

THE CITY OF FREDERICK, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2013

**CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013**

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CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

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ANNUAL FINANCIAL REPORT
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Frederick, Oklahoma (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2013, 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 as 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 that matter.

Other Matters – Supplementary and Other Information

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

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

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Arlidge & Associates, P.C.

December 2, 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, 2013. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net position increased by \$358,235, and the assets of the City exceed its liabilities at June 30, 2013, by \$2,140,715. Of this amount, (\$1,415,032) was considered to be an unrestricted net position (deficit).
- At June 30, 2013, the City's governmental funds reported a combined ending fund balance (deficit) on a modified cash basis of (\$1,225,985).
- At the end of fiscal year 2013, the unassigned fund balance (deficit) on a modified cash basis for the General Fund was (\$1,908,037) or 105% 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 and business-type 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 Position and Statement of Activities

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

In the Statement of Net Position and the Statement of Activities, we divide the City's primary government into two kinds of activities: *Governmental activities* - Most of the City's basic services are reported here, including the police, fire, 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.

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 24-39 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, 2013

THE CITY AS A WHOLE

For the year ended June 30, 2013, net position on a modified cash basis for the governmental and business-type activities increased \$358,235.

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

Net Position (Modified Cash Basis)
June 30, 2013

TABLE 1
NET POSITION (In Thousands)

| | Governmental Activities | | % Inc. (Dec.) | Business-Type Activities | | % Inc. (Dec.) | Total | | % Inc. (Dec.) |
|---------------------------|----------------------------|-------------------|------------------|-----------------------------|-----------------|------------------|-----------------|-----------------|------------------|
| | 2013 | 2012 | | 2013 | 2012 | | 2013 | 2012 | |
| Current assets | \$ (901) | \$ (1,183) | 24% | \$ 3,682 | \$ 3,574 | 3% | \$ 2,781 | \$ 2,391 | 16% |
| Total assets | <u>(901)</u> | <u>(1,183)</u> | 24% | <u>3,682</u> | <u>3,574</u> | 3% | <u>2,781</u> | <u>2,391</u> | 16% |
| Current liabilities | 325 | 163 | 99% | 316 | 446 | -29% | 641 | 609 | 5% |
| Total liabilities | <u>325</u> | <u>163</u> | 99% | <u>316</u> | <u>446</u> | -29% | <u>641</u> | <u>609</u> | 5% |
| Net position | | | | | | | | | |
| Restricted | 1,528 | 1,250 | 22% | 2,028 | 1,697 | 20% | 3,556 | 2,947 | 21% |
| Unrestricted | (2,754) | (2,596) | -6% | 1,339 | 1,431 | -6% | (1,415) | (1,165) | -21% |
| Total net position | <u>\$ (1,226)</u> | <u>\$ (1,346)</u> | 9% | <u>\$ 3,367</u> | <u>\$ 3,128</u> | 8% | <u>\$ 2,141</u> | <u>\$ 1,782</u> | 20% |

A portion of the City's net position, \$3,555,747, represents resources that are subject to external restrictions on how they may be used. The remaining balance creates an unrestricted net position (deficit) of (\$1,415,032).

The current assets of the governmental activities increased approximately \$282,000 due to the increase in internal balances. Governmental activities have borrowed less from business-type activities in the current year. Current liabilities increased approximately \$162,000 due to an increase in the cash overdraft from prior year.

The current liabilities of the business-type activities decreased approximately \$130,000 or 29% due to the decrease in sales tax payable.

CITY OF FREDERICK, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2013

Changes in Net Position (Modified Cash Basis)
Year Ended June 30, 2013

TABLE 2
CHANGES IN NET POSITION (In Thousands)

| | Governmental Activities | | % Inc. (Dec.) | Business-Type Activities | | % Inc. (Dec.) | Total | | % Inc. (Dec.) |
|--|-------------------------|-------------------|---------------|--------------------------|-----------------|---------------|-----------------|-----------------|---------------|
| | 2013 | 2012 | | 2013 | 2012 | | 2013 | 2012 | |
| Revenues | | | | | | | | | |
| Charges for services | \$ 557 | \$ 530 | 5% | \$ 8,773 | \$ 8,895 | -1% | \$ 9,330 | \$ 9,425 | -1% |
| Operating grants and contributions | 40 | 46 | -13% | - | - | - | 40 | 46 | -13% |
| Capital grants, contributions, and debt proceeds | 9 | 621 | -99% | 286 | 109 | 162% | 295 | 730 | -60% |
| Taxes | 1,073 | 942 | 14% | - | - | - | 1,073 | 942 | 14% |
| Intergovernmental revenue | 54 | 53 | 2% | - | - | - | 54 | 53 | 2% |
| Investment income | 8 | 8 | - | 4 | 8 | -50% | 12 | 16 | -25% |
| Miscellaneous | 101 | 118 | -14% | 44 | 30 | 47% | 145 | 148 | -2% |
| Total revenues | 1,842 | 2,318 | -21% | 9,107 | 9,042 | 1% | 10,949 | 11,360 | -4% |
| Expenses | | | | | | | | | |
| General government | 90 | 167 | -46% | - | - | - | 90 | 167 | -46% |
| Public safety | 1,525 | 1,347 | 13% | - | - | - | 1,525 | 1,347 | 13% |
| Highway and streets | 613 | 481 | 27% | - | - | - | 613 | 481 | 27% |
| Culture and recreation | 133 | 115 | 16% | - | - | - | 133 | 115 | 16% |
| Cemetery | 139 | 132 | 5% | - | - | - | 139 | 132 | 5% |
| Airport | 226 | 807 | -72% | - | - | - | 226 | 807 | -72% |
| Administration | - | - | - | 726 | 649 | 12% | 726 | 649 | 12% |
| Electric | - | - | - | 3,808 | 3,874 | -2% | 3,808 | 3,874 | -2% |
| Water | - | - | - | 1,972 | 1,687 | 17% | 1,972 | 1,687 | 17% |
| Sewer | - | - | - | 148 | 550 | -73% | 148 | 550 | -73% |
| Sanitation | - | - | - | 528 | 570 | -7% | 528 | 570 | -7% |
| Lake | - | - | - | 102 | 105 | -3% | 102 | 105 | -3% |
| Swimming pool | - | - | - | 48 | 66 | -27% | 48 | 66 | -27% |
| Economic development | - | - | - | 273 | 186 | 47% | 273 | 186 | 47% |
| Sales tax payments to hospital | 259 | 225 | 15% | - | - | - | 259 | 225 | 15% |
| Total expenses | 2,985 | 3,274 | -9% | 7,605 | 7,687 | -1% | 10,590 | 10,961 | -3% |
| Excess (deficiency) before transfers | (1,143) | (956) | -20% | 1,502 | 1,355 | 11% | 359 | 399 | -10% |
| Transfers | 1,263 | 930 | -36% | (1,263) | (930) | 36% | - | - | - |
| Change in net position | 120 | (26) | 562% | 239 | 425 | -44% | 359 | 399 | -10% |
| Beginning net position | (1,346) | (1,320) | -2% | 3,128 | 2,703 | 16% | 1,782 | 1,383 | 29% |
| Ending net position | \$ (1,226) | \$ (1,346) | 9% | \$ 3,367 | \$ 3,128 | 8% | \$ 2,141 | \$ 1,782 | 20% |

