

**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**BASIC FINANCIAL STATEMENTS**  
**June 30, 2012**

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

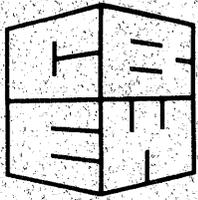
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CITY OF DRUMRIGHT  
Drumright, Oklahoma

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**CBEW**  
**Professional**  
**Group, LLP**

Certified Public Accountants

206 N. HARRISON • P.O. BOX 790 • CUSHING, OKLAHOMA 74023 • 918-225-4216 • FAX 918-225-4315

DON K. ETHRIDGE, CPA  
WALTER H. WEBB, CPA  
JANE FRAZIER, CPA  
CHARLES E. CROOKS, CPA  
TRISHA J. RIEMAN, CPA

## INDEPENDENT AUDITOR'S REPORT

October 30, 2012.

Honorable Board of City Commissioners  
City of Drumright  
Drumright, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Drumright, Oklahoma, (City) as of and for the year ended June 30, 2012 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Drumright, Oklahoma as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2012, on our consideration of the City's internal control over financial reporting and 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.

City of Drumright  
October 30, 2012

Accounting principles generally accepted in the United States of America require that budgetary comparison information on pages 38 through 40 and the notes on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City of Drumright has not presented Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

*CBEW Professional Group, LLP*

CBEW Professional Group, LLP  
Certified Public Accountants

**CITY OF DRUMRIGHT**  
**STATEMENT OF NET ASSETS**  
June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and investments:			
Cash & cash equivalents (Note 1)	\$ 355,391	\$ 1,375,287	\$ 1,730,678
Investments, at cost	226,960	1,059,961	1,286,921
Receivables (net of allowance for uncollectibles):			
Accounts receivable	58,918	139,266	198,184
Taxes	147,456	36,055	183,511
Franchise	16,820	-	16,820
Interest	-	3,554	3,554
Grant	1,917	-	1,917
Deferred billing	-	12,731	12,731
Note receivable	-	114,835	114,835
Restricted assets:			
Cash & cash equivalents (Note 1 & 3)	10,357	70,058	80,415
Investments, at cost	39,540	181,000	220,540
Gas loan reserve	-	189,400	189,400
Revenue bond accounts	-	355,004	355,004
<b>Capital assets:</b>			
Land	64,900	40,425	105,325
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	1,288,223	5,387,108	6,675,331
<b>Deferred charges:</b>			
Debt issue cost (net of accumulated amortization) (Note 1)	-	237,431	237,431
<b>Total assets</b>	<b>\$ 2,210,482</b>	<b>\$ 9,202,115</b>	<b>\$ 11,412,597</b>
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ 29,408	\$ 29,408
Claims pending	35,474	-	35,474
Reserve for court improvements	12,171	-	12,171
Accrued interest	-	76,109	76,109
Deferred compensation	73,152	34,618	107,770
Payable from restricted assets:			
Meter deposits	-	211,235	211,235
Notes payable (Note 3)	58,735	230,282	289,017
Revenue bonds payable (Notes 3)	-	3,200,319	3,200,319
Revenue notes payable (Notes 3)	-	2,719,382	2,719,382
<b>Total liabilities</b>	<b>179,532</b>	<b>6,501,353</b>	<b>6,680,885</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	1,294,389	(722,450)	571,939
Restricted	415,875	1,425,694	1,841,569
Unrestricted	320,687	1,997,518	2,318,204
<b>Total net assets</b>	<b>\$ 2,030,950</b>	<b>\$ 2,700,762</b>	<b>\$ 4,731,712</b>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DRUMRIGHT**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues		Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	
<b>Governmental activities:</b>				
General government:				
City clerk	\$ 172,879	\$ -	\$ -	\$ (172,879)
City manager	83,281	-	-	(83,281)
General government	123,554	4,816	-	(118,738)
Total general government	<u>379,714</u>	<u>4,816</u>	<u>-</u>	<u>(374,898)</u>
Public safety and judiciary:				
City attorney	19,242	-	-	(19,242)
Fire	312,165	600	5,043	(289,314)
Municipal court	15,750	-	-	(15,750)
Police	393,829	127,408	24,866	(241,555)
Total public safety and judiciary	<u>740,986</u>	<u>128,008</u>	<u>29,909</u>	<u>(565,861)</u>
Transportation:				
Streets	337,035	-	-	(277,035)
Total transportation	<u>337,035</u>	<u>-</u>	<u>-</u>	<u>(277,035)</u>
Cultural, parks and recreation:				
Cemetery	-	1,385	-	1,385
Library	69,129	1,716	397	(67,016)
Parks	13,037	-	-	(13,037)
Total cultural, parks and recreation	<u>82,166</u>	<u>3,101</u>	<u>397</u>	<u>(78,668)</u>
Public health and welfare				
Sanitation	267,557	367,927	-	100,370
Total public health and welfare	<u>267,557</u>	<u>367,927</u>	<u>-</u>	<u>100,370</u>
<b>Total governmental activities</b>	<u>1,807,458</u>	<u>503,852</u>	<u>30,306</u>	<u>(1,196,092)</u>
<b>Business-type activities</b>				
Water utility	643,767	692,100	-	48,333
Sewer utility	285,344	281,074	-	(4,270)
Gas utility	743,367	1,006,418	-	263,051
Industrial authority	51,539	72,300	-	20,761
Healthcare facility	-	-	-	-
Financing costs	337,379	-	-	(337,379)
<b>Total business-type activities</b>	<u>2,061,396</u>	<u>2,051,892</u>	<u>-</u>	<u>(9,504)</u>
<b>Total primary government</b>	<u>\$ 3,868,854</u>	<u>\$ 2,555,744</u>	<u>\$ 30,306</u>	<u>\$ (1,205,596)</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DRUMRIGHT**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Year Ended June 30, 2012**

