account</u>	<u>Cemetery Care Account</u>	<u>Recoveries Account</u>	<u>Total General Fund Accounts</u>
ASSETS					
Cash and cash equivalents	\$ -	\$ 50	\$ -	\$ -	\$ 50
Investments	604	243,018	1,763	-	245,385
Due from other funds	52,034	201,191	20,459	242,701	516,385
Total Assets	<u>\$ 52,638</u>	<u>\$ 444,259</u>	<u>\$ 22,222</u>	<u>\$ 242,701</u>	<u>\$ 761,820</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to employees	\$ 1,419	\$ -	\$ -	\$ -	\$ 1,419
Due to other governments	17,403	-	-	-	17,403
Due to other funds	1,156,492	-	-	10,273	1,166,765
Total Liabilities	<u>1,175,314</u>	<u>-</u>	<u>-</u>	<u>10,273</u>	<u>1,185,587</u>
Fund Balance (Deficit):					
Restricted for:					
Airport	-	444,259	-	-	444,259
Assigned to:					
Cemetery	-	-	22,222	-	22,222
Capital outlay	-	-	-	232,428	232,428
Unassigned	(1,122,676)	-	-	-	(1,122,676)
Total Fund Balance (Deficit)	<u>(1,122,676)</u>	<u>444,259</u>	<u>22,222</u>	<u>232,428</u>	<u>(423,767)</u>
Total Liabilities and Fund Balances	<u>\$ 52,638</u>	<u>\$ 444,259</u>	<u>\$ 22,222</u>	<u>\$ 242,701</u>	<u>\$ 761,820</u>

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

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – General Fund
Accounts (Modified Cash Basis) – Year Ended June 30, 2011

	General Fund	Airport Account	Cemetery Care Account	Recoveries Account	Total General Fund Accounts
Revenues:					
Taxes	\$ 969,990	\$ -	\$ -	\$ -	\$ 969,990
Intergovernmental	102,313	-	-	9,828	112,141
Charges for services	77,765	136,889	-	-	214,654
Fines and forfeitures	11,776	-	-	-	11,776
Investment income	1,675	2,534	56	-	4,265
Miscellaneous	23,161	343,174	34	33,286	399,655
Total Revenues	1,186,680	482,597	90	43,114	1,712,481
Expenditures:					
Current:					
General Government:					
Manerial	122,273	-	-	-	122,273
Public Safety:					
Police	693,431	-	-	-	693,431
Dispatchers	90,000	-	-	-	90,000
Fire	475,023	-	-	-	475,023
Emergency management	4,486	-	-	-	4,486
Highways and streets:					
Streets	226,756	-	-	-	226,756
Culture and Recreation					
Parks	35,319	-	-	-	35,319
Library	70,682	-	-	-	70,682
Airport	-	189,197	-	-	189,197
Cemetery	105,488	-	-	-	105,488
Capital outlay	17,987	-	-	41,201	59,188
Debt service:					
Principal	166,658	-	-	-	166,658
Interest	14,306	-	-	-	14,306
Total Expenditures	2,022,409	189,197	-	41,201	2,252,807
Excess (deficiency) of revenues over expend	(835,729)	293,400	90	1,913	(540,326)
Other Financing Sources (Uses):					
Sales tax payments to hospital	(228,769)	-	-	-	(228,769)
Transfers in	1,209,593	-	-	-	1,209,593
Transfers out	(457,537)	(7,125)	-	-	(464,662)
Total Other Financing Sources (Uses)	523,287	(7,125)	-	-	516,162
Net change in fund balances	(312,442)	286,275	90	1,913	(24,164)
Fund balance (deficit) - beginning	(810,234)	157,984	22,132	230,515	(399,603)
Fund balance (deficit) - ending	\$ (1,122,676)	\$ 444,259	\$ 22,222	\$ 232,428	\$ (423,767)

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

Schedule of Expenditures of State Awards (Modified Cash Basis) – Year Ended June 30, 2011

