

THE CITY OF FREDERICK, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

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CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

TABLE OF CONTENTS

| | Page |
|---|-------------|
| Independent Auditor’s Report on Financial Statements | 5-6 |
| Management’s Discussion and Analysis (Supplementary Information) | 7-13 |
| The Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Assets (Modified Cash Basis)..... | 15 |
| Statement of Activities (Modified Cash Basis)..... | 16 |
| Governmental Funds Financial Statements: | |
| Balance Sheet (Modified Cash Basis)..... | 18 |
| Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis)..... | 19 |
| Proprietary Funds Financial Statements: | |
| Statement of Net Assets (Modified Cash Basis) | 21 |
| Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis)..... | 22 |
| Statement of Cash Flows (Modified Cash Basis)..... | 23 |
| Footnotes to the Basic Financial Statements | 24-39 |
| Supplementary Information: | |
| Budgetary Comparison Information | |
| Budgetary Comparison Schedule (Modified Cash Basis) – General Fund..... | 41 |
| Footnotes to Budgetary Comparison Schedule..... | 42 |
| Combining General Fund Accounts Schedules | |
| Combining Balance Sheet (Modified Cash Basis)..... | 43 |
| Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (MCB)..... | 44 |
| State Awards Information | |
| Schedule of Expenditures of State Awards (Modified Cash Basis)..... | 45 |

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

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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 modified cash basis 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City, as of June 30, 2012, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis of Accounting

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

Other Matters – Supplementary and Other Information

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2014, 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.



Edmond, Oklahoma
July 11, 2014

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, 2012. 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 \$399,551, and the assets of the City exceed its liabilities at June 30, 2012, by \$1,782,480. Of this amount, (\$123,164) was considered to be an unrestricted net assets (deficit).
- At June 30, 2012, the City's governmental funds reported a combined ending fund balance deficit on a modified cash basis of (\$1,345,822).
- At the end of fiscal year 2012, the unassigned fund balance (deficit) on a modified cash basis for the General Fund was (\$1,552,968) or 92.3% of General Fund revenues.

ABOUT THE CITY

The City of Frederick is a Council/Manager form of government with a population of approximately 3,940 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

- **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 modified cash basis of accounting. They present governmental activities separately and combined. For governmental activities and business-type 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 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. 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 also reported on the modified cash basis of accounting. 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 24-40 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, a state award schedule, and combining financial schedules.

CITY OF FREDERICK, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

THE CITY AS A WHOLE

For the year ended June 30, 2012, net assets on a modified cash basis for the governmental and business-type activities increased \$399,551.

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, 2012

TABLE 1
NET ASSETS (In Thousands)

| | Governmental Activities | | % Inc. (Dec.) | Business-Type Activities | | % Inc. (Dec.) | Total | | % Inc. (Dec.) |
|--------------------------|----------------------------|-------------------|------------------|-----------------------------|-----------------|------------------|-----------------|-----------------|------------------|
| | 2012 | 2011 | | 2012 | 2011 | | 2012 | 2011 | |
| Current assets | \$ (1,183) | \$ (887) | -33% | \$ 3,574 | \$ 2,984 | 20% | \$ 2,391 | \$ 2,097 | 14% |
| Total assets | <u>(1,183)</u> | <u>(887)</u> | -33% | <u>3,574</u> | <u>2,984</u> | 20% | <u>2,391</u> | <u>2,097</u> | 14% |
| Current liabilities | 163 | 433 | -62% | 446 | 281 | 59% | 609 | 714 | -15% |
| Total liabilities | <u>163</u> | <u>433</u> | -62% | <u>446</u> | <u>281</u> | 59% | <u>609</u> | <u>714</u> | -15% |
| Net assets | | | | | | | | | |
| Restricted | 1,250 | 575 | 117% | 1,697 | 1,451 | 17% | 2,947 | 2,026 | 45% |
| Unrestricted | (2,596) | (1,895) | -37% | 1,431 | 1,252 | 14% | (1,165) | (643) | -81% |
| Total net assets | <u>\$ (1,346)</u> | <u>\$ (1,320)</u> | -2% | <u>\$ 3,128</u> | <u>\$ 2,703</u> | 16% | <u>\$ 1,782</u> | <u>\$ 1,383</u> | 29% |

A portion of the City's net assets, \$1,905,644, represents resources that are subject to external restrictions on how they may be used. The remaining balance creates an unrestricted net asset (deficit) of (\$123,164).

The current assets of the governmental activities decreased approximately \$296,000 due to the reclassification of interfund balances as transfers because they are considered to be uncollectible. Current liabilities decreased approximately \$270,000 due to a decrease in the cash overdraft from prior year.

CITY OF FREDERICK, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

Changes in Net Assets (Modified Cash Basis)
Year Ended June 30, 2012

TABLE 2
CHANGES IN NET ASSETS (In Thousands)