	<b>Net (Expense) Revenue and Changes in Net Assets</b>		
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Net (expense)/revenue</b>	(1,196,092)	(9,504)	(1,205,596)
<b>General revenues:</b>			
<b>Taxes:</b>			
Sales and use taxes	830,549	213,802	1,044,351
Franchise taxes	145,308	-	145,308
Intergovernmental	62,883	-	62,883
Investment earnings	3,620	166,693	170,313
Miscellaneous	29,904	74,718	104,623
Rental	3,600	-	3,600
Sale or disposal of assets	-	(155,242)	(155,242)
Transfers	250,912	(250,912)	-
<b>Total general revenues and transfers</b>	<u>1,326,776</u>	<u>49,059</u>	<u>1,375,835</u>
<b>Change in net assets</b>	130,684	39,554	170,239
<b>Net assets - beginning of year</b>	<u>1,900,266</u>	<u>2,661,208</u>	<u>4,561,474</u>
<b>Net assets - end of year</b>	<u>\$ 2,030,950</u>	<u>\$ 2,700,762</u>	<u>\$ 4,731,712</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DRUMRIGHT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2012**

	<u>General Fund</u>	<u>Street Improvement Fund</u>	<u>Capital Improvement Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Cash and investments:					
Cash & cash equivalents	\$ 158,750	\$ 112,907	\$ 78,968	\$ 4,766	\$ 355,391
Investments, at cost	97,901	70,836	49,543	8,680	226,960
Receivables (net):					
Accounts receivable	58,918	-	-	-	58,918
Taxes	97,617	31,828	18,011	-	147,456
Franchise	16,820	-	-	-	16,820
Grant	1,917	-	-	-	1,917
Restricted assets:					
Cash & cash equivalents	10,357	-	-	-	10,357
Investments, at cost	-	-	-	39,540	39,540
<b>Total assets</b>	<b>\$ 442,280</b>	<b>\$ 215,571</b>	<b>\$ 146,522</b>	<b>\$ 52,986</b>	<b>\$ 857,359</b>
<b>Liabilities:</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Claims pending	32,755	2,719	-	-	35,474
Reserve for court improvements	12,171	-	-	-	12,171
<b>Total liabilities</b>	<b>44,926</b>	<b>2,719</b>	<b>-</b>	<b>-</b>	<b>47,645</b>
<b>Fund balance:</b>					
<b>Restricted for:</b>					
Cemetery	-	-	-	39,540	39,540
Capital Projects	-	212,852	146,522	4,463	363,837
Workers compensation	3,515	-	-	-	3,515
Other purposes	-	-	-	8,983	8,983
<b>Unassigned</b>	<b>393,839</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>393,839</b>
<b>Total fund balance</b>	<b>397,354</b>	<b>212,852</b>	<b>146,522</b>	<b>52,986</b>	<b>809,714</b>
<b>Total liabilities and fund equity</b>	<b>\$ 442,280</b>	<b>\$ 215,571</b>	<b>\$ 146,522</b>	<b>\$ 52,986</b>	<b>\$ 857,359</b>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DRUMRIGHT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE**  
**STATEMENT OF NET ASSETS**  
**June 30, 2012**

**Total Fund Balances - Total Governmental Funds** \$ 809,714

Amounts reported for governmental activities in the statement of net assets are different because:

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. These liabilities consist of:

Inter-fund note payable (Note 3)		(58,735)
Deferred compensation		(73,152)

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$	64,900	64,900
General Government	\$	1,062,897	
Sewer		66,306	
Sanitation		57,738	
Police		210,085	
Fire		800,428	
Water		44,317	
Streets		893,643	
Park		203,807	
Library		15,627	
Accumulated Depreciation		<u>(2,066,625)</u>	
Total			<u>1,288,223</u>

**Net assets of governmental activities** \$ 2,030,950

**CITY OF DRUMRIGHT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2012**

	General Fund	Street Improvement Fund	Capital Improvement Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Charges for services	\$ 399,393	\$ -	\$ -	\$ -	\$ 399,393
Licenses and permits	4,816	-	-	-	4,816
Intergovernmental programs	34,299	28,584	-	-	62,883
Sales and use taxes	563,344	160,400	106,805	-	830,549
Franchise fees	145,308	-	-	-	145,308
Fines and forfeitures	98,257	-	-	-	98,257
Interest	3,620	-	-	-	3,620
Rentals	3,600	-	-	-	3,600
Lot sales	-	-	-	1,385	1,385
Grants and donations	30,307	-	60,000	17,208	107,515
Miscellaneous revenue	29,071	835	-	-	29,906
<b>Total revenues</b>	<u>1,312,016</u>	<u>189,819</u>	<u>166,805</u>	<u>18,593</u>	<u>1,687,233</u>
<b>Expenditures:</b>					
Current:					
General government	359,337	-	-	-	359,337
Public safety	693,543	-	21,266	3,088	717,897
Highways & roads	5,007	273,283	-	-	278,290
Cultural, parks & recreation	67,805	-	-	750	68,555
Health & welfare	267,253	-	-	-	267,253
Capital outlay	-	20,695	204,579	31,386	256,660
<b>Total expenditures</b>	<u>1,392,945</u>	<u>293,978</u>	<u>225,845</u>	<u>35,224</u>	<u>1,947,992</u>
<b>Excess of revenues over (under) expenditures</b>	(80,929)	(104,159)	(59,040)	(16,631)	(260,759)
<b>Other financing uses:</b>					
Operating transfers in (out)	257,500	-	-	(6,588)	250,912
<b>Excess of revenues over (under) expenditures &amp; transfers</b>	176,571	(104,159)	(59,040)	(23,219)	(9,847)
<b>Fund balance - beginning of year</b>	<u>220,783</u>	<u>317,011</u>	<u>205,562</u>	<u>76,205</u>	<u>819,561</u>
<b>Fund balance - end of year</b>	<u>\$ 397,354</u>	<u>\$ 212,852</u>	<u>\$ 146,522</u>	<u>\$ 52,986</u>	<u>\$ 809,713</u>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DRUMRIGHT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES**  
**IN NET ASSETS**  
**For the Year Ended June 30, 2012**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (9,847)</b>
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report lease payments as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the principal paid on that liability is applied against the liability. This is the amount of principal recorded in the current period. (Note 3)	21,266
Government-Wide Statement of Activities and Changes in Net Assets report accrued compensated absences in the period incurred. However, Governmental Funds do not pay on this liability until the employee has left employment. The amount of the change in accrued absences recorded in the current period.	(15,386)
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	256,660
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds.	<u>(122,008)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ <u>130,684</u></b>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DRUMRIGHT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
 June 30, 2012