Federal/State Grantor/Pass through agency Grantor/Program Title	Grant #	Award Amount	Expenditures
STATE AWARDS:			
<u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u>			
Library State Aid	N/A	11,008	11,008
<u>OKLAHOMA DEPARTMENT OF CIVIL EMERGENCY MANAGEMENT:</u>			
Disaster Relief - Ice storm	N/A	1,399	1,399
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>			
Rural Fire Grant - Oklahoma Department of Agriculture	N/A	4,398	4,398
TOTAL STATE AWARDS		\$ 16,805	\$ 16,805

CITY OF FREDERICK, OKLAHOMA
SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES

June 30, 2011

CITY OF FREDERICK, OKLAHOMA

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

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

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Frederick, 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 August 9, 2013. Our report was a special report on the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described as findings 2011-1 and 2011-2 in the accompanying schedule of findings and questioned costs to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We considered the deficiency described as finding 2011-3 in the accompanying schedule of findings and questioned costs to be a significant deficiency.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described as findings 2011-1 and 2011-2 in the accompanying schedule of findings and questioned costs.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

Arledge & Associates, P.C.

Edmond, Oklahoma
August 9, 2013



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

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

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

Schedule of Expenditure of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the City as of and for the year ended June 30, 2011, and have issued our report thereon dated August 9, 2013, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling 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 basic financial statements taken as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Arledge & Associates, P.C.

Edmond, Oklahoma
August 9, 2013

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

Federal Grantor/Pass through agency Grantor/Program Title	CFDA Number	Grant #	Award Amount	Federal Expenditures
U.S. ENVIRONMENTAL PROTECTION AGENCY:				
Passed through Oklahoma Water Resources Board EPA Capitalization Grants for Drinking Water State Revolving Funds - ARRA	66.468	ORF-07-001-4-DW	\$ 1,366,246	\$ 890,266
U.S. DEPARTMENT OF JUSTICE				
Passed through Distrcit Attorney's Council Edward Byrne Memorial Justice Assistance Program - ARRA	16.803	2009-SU-B9-003	4,230	3,555
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed through Oklahoma Department of Commerce: Community Development Block Grants	14.228	CDBG-07	54,000	54,000
U.S. DEPARTMENT OF HOMELAND SECURITY:				
Passed through Oklahoma Department of Civil Emergency Mangement Disaster Grants - Public Assistance	97.036	PA-06-OK-1876-PW-00056(0)	5,039	5,039
Disaster Grants - Public Assistance	97.036	PA-06-OK-1876-PW-00198(0)	942	942
	Subtotal Department of Homeland Security		5,981	5,981
TOTAL FEDERAL AWARDS			\$ 1,430,457	\$ 953,802

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

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

Note 2. Summary of Significant Accounting Policies

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

CITY OF FREDERICK, OKLAHOMA

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

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? X yes no
Significant deficiency(ies) identified
not considered to be material weaknesses? X yes none reported

Noncompliance material to financial statements noted? X yes no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? yes X no
Reportable condition(s) identified
not considered to be material weakness(es)? yes X none reported

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

Any audit findings disclosed that are required
to be reported in accordance with
OMB Circular A-133, Section .510(a)? yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.468	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? yes X no

CITY OF FREDERICK, OKLAHOMA

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

SECTION II – FINANCIAL STATEMENT FINDINGS

Compliance Findings

2011-1 and 2011-2

Internal Control Findings

2011-1; 2011-2; and 2011-3

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

None

Internal Control Findings

None

**CITY OF FREDERICK, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

Finding 2011-1 – Deficit Fund Balances (Repeat Finding from Prior Year)

Criteria: Oklahoma State law prescribes that it shall be unlawful for any officer or employee to create or authorize creation of a deficit in any fund.

Condition: The following funds reported deficits at June 30, 2011:

<u>Fund</u>	<u>Amount</u>
General Fund	(423,767)
Capital Improvement Fund	(1,027,022)

Cause: Expenditures in recent years have exceeded available revenues.

Effect or Potential Effect: Funds have deficit balances at year end.

Recommendation: We recommend that the City adopt formal budgets that provide for a restoration of fund balance to acceptable amounts.

City's Response: In fiscal year 2013, the City hired a new employee who will monitor the budget and cash more closely on a day to day basis.

**CITY OF FREDERICK, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd)
Year Ended June 30, 2011**

Finding 2011-2 – Budget Overruns (Repeat Finding from Prior Year)

Criteria: Oklahoma State law prescribes that no encumbrances or expenditures may be authorized or made by an officer or employee which exceed the available appropriations for each object category within a department or fund.