The City's capital grants and contributions for governmental activities decreased approximately \$612,000 or 99% due to grants received for improvements to the City's airport in the prior year. The Airport expenditures decreased approximately \$581,000 or 72% due to the costs incurred for the airport improvements in the prior year that were not incurred in the current year. General government expenditures decreased approximately \$77,000 or 46% due to a decrease in other services and charges. Highways and streets expenditures increased approximately \$132,000 or 27% due to a payment to the county of \$120,000 for street repairs in the City limits.

Capital grants, contributions, and debt proceeds for business-type activities increased approximately \$177,000 or 162% from the prior year due to debt proceeds received in the current year. The water department expenses also increased approximately \$285,000 or 17% as work was performed on the water treatment plant in the current year. The sewer department expense decreased approximately \$402,000 or 73% due to an increase of sewer department capital improvements of approximately \$364,000 in the prior year that were not done in the current year.

CITY OF FREDERICK, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2013

Governmental Activities

The City's governmental activities had an increase in net position of \$119,837. This increase is due to an increase in sales tax revenue of approximately \$131,000.

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

| | <u>Total Expense</u> | | <u>% Inc.</u> | <u>Net Revenue</u> | | <u>% Inc.</u> |
|--------------------------------|----------------------|-----------------|---------------|--------------------|-------------------|---------------|
| | <u>of Services</u> | | | <u>(Expense)</u> | | |
| | <u>2013</u> | <u>2012</u> | | <u>2013</u> | <u>2012</u> | |
| General government | \$ 90 | \$ 167 | -46% | \$ (90) | \$ (122) | 26% |
| Public safety | 1,525 | 1,347 | 13% | (1,502) | (1,287) | -17% |
| Highways and streets | 613 | 481 | 27% | (585) | (447) | -31% |
| Culture, parks and recreation | 133 | 115 | 16% | (123) | (104) | -18% |
| Cemetery | 139 | 132 | 5% | (83) | (84) | 1% |
| Airport | 226 | 807 | -72% | 262 | 191 | 37% |
| Sales tax payments to hospital | 259 | 225 | 15% | (259) | (225) | -15% |
| Total | \$ 2,985 | \$ 3,274 | -9% | \$ (2,380) | \$ (2,078) | -15% |

Business-type Activities

The business-type activities had an increase in net position of \$238,398.

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

| | <u>Total Expense</u> | | <u>% Inc.</u> | <u>Net Revenue</u> | | <u>% Inc.</u> |
|----------------------|----------------------|-----------------|---------------|--------------------|-----------------|---------------|
| | <u>of Services</u> | | | <u>(Expense)</u> | | |
| | <u>2013</u> | <u>2012</u> | | <u>2013</u> | <u>2012</u> | |
| Administration | \$ 726 | \$ 649 | 12% | \$ (726) | \$ (649) | 12% |
| Electric | 3,808 | 3,874 | -2% | 1,815 | 1,932 | -6% |
| Water | 1,972 | 1,687 | 17% | 109 | 144 | -24% |
| Sewer | 148 | 550 | -73% | 265 | (136) | -295% |
| Sanitation | 528 | 570 | -7% | 115 | 56 | 105% |
| Lake | 102 | 105 | -3% | (90) | (96) | -6% |
| Swimming pool | 48 | 66 | -27% | (45) | (53) | -15% |
| Economic development | 273 | 186 | 47% | 11 | 118 | -91% |
| Total | \$ 7,605 | \$ 7,687 | -1% | \$ 1,454 | \$ 1,316 | 10% |

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2013 fiscal year, the governmental funds reported a combined fund balance (deficit) of (\$1,225,985). For the year ended June 30, 2013, the General Fund's total fund balance (deficit) increased by \$86,510 to a fund balance (deficit) of (\$252,224), which is equivalent to 13.9% of annual revenues.

The Frederick Public Works Authority Fund reported total net position of \$2,073,704 which is a decrease of .2% from the prior year.

Budgetary Highlights

For the year ended June 30, 2013, the General Fund reported actual budgetary basis revenues over final estimates by \$123,566 or a 4.9% favorable variance. General Fund actual expenditures were over final appropriations by \$477,263 or a 19.1% 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 2014 budget is relatively 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, 2013**

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Statement of Net Position (Modified Cash Basis) – June 30, 2013

| | <u>Primary Government</u> | | |
|-------------------------------|------------------------------------|-------------------------------------|---------------------|
| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
| ASSETS | | | |
| Cash and cash equivalents | \$ 1,524 | \$ 1,730,250 | \$ 1,731,774 |
| Investments | 460,256 | 589,054 | 1,049,310 |
| Internal balances | (1,363,003) | 1,363,003 | - |
| Due from employees | - | 76 | 76 |
| Total Assets | <u>(901,223)</u> | <u>3,682,383</u> | <u>2,781,160</u> |
| LIABILITIES | | | |
| Cash overdraft | 303,077 | - | 303,077 |
| Deposit liability | - | 289,227 | 289,227 |
| Due to employees | 4,281 | - | 4,281 |
| Due to other governments | 17,404 | 26,456 | 43,860 |
| Total Liabilities | <u>324,762</u> | <u>315,683</u> | <u>640,445</u> |
| NET POSITION (DEFICIT) | | | |
| Restricted for: | | | |
| Airport | 1,383,991 | - | 1,383,991 |
| Cemetery | 143,579 | - | 143,579 |
| Debt service | - | 619,428 | 619,428 |
| Other purposes | - | 1,408,749 | 1,408,749 |
| Unrestricted (deficit) | (2,753,555) | 1,338,523 | (1,415,032) |
| Total Net Position (Deficit) | <u>\$ (1,225,985)</u> | <u>\$ 3,366,700</u> | <u>\$ 2,140,715</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, 2013

Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2013

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|---|----------------------|----------------------|------------------------------------|---|---|--------------------------|--------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants, Contributions and Debt Proceeds | Governmental Activities | Business-Type Activities | Total |
| Primary Government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General Government | \$ 90,035 | \$ - | \$ - | \$ - | \$ (90,035) | \$ - | \$ (90,035) |
| Public Safety | 1,525,373 | 19,021 | 4,484 | - | (1,501,868) | - | (1,501,868) |
| Highways and Streets | 613,044 | - | 28,115 | - | (584,929) | - | (584,929) |
| Culture and Recreation | 133,061 | 3,080 | 7,414 | - | (122,567) | - | (122,567) |
| Cemetery | 138,844 | 55,471 | - | - | (83,373) | - | (83,373) |
| Airport | 226,362 | 479,274 | - | 9,225 | 262,137 | - | 262,137 |
| Sales Tax Payments to Hospital | 259,146 | - | - | - | (259,146) | - | (259,146) |
| Total governmental activities | <u>2,985,865</u> | <u>556,846</u> | <u>40,013</u> | <u>9,225</u> | <u>(2,379,781)</u> | <u>-</u> | <u>(2,379,781)</u> |
| Business-type activities: | | | | | | | |
| Administration | 725,915 | - | - | - | - | (725,915) | (725,915) |
| Electric | 3,807,959 | 5,622,551 | - | - | - | 1,814,592 | 1,814,592 |
| Water | 1,972,491 | 1,795,653 | - | 285,566 | - | 108,728 | 108,728 |
| Sewer | 148,568 | 414,378 | - | - | - | 265,810 | 265,810 |
| Sanitation | 528,083 | 643,084 | - | - | - | 115,001 | 115,001 |
| Lake | 101,765 | 10,949 | - | - | - | (90,816) | (90,816) |
| Swimming Pool | 47,868 | 3,193 | - | - | - | (44,675) | (44,675) |
| Economic Development | 272,646 | 283,358 | - | - | - | 10,712 | 10,712 |
| Total business-type activities | <u>7,605,295</u> | <u>8,773,166</u> | <u>-</u> | <u>285,566</u> | <u>-</u> | <u>1,453,437</u> | <u>1,453,437</u> |
| Total primary government | <u>\$ 10,591,160</u> | <u>\$ 9,330,012</u> | <u>\$ 40,013</u> | <u>\$ 294,791</u> | <u>(2,379,781)</u> | <u>1,453,437</u> | <u>(926,344)</u> |
| General revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Sales and use tax | | | | | 958,680 | - | 958,680 |
| Franchise and public service taxes | | | | | 114,812 | - | 114,812 |
| Intergovernmental revenue not restricted to specific programs | | | | | 54,378 | - | 54,378 |
| Investment income | | | | | 7,625 | 4,409 | 12,034 |
| Miscellaneous | | | | | 101,326 | 43,349 | 144,675 |
| Transfers - Internal activity | | | | | <u>1,262,797</u> | <u>(1,262,797)</u> | <u>-</u> |
| Total general revenues and transfers | | | | | <u>2,499,618</u> | <u>(1,215,039)</u> | <u>1,284,579</u> |
| Change in net position | | | | | 119,837 | 238,398 | 358,235 |
| Net position (deficit) - beginning | | | | | (1,345,822) | 3,128,302 | 1,782,480 |
| Net position (deficit) - ending | | | | | <u>\$ (1,225,985)</u> | <u>\$ 3,366,700</u> | <u>\$2,140,715</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, 2013**

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2013

| | <u>General Fund</u> | <u>Capital Improvement Fund</u> | <u>Cemetery Trust Fund</u> | <u>Total Governmental Funds</u> |
|--------------------------------------|-------------------------|---|------------------------------------|---|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,511 | \$ - | \$ 13 | \$ 1,524 |
| Investments | 447,150 | - | 13,106 | 460,256 |
| Due from other funds | 1,259,461 | 819,027 | 131,311 | 2,209,799 |
| Total Assets | <u>\$ 1,708,122</u> | <u>\$ 819,027</u> | <u>\$ 144,430</u> | <u>\$ 2,671,579</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Cash overdraft | \$ - | \$ 303,077 | \$ - | \$ 303,077 |
| Due to employees | 4,281 | - | - | 4,281 |
| Due to other governments | 17,404 | - | - | 17,404 |
| Due to other funds | 1,938,661 | 1,634,141 | - | 3,572,802 |
| Total Liabilities | <u>1,960,346</u> | <u>1,937,218</u> | <u>-</u> | <u>3,897,564</u> |
| Fund Balance (Deficit): | | | | |
| Restricted for: | | | | |
| Airport | 1,383,991 | - | - | 1,383,991 |
| Cemetery | - | - | 143,579 | 143,579 |
| Assigned to: | | | | |
| Cemetery | 22,438 | - | 851 | 23,289 |
| Capital outlay | 249,384 | - | - | 249,384 |
| Unassigned (Deficit) | <u>(1,908,037)</u> | <u>(1,118,191)</u> | <u>-</u> | <u>(3,026,228)</u> |
| Total Fund Balance (Deficit) | <u>(252,224)</u> | <u>(1,118,191)</u> | <u>144,430</u> | <u>(1,225,985)</u> |
| Total Liabilities and Fund Balances | <u>\$ 1,708,122</u> | <u>\$ 819,027</u> | <u>\$ 144,430</u> | <u>\$ 2,671,579</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, 2013