	Business-type Activities - Enterprise Funds						Totals
	Drumright Utility Trust	Drumright Water Utility	Drumright Sewer Utility	Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	
<b>Assets:</b>							
Cash and investments:							
Cash & cash equivalents (Note 3)	\$ 115,034	\$ 32,303	\$ 23,000	\$ 215,951	\$ 170,532	\$ 6	\$ 1,375,287
Investments	326,995	-	-	709,966	-	-	1,059,961
Receivables (net of allowance for uncollectibles):							
Accounts receivable	64,365	29,300	-	45,601	-	-	139,266
Interest	2,148	-	-	1,406	-	-	3,554
Taxes	36,055	-	-	-	-	-	36,055
Deferred billing	-	-	-	12,731	-	-	12,731
Note receivable	-	-	-	114,835	-	-	114,835
Restricted assets:							
Cash & cash equivalents (Note 3)	39,823	-	-	30,235	-	-	70,058
Investments, at cost	-	-	-	181,000	-	-	181,000
Gas loan reserve	-	-	-	189,400	-	-	189,400
Revenue bond accounts	355,004	-	-	-	-	-	355,004
<b>Capital assets:</b>							
Land & work in progress	-	-	-	4,300	36,125	-	40,425
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	1,142,275	627,569	627,569	2,244,141	1,373,123	-	5,387,108
<b>Deferred charges:</b>							
Debt issue cost (net of accumulated amortization) (Note 1)	237,431	-	-	-	-	-	237,431
<b>Total assets</b>	<b>\$ 2,319,130</b>	<b>\$ 712,172</b>	<b>\$ 712,172</b>	<b>\$ 3,749,566</b>	<b>\$ 1,579,780</b>	<b>\$ 6</b>	<b>\$ 9,202,115</b>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DRUMRIGHT**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2012**

**Business-type Activities - Enterprise Funds**

	Business-type Activities - Enterprise Funds							Totals
	Drumright Utility Trust	Sewer Utility (Non-major)	Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	Drumright Municipal Healthcare Authority		
<b>(Continued)</b>								
<b>Liabilities:</b>								
Accounts payable	\$ 7,134	\$ 1,658	\$ 20,616	\$ -	\$ -	\$ -	\$ -	29,408
Accrued interest	75,438	-	671	-	-	-	-	76,109
Deferred compensation	15,339	7,899	11,380	-	-	-	-	34,618
<b>Payable from restricted assets:</b>								
Meter deposits	-	-	211,235	-	-	-	-	211,235
Notes payable (Note 3)	-	-	-	230,282	-	-	-	230,282
Revenue bonds payable (Note 3)	3,200,319	-	-	-	-	-	-	3,200,319
Revenue notes payable (Note 3)	-	-	2,719,382	-	-	-	-	2,719,382
<b>Total liabilities</b>	<b>3,298,230</b>	<b>9,557</b>	<b>2,963,284</b>	<b>230,282</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,501,353</b>
<b>Net assets:</b>								
Invested in capital assets, net of related debt	(2,058,044)	627,569	(470,941)	1,178,966	-	-	-	(722,450)
Restricted	394,827	-	189,400	-	6	841,461	-	1,425,694
Unrestricted	684,117	75,046	1,067,823	170,532	-	-	-	1,997,518
<b>Total net assets</b>	<b>\$ (979,100)</b>	<b>\$ 702,615</b>	<b>\$ 786,282</b>	<b>\$ 1,349,498</b>	<b>\$ 6</b>	<b>\$ 841,461</b>	<b>\$ -</b>	<b>2,700,762</b>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DRUMRIGHT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2012**

	Business-type Activities - Enterprise Funds							Totals
	Drumright Utility Trust		Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	Drumright Municipal Healthcare Authority		
	Water Utility	Sewer Utility						
<b>Revenues:</b>								
Water	692,100	-	\$ -	\$ -	\$ -	\$ -	\$ -	692,100
Sewer	-	281,074	-	-	-	-	-	281,074
Gas	-	-	1,006,418	-	-	-	-	1,006,418
Lease income	-	-	-	72,300	-	-	-	72,300
Miscellaneous	46,280	2,400	8,576	-	-	-	-	57,256
<b>Total revenues</b>	<b>738,380</b>	<b>283,474</b>	<b>1,014,994</b>	<b>72,300</b>	<b>300</b>	<b>300</b>	<b>23,662</b>	<b>2,133,110</b>
<b>Operating expenses:</b>								
Gas & oil	10,325	5,598	13,516	-	-	-	-	29,439
Health Insurance	25,051	9,549	14,815	-	-	-	-	49,415
Insurance	40,487	9,062	16,655	1	-	-	-	66,205
Legal & accounting	6,172	-	3,700	3,313	-	-	6,500	19,685
Materials & supplies	97,591	25,848	20,677	82	-	-	-	144,198
Miscellaneous	67,504	83,526	10,366	125	-	-	-	161,521
Office-credit card fees, postage	1,596	623	-	-	-	-	-	2,219
Payroll taxes	13,494	5,407	8,303	-	-	-	-	27,204
Purchase of gas	-	-	429,139	-	-	-	-	429,139
Repairs & maintenance	29,118	7,024	8,870	2,502	-	-	-	47,514
Retirement	23,828	9,504	14,295	-	-	-	-	47,627
Salaries	179,739	72,361	109,296	-	-	-	-	361,396
Taxes	-	-	2,593	-	-	-	-	2,593
Telephone	1,262	337	3,533	-	-	-	-	5,132
Utilities	67,321	4,254	519	-	-	-	-	72,094
Depreciation	80,279	52,251	87,090	45,516	-	-	-	265,136
<b>Total operating expenses</b>	<b>643,767</b>	<b>285,344</b>	<b>743,367</b>	<b>51,539</b>	<b>-</b>	<b>-</b>	<b>6,500</b>	<b>1,730,517</b>

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DRUMRIGHT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2012**