| | Governmental Activities | | % Inc. (Dec.) | Business-Type Activities | | % Inc. (Dec.) | Total | | % Inc. (Dec.) |
|--------------------------------------|-------------------------|-------------------|---------------|--------------------------|-----------------|---------------|-----------------|-----------------|---------------|
| | 2012 | 2011 | | 2012 | 2011 | | 2012 | 2011 | |
| Revenues | | | | | | | | | |
| Charges for services | \$ 530 | \$ 559 | -5% | \$ 8,895 | \$ 8,463 | 5% | \$ 9,425 | \$ 9,022 | 4% |
| Operating grants and contributions | 46 | 59 | -22% | - | 7 | - | 46 | 66 | -30% |
| Capital grants and contributions | 621 | 54 | 1050% | 109 | 4,260 | -97% | 730 | 4,314 | -83% |
| Taxes | 942 | 959 | -2% | - | - | - | 942 | 959 | -2% |
| Intergovernmental revenue | 53 | 64 | -17% | - | - | - | 53 | 64 | -17% |
| Investment income | 8 | 5 | 60% | 8 | 4 | 100% | 16 | 9 | 78% |
| Miscellaneous | 118 | 72 | 64% | 30 | 34 | -12% | 148 | 106 | 40% |
| Total revenues | 2,318 | 1,772 | 31% | 9,042 | 12,768 | -29% | 11,360 | 14,540 | -22% |
| Expenses | | | | | | | | | |
| General government | 167 | 134 | 25% | - | - | - | 167 | 134 | 25% |
| Public safety | 1,347 | 1,521 | -11% | - | - | - | 1,347 | 1,521 | -11% |
| Highway and streets | 481 | 476 | 1% | - | - | - | 481 | 476 | 1% |
| Culture and recreation | 115 | 126 | -9% | - | - | - | 115 | 126 | -9% |
| Cemetery | 132 | 112 | 18% | - | - | - | 132 | 112 | 18% |
| Airport | 807 | 189 | 327% | - | - | - | 807 | 189 | 327% |
| Administration | - | - | - | 649 | 741 | -12% | 649 | 741 | -12% |
| Electric | - | - | - | 3,874 | 3,650 | 6% | 3,874 | 3,650 | 6% |
| Water | - | - | - | 1,687 | 5,304 | -68% | 1,687 | 5,304 | -68% |
| Sewer | - | - | - | 550 | 182 | 202% | 550 | 182 | 202% |
| Sanitation | - | - | - | 570 | 511 | 12% | 570 | 511 | 12% |
| Lake | - | - | - | 105 | 121 | -13% | 105 | 121 | -13% |
| Swimming pool | - | - | - | 66 | 32 | 106% | 66 | 32 | 106% |
| Economic development | - | - | - | 186 | 185 | 1% | 186 | 185 | 1% |
| Sales tax payments to hospital | 225 | 229 | -2% | - | - | - | 225 | 229 | -2% |
| Total expenses | 3,274 | 2,787 | 17% | 7,687 | 10,726 | -28% | 10,961 | 13,513 | -19% |
| Excess (deficiency) before transfers | (956) | (1,015) | 6% | 1,355 | 2,042 | -34% | 399 | 1,027 | -61% |
| Transfers | 930 | 836 | -11% | (930) | (836) | 11% | - | - | - |
| Change in net assets | (26) | (179) | 85% | 425 | 1,206 | -65% | 399 | 1,027 | -61% |
| Beginning net assets | (1,320) | (1,141) | -16% | 2,703 | 1,497 | 81% | 1,383 | 356 | 288% |
| Ending net assets | \$ (1,346) | \$ (1,320) | -2% | \$ 3,128 | \$ 2,703 | 16% | \$ 1,782 | \$ 1,383 | 29% |

The City's capital grants and contributions for governmental activities increased approximately \$567,000 or 1,050% due to grants received for improvements to the City's airport. The Airport expenditures increased approximately \$618,000 or 327% due to the costs incurred for the airport improvements.

Capital grants and contributions for business-type activities decreased approximately \$4,151,000 or 97% from the prior year due to a grant received in the prior year for the repayment of debt incurred for a water department project that was not received in the current year. The water department expenses also decreased approximately \$3,617,000 or 68% as the water department construction project was completed. The sewer department expense increased approximately \$368,000 or 202% due to an increase of sewer department capital improvements of approximately \$364,000.

CITY OF FREDERICK, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

Governmental Activities

The City's governmental activities had a decrease in net assets of \$25,621. The decrease is due in part to a continued decrease in tax revenue and grant revenue from the prior years. However, this decrease is an 85% improvement from the prior year decrease.

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

| | Total Expense of Services | | % Inc. (Dec.) | Net Revenue (Expense) of Services | | % Inc. (Dec.) |
|--------------------------------|--------------------------------------|-----------------|--------------------------|--|-------------------|--------------------------|
| | <u>2012</u> | <u>2011</u> | | <u>2012</u> | <u>2011</u> | |
| General government | \$ 167 | \$ 134 | 25% | \$ (122) | \$ (80) | -53% |
| Public safety | 1,347 | 1,521 | -11% | (1,287) | (1,482) | 13% |
| Highways and streets | 481 | 476 | 1% | (447) | (435) | -3% |
| Culture, parks and recreation | 115 | 126 | -9% | (104) | (111) | 6% |
| Cemetery | 132 | 112 | 18% | (84) | (68) | -24% |
| Airport | 807 | 189 | 327% | 191 | 291 | -34% |
| Sales tax payments to hospital | 225 | 229 | -2% | (225) | (229) | 2% |
| Total | <u>\$ 3,274</u> | <u>\$ 2,787</u> | 17% | <u>\$ (2,078)</u> | <u>\$ (2,114)</u> | 2% |

Business-type Activities

The business-type activities had an increase in net assets of \$425,172.

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

| | Total Expense of Services | | % Inc. (Dec.) | Net Revenue (Expense) of Services | | % Inc. (Dec.) |
|----------------------|--------------------------------------|------------------|--------------------------|--|-----------------|--------------------------|
| | <u>2012</u> | <u>2011</u> | | <u>2012</u> | <u>2011</u> | |
| Administration | \$ 649 | \$ 741 | -12% | \$ (649) | \$ (741) | -12% |
| Electric | 3,874 | 3,650 | 6% | 1,932 | 5,076 | -62% |
| Water | 1,687 | 5,304 | -68% | 144 | (2,686) | -105% |
| Sewer | 550 | 182 | 202% | (136) | 240 | -157% |
| Sanitation | 570 | 511 | 12% | 56 | 131 | -57% |
| Lake | 105 | 121 | -13% | (96) | (110) | -13% |
| Swimming pool | 66 | 32 | 106% | (53) | (24) | 121% |
| Economic development | 186 | 185 | 1% | 118 | 118 | 0% |
| Total | <u>\$ 7,687</u> | <u>\$ 10,726</u> | -28% | <u>\$ 1,316</u> | <u>\$ 2,004</u> | -34% |

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2012 fiscal year, the governmental funds reported a combined fund balance (deficit) of (\$1,345,822). For the year ended June 30, 2012, the General Fund's total fund balance increased by \$258,052 to a fund balance deficit of (\$165,715) or 9.9% of annual revenues.

The Frederick Public Works Authority Fund reported total net assets of \$2,077,788 which is an increase of 3.6% from the prior year.

Budgetary Highlights

For the year ended June 30, 2012, the General Fund reported actual budgetary basis revenues under final estimates by \$299,832 or a 12.0% unfavorable variance. General Fund actual expenditures were over final appropriations by \$133,330 or a 5.3% 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 2013 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
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Statement of Net Assets (Modified Cash Basis) – June 30, 2012

| | Primary Government | | |
|-----------------------------------|------------------------------------|-------------------------------------|---------------------|
| | Governmental Activities | Business-Type Activities | Total |
| ASSETS | | | |
| Cash and cash equivalents | \$ 7,878 | \$ 1,790,514 | \$ 1,798,392 |
| Investments | 411,430 | 181,148 | 592,578 |
| Internal balances | (1,602,387) | 1,602,387 | - |
| Due from employees | - | 76 | 76 |
| Total Assets | (1,183,079) | 3,574,125 | 2,391,046 |
| LIABILITIES | | | |
| Cash overdraft | 143,412 | - | 143,412 |
| Deposit liability | - | 272,947 | 272,947 |
| Due to employees | 1,928 | - | 1,928 |
| Due to other governments | 17,403 | 172,876 | 190,279 |
| Total Liabilities | 162,743 | 445,823 | 608,566 |
| NET ASSETS (DEFICIT) | | | |
| Restricted for: | | | |
| Airport | 1,113,837 | - | 1,113,837 |
| Cemetery | 136,645 | - | 136,645 |
| Debt service | - | 386,831 | 386,831 |
| Other purposes | - | 1,309,984 | 1,309,984 |
| Unrestricted (deficit) | (2,596,304) | 1,431,487 | (1,164,817) |
| Total Net Assets (Deficit) | \$ (1,345,822) | \$ 3,128,302 | \$ 1,782,480 |

See accompanying notes to the basic financial statements.

CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2012

| 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 | \$ 167,004 | \$ - | \$ - | \$ 45,000 | \$ (122,004) | \$ - | \$ (122,004) |
| Public Safety | 1,347,263 | 56,076 | 4,413 | - | (1,286,774) | - | (1,286,774) |
| Highways and Streets | 481,019 | - | 34,461 | - | (446,558) | - | (446,558) |
| Culture and Recreation | 114,850 | 3,370 | 7,428 | - | (104,052) | - | (104,052) |
| Cemetery | 131,725 | 48,078 | - | - | (83,647) | - | (83,647) |
| Airport | 807,493 | 422,180 | - | 575,900 | 190,587 | - | 190,587 |
| Sales Tax Payments to Hospital | 225,479 | - | - | - | (225,479) | - | (225,479) |
| Total governmental activities | 3,274,833 | 529,704 | 46,302 | 620,900 | (2,077,927) | - | (2,077,927) |
| Business-type activities: | | | | | | | |
| Administration | 649,140 | - | - | - | - | (649,140) | (649,140) |
| Electric | 3,873,829 | 5,697,370 | - | 108,868 | - | 1,932,409 | 1,932,409 |
| Water | 1,686,611 | 1,830,522 | - | - | - | 143,911 | 143,911 |
| Sewer | 549,810 | 413,886 | - | - | - | (135,924) | (135,924) |
| Sanitation | 570,337 | 626,762 | - | - | - | 56,425 | 56,425 |
| Lake | 104,678 | 9,090 | - | - | - | (95,588) | (95,588) |
| Swimming Pool | 65,607 | 12,748 | - | - | - | (52,859) | (52,859) |
| Economic Development | 185,922 | 304,216 | - | - | - | 118,294 | 118,294 |
| Total business-type activities | 7,685,933 | 8,894,594 | - | 108,868 | - | 1,317,529 | 1,317,529 |
| Total primary government | \$ 10,960,766 | \$9,424,298 | \$ 46,302 | \$ 729,768 | (2,077,927) | 1,317,529 | (760,398) |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Sales and use tax | | | | | 828,290 | - | 828,290 |
| Franchise and public service taxes | | | | | 114,174 | - | 114,174 |
| Intergovernmental revenue not restricted to specific programs | | | | | 52,944 | - | 52,944 |
| Investment income | | | | | 8,160 | 7,683 | 15,843 |
| Miscellaneous | | | | | 118,452 | 30,246 | 148,698 |
| Transfers - Internal activity | | | | | 930,286 | (930,286) | - |
| Total general revenues and transfers | | | | | 2,052,306 | (892,357) | 1,159,949 |
| Change in net assets | | | | | (25,621) | 425,172 | 399,551 |
| Net assets (deficit) - beginning | | | | | (1,320,201) | 2,703,130 | 1,382,929 |
| Net assets (deficit) - ending | | | | | \$ (1,345,822) | \$ 3,128,302 | \$1,782,480 |

See accompanying notes to the basic financial statements.

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2012

| | <u>General Fund</u> | <u>Capital Improvement Fund</u> | <u>Cemetery Trust Fund</u> | <u>Total Governmental Funds</u> |
|--------------------------------------|-------------------------|---|------------------------------------|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 7,667 | \$ - | \$ 211 | \$ 7,878 |
| Investments | 398,680 | - | 12,750 | 411,430 |
| Due from other funds | 883,612 | 602,237 | 124,378 | 1,610,227 |
| Total Assets | <u>\$ 1,289,959</u> | <u>\$ 602,237</u> | <u>\$ 137,339</u> | <u>\$ 2,029,535</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Cash overdraft | \$ - | \$ 143,412 | \$ - | \$ 143,412 |
| Due to employees | 1,928 | - | - | 1,928 |
| Due to other governments | 17,403 | - | - | 17,403 |
| Due to other funds | 1,436,343 | 1,776,271 | - | 3,212,614 |
| Total Liabilities | <u>1,455,674</u> | <u>1,919,683</u> | <u>-</u> | <u>3,375,357</u> |
| Fund Balance (Deficit): | | | | |
| Restricted for: | | | | |
| Airport | 1,113,837 | - | - | 1,113,837 |
| Cemetery | - | - | 136,645 | 136,645 |
| Assigned to: | | | | |
| Cemetery | 22,309 | - | 694 | 23,003 |
| Capital outlay | 251,107 | - | - | 251,107 |
| Unassigned (Deficit) | <u>(1,552,968)</u> | <u>(1,317,446)</u> | <u>-</u> | <u>(2,870,414)</u> |
| Total Fund Balance (Deficit) | <u>(165,715)</u> | <u>(1,317,446)</u> | <u>137,339</u> | <u>(1,345,822)</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,289,959</u> | <u>\$ 602,237</u> | <u>\$ 137,339</u> | <u>\$ 2,029,535</u> |

See accompanying notes to the basic financial statements.

CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
(Modified Cash Basis) – Year Ended June 30, 2012