Condition: Expenditures exceeded appropriations at the legal level of control as follows:

<u>Fund</u>	<u>Department/Function</u>	<u>Amount</u>
General Fund	Police	170,343
General Fund	Fire	85,284
General Fund	Cemetery	33,330
General Fund	Sales Tax Payments to Hospital	228,769
General Fund	Transfers Out	120,037

Cause: Monitoring during the year and particularly at year-end with related proposals to the City Council did not occur.

Effect or Potential Effect: Expenditures exceed appropriations at the legal level of control.

Recommendation: We recommend that the City adopt formal budget amendments, especially at or near year-end by department.

City's Response: The City plans to take a closer look into how the budget is monitored.

**CITY OF FREDERICK, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd)
Year Ended June 30, 2011**

Finding 11-3 – Cash Management (Repeat Finding from Prior Year)

Criteria: City funds should be managed in such a way as to avoid cash shortfalls and protect restricted funds.

Condition: The City's reported unrestricted pooled cash balances were a negative \$414,355 at June 30, 2011, which is presented as a liability in the statement of net assets. Although the net cash position has improved over the past few years, restricted funds should not be relied upon for day to day cash flow operations.

Cause: Expenditures in recent years have exceeded available revenues resulting in cash flow shortfalls.

Effect or Potential Effect: Restricted cash is used to prevent cash overdrafts.

Recommendation: We recommend that the City monitor cash balances closely to eliminate reliance on restricted sources.

City's Response: Cash accounts will be closely monitored to ensure that restricted funds are not used for daily operations.

**CITY OF FREDERICK, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2010**

Finding 2010-1

Criteria of Specific Requirement:

Compliance with State of Oklahoma laws and regulations

Finding:

Oklahoma State law prescribes that it shall be unlawful for any officer or employee to create or authorize creation of a deficit in any fund. The following funds reported deficits at June 30, 2010:

<u>Fund</u>	<u>Amount</u>
General Fund	(810,234)
Capital Improvement Fund	(866,801)

Recommendation:

We recommend that the City adopt formal budgets that provide for a restoration of fund balance to acceptable amounts.

City's Response:

The City plans to make quarterly adjustments to the adopted budget and monitor the revenues, as well as the expenses more closely, keeping the City from having a deficit in any fund.

Current Status:

See Finding 2011-1.

**CITY OF FREDERICK, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Cont'd)
Year Ended June 30, 2010**

Finding 2010-2

Criteria of Specific Requirement:

Compliance with State of Oklahoma laws and regulations

Finding:

Oklahoma State law prescribes that no encumbrances or expenditures may be authorized or made by an officer or employee which exceeds the available appropriations for each object category within a department or fund. Expenditures exceeded appropriations at the legal level of control as follows:

<u>Fund</u>	<u>Department/Function</u>	<u>Amount</u>
General Fund	Police	1,375
General Fund	Sales Tax Payments to Hospital	19,519

Recommendation:

We recommend that the City adopt formal budget amendments, especially at or near year-end by department.

City's Response:

The City will monitor the budget closer, as the payments to the hospital change with the Sales Tax received. End of Year budgets will be made.

Current Status:

See Finding 2011-2.

**CITY OF FREDERICK, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Cont'd)
Year Ended June 30, 2010**

Finding 2010-3

Criteria of Specific Requirement:

Cash Management

Finding:

The City's reported unrestricted pooled cash balances were a negative \$991,487 at June 30, 2010, which is presented as a liability in the statement of net assets. The reported net cash balance of \$94,169 at year end is due to netting unrestricted cash with restricted cash and cash equivalents of \$1,085,656. Although the net cash position has improved in the past two years, liabilities payable with restricted funds would not be able to be met if they became immediately due given the current net cash position. Restricted funds should not be relied upon for day to day cash flow operations.

Recommendation:

We recommend that the City monitor cash balances closely to eliminate reliance on restricted sources.

City's Response:

We plan to monitor more closely our day-to-day cash management, to ensure that restricted funds are not used for daily operations.

Current Status:

See Finding 2011-3.