	Business-type Activities - Enterprise Funds						Totals
	Drumright Utility Trust	Sewer Utility (Non-major)	Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	Drumright Municipal Healthcare Authority	
(Continued)							
Income before non-operating revenues, expenses & transfers	94,613	(1,870)	271,627	20,761	300	17,162	402,593
<b>Non-operating revenues (expenses):</b>							
Interest	95,570	235	49,752	18,325	-	2,811	166,693
Sales and use tax	213,802	-	-	-	-	-	213,802
Sale or disposal of assets	-	-	-	(155,242)	-	-	(155,242)
Interest expense	(187,497)	-	(123,931)	-	-	-	(311,428)
Amortization of debt issue cost	(4,806)	-	-	-	-	-	(4,806)
Amortization of deferred loss on early retirement	(10,045)	-	-	-	-	-	(10,045)
Trustee fees	(11,100)	-	-	-	-	-	(11,100)
<b>Total non-operating</b>	<b>95,924</b>	<b>235</b>	<b>(74,179)</b>	<b>(136,917)</b>	<b>-</b>	<b>2,811</b>	<b>(112,126)</b>
<b>Income (loss) before operating transfers</b>	<b>190,537</b>	<b>(1,635)</b>	<b>197,448</b>	<b>(116,156)</b>	<b>300</b>	<b>19,973</b>	<b>290,466</b>
Transfers in (out)	(105,912)	(35,000)	(110,000)	-	(40,000)	40,000	(250,912)
Change in net assets	84,625	(36,635)	87,448	(116,156)	(39,700)	59,973	39,554
Net assets at beginning of year	(1,063,725)	739,250	698,834	1,465,654	39,706	781,489	2,661,208
Net assets at end of year	\$ (979,100)	\$ 702,615	\$ 786,282	\$ 1,349,498	\$ 6	\$ 841,461	\$ 2,700,762

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DRUMRIGHT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds						Totals
	Drumright Utility Trust	Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	Drumright Municipal Healthcare Authority	Totals	
<b>Cash flows from operating activities:</b>							
Cash received from customers & service users	\$ 687,969	\$ 977,110	\$ 220,106	\$ -	\$ -	\$ 2,162,335	
Cash payments for goods & services & employees	(592,518)	(661,434)	(6,023)	(300)	(6,500)	(1,497,415)	
Change in customer meter deposits	-	14,306	-	-	-	14,306	
Other operating revenues	46,280	8,576	-	300	23,662	81,217	
<b>Net cash provided by operating activities</b>	<b>141,731</b>	<b>338,558</b>	<b>214,083</b>	<b>-</b>	<b>17,162</b>	<b>760,444</b>	
<b>Cash flows from noncapital financing activities:</b>							
Sales and use tax revenue	213,802	-	-	-	-	213,802	
Operating transfers in/(out) to other funds	(105,912)	(110,000)	-	(40,000)	40,000	(250,912)	
<b>Net cash provided (used) for noncapital financing activities</b>	<b>107,890</b>	<b>(110,000)</b>	<b>-</b>	<b>(40,000)</b>	<b>40,000</b>	<b>(37,110)</b>	
<b>Cash flows from capital and related financing activities:</b>							
(Acquisition) Sale of capital assets	(131,043)	-	18,000	-	-	(113,043)	
Principal paid on debt	(1,215,000)	(63,901)	(195,131)	-	(23,662)	(1,497,694)	
Interest paid on debt	(187,497)	(123,931)	-	-	-	(311,428)	
Trustee fees	(11,100)	-	-	-	-	(11,100)	
<b>Net cash provided (used) for capital and related financing activities</b>	<b>(1,544,640)</b>	<b>(187,832)</b>	<b>(177,131)</b>	<b>-</b>	<b>(23,662)</b>	<b>(1,933,265)</b>	
<b>Cash flows from investing activities:</b>							
(Purchase) liquidation of investments	1,219,956	(27,762)	-	-	-	1,192,194	
Interest on investments	95,570	49,752	18,325	-	2,811	166,693	
<b>Net cash provided by investing activities</b>	<b>1,315,526</b>	<b>21,990</b>	<b>18,325</b>	<b>-</b>	<b>2,811</b>	<b>1,358,887</b>	
<b>Net increase (decrease) in cash &amp; cash equivalents</b>	<b>20,507</b>	<b>62,716</b>	<b>55,277</b>	<b>(40,000)</b>	<b>36,311</b>	<b>148,955</b>	
<b>Cash and cash equivalents - beginning of year</b>	<b>134,350</b>	<b>183,470</b>	<b>115,255</b>	<b>40,006</b>	<b>805,150</b>	<b>1,296,389</b>	
<b>Cash and cash equivalents - end of year</b>	<b>\$ 154,857</b>	<b>\$ 246,186</b>	<b>\$ 170,532</b>	<b>\$ 6</b>	<b>\$ 841,461</b>	<b>\$ 1,445,344</b>	

The accompanying notes are an integral part of the basic financial statements.

**CITY OF DRUMRIGHT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds							Totals				
	Drumright Utility Trust		Drumright Gas Authority		Drumright Industrial Authority		Municipal Healthcare Facility (Non-major)		Drumright Municipal Healthcare Authority			
	Water Utility	Sewer Utility										
\$	94,613	(1,870)	\$	271,627	\$	20,761	\$	300	\$	17,162	\$	402,593
	80,279	52,251		87,090		45,516		-		-		265,136
	(4,131)	(3,924)		(29,308)		147,806		-		-		110,443
	-	-		14,306		-		-		-		14,306
	7,134	1,658		(6,796)		-		(300)		-		1,696
	(36,164)	795		1,639		-		-		-		(33,730)
	47,118	50,780		66,931		193,322		(300)		-		357,851
	\$	141,731	\$	48,910	\$	338,558	\$	214,083	\$	17,162	\$	760,444

(Continued)  
Reconciliation of operating income to net cash provided by operating activities:  
Operating income

Adjustments to reconcile operating income to net cash provided by operating activities:  
Depreciation  
Change in assets and liabilities:  
(Increase) decrease in accounts receivable  
Change in customer meter deposits  
Increase (decrease) in accounts payable  
Increase (decrease) in accrued expenses  
Total adjustments

Net cash provided by operating activities

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Drumright, Oklahoma (the City) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

**A. Reporting Entity**

The City of Drumright, Oklahoma was organized under the statutes of the State of Oklahoma. The City operates under a council/manager form of government and is governed by a five-member board of commissioners. The commissioners elect the mayor from their own body. The City provides the following services as authorized by its charter: general government, public safety (fire and police), streets, public works (gas, water, sewer, and refuse), judicial, health and social services, culture, parks and recreation, public improvements, and planning and zoning for the geographical area organized as the City of Drumright, Oklahoma.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the City and its component units and trusts, entities for which the City is considered to be financially accountable. Blended component units and trusts, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with the data of the primary government.