| | <u>General Fund</u> | <u>Capital Improvement Fund</u> | <u>Cemetery Trust Fund</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|---|------------------------------------|---|
| Revenues: | | | | |
| Taxes | \$ 942,464 | \$ - | \$ - | \$ 942,464 |
| Intergovernmental | 99,247 | 620,900 | - | 720,147 |
| Charges for services | 223,989 | - | 6,010 | 229,999 |
| Fines and forfeitures | 29,196 | - | - | 29,196 |
| Investment income | 7,806 | 36 | 318 | 8,160 |
| Miscellaneous | 379,051 | 9,486 | 423 | 388,960 |
| Total Revenues | <u>1,681,753</u> | <u>630,422</u> | <u>6,751</u> | <u>2,318,926</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General Government: | | | | |
| Managerial | 158,426 | - | - | 158,426 |
| Public Safety: | | | | |
| Police | 670,285 | - | - | 670,285 |
| Dispatchers | 90,000 | - | - | 90,000 |
| Fire | 503,920 | - | - | 503,920 |
| Emergency management | 3,744 | - | - | 3,744 |
| Highways and streets: | | | | |
| Streets | 230,478 | - | - | 230,478 |
| Culture and Recreation | | | | |
| Parks | 32,643 | - | - | 32,643 |
| Library | 71,959 | - | - | 71,959 |
| Airport | 153,869 | - | - | 153,869 |
| Cemetery | 101,260 | - | - | 101,260 |
| Capital outlay | 108,925 | 1,158,421 | - | 1,267,346 |
| Debt service: | | | | |
| Principal | 86,727 | 15,000 | - | 101,727 |
| Interest | 6,849 | - | - | 6,849 |
| Total Expenditures | <u>2,219,085</u> | <u>1,173,421</u> | <u>-</u> | <u>3,392,506</u> |
| Excess (deficiency) of revenues over expenditures | (537,332) | (542,999) | 6,751 | (1,073,580) |
| Other Financing Sources (Uses): | | | | |
| Sales tax payments to hospital | (225,479) | - | - | (225,479) |
| Transfers in | 1,471,611 | 361,443 | - | 1,833,054 |
| Transfers out | (450,748) | (108,868) | - | (559,616) |
| Total Other Financing Sources (Uses) | <u>795,384</u> | <u>252,575</u> | <u>-</u> | <u>1,047,959</u> |
| Net change in fund balances | 258,052 | (290,424) | 6,751 | (25,621) |
| Fund balances (deficit) - beginning | (423,767) | (1,027,022) | 130,588 | (1,320,201) |
| Fund balances (deficit) - ending | <u>\$ (165,715)</u> | <u>\$ (1,317,446)</u> | <u>\$ 137,339</u> | <u>\$ (1,345,822)</u> |

See accompanying notes to the basic financial statements.

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Proprietary Fund Statement of Net Assets (Modified Cash Basis) – June 30, 2012

| | 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 | 1,686,129 | 102,485 | 1,788,614 |
| Restricted investments | 61,301 | 119,847 | 181,148 |
| Due from employee | 76 | - | 76 |
| Due from other funds | 1,565,698 | 915,868 | 2,481,566 |
| Total Assets | <u>3,315,104</u> | <u>1,138,200</u> | <u>4,453,304</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Due to other governments | 172,876 | - | 172,876 |
| Due to other funds | 791,493 | 87,686 | 879,179 |
| Deposit liability | 272,947 | - | 272,947 |
| Total Liabilities | <u>1,237,316</u> | <u>87,686</u> | <u>1,325,002</u> |
| NET ASSETS | | | |
| Restricted for debt service | 164,499 | 222,332 | 386,831 |
| Restricted for other purposes | 1,309,984 | - | 1,309,984 |
| Unrestricted | 603,305 | 828,182 | 1,431,487 |
| Total Net Assets | <u>\$ 2,077,788</u> | <u>\$ 1,050,514</u> | <u>\$ 3,128,302</u> |

See accompanying notes to the basic financial statements.

CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2012

| | <u>Frederick Public Works Authority</u> | <u>Frederick Economic Development Authority</u> | <u>Totals</u> |
|---|---|---|---------------------|
| Operating Revenues: | | | |
| Charges for services: | | | |
| Water | \$ 1,805,411 | \$ - | \$ 1,805,411 |
| Sewer | 408,208 | - | 408,208 |
| Sanitation | 618,164 | - | 618,164 |
| Electric | 5,619,212 | - | 5,619,212 |
| Penalties | 73,375 | - | 73,375 |
| Lake fees | 9,090 | - | 9,090 |
| Swimming pool | 12,748 | - | 12,748 |
| Leases and rent | 8,337 | 295,879 | 304,216 |
| Other miscellaneous | 44,170 | - | 44,170 |
| Total Operating Revenues | <u>8,598,715</u> | <u>295,879</u> | <u>8,894,594</u> |
| Operating Expenses: | | | |
| Administrative | 648,315 | - | 648,315 |
| Water | 936,154 | - | 936,154 |
| Sewer | 152,482 | - | 152,482 |
| Sanitation | 570,337 | - | 570,337 |
| Electric | 3,853,750 | - | 3,853,750 |
| Lake | 104,678 | - | 104,678 |
| Swimming pool | 65,607 | - | 65,607 |
| Economic development | - | 4,330 | 4,330 |
| Total Operating Expenses | <u>6,331,322</u> | <u>4,330</u> | <u>6,335,652</u> |
| Operating Income | 2,267,393 | 291,549 | 2,558,942 |
| Non-Operating Revenues (Expenses): | | | |
| Investment income | 2,265 | 5,418 | 7,683 |
| Miscellaneous | 18,099 | 12,146 | 30,245 |
| Bond proceeds | 108,868 | - | 108,868 |
| Capital outlay | (109,693) | - | (109,693) |
| Debt service: | | | |
| Principal retirement | (480,084) | (115,000) | (595,084) |
| Interest expense and fees | (235,759) | (66,592) | (302,351) |
| Total Non-Operating Revenues (Expenses) | <u>(696,304)</u> | <u>(164,028)</u> | <u>(860,332)</u> |
| Net Income Before Transfers | 1,571,089 | 127,521 | 1,698,610 |
| Transfers in | 334,732 | 225,269 | 560,001 |
| Transfers out | <u>(1,833,055)</u> | <u>(384)</u> | <u>(1,833,439)</u> |
| Change in net assets | 72,766 | 352,406 | 425,172 |
| Total net assets - beginning | 2,005,022 | 698,108 | 2,703,130 |
| Total net assets - ending | <u>\$ 2,077,788</u> | <u>\$ 1,050,514</u> | <u>\$ 3,128,302</u> |

See accompanying notes to the basic financial statements.

CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2012

| | Frederick Public Works Authority | Frederick Economic Development Authority | Totals |
|---|---|---|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 8,598,715 | \$ 295,879 | \$ 8,894,594 |
| Payments to suppliers | (4,951,158) | (4,330) | (4,955,488) |
| Payments to employees | (1,220,215) | - | (1,220,215) |
| Payments to other funds | (208,764) | (248,520) | (457,284) |
| Receipts of customer utility deposits | 47,485 | - | 47,485 |
| Refunds of customer utility deposits | (42,145) | - | (42,145) |
| Other receipts | 18,100 | 12,146 | 30,246 |
| Net Cash Provided by Operating Activities | <u>2,242,018</u> | <u>55,175</u> | <u>2,297,193</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Transfers from other funds | 334,731 | 225,269 | 560,000 |
| Transfers to other funds | (1,833,055) | (384) | (1,833,439) |
| Net Cash Provided by (Used in) Noncapital Financing Activities | <u>(1,498,324)</u> | <u>224,885</u> | <u>(1,273,439)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchase of capital assets | (109,693) | - | (109,693) |
| Principal paid on debt | (480,084) | (115,000) | (595,084) |
| Interest and fiscal agent fees paid on debt | (235,760) | (66,593) | (302,353) |
| Bond proceeds | 108,868 | - | 108,868 |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | <u>(716,669)</u> | <u>(181,593)</u> | <u>(898,262)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest and dividends | 2,265 | 5,419 | 7,684 |
| Change in investments | 3,756 | (119,847) | (116,091) |
| Net Cash Provided by (Used in) Investing Activities | <u>6,021</u> | <u>(114,428)</u> | <u>(108,407)</u> |
| Net Increase in Cash and Cash Equivalents | 33,046 | (15,961) | 17,085 |
| Balance - beginning of the year, restated | 1,654,983 | 118,446 | 1,773,429 |
| Balance - end of the year | <u>\$ 1,688,029</u> | <u>\$ 102,485</u> | <u>\$ 1,790,514</u> |
| Reconciliation to Statement of Net Assets: | | | |
| Cash and cash equivalents | \$ 1,900 | \$ - | \$ 1,900 |
| Restricted cash and cash equivalents - current | 1,686,129 | 102,485 | 1,788,614 |
| Total cash and cash equivalents | <u>\$ 1,688,029</u> | <u>\$ 102,485</u> | <u>\$ 1,790,514</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | \$ 2,267,393 | \$ 291,549 | \$ 2,558,942 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Other receipts | 18,100 | 12,146 | 30,246 |
| Change in assets and liabilities: | | | |
| Due from other funds | (793,973) | (248,520) | (1,042,493) |
| Due to other governments | 159,949 | - | 159,949 |
| Due to other funds | 585,209 | - | 585,209 |
| Deposit liability | 5,340 | - | 5,340 |
| Net cash provided by operating activities | <u>\$ 2,242,018</u> | <u>\$ 55,175</u> | <u>\$ 2,297,193</u> |

See accompanying notes to the basic financial statements.

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

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 certain 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

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

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. 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.

- 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. 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.

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.

c. *Committed* – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance, while the Trust Authority’s highest level of decision-making authority is made by resolution.

d. *Assigned* – includes amounts that are constrained by the City’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.

e. *Unassigned* – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. The only exception to this policy is for assigned interest income in governmental funds other than the General Fund. On those funds, interest income is used first before other revenues.

Fund Balance Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund (excluding public trusts). The City had the following fund balance deficits for the year ended June 30, 2012:

- General Fund \$165,715
- Capital Improvement Fund 1,317,446

Net Assets:

Net assets are displayed in two components:

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

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

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

G. Internal and Interfund Balances and Transfers

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

2. Deposits and Investments

For the year ended June 30, 2012, the City recognized \$15,843 of investment income.

At June 30, 2012, the primary government held the following deposits and investments:

| <u>Primary Government:</u> | <u>Carrying</u> | <u>Value</u> |
|--|----------------------|----------------------------|
| Deposits: | | |
| Demand deposits | \$ | 1,137,330 |
| Time deposits | | 577,803 |
| | <u>Credit</u> | |
| | <u>Rating</u> | |
| Investments: | | |
| Goldman Sachs Financial Square Treasury Obligations Fund | Aaa | 58,622 |
| Cavanal Hill Cash Management Fund | Aaa | 99,878 |
| Prime Fund Capital Reserves | * | 9,799 |
| Federated Treasury Obligations | Aaa | 349,352 |
| Federal Home Loan Bank Mortgage Corporation | Aaa | 14,774 |
| Total Deposits and Investments | | <u>\$ 2,247,558</u> |
| Reconciliation to Statement of Net Assets: | | |
| Cash and cash equivalents | \$ | 1,798,392 |
| Cash overdraft (See Note below) | | (143,412) |
| Investments | | 592,578 |
| | <u>\$</u> | <u>2,247,558</u> |

* Credit rating not available at time of report.

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, 2012, the City had custodial credit risk as described above of \$400,300.

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, 2012 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, 2012, the City had no concentration of credit risk as defined above.

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

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, 2012 are as follows:

| <u>Type of Restricted Assets</u> | Current Cash and Cash <u>Equivalents</u> | Current <u>Investments</u> |
|----------------------------------|--|-------------------------------|
| Utility Deposits | \$ 207,892 | \$ 53,264 |
| Water Surcharge | 962,228 | 853 |
| Sewer Surcharge | 85,145 | - |
| Lake & Recreation | - | 70 |
| Landfill Escrow | - | 268,360 |
| Sales Tax Reserve | - | 8,127 |
| 2004 Bond Trust Accounts | - | 222,332 |
| Mountain Park District 2005 | 99,878 | - |
| 2006 Bond Trust Accounts | 2,991 | 58,622 |
| | <u> </u> | <u> </u> |
| Total Restricted Assets | <u>\$ 1,358,134</u> | <u>\$ 611,628</u> |

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.

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

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 | 243,695 | Expenditures paid on behalf of another fund |
| General Fund | Cemetery Trust Fund | 7,781 | 12.5% of lot sales and openings not yet transferred |
| General Fund | Cemetery Trust Fund | 84,546 | Negative cash |
| General Fund | FEDA | 272,434 | Sales tax received not yet transferred |
| General Fund | FEDA | 81,217 | Negative cash |
| General Fund | FEDA | 112,528 | Expenditures paid on behalf of another fund |
| General Fund | Capital Improvement Fund | 17,028 | Negative cash |
| General Fund | Cemetery Care Fund | 9,951 | Negative cash |
| General Fund | Airport | 198,450 | Negative cash |
| Capital Improvement Fund | General Fund | 9,725 | Water run-off expenditures paid on behalf of another fund |
| Capital Improvement Fund | General Fund | 19,490 | Negative cash |
| Capital Improvement Fund | FEDA | 394,689 | Negative cash |
| Capital Improvement Fund | Airport | 521,389 | Negative cash |
| Capital Improvement Fund | FPWA | 830,978 | Negative cash |
| FEDA | Airport | 4,500 | Hanger Rent not yet transferred |
| FEDA | FPWA | 83,186 | Expenditures paid on behalf of another fund |
| Airport | General Fund | 873 | Expenditures paid on behalf of another fund |
| General Fund | FPWA | 150,315 | Negative cash |
| FPWA | Cemetery Trust Fund | 32,050 | Repayment of use of restricted funds |
| FPWA | General Fund | 55,009 | Expenditures paid on behalf of another fund |
| FPWA | General Fund | 10,550 | Repayment of use of restricted funds |
| FPWA | General Fund | 53,675 | Expenditures paid on behalf of another fund |
| FPWA | Capital Improvement Fund | 585,210 | Negative cash |
| FPWA | FEDA | 55,000 | Lease revenue not yet transferred |
| | | <u>\$ 4,091,793</u> | |

Reconciliation to Statement of Net Assets:

| | <u>Due From</u> | <u>Due To</u> | <u>Internal Balances</u> |
|---------------|---------------------|-----------------------|--------------------------|
| Governmental | \$ 1,610,227 | \$ (3,212,614) | \$ (1,602,387) |
| Business-Type | 2,481,566 | (879,179) | 1,602,387 |
| Total | <u>\$ 4,091,793</u> | <u>\$ (4,091,793)</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".