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
(Modified Cash Basis) – Year Ended June 30, 2013

| | <u>General Fund</u> | <u>Capital Improvement Fund</u> | <u>Cemetery Trust Fund</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|---|------------------------------------|---|
| Revenues: | | | | |
| Taxes | \$ 1,073,492 | \$ - | \$ - | \$ 1,073,492 |
| Intergovernmental | 103,616 | - | - | 103,616 |
| Charges for services | 534,781 | - | 6,934 | 541,715 |
| Fines and forfeitures | 19,021 | - | - | 19,021 |
| Investment income | 7,449 | 19 | 157 | 7,625 |
| Miscellaneous | 80,382 | 17,054 | - | 97,436 |
| Total Revenues | <u>1,818,741</u> | <u>17,073</u> | <u>7,091</u> | <u>1,842,905</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General Government: | | | | |
| Managerial | 71,929 | - | - | 71,929 |
| Public Safety: | | | | |
| Police | 697,654 | - | - | 697,654 |
| Dispatchers | 90,000 | - | - | 90,000 |
| Fire | 567,481 | - | - | 567,481 |
| Emergency management | 5,140 | - | - | 5,140 |
| Highways and streets: | | | | |
| Streets | 225,629 | - | - | 225,629 |
| Culture and Recreation | | | | |
| Parks | 47,362 | - | - | 47,362 |
| Library | 76,407 | - | - | 76,407 |
| Airport | 195,622 | - | - | 195,622 |
| Cemetery | 114,378 | - | - | 114,378 |
| Capital outlay | 254,996 | 193,370 | - | 448,366 |
| Debt service: | | | | |
| Principal | 86,080 | - | - | 86,080 |
| Interest | 8,549 | - | - | 8,549 |
| Total Expenditures | <u>2,441,227</u> | <u>193,370</u> | <u>-</u> | <u>2,634,597</u> |
| Excess (deficiency) of revenues over expenditures | (622,486) | (176,297) | 7,091 | (791,692) |
| Other Financing Sources (Uses): | | | | |
| Sales tax payments to hospital | (259,146) | - | - | (259,146) |
| Transfers in | 1,370,534 | 818,049 | - | 2,188,583 |
| Transfers out | (575,412) | (442,497) | - | (1,017,909) |
| Total Other Financing Sources (Uses) | <u>535,976</u> | <u>375,552</u> | <u>-</u> | <u>911,528</u> |
| Net change in fund balances | (86,510) | 199,255 | 7,091 | 119,836 |
| Fund balances (deficit) - beginning | (165,714) | (1,317,446) | 137,339 | (1,345,821) |
| Fund balances (deficit) - ending | <u>\$ (252,224)</u> | <u>\$ (1,118,191)</u> | <u>\$ 144,430</u> | <u>\$ (1,225,985)</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, 2013**

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

CITY OF FREDERICK, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2013

| | 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 | 1,646,984 | 81,366 | 1,728,350 |
| Restricted investments | 266,284 | 322,770 | 589,054 |
| Due from employee | 76 | - | 76 |
| Due from other funds | 1,675,711 | 981,496 | 2,657,207 |
| Total Assets | <u>3,590,955</u> | <u>1,385,632</u> | <u>4,976,587</u> |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Due to other governments | 26,456 | - | 26,456 |
| Due to other funds | 1,201,568 | 92,636 | 1,294,204 |
| Deposit liability | 289,227 | - | 289,227 |
| Total Liabilities | <u>1,517,251</u> | <u>92,636</u> | <u>1,609,887</u> |
| NET POSITION | | | |
| Restricted for debt service | 215,292 | 404,136 | 619,428 |
| Restricted for other purposes | 1,408,749 | - | 1,408,749 |
| Unrestricted | 449,663 | 888,860 | 1,338,523 |
| Total Net Position | <u>\$ 2,073,704</u> | <u>\$ 1,292,996</u> | <u>\$ 3,366,700</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, 2013

Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis) – Year Ended June 30, 2013

| | <u>Frederick Public Works Authority</u> | <u>Frederick Economic Development Authority</u> | <u>Totals</u> |
|---|---|---|---------------------|
| Operating Revenues: | | | |
| Charges for services: | | | |
| Water | \$ 1,777,807 | \$ - | \$ 1,777,807 |
| Sewer | 410,260 | - | 410,260 |
| Sanitation | 636,693 | - | 636,693 |
| Electric | 5,566,670 | - | 5,566,670 |
| Penalties | 69,913 | - | 69,913 |
| Lake fees | 10,949 | - | 10,949 |
| Swimming pool | 3,193 | - | 3,193 |
| Leases and rent | 17,312 | 266,046 | 283,358 |
| Other miscellaneous | 14,324 | - | 14,324 |
| Total Operating Revenues | <u>8,507,121</u> | <u>266,046</u> | <u>8,773,167</u> |
| Operating Expenses: | | | |
| Administrative | 725,915 | - | 725,915 |
| Water | 951,444 | - | 951,444 |
| Sewer | 148,568 | - | 148,568 |
| Sanitation | 528,083 | - | 528,083 |
| Electric | 3,804,459 | - | 3,804,459 |
| Lake | 101,765 | - | 101,765 |
| Swimming pool | 47,868 | - | 47,868 |
| Economic development | - | 92,346 | 92,346 |
| Total Operating Expenses | <u>6,308,102</u> | <u>92,346</u> | <u>6,400,448</u> |
| Operating Income | 2,199,019 | 173,700 | 2,372,719 |
| Non-Operating Revenues (Expenses): | | | |
| Investment income | 2,124 | 2,285 | 4,409 |
| Miscellaneous | 36,172 | 7,175 | 43,347 |
| Bond proceeds | 285,566 | - | 285,566 |
| Capital outlay | (435,992) | - | (435,992) |
| Debt service: | | | |
| Principal retirement | (542,169) | (120,000) | (662,169) |
| Interest expense and fees | (138,508) | (60,300) | (198,808) |
| Total Non-Operating Revenues (Expenses) | <u>(792,807)</u> | <u>(170,840)</u> | <u>(963,647)</u> |
| Net Income Before Transfers | 1,406,212 | 2,860 | 1,409,072 |
| Transfers in | 720,932 | 259,146 | 980,078 |
| Transfers out | <u>(2,131,228)</u> | <u>(19,524)</u> | <u>(2,150,752)</u> |
| Change in net position | (4,084) | 242,482 | 238,398 |
| Total net position - beginning | 2,077,788 | 1,050,514 | 3,128,302 |
| Total net position - ending | <u>\$ 2,073,704</u> | <u>\$ 1,292,996</u> | <u>\$ 3,366,700</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, 2013

Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2013

| | Frederick Public Works Authority | Frederick Economic Development Authority | Totals |
|---|---|---|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 8,507,121 | \$ 266,046 | \$ 8,773,167 |
| Payments to suppliers | (5,241,074) | (92,346) | (5,333,420) |
| Payments to employees | (1,213,448) | - | (1,213,448) |
| Receipts from (Payments to) other funds | 300,062 | (60,678) | 239,384 |
| Receipts of customer utility deposits | 32,955 | - | 32,955 |
| Refunds of customer utility deposits | (16,675) | - | (16,675) |
| Other receipts | 36,172 | 7,175 | 43,347 |
| Net Cash Provided by Operating Activities | <u>2,405,113</u> | <u>120,197</u> | <u>2,525,310</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Transfers from other funds | 720,932 | 259,146 | 980,078 |
| Transfers to other funds | (2,131,228) | (19,524) | (2,150,752) |
| Net Cash Provided by (Used in) Noncapital Financing Activities | <u>(1,410,296)</u> | <u>239,622</u> | <u>(1,170,674)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchase of capital assets | (435,992) | - | (435,992) |
| Principal paid on debt | (542,169) | (120,000) | (662,169) |
| Interest and fiscal agent fees paid on debt | (138,508) | (60,300) | (198,808) |
| Bond proceeds | 285,566 | - | 285,566 |
| Net Cash Provided by (Used in) Capital and Related Financing Activities | <u>(831,103)</u> | <u>(180,300)</u> | <u>(1,011,403)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest and dividends | 2,124 | 2,285 | 4,409 |
| Change in investments | (204,983) | (202,923) | (407,906) |
| Net Cash Provided by (Used in) Investing Activities | <u>(202,859)</u> | <u>(200,638)</u> | <u>(403,497)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (39,145) | (21,119) | (60,264) |
| Balance - beginning of the year | 1,688,029 | 102,485 | 1,790,514 |
| Balance - end of the year | <u>\$ 1,648,884</u> | <u>\$ 81,366</u> | <u>\$ 1,730,250</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | \$ 2,199,019 | \$ 173,700 | \$ 2,372,719 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Other receipts | 36,172 | 7,175 | 43,347 |
| Change in assets and liabilities: | | | |
| Due from other funds | (110,013) | (65,628) | (175,641) |
| Due to other governments | (146,420) | - | (146,420) |
| Due to other funds | 410,075 | 4,950 | 415,025 |
| Deposit liability | 16,280 | - | 16,280 |
| Net cash provided by operating activities | <u>\$ 2,405,113</u> | <u>\$ 120,197</u> | <u>\$ 2,525,310</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, 2013**

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* as modified by Statement 61.

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 position and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for 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

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

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

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

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.

For purposes of the statement of revenues, expenses and changes in fund net position, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues

and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

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.

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 Position

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 City's highest level of decision-making authority. The City's highest level of decision-making authority is made by ordinance.

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

CITY OF FREDERICK, OKLAHOMA
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2. Deposits and Investments

For the year ended June 30, 2013, the City recognized \$12,034 of investment income.

At June 30, 2013, the primary government held the following deposits and investments:

| <u>Primary Government:</u> | <u>Carrying</u> | <u>Value</u> |
|--|----------------------|----------------------------|
| Deposits: | | |
| Demand deposits | \$ | 970,879 |
| Time deposits | | 983,138 |
| | <u>Credit</u> | |
| | <u>Rating</u> | |
| Investments: | | |
| Goldman Sachs Financial Square Treasury Obligations Fund | Aaa | 60,952 |
| Cavanal Hill Cash Management Fund | Aaa | 100,102 |
| Prime Fund Capital Reserves | * | 972 |
| Federated Treasury Obligations | Aaa-mf | 350,241 |
| Federal Home Loan Bank Mortgage Corporation | Aaa | 11,723 |
| Total Deposits and Investments | | <u>\$ 2,478,007</u> |
| Reconciliation to Statement of Net Position: | | |
| Cash and cash equivalents | \$ | 1,731,774 |
| Cash overdraft (See Note below) | | (303,077) |
| Investments | | 1,049,310 |
| | | <u>\$ 2,478,007</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, 2013, the City had no custodial credit risk as described above.

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Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and 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, 2013 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, 2013, the City had no concentration of credit risk as defined above.

Restricted Cash and Investments – The amounts reported as restricted assets on the proprietary fund statement of net position are comprised of amounts restricted for debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2013 are as follows:

| <u>Type of Restricted Assets</u> | <u>Current Cash and Cash Equivalents</u> | <u>Current Investments</u> |
|----------------------------------|--|--------------------------------|
| Utility Deposits | \$ 172,849 | \$ 154,741 |
| Water Surcharge | 907,142 | 52,001 |
| Sewer Surcharge | 129,533 | - |
| Lake & Recreation | 5,026 | 71 |
| Landfill Escrow | 268,388 | - |
| Sales Tax Reserve | - | 8,225 |
| 2004 Bond Trust Accounts | 81,366 | 322,770 |
| Mountain Park District 2005 | 100,102 | - |
| 2009 Bond Trust Accounts | - | 51,246 |
| 2006 Bond Trust Accounts | 63,944 | - |
| | <u>1,728,350</u> | <u>589,054</u> |
| Total Restricted Assets | <u>\$ 1,728,350</u> | <u>\$ 589,054</u> |

**CITY OF FREDERICK, OKLAHOMA
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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 one cent is voter-restricted for capital improvements and pledged for debt on FPWA; one cent is voter restricted for FEDA; and one cent is voter restricted for the hospital in accordance with City ordinances. The remaining half-cent is pledged for debt on FPWA. 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 as needed for debt service, and one cent is 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.