Blended Component Units:

The Drumright Utility Trust (the Trust) was created pursuant to a Trust Indenture dated March 7, 1978, to finance, operate, construct and administer public works, improvements or facilities for the benefit of the City of Drumright, Oklahoma. The public works systems owned by the City have been leased to the Trust and are carried on the books of the Trust. The Trust is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes and is governed by a board consisting of five trustees identical with the City Council. The Trust is exempt from State and Federal Income taxes. The Trust is reported as an enterprise fund and includes the water distribution system and sewer service for the City of Drumright.

The Drumright Gas Authority (the Authority) was created pursuant to a Trust Indenture dated April 17, 1973 to finance, operate, construct and administer public works, improvements or facilities for the benefit of the City of Drumright, Oklahoma. The public works systems owned by the City have been leased to the Authority and are carried on the books of the Authority. The Authority is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes and is governed by a board consisting of five trustees identical with the City Council. The Authority is exempt from State and Federal Income taxes. The Authority is reported as an enterprise fund and includes the gas distribution system for the City of Drumright.

The Drumright Industrial Authority (DIA) was created pursuant to a Trust Indenture date May 2, 1967, to promote the development of industry, and provide additional employment for the benefit of the City of Drumright. The DIA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of five trustees appointed by majority vote of the City Commission of the City of Drumright. The DIA is exempt from State and Federal income taxes. The DIA is reported as an enterprise fund.

**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Reporting Entity (Continued)**

Blended Component Units (Continued):

The Drumright Municipal Healthcare Facilities Authority (DMHF) was created pursuant to a Trust Indenture dated December 3, 2002, to plan, finance, establish, develop, construct, enlarge, remodel, improve, make alterations, extend, maintain, equip, operate, lease, furnish and regulate medical facilities. The DMHF is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees. Three trustees are members of the City of Drumright governing board, three are members of the Drumright Memorial Hospital Foundation, Inc. governing board and one trustee is selected by majority vote of the other six trustees. The DMHF is exempt from State and Federal income taxes. The DMHF is reported as an enterprise fund.

The Drumright Municipal Healthcare Authority (DMHA) was created pursuant to a Trust Indenture dated December 26, 2001, to plan, finance, establish, develop, construct, enlarge, remodel, improve, make alterations, extend, maintain, equip, operate, lease, furnish and regulate medical facilities. The DMHA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes, and is governed by a board consisting of seven trustees. Three trustees are members of the City of Drumright governing board, three are members of the Drumright Memorial Hospital Foundation, Inc. governing board and one trustee is selected by majority vote of the other six trustees. The DMHA is exempt from State and Federal income taxes. DMHA obtained funding for the construction of a critical access hospital through a loan guaranteed by the Department of Housing and Urban Development.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting**

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

**Government-wide Financial Statements** - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)**

**Government-wide Financial Statements**

**Fund Financial Statements** – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Major funds represent 10% of assets, liabilities, revenues, or expenditures of the corresponding element for all funds of that category *and* is at least 5% of the corresponding element total for all governmental and enterprise funds combined *or* is a fund that the government believes is important enough for financial statement users to be reported as a major fund. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

**Fund Accounting** – The accounts of the City are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

**Governmental Funds** – are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims, and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales taxes, tobacco taxes, gasoline excise taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual and are recognized as revenue. Other receipts and taxes (licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible-to-accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following are the City's major governmental funds:

General Fund – is the general operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Street Improvement Fund – is a special revenue fund used for the maintenance and improvement of city streets.

Capital Improvement Fund – is a capital project fund used for capital improvements to city infrastructure.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)**

**Governmental Funds (Continued)**

Other governmental funds of the City that are considered non-major funds include:

Special Revenue funds - account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The following are the City's Special Revenue Funds: Cemetery Care Fund, Broadway Sidewalk II, Library Improvement, and CDBG grant fund.

Permanent funds – account for in the same manner as governmental funds, such as the General Fund. The fund is accounted for using the modified accrual basis of accounting and the measurement focus is essentially the flow of current financial resources. Earnings from investments of the fund are transferred to the City's general fund. The Cemetery Trust Fund is the City's only permanent fund.

**Proprietary Funds** – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the City has adopted only Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as enterprise.

Enterprise Funds – are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The Drumright Utility Trust, Drumright Gas Authority, Drumright Industrial Authority, Drumright Municipal Healthcare Facility and Drumright Municipal Healthcare Authority are accounted for as enterprise funds. The following are the City's major enterprise funds:

Water Utility Fund – accounts for the operations of providing public works (water, sewer) to the City.

Gas Authority – accounts for the operations of providing public works (gas) to the City.

Industrial Authority – accounts for the leases of industrial buildings for the City.

Municipal Healthcare Authority – accounts for construction or remodeling of medical facilities.

The other enterprise funds of the City do not meet the percentage criteria for major funds but the City has elected to treat the following two non-major funds as though they were major funds for purposes of presentation within the proprietary funds of the financial statements rather than aggregating this information separately solely for the benefit of user understandability of the financial statements.

Municipal Healthcare Facility – accounts for the leases of healthcare facilities.

Sewer Utility Fund – accounts for the operations of providing public works (sewer) to the City.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Equity**

**1. Deposits and Investments**

Oklahoma Statutes authorize the City to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments. Investments are stated at cost.