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2012, were as follows:

| <u>Transfer From</u> | <u>Transfer To</u> | <u>Amount</u> | <u>Nature of Transfer</u> |
|--------------------------|-----------------------------------|---------------------|---------------------------|
| General Fund | FEDA | \$ 225,269 | Sales tax allocation |
| General Fund | FPWA | 225,479 | Sales tax allocation |
| FPWA | General Fund | 1,076,571 | Operating Subsidy |
| FPWA | Airport | 394,841 | Reimbursement of expenses |
| FPWA | CIF | 361,443 | Reimbursement of expenses |
| FPWA | Recoveries Account - General Fund | 200 | Reimbursement of expenses |
| FEDA | FPWA | 384 | Reimbursement of expenses |
| Capital Improvement Fund | FPWA | 108,868 | Reimbursement of expenses |
| | | <u>\$ 2,393,055</u> | |

Reconciliation to Statement of Changes in Net Assets:

| | <u>Transfers In</u> | <u>Transfers Out</u> | <u>Reclass Business-Type Activity to Governmental</u> | <u>Net Transfers</u> |
|---------------|---------------------|-----------------------|---|----------------------|
| Governmental | \$ 1,833,054 | \$ (559,616) | \$ (343,152) | \$ 930,286 |
| Business-Type | 560,001 | (1,833,439) | 343,152 | (930,286) |
| Total | <u>\$ 2,393,055</u> | <u>\$ (2,393,055)</u> | <u>\$ -</u> | <u>\$ -</u> |

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

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

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 2012, the City's annual required contribution was \$32,350 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 2012, the City's annual required contribution was \$39,203 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

| <u>Fiscal Year</u> | <u>OFPRS</u> | | <u>OPPRS</u> | |
|--------------------|------------------------------|---------------------------|------------------------------|---------------------------|
| | <u>Required Contribution</u> | <u>Amount Contributed</u> | <u>Required Contribution</u> | <u>Amount Contributed</u> |
| 2010 | 33,703 | 100% | 40,556 | 100% |
| 2011 | 33,704 | 100% | 41,542 | 100% |
| 2012 | 32,350 | 100% | 39,203 | 100% |

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

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, 2012, such required contributions were 15.49 percent of covered payroll, of which 11.62 percent and 3.87 percent were the required contributions by the employer and employee respectively. For the year ended June 30, 2012, contributions to the plan amounted to \$118,672 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 | 11.62% of covered payroll |
| -Employee Rate | 3.87% 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 11.62% of covered payroll. The City funded 13.0% 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, 2012:

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 | 38,420 |
| \$15,000 lease agreement with Coppermark Bank for a John Deere Backhoe, payable in monthly installments of \$647, final payment due December 2013 | 10,085 |
| \$94,385 lease agreement with Americrest Bank for three police vehicles, payable in annual installments of \$30,462, final payment due March 2014 | 60,923 |
| \$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>51,310</u> |
| Total Lease Agreements | <u>\$160,738</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 | <u>\$2,668,188</u> |
|--|--------------------|

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. | <u>\$37,347</u> |
|--|-----------------|

CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

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% \$1,951,105

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. 845,000

Total Revenue Bonds Payable \$2,796,105

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. \$250,000

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. \$905,000

| Year Ended June 30, | Business-Type Activities | | | | | |
|------------------------|--------------------------|-------------|-----------------------|------------------|-----------------------|------------------|
| | FEDA | | | | FPWA | |
| | Notes Payable | | Revenue Bonds Payable | | Revenue Bonds Payable | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2013 | \$ 20,000 | \$ - | \$ 100,000 | \$ 58,300 | \$ 295,555 | \$ 134,920 |
| 2014 | 20,000 | - | 115,000 | 51,509 | 315,625 | 121,335 |
| 2015 | 20,000 | - | 120,000 | 43,725 | 324,850 | 106,962 |
| 2016 | 20,000 | - | 130,000 | 35,609 | 340,765 | 92,000 |
| 2017 | 20,000 | - | 135,000 | 26,997 | 120,835 | 78,480 |
| 2018-2022 | 100,000 | - | 305,000 | 25,838 | 708,110 | 292,875 |
| 2023-2026 | 50,000 | - | - | - | 690,365 | 90,649 |
| Total | <u>\$ 250,000</u> | <u>\$ -</u> | <u>\$905,000</u> | <u>\$241,978</u> | <u>\$2,796,105</u> | <u>\$917,221</u> |

The FPWA note payable to OWRB dated February 1, 2009, is still in the construction phase and does not have an amortization schedule at this time.

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 \$2,780,854. The note is payable from the above-mentioned utility net revenues. The debt service payment on the bonds this year was \$200,740 which was 26.4% of pledged net utility revenues of \$761,427.

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, 2012. The note is payable from the above-mentioned utility net revenues. The debt service payment on the bonds this year was \$266,027, which was 34.9% of pledged net utility revenues of \$761,427.

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 \$932,472. Pledged sales taxes received in the current year were \$225,269. Debt service payments of \$234,573 for the current fiscal year were 104% 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, 2012 is \$146,644.

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.

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Federal and State Award Programs:

The City of Frederick participates in various federal or state grant/loan programs from year to year. In 2012, the City expended \$531,862 of federal awards and \$56,841 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, 2012, the Frederick Public Works Authority had deposited \$268,360 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 cash is reported as restricted in the Frederick Public Works Authority fund.

CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

SUPPLEMENTARY INFORMATION

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2012

| | GENERAL FUND | | | |
|---|------------------|------------------|-----------------------|-------------------------------------|
| | Budgeted Amounts | | Actual Amounts | Final Budget Positive (Negative) |
| | Original | Final | | |
| Beginning Budgetary Fund Balance (Deficit): | \$ - | \$ - | \$ (1,118,037) | \$ (1,118,037) |
| Resources (Inflows): | | | | |
| Taxes | 955,000 | 914,000 | 942,464 | 28,464 |
| Intergovernmental | 57,000 | 50,000 | 94,834 | 44,834 |
| Charges for services | 90,000 | 225,742 | 45,438 | (180,304) |
| Fines and Forfeitures | 30,000 | 120,000 | 29,196 | (90,804) |
| Licenses and Permits | 40,000 | 40,000 | - | (40,000) |
| Investment Income | - | - | 1,334 | 1,334 |
| Miscellaneous | 22,233 | 9,500 | 9,574 | 74 |
| Other Financing Sources - Transfers In | 1,451,456 | 1,140,000 | 1,076,570 | (63,430) |
| Total Resources | 2,645,689 | 2,499,242 | 2,199,410 | (299,832) |
| Amounts available for appropriation | 2,645,689 | 2,499,242 | 1,081,373 | (1,417,869) |
| Charges to Appropriations (Outflows): | | | | |
| Managerial | 300,500 | 321,855 | 143,813 | 178,042 |
| Police | 752,000 | 633,236 | 742,273 | (109,037) |
| Dispatch | 90,000 | 228,387 | 90,000 | 138,387 |
| Fire | 526,000 | 444,524 | 503,920 | (59,396) |
| Streets | 282,689 | 275,125 | 246,297 | 28,828 |
| Parks | 51,500 | 83,273 | 34,642 | 48,631 |
| Library | 88,000 | 91,344 | 80,962 | 10,382 |
| Cemetery | 99,500 | 78,998 | 110,694 | (31,696) |
| Emergency Management | 5,500 | 5,000 | 3,744 | 1,256 |
| Other Financing Uses - Sales Tax Payments to Hospital | - | - | 225,479 | (225,479) |
| Other Financing Uses - Transfers Out | 450,000 | 337,500 | 450,748 | (113,248) |
| Total Charges to Appropriations | 2,645,689 | 2,499,242 | 2,632,572 | (133,330) |
| Ending Budgetary Fund Balance (Deficit) | \$ - | \$ - | \$ (1,551,199) | \$ (1,551,199) |

CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

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 | (\$ 109,037) |
| General Fund – Fire | (\$ 59,396) |
| General Fund – Cemetery | (\$ 31,696) |
| General Fund – Sales tax payments to hospital | (\$ 225,479) |
| General Fund – Transfers out | (\$ 113,248) |

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

| | |
|---|-----------------------------|
| General Fund, Ending Budgetary fund balance | \$(1,551,199) |
| Flex Spending Account fund balance | <u>(1,769)</u> |
| | <u><u>\$(1,552,968)</u></u> |

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Combining Balance Sheet - General Fund Accounts (Modified Cash Basis) – June 30, 2012

| | <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 | \$ 1,125.00 | \$ 6,513 | \$ 29 | \$ - | \$ 7,667 |
| Investments | 68,053 | 328,848 | 1,779 | - | 398,680 |
| Due from other funds | 30,088 | 779,348 | 20,501 | 53,675 | 883,612 |
| Due from other interaccounts | 10,373 | - | - | 358,120 | 368,493 |
| Total Assets | <u>\$ 109,639</u> | <u>\$ 1,114,709</u> | <u>\$ 22,309</u> | <u>\$ 411,795</u> | <u>\$ 1,658,452</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Due to employees | \$ 1,928 | \$ - | \$ - | \$ - | \$ 1,928 |
| Due to other governments | 17,403 | - | - | - | 17,403 |
| Due to other funds | 1,285,156 | 872 | - | 150,315 | 1,436,343 |
| Due to other interaccounts | 358,120 | - | - | 10,373 | 368,493 |
| Total Liabilities | <u>1,662,607</u> | <u>872</u> | <u>-</u> | <u>160,688</u> | <u>1,824,167</u> |
| Fund Balance (Deficit): | | | | | |
| Restricted for: | | | | | |
| Airport | - | 1,113,837 | - | - | 1,113,837 |
| Assigned to: | | | | | |
| Cemetery | - | - | 22,309 | - | 22,309 |
| Capital outlay | - | - | - | 251,107 | 251,107 |
| Unassigned (Deficit) | <u>(1,552,968)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,552,968)</u> |
| Total Fund Balance (Deficit) | <u>(1,552,968)</u> | <u>1,113,837</u> | <u>22,309</u> | <u>251,107</u> | <u>(165,715)</u> |
| Total Liabilities and Fund Balances | <u>\$ 109,639</u> | <u>\$ 1,114,709</u> | <u>\$ 22,309</u> | <u>\$ 411,795</u> | <u>\$ 1,658,452</u> |

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – General Fund
Accounts (Modified Cash Basis) – Year Ended June 30, 2012**

| | <u>General Fund</u> | <u>Airport Account</u> | <u>Cemetery Care Account</u> | <u>Recoveries Account</u> | <u>Total General Fund Accounts</u> |
|---|-------------------------|----------------------------|--------------------------------------|-------------------------------|--|
| Revenues: | | | | | |
| Taxes | \$ 942,464 | \$ - | \$ - | \$ - | \$ 942,464 |
| Intergovernmental | 94,834 | - | - | 4,413 | 99,247 |
| Charges for services | 62,921 | 161,068 | - | - | 223,989 |
| Fines and forfeitures | 29,196 | - | - | - | 29,196 |
| Investment income | 1,334 | 6,426 | 46 | - | 7,806 |
| Miscellaneous | 9,574 | 261,112 | 41 | 108,324 | 379,051 |
| Total Revenues | <u>1,140,323</u> | <u>428,606</u> | <u>87</u> | <u>112,737</u> | <u>1,681,753</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General Government: | | | | | |
| Managerial | 158,426 | - | - | - | 158,426 |
| Public Safety: | | | | | |
| Police | 670,285 | - | - | - | 670,285 |
| Dispatchers | 90,000 | - | - | - | 90,000 |
| Fire | 503,920 | - | - | - | 503,920 |
| Emergency management | 3,744 | - | - | - | 3,744 |
| Highways and streets: | | | | | |
| Streets | 230,478 | - | - | - | 230,478 |
| Culture and Recreation | | | | | |
| Parks | 32,643 | - | - | - | 32,643 |
| Library | 71,959 | - | - | - | 71,959 |
| Airport | - | 153,869 | - | - | 153,869 |
| Cemetery | 101,260 | - | - | - | 101,260 |
| Capital outlay | 14,667 | - | - | 94,258 | 108,925 |
| Debt service: | | | | | |
| Principal | 86,727 | - | - | - | 86,727 |
| Interest | 6,849 | - | - | - | 6,849 |
| Total Expenditures | <u>1,970,958</u> | <u>153,869</u> | <u>-</u> | <u>94,258</u> | <u>2,219,085</u> |
| Excess (deficiency) of revenues over expenc | (830,635) | 274,737 | 87 | 18,479 | (537,332) |
| Other Financing Sources (Uses): | | | | | |
| Sales tax payments to hospital | (225,479) | - | - | - | (225,479) |
| Transfers in | 1,076,570 | 394,841 | - | 200 | 1,471,611 |
| Transfers out | (450,748) | - | - | - | (450,748) |
| Total Other Financing Sources (Uses) | <u>400,343</u> | <u>394,841</u> | <u>-</u> | <u>200</u> | <u>795,384</u> |
| Net change in fund balances | (430,292) | 669,578 | 87 | 18,679 | 258,052 |
| Fund balance (deficit) - beginning | (1,122,676) | 444,259 | 22,222 | 232,428 | (423,767) |
| Fund balance (deficit) - ending | <u>\$ (1,552,968)</u> | <u>\$ 1,113,837</u> | <u>\$ 22,309</u> | <u>\$ 251,107</u> | <u>\$ (165,715)</u> |