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 | \$ 515,660 | Sales tax received not yet transferred |
| General Fund | FPWA | 888,862 | Negative cash |
| General Fund | FPWA | 2,615 | Expenditures paid on behalf of another fund |
| General Fund | Cemetery Trust Fund | 8,893 | 12.5% of lot sales and openings not yet transferred |
| General Fund | FEDA | 522,631 | Sales tax received not yet transferred |
| Capital Improvement Fund | General Fund | 521,389 | Water run-off expenditures paid on behalf of another fund |
| Capital Improvement Fund | General Fund | 32,201 | Expenditures paid on behalf of another fund |
| Capital Improvement Fund | General Fund | 535,951 | Negative cash |
| Capital Improvement Fund | FEDA | 268,844 | Negative cash |
| Capital Improvement Fund | Cemetery Trust Fund | 90,368 | Negative cash |
| Capital Improvement Fund | FPWA | 185,389 | Negative cash |
| FEDA | Airport | 9,450 | Hanger Rent not yet transferred |
| FEDA | FPWA | 83,186 | Expenditures paid on behalf of another fund |
| FPWA | Cemetery Trust Fund | 32,050 | Repayment of use of restricted funds |
| FPWA | General Fund | 10,550 | Expenditures paid on behalf of another fund |
| FPWA | General Fund | 613 | Repayment of revenue posted to wrong fund |
| FPWA | General Fund | 53,675 | Expenditures paid on behalf of another fund |
| FPWA | General Fund | 95,632 | Expenditures paid on behalf of another fund |
| FPWA | Capital Improvement Fund | 819,027 | Expenditures paid on behalf of another fund |
| FPWA | FEDA | 190,020 | Lease revenue not yet transferred |
| | | <u>\$ 4,867,006</u> | |

Reconciliation to Statement of Net Position:

| | <u>Due From</u> | <u>Due To</u> | <u>Internal Balances</u> |
|---------------|---------------------|-----------------------|--------------------------|
| Governmental | \$ 2,209,799 | \$ (3,572,802) | \$ (1,363,003) |
| Business-Type | 2,657,207 | (1,294,204) | 1,363,003 |
| Total | <u>\$ 4,867,006</u> | <u>\$ (4,867,006)</u> | <u>\$ -</u> |

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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".

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2013, were as follows:

| <u>Transfer From</u> | <u>Transfer To</u> | <u>Amount</u> | <u>Nature of Transfer</u> |
|--------------------------------|-----------------------------------|---------------|---------------------------|
| General Fund | FEDA | \$ 259,146 | Sales tax allocation |
| General Fund | FPWA | 268,310 | Sales tax allocation |
| General Fund | CIF | 15,830 | Reimbursement of expenses |
| General Fund | Recoveries Account - General Fund | 4,484 | Reimbursement of expenses |
| Airport Account - General Fund | CIF | 27,640 | Reimbursement of expenses |
| FPWA | General Fund | 1,356,650 | Operating Subsidy |
| FPWA | CIF | 774,579 | Reimbursement of expenses |
| FEDA | FPWA | 19,524 | Reimbursement of expenses |
| Capital Improvement Fund | General Fund | 9,400 | Reimbursement of expenses |
| Capital Improvement Fund | FPWA | 433,098 | Reimbursement of expenses |
| | | \$ 3,168,661 | |

Reconciliation to Statement of Changes in Net Assets:

| | <u>Transfers In</u> | <u>Transfers Out</u> | Reclass | |
|---------------|---------------------|----------------------|----------------------|----------------------|
| | | | <u>Business-Type</u> | <u>Activity to</u> |
| | | | <u>Governmental</u> | <u>Net Transfers</u> |
| Governmental | \$ 2,188,583 | \$ (1,017,909) | \$ 92,122 | \$ 1,262,796 |
| Business-Type | 980,078 | (2,150,752) | (92,122) | (1,262,796) |
| Total | \$ 3,168,661 | \$ (3,168,661) | \$ - | \$ - |

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

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 2013, the City's annual required contribution was \$37,788 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 2013, the City's annual required contribution was \$38,930 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

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| <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> |
| 2011 | 33,704 | 100% | 41,542 | 100% |
| 2012 | 32,350 | 100% | 39,203 | 100% |
| 2013 | 37,788 | 100% | 38,930 | 100% |

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, 2013, such required contributions were 17.0 percent of covered payroll, of which 12.75 percent and 4.25 percent were the required contributions by the employer and employee respectively. For the year ended June 30, 2013, contributions to the plan amounted to \$117,061 which was more than the actuarially required contribution. The City funded 13.0% of covered payroll.

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

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| Provision | OMRF Plan |
|-----------------------------------|---|
| a. Eligible to Participate | Full-time, non-uniformed employees of the City |
| b. Contribution Requirements: | |
| -Authorization | By City ordinance |
| -Actuarially Determined | Yes |
| -Employer Rate | 12.75% of covered payroll |
| -Employee Rate | 4.25% 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. |

8. Commitments and Contingencies

Long-term Debt Commitments:

Governmental activities had the following long-term debt-related commitments outstanding for June 30, 2013:

Lease Agreements with Non-Appropriation Provisions:

| | |
|--|------------------|
| \$15,000 lease agreement with Prosperity Bank for a John Deere Backhoe, payable in monthly installments of \$647, final payment due December 2013 | \$ 2,558 |
| \$91,385 lease agreement with Auto Leasing Specialists for three police vehicles, payable in annual installments of \$30,462, final payment due March 2014 | 29,431 |
| \$98,000 lease agreement with Prosperity Bank for a John Deere Backhoe, payable in monthly installments of \$1,329, final payment due March 2016 of \$56,600 | <u>92,431</u> |
| Total Lease Agreements | <u>\$124,420</u> |

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

Frederick Public Works Authority:

Notes Payable:

\$4,500,000 note payable to the Oklahoma Water Resources Board dated February 1, 2009, secured by capital assets, interest rate of 2.58%, final payment due March 15, 2031 \$2,805,608

Capital Lease Obligations:

\$79,500 capital lease obligation for a 2013 John Deere backhoe, payable in monthly installments of \$1,200 interest rate of 2.70%, final payment of \$41,350 due March 2016. \$74,372