**2. Restricted Cash and Investments**

Certain restricted cash and investments are the result of financial requirements of Rural Economic and Community Development Administration (RECD) notes and Revenue bonds of the Drumright Utility Trust and the Drumright Gas Authority and consist of Bond fund reserve, Bond principal reserve, bond interest reserve and gas loan reserve. Under the terms and provisions of the notes and bonds, these special funds are maintained with the Trustee bank for the benefit of the holders of the note and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the notes and bonds are outstanding. Monies contained in the funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the notes and bonds.

The revenue bond indenture of the Drumright Utility Trust Authority utility system revenue bonds series 2006 requires that the Authority maintain a Bond Account, a Sinking Fund and a Sinking Fund Reserve. These accounts are held at The Trust Company of Oklahoma. The Authority is required to make monthly deposits into the Bond Account equal to approximately one-twelfth of the amount necessary to pay the principal and interest on the Bonds as they become due. The Authority has met this requirement.

The Authority is required to maintain \$233,220 in the Sinking Fund Reserve Account and they have met this requirement for the year ending June 30, 2012. The Authority also met the requirements of Article IV, Section 8. Net revenues as defined by the bond indenture were sufficient to pay a sum equal to 125% of the average annual debt service due on the Bonds and the amount paid into the Sinking Fund Reserve.

Other restricted cash includes customer deposits held, cash for roof repairs received from insurance, other reserves, and Cemetery Trust funds.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Equity (Continued)**

**2. Restricted Cash and Investments (Continued)**

Future payment requirements are as follows:

<u>Annual Period Commencing August 1,</u>	<u>Minimum Total Deposit During Annual Period</u>	<u>Approximate Monthly Payment</u>
2012	215,875.00	\$ 17,989.58
2013	218,177.50	\$ 18,181.46
2014	215,272.50	\$ 17,939.38
2015	217,227.50	\$ 18,102.29
2016	218,965.00	\$ 18,247.08
2017	220,485.00	\$ 18,373.75
2018	221,702.50	\$ 18,475.21
2019	222,697.50	\$ 18,558.13
2020	218,470.00	\$ 18,205.83
2021	224,147.50	\$ 18,678.96
2022	224,370.00	\$ 18,697.50
2023	224,365.00	\$ 18,697.08
2024	224,017.50	\$ 18,668.13
2025	223,437.50	\$ 18,619.79
2026	232,625.00	\$ 19,385.42
2027	230,975.00	\$ 19,247.92
2028	229,087.50	\$ 19,090.63
2029	231,962.50	\$ 19,330.21
2030	229,362.50	\$ 19,113.54
2031	231,525.00	\$ 19,293.75
2032	233,212.50	\$ 19,434.38
2033	229,425.00	\$ 19,118.75
2034	230,400.00	\$ 19,200.00
2035	460,900.00	(1)

(1) Any monies left in the reserve accounts will be applied to the final payment.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Equity (Continued)**

**3. Fair Value of Financial Instruments**

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net assets/balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**4. Estimates**

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

**5. Receivables and Payables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds".

**6. Inventories**

Inventories in both governmental funds and proprietary funds normally consist of minimal amounts of expendable supplies held for consumption. The costs of such inventories are recorded as expenditures when purchased rather than when consumed.

**7. Capital Assets**

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$5,000. The Drumright Municipal Health Center maintains a capitalization threshold of \$5,000.

The City's infrastructure consists of roads, bridges, culverts, curbs and gutter, streets and sidewalks, drainage system, lighting systems and similar assets that are immovable and of value only to the City. Such infrastructure assets acquired after July 1, 2003 are capitalized in accordance with the requirements of GASB 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add value of the asset or materially extend an asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Assets, Liabilities and Equity (Continued)**

**7. Capital Assets (Continued)**

All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement

Depreciation is computed on the straight-line method with estimated useful lives as follows:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives	Component Unit Estimated Lives
Buildings & Improvements	40 - 100 years	20 - 40 years	5 - 30 years
Furniture, Fixtures and Equipment	5 - 40 years	10 - 40 years	5 - 15 years
Vehicles	5 - 40 years	5 - 40 years	
Utility systems		40 years	
Transmission and distribution		40 years	

**8. Deferred Charges**

Bond project costs and bond issue costs are amortized ratably over the repayment period of the applicable bond using the straight-line method. Deferred loss on early retirement of debt is being amortized over the life of the refunded issue and is presented net of related debt as required by Governmental Accounting Standards Board Statement No. 23.

**9. Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused Paid Time Off (PTO). Eligible exempt regular full-time and introductory employees are able to earn PTO according to a schedule based on their tenure with the City. In the event that available PTO is not used by the end of the benefit year (the 12-month period that begins when the employee starts to earn PTO), employees may carry unused time forward to the next benefit year. When the total amount of unused PTO reaches 160 hours the bi-weekly accrual will be placed into the "Extended Illness Accrual Bank" (EIAB). The EIAB accrual will be capped at 640 hours. The City places 2 hours each pay period into the EIAB account for each employee. When the PTO and the EIAB accruals have reached the cap limits, the bi-weekly accruals for PTO will be paid to the employee in the last payroll of the month following the month in which it was earned. Upon termination of employment, employees will be paid for unused PTO that has been earned through the last day of work. Any hours remaining in the EIAB accrual account are forfeited to the City. Non-exempt employees are allowed at the option of the employee, compensatory time in lieu of cash payment for overtime worked. Amounts may be accumulated to a maximum of 240 hours and must be taken within 30 days after working the overtime. The expense and related liability for vested PTO benefits and compensatory time is recorded in the respective funds of the City or component unit.

**10. Post-Employment Healthcare Benefits**

The City permits retired employees to remain on its health care insurance coverage as mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA) provisions or, under the provisions of O. S. 11-23-108 which permits employees who retire with more than eight years of service to elect to remain on the City's plan until they reach age 65.

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

10. Post-Employment Healthcare Benefits (Continued)

Employees who elect coverage under either of these provisions must pay the premium in full. The City is permitted to charge a 2% administrative fee in addition to the premiums under COBRA coverage or it may charge a surcharge of up to 25% under the provisions of O. S. 11-23-108. The City's exposure is limited to the effects of "experience" in future rate calculations or the "implied subsidy" theory that these former employees may cause the premiums to be higher than they would be if they were not included in the plan.