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

Schedule of Expenditures of State Awards (Modified Cash Basis) – Year Ended June 30, 2012

| 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 | 7,428 | 7,428 |
| <u>ASSOCIATION OF SOUTH CENTRAL OKLAHOMA GEVERNMENTS:</u> | | | |
| Rural Economic Action Plan | N/A | 45,000 | 45,000 |
| <u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u> | | | |
| Rural Fire Grant - Oklahoma Department of Agriculture | N/A | 4,413 | 4,413 |
| TOTAL STATE AWARDS | | \$ 56,841 | \$ 56,841 |

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

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CITY OF FREDERICK, OKLAHOMA
SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES
June 30, 2012

CITY OF FREDERICK, OKLAHOMA

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| SINGLE AUDIT REPORTS AND SUPPLEMENTARY SCHEDULES: | |
| Reports related to financial statements of the reporting entity Required by GAO Government Auditing Standards: | |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 1 |
| Reports related to Federal Assistance Programs Required by OMB Circular A-133: | |
| Independent Auditor's Report on Compliance with the 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 and Report On Schedule of Expenditures of Federal Awards | 3 |
| Schedule of Expenditures of Federal Awards | 6 |
| Schedule of Findings and Questioned Costs | 7 |
| Summary Schedule of Prior Audit Findings | 13 |

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City of Frederick, Oklahoma (the "City") as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 11, 2014.

Internal Control over Financial Reporting

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

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 that we consider to be material weaknesses and significant deficiencies.

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 2012-1 and 2012-2 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 2012-3 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 2012-1, 2012-2, and 2012-4 in the accompanying schedule of findings and questioned costs.

City of Frederick, Oklahoma's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Charles S. Arnault, P.C.

July 11, 2014

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

Report on Compliance for Each Major Federal Program

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, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of 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, 2012.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the City as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated July 11, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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.

Arledge & Associates, P.C.
July 11, 2014

CITY OF FREDERICK, OKLAHOMA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2012

| Federal Grantor/Pass through agency Grantor/Program Title | CFDA Number | Grant # | Award Amount | Federal Expenditures |
|--|----------------|---|-------------------|-------------------------|
| U.S. FEDERAL AVIATION ADMINISTRATION: | | | | |
| Airport Improvement Program | 20.106 | AIP 3-40-0033-006-2009 | 53,979 | 9,941 |
| Airport Improvement Program | 20.106 | AIP 3-40-0033-007-2010 | 521,921 | 521,921 |
| | | Subtotal Department of Homeland Security | <u>575,900</u> | <u>531,862</u> |
| TOTAL FEDERAL AWARDS | | | <u>\$ 575,900</u> | <u>\$ 531,862</u> |

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, 2012. The information in this schedule is presented in accordance with requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a portion of the operations of the City, it is not intended to and does not present the financial position 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 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, 2012

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:

Unmodified

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:

Unmodified

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:

CFDA Number(s)

Name of Federal Program or Cluster

20.106

Airport Improvement Program

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, 2012

SECTION II – FINANCIAL STATEMENT FINDINGS

Compliance Findings

2012-1, 2012-2, and 2012-4

Internal Control Findings

2012-1; 2012-2; and 2012-3

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, 2012**

Finding 2012-1 – 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, 2012:

| <u>Fund</u> | <u>Amount</u> |
|--------------------------|---------------|
| General Fund | (165,715) |
| Capital Improvement Fund | (1,317,446) |

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, 2012**

Finding 2012-2 – 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 exceeds 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 | 109,037 |
| General Fund | Fire | 59,396 |
| General Fund | Cemetery | 31,696 |
| General Fund | Sales Tax Payments to Hospital | 225,479 |
| General Fund | Transfers Out | 113,248 |

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 will continue to take steps to monitor the budget more closely.

**CITY OF FREDERICK, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd)
Year Ended June 30, 2012**

Finding 2012-3 – 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 \$143,412 at June 30, 2012, 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: The City has taken steps to improve the cash balances by raising utility rates effective 7/1/2012 and by adding a water surcharge in 2012. Also, additional staff was hired to more closely monitor cash balances.

**CITY OF FREDERICK, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Cont'd)
Year Ended June 30, 2012**

Finding 2012-4 – Deposits with Financial Institutions

Criteria: The Oklahoma state statutes require that all uninsured deposits of municipal funds in financial institutions must be secured by the financial institution with acceptable collateral.

Condition: As of June 30, 2012, deposits totaling approximately \$400,000 were not insured or collateralized as required by state law.

Cause: Controls were not in place to ensure that deposits at the City's financial institutions were fully insured or collateralized, or to monitor or update agreements, as applicable, with the financial institutions on an on-going basis.

Effect or Potential Effect: Because of the failure to adequately collateralize its deposits, the City was exposed to potential losses resulting from custodial credit risk up to \$400,000 as of June 30, 2012

Recommendation: We recommend that the City have procedures in place to ensure that all applicable deposits are adequately insured or collateralized throughout the year.

City's Response: Additional collateral was obtained prior to the fiscal year end to cover all bank deposits. We have taken steps to monitor this more closely.

**CITY OF FREDERICK, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2011**

Finding 2011-1 – Deficit Fund Balances

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.

Current Status: See Finding 2012-1.

**CITY OF FREDERICK, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (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 exceeds 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.

Current Status: See Finding 2012-2.

CITY OF FREDERICK, OKLAHOMA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Cont'd)
Year Ended June 30, 2011

Finding 2011-3 – Cash Management

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.

Current Status: See Finding 2012-3.