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%. \$1,850,550

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. 650,000

Total Revenue Bonds Payable \$2,500,550

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. \$230,000

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. \$805,000

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| Year Ended June 30, | Business-Type Activities | | | | | |
|------------------------|--------------------------|-------------|-----------------------|------------------|-----------------------|------------------|
| | FEDA | | | | FPWA | |
| | Notes Payable | | Revenue Bonds Payable | | Revenue Bonds Payable | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 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 | 20,000 | - | 145,000 | 17,888 | 127,595 | 72,318 |
| 2019-2023 | 100,000 | - | 160,000 | 7,950 | 744,445 | 256,456 |
| 2024-2026 | 30,000 | - | - | - | 526,435 | 54,750 |
| Total | \$ 230,000 | \$ - | \$805,000 | \$183,678 | \$2,500,550 | \$782,301 |

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 \$2,581,107. The note is payable from the above-mentioned utility net revenues. The debt service payment on the bonds this year was \$199,747 which was 28.5% of pledged net utility revenues of \$701,352.

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, 2013. The note is payable from the above-mentioned utility net revenues. The debt service payment on the bonds this year was \$233,818, which was 33.3% of pledged net utility revenues of \$701,352.

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 \$701,744. Pledged sales taxes received in the current year were \$388,720. Debt service payments of \$232,728 for the current fiscal year were 60% 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, 2013 is \$144,244.

Litigation:

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

Federal and State Award Programs:

The City of Frederick participates in various federal or state grant/loan programs from year to year. Grants received in 2013 were not significant. 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, 2013, the Frederick Public Works Authority had deposited \$268,388 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.

10. New Accounting Pronouncements

The City early implemented the following accounting standards during the fiscal year ended June 30, 2013:

Governmental Accounting Standards Board Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements – This has no impact on the city’s financial report.

Governmental Accounting Standards Board Statement No. 61 – The Financial Reporting Entity: Omnibus – This has no impact on the city’s financial report.

Governmental Accounting Standards Board Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements – A few sentences were removed from “Section B – Proprietary Funds” note disclosure to eliminate references to FASB pronouncements and APB opinions issued on or before November 30, 1989.

Governmental Accounting Standards Board Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position – The only change required from the early implementation of this statement are changing the words “Net Assets” in the city’s financial report to “Net Position”.

Governmental Accounting Standards Board Statement No. 65 – Items Previously Reported as Assets and Liabilities – This has no impact on the city’s financial report.

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SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2013

| | GENERAL FUND | | | |
|--|------------------|-------------------|-----------------------|-------------------------------------|
| | Budgeted Amounts | | Actual Amounts | Final Budget Positive (Negative) |
| | Original | Final | | |
| Beginning Budgetary Fund Balance (Deficit): | \$ - | \$ - | \$ (1,551,199) | \$ (1,551,199) |
| Resources (Inflows): | | | | |
| Taxes | 955,000 | 1,020,200 | 1,073,492 | 53,292 |
| Intergovernmental | 57,000 | 66,000 | 89,907 | 23,907 |
| Charges for services | 90,000 | 78,500 | 51,617 | (26,883) |
| Fines and Forfeitures | 30,000 | 17,500 | 19,021 | 1,521 |
| Licenses and Permits | 40,000 | 28,000 | - | (28,000) |
| Investment Income | - | - | 2,573 | 2,573 |
| Miscellaneous | 20,528 | 26,228 | 20,148 | (6,080) |
| Other Financing Sources - Transfers In | 1,432,661 | 1,432,661 | 1,366,050 | (66,611) |
| Total Resources | 2,625,189 | 2,669,089 | 2,622,808 | (46,281) |
| Amounts available for appropriation | 2,625,189 | 2,669,089 | 1,071,609 | (1,597,480) |
| Charges to Appropriations (Outflows): | | | | |
| Managerial | 291,000 | 339,800 | 317,802 | 21,998 |
| Police | 737,000 | 753,400 | 777,097 | (23,697) |
| Dispatch | 90,000 | 90,000 | 90,000 | - |
| Fire | 530,000 | 599,700 | 621,866 | (22,166) |
| Streets | 282,689 | 213,689 | 361,579 | (147,890) |
| Parks | 51,500 | 54,100 | 47,602 | 6,498 |
| Library | 88,000 | 89,000 | 85,309 | 3,691 |
| Cemetery | 99,500 | 126,150 | 122,339 | 3,811 |
| Emergency Management | 5,500 | 5,750 | 5,140 | 610 |
| Other Financing Uses - Transfers Out | 450,000 | 400,500 | 547,771 | (147,271) |
| Total Charges to Appropriations | 2,625,189 | 2,672,089 | 2,976,505 | (304,416) |
| Ending Budgetary Fund Balance (Deficit) | \$ - | \$ (3,000) | \$ (1,904,896) | \$ (1,901,896) |

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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 | (\$ 23,697) |
| General Fund – Fire | (\$ 22,166) |
| General Fund – Streets | (\$ 147,890) |
| General Fund – Transfers out | (\$ 147,271) |

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 | \$(1,904,896) |
| Flex Spending Account fund balance | <u>(3,141)</u> |
| | <u><u>\$(1,908,037)</u></u> |

**CITY OF FREDERICK, OKLAHOMA
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Combining Balance Sheet - General Fund Accounts (Modified Cash Basis) – June 30, 2013