11. Long-term Obligations

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

12. Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation. The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed upon use of resources for specific purposes versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e., fund balance associated with assets that are *not in spendable form*, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

**Restricted** fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors or laws or regulations of other governments; or by law, through constitutional provisions or enabling legislation.

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

**Committed** fund balance represents amount that are useable only for specific purposes by formal action of the government's highest level of decision-making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes the limitation by taking action similar to that which imposed the commitment. The City Ordinance is the highest level of decision-making authority of the City.

**Assigned** fund balance represents amounts that are *intended* to be used for specific purposes, but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

**Unassigned** fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

13. Bad Debt Policy

It is the City's policy to charge bad debts against revenue.

14. Resource Use Policy

It is in the City's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the City considers restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the City's policy that when an expenditure/expense is incurred for purposes for which committed, assigned, or unassigned resources, including fund balances, are available, the City considers committed amounts to be spent first, followed by assigned amounts and lastly unassigned amounts.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Grants and Awards

The City was the recipient of the following operating and capital grants during the year:

Library State Aid	\$ 397
Oklahoma Highway Safety Grant	18,771
REAP grant (street resurfacing)	60,000
Community Development Block Grant	17,208
Justice Assistance Grant	6,095
Rural Fire Assistance Grant	<u>5,043</u>
Total	<u>\$ 107,514</u>

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

3. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

*Custodial Credit Risk*

At June 30, 2012, the City held deposits of approximately \$3,862,958 at financial institutions. The City's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name.

*Investment Interest Rate Risk*

The City has adopted a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Investment Credit Risk*

The City has the following policy that limits its investment choices and follows the same limitations set forth by state law:

Section 1.

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

Section 2. Trust authority funds may be invested in mutual funds whose portfolio is invested in tax-exempt securities, governmental securities, and high-grade government bonds.

Section 3. Investments shall be made with judgment and care under the circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the principal as well as the probable income to be derived.

**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2012**

**3. DETAILED NOTES CONCERNING THE FUNDS (Continued)**

**A. Deposits and Investments (Continued)**

The investments held at June 30, 2012 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificate of deposit	12.00	N/A	705,500	705,500
Govt Bond and Mutual Funds	N/A	AAAm	801,960	742,162
Total investments			<u>\$ 1,507,460</u>	<u>\$ 1,447,662</u>

Reconciliation to Statement of Net Assets

Governmental activities	\$ 266,500
Business-type activities	1,240,960
	<u>\$ 1,507,460</u>

*Concentration of Investment Credit Risk*

The City places no limit on the amount it may invest in any one issuer. The City has the following of credit risk: 47% in Certificates of deposit (\$705,500), and 53% in Government bond and mutual funds (\$801,960).

**B. Restricted Cash and Investments**

Cash and investments have been restricted as follows:

City of Drumright:	
Juvenile programs	\$ 6,842
Rate stabilization reserve, State Insurance Fund	3,515
Cemetery trust fund	39,540
Drumright Gas Authority:	
Customer meter deposits	211,235
Gas loan reserve	189,400
Drumright Utility Trust:	
Reserved for roof repairs	39,823
Bond fund reserve	<u>355,004</u>
Total restricted cash and investments	<u>\$ 845,359</u>

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**3. DETAILED NOTES CONCERNING THE FUNDS (Continued)**

**C. Allowance for Uncollectible Accounts**

Accounts receivable are reflected net of allowances for uncollectible accounts in the financial statements. The City's estimate of uncollectible accounts receivable by fund and activity is as follows:

	General Fund	Water Fund	Sewer Fund	Gas Fund	Total
Garbage	\$ -	\$ -	\$ -	\$ -	\$ -
Fire run	2,700	-	-	-	2,700
Fines	35,945	-	-	-	35,945
Water	-	-	-	-	-
Sewer	-	-	-	-	-
Gas	-	-	-	-	-
Total	<u>\$ 38,645</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,645</u>

Note: The City wrote off all uncollectible accounts on June 30, 2012.

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**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2012**

**3. DETAILED NOTES CONCERNING THE FUNDS (Continued)**

**D. Capital Assets**

Primary Government capital asset activity for the year ended is as follows:

<b>Governmental Activities:</b>	<u>Balance</u> <u>6/30/11</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>6/30/12</u>
<b>Non-depreciable assets:</b>				
Land	\$ 64,900	\$ -	\$ -	\$ 64,900
Total non-depreciable assets	<u>64,900</u>	<u>-</u>	<u>-</u>	<u>64,900</u>
<b>Depreciable assets:</b>				
General Government	1,062,896	-	-	1,062,896
Sewer	24,973	66,306	(24,973)	66,306
Sanitation	57,737	-	-	57,737
Police	223,409	-	(13,324)	210,085
Fire	789,154	25,624	(14,350)	800,428
Water	74,971	-	(30,654)	44,317
Streets	755,371	138,273	-	893,644
Park	213,860	20,695	(30,748)	203,807
Library	9,866	5,762	-	15,628
Total depreciable assets	<u>3,176,739</u>	<u>256,660</u>	<u>(114,049)</u>	<u>3,354,848</u>
<b>Less accumulated depreciation:</b>				
General Government	(863,753)	(14,492)	-	(878,245)
Sewer	(24,973)	(967)	24,973	(967)
Sanitation	(57,433)	(304)	-	(57,737)
Police	(130,156)	(28,491)	13,324	(145,323)
Fire	(536,564)	(15,865)	14,350	(538,079)
Water	(74,971)	-	30,654	(44,317)
Streets	(249,818)	(48,279)	-	(298,097)
Park	(113,613)	(13,037)	30,748	(95,902)
Library	(7,384)	(574)	-	(7,958)
Total Accumulated depreciation	<u>(2,015,979)</u>	<u>(122,008)</u>	<u>114,049</u>	<u>(2,066,624)</u>
<b>Net depreciable assets</b>	<u>\$ 1,160,760</u>	<u>\$ 134,651</u>	<u>\$ -</u>	<u>\$ 1,288,223</u>