| | <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 | \$ 7 | \$ 1,502 | \$ 2 | \$ - | \$ 1,511 |
| Investments | 6,817 | 438,505 | 1,828 | - | 447,150 |
| Due from other funds | 38,723 | 944,857 | 20,608 | 255,273 | 1,259,461 |
| Due from other interaccounts | 11,246 | - | - | 4,484 | 15,730 |
| Total Assets | <u>\$ 56,793</u> | <u>\$ 1,384,864</u> | <u>\$ 22,438</u> | <u>\$ 259,757</u> | <u>\$ 1,723,852</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Due to employees | \$ 4,281 | \$ - | \$ - | \$ - | \$ 4,281 |
| Due to other governments | 17,404 | - | - | - | 17,404 |
| Due to other funds | 1,938,661 | - | - | - | 1,938,661 |
| Due to other interaccounts | 4,484 | 873 | - | 10,373 | 15,730 |
| Total Liabilities | <u>1,964,830</u> | <u>873</u> | <u>-</u> | <u>10,373</u> | <u>1,976,076</u> |
| Fund Balance (Deficit): | | | | | |
| Restricted for: | | | | | |
| Airport | - | 1,383,991 | - | - | 1,383,991 |
| Assigned to: | | | | | |
| Cemetery | - | - | 22,438 | - | 22,438 |
| Capital outlay | - | - | - | 249,384 | 249,384 |
| Unassigned (Deficit) | <u>(1,908,037)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(1,908,037)</u> |
| Total Fund Balance (Deficit) | <u>(1,908,037)</u> | <u>1,383,991</u> | <u>22,438</u> | <u>249,384</u> | <u>(252,224)</u> |
| Total Liabilities and Fund Balances | <u>\$ 56,793</u> | <u>\$ 1,384,864</u> | <u>\$ 22,438</u> | <u>\$ 259,757</u> | <u>\$ 1,723,852</u> |

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Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – General Fund Accounts (Modified Cash Basis) – Year Ended June 30, 2013

| | <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 | \$ 1,073,492 | \$ - | \$ - | \$ - | \$ 1,073,492 |
| Intergovernmental | 89,907 | 9,225 | - | 4,484 | 103,616 |
| Charges for services | 55,507 | 479,274 | - | - | 534,781 |
| Fines and forfeitures | 19,021 | - | - | - | 19,021 |
| Investment income | 2,573 | 4,852 | 24 | - | 7,449 |
| Miscellaneous | 20,146 | 65 | 105 | 60,066 | 80,382 |
| Total Revenues | <u>1,260,646</u> | <u>493,416</u> | <u>129</u> | <u>64,550</u> | <u>1,818,741</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| General Government: | | | | | |
| Managerial | 71,929 | - | - | - | 71,929 |
| Public Safety: | | | | | |
| Police | 697,654 | - | - | - | 697,654 |
| Dispatchers | 90,000 | - | - | - | 90,000 |
| Fire | 567,481 | - | - | - | 567,481 |
| Emergency management | 5,140 | - | - | - | 5,140 |
| Highways and streets: | | | | | |
| Streets | 225,629 | - | - | - | 225,629 |
| Culture and Recreation | | | | | |
| Parks | 47,362 | - | - | - | 47,362 |
| Library | 76,407 | - | - | - | 76,407 |
| Airport | - | 195,622 | - | - | 195,622 |
| Cemetery | 114,378 | - | - | - | 114,378 |
| Capital outlay | 184,239 | - | - | 70,757 | 254,996 |
| Debt service: | | | | | |
| Principal | 86,080 | - | - | - | 86,080 |
| Interest | 8,549 | - | - | - | 8,549 |
| Total Expenditures | <u>2,174,848</u> | <u>195,622</u> | <u>-</u> | <u>70,757</u> | <u>2,441,227</u> |
| Excess (deficiency) of revenues over expenc | (914,202) | 297,794 | 129 | (6,207) | (622,486) |
| Other Financing Sources (Uses): | | | | | |
| Sales tax payments to hospital | (259,146) | - | - | - | (259,146) |
| Transfers in | 1,366,050 | - | - | 4,484 | 1,370,534 |
| Transfers out | (547,772) | (27,640) | - | - | (575,412) |
| Total Other Financing Sources (Uses) | <u>559,132</u> | <u>(27,640)</u> | <u>-</u> | <u>4,484</u> | <u>535,976</u> |
| Net change in fund balances | (355,070) | 270,154 | 129 | (1,723) | (86,510) |
| Fund balance (deficit) - beginning | (1,552,967) | 1,113,837 | 22,309 | 251,107 | (165,714) |
| Fund balance (deficit) - ending | <u>\$ (1,908,037)</u> | <u>\$ 1,383,991</u> | <u>\$ 22,438</u> | <u>\$ 249,384</u> | <u>\$ (252,224)</u> |

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Schedule of Expenditures of State Awards (Modified Cash Basis) – Year Ended June 30, 2013

| State Grantor Grantor/Program Title | Award Amount | Expenditures |
|---|-------------------------|---------------------|
| STATE AWARDS: | | |
| <u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u> | | |
| Library State Aid | 7,428 | 7,414 |
| <u>OKLAHOMA AERONAUTICS COMMISSION</u> | | |
| Airport Improvement Grant | 9,225 | 9,225 |
| <u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u> | | |
| Rural Fire Grant - Oklahoma Department of Agriculture | 4,484 | 4,484 |
| TOTAL STATE AWARDS | \$ 21,137 | \$ 21,123 |

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INTERNAL CONTROL AND COMPLIANCE INFORMATION

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

To the Honorable Mayor and City Council
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, and each major fund, of the City of Frederick, Oklahoma (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 2, 2014. Our report included an emphasis-of-a-matter paragraph related to the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards, and which is described in the accompanying schedule of findings as Finding 13-01 and 13-02.

City of Frederick, Oklahoma's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings. The City's response was not subjected 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arledge & Associates, P.C.

December 2, 2014

CITY OF FREDRICK

SUMMARY SCHEDULE OF FINDINGS
Year Ended June 30, 2013

Finding 13-01 – Budgeted Appropriations
(Repeat finding)

Criteria: Oklahoma State law prescribes that no encumbrances or expenditures may be authorized or made by an officer or employee that 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</u> | <u>Amount</u> |
|--------------|--------------------|---------------|
| General Fund | Police Department | \$ 23,697 |
| General Fund | Fire Department | \$ 22,166 |
| General Fund | Streets Department | \$147,890 |

Cause: Year-end adjustments are recorded in the preparation of the annual financial statements that result in charges to appropriations that may exceed the appropriations for a department.

Effect or Potential Effect: Expenditures may 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: Management will review all funds and departments prior to year end to ensure that any budget amendments needed are completed and approved prior to June 30.

Finding 13-02 Negative Fund Balance
(Repeat finding)

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

Condition: The following funds reported deficits at June 30, 2013:

| <u>Fund</u> | <u>Amount</u> |
|--------------------------|----------------|
| General Fund | \$ (252,224) |
| Capital Improvement Fund | \$ (1,118,191) |

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.