**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2012**

**3. DETAILED NOTES CONCERNING THE FUNDS (Continued)**

**D. Capital Assets (Continued)**

	Balance 6/30/10	Additions	Disposals	Balance 6/30/11
<b>Business-Type Activities:</b>				
Non-depreciable assets:				
Land	\$ 40,425	\$ -	\$ -	\$ 40,425
Total non-depreciable assets	40,425	-	-	40,425
Depreciable assets:				
Water	2,632,126	131,043	-	2,763,169
Sewer	1,836,113	-	-	1,836,113
Gas	4,172,832	-	-	4,172,832
Drumright Industrial Authority	1,983,122	-	(238,283)	1,744,839
Total depreciable assets	10,603,077	131,043	(238,283)	10,516,953
Less accumulated depreciation:				
Water	(1,540,615)	(80,279)	-	(1,620,894)
Sewer	(1,156,292)	(52,251)	-	(1,208,543)
Gas	(1,841,602)	(87,090)	-	(1,928,692)
Drumright Industrial Authority	(391,241)	(45,516)	65,041	(371,716)
Total accumulated depreciation	(4,671,871)	(265,135)	65,041	(5,129,844)
Net depreciable assets	5,931,206	(134,092)	(173,242)	5,387,108
Net business-type activities capital assets	\$ 5,971,631	\$ (134,092)	\$ (173,242)	\$ 5,427,533

**E. Payables from Restricted Assets**

Certain assets of the City of Drumright have been restricted for customers' deposits and payment of revenue bonds and notes.

**F. Inter-fund Receivables and Payables**

On November 19, 2010 The City entered into an agreement with the Drumright Gas Authority for the purchase of (3) Ford Crown Victoria Vehicles, (1) Ford F-150 pickup, and (4) specialty equipment packages to outfit the vehicles. The City will pay 4 consecutive annual payments due on November, 19, 2011, November 19, 2012, November 19, 2013, and November 19, 2014 of \$21,265, for a total of \$85,062, with \$80,000 attributed to principal and \$5,061 recognized as interest. Upon completion of the agreement, the City will pay the Authority \$1 for any remaining financial interest in the vehicles above. The current principal inter-fund receivable/payable is \$58,735 recognized on the government wide statement of net assets.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**3. DETAILED NOTES CONCERNING THE FUNDS (Continued)**

**G. Long-term Debt**

The City is not obligated in any manner for the debt of its component units. The following is a summary of long-term debt of the City's Business-Type activities.

Drumright Utility Trust:

- |   |           |
|---|-----------|
| 1) Utility system revenue bonds issued in the original amount of \$3,570,000 to retire existing debt and provide funds for the Drumright hospital. The bonds carry interest rates from 3.7% to 4.75%. The water fund remits monthly payments of \$17,990 to the fiscal agent as required by the provisions of the bond indenture for debt service and reserve payments. The bonds are scheduled to be paid over a period of 30 years. | 3,250,000 |
|---|-----------|

Less: Deferred loss on early retirement of debt	(49,681)
---	----------

Drumright Gas Authority:

- |   |           |
|---|-----------|
| 2) Revenue note issued February 28, 1996, in the original amount of \$3,448,000 to the Rural Economic and Community Development Administration to repair and replace gas lines throughout the City. The note carries an interest rate of 4.5% and is secured by a first real estate mortgage and first lien pledge of revenues and receipts of the Gas Authority. The note is to be repaid over a period of 40 years with monthly payments of \$15,654. | 2,719,382 |
|---|-----------|

Drumright Industrial Authority:

- |  |         |
|--|---------|
| 3) CDBG loan from the U.S. Department of Housing and Urban Development in the amount of \$262,680 for construction of a building in the industrial park. The loan is backed by the utility revenue of the Drumright Utility Trust, however, the intent is for the Industrial Authority to collect rent on the building to make the loan payments. The loan has a 0% interest rate and is to be repaid in approximately 180 payments of \$1,459 a month commencing when the building is leased. | 116,746 |
|--|---------|

- |  |         |
|--|---------|
| 4) Note payable to Creek County Industrial Authority in the original amount of \$177,000. The note is a fifteen year zero interest loan with payments of \$984 a month beginning when tenants occupy the Industrial Park Building. | 113,536 |
|--|---------|

Total Proprietary Fund long-term debt

\$ 6,149,983

**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2012**

**3. DETAILED NOTES CONCERNING THE FUNDS (Continued)**

**G. Long-term Debt (Continued)**

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

Year Ending June 30,	Totals
2013	433,043
2014	435,345
2015	432,440
2016-2020	2,163,567
2021-2025	2,073,682
2026-2030	2,087,327
2031-2035	2,093,166
2036	548,227
Total principal and interest	10,266,797
Less interest	(4,067,133)
Less deferred loss on early retirement of debt	(49,681)
Total	<u>\$ 6,149,983</u>

The changes in Business-Type activities long-term debt are as follows:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
Drumright Utility Trust:				
Revenue Bonds	\$ 1,155,000	\$ -	\$ 1,155,000	\$ -
Revenue Bonds	3,310,000	-	60,000	3,250,000
Deferred loss on early retirement of debt	(54,487)	-	(4,806)	(49,681)
Drumright Gas Authority:				
Revenue Bonds	2,783,283	-	63,901	2,719,382
Drumright Industrial Authority:				
CDBG Loan	134,258	-	17,512	116,746
Creek County Industrial Authority	125,344	-	11,808	113,536
Spiritbank Loan	165,811	-	165,811	-
Total	<u>\$ 7,619,209</u>	<u>\$ -</u>	<u>\$ 1,469,226</u>	<u>\$ 6,149,983</u>

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**3. DETAILED NOTES CONCERNING THE FUNDS (Continued)**

**H. Inter-fund Transfers**

During the year, transactions between funds create temporary inter-fund receivables and payables. The following schedule reflects the City's transfers from and to other funds:

	Transfer In	Transfer Out
General fund:		
Drumright Utility Trust, Water Fund	112,500	-
Drumright Utility Trust, Sewer Fund	35,000	-
Drumright Gas Authority	110,000	-
Cemetery Care Fund	-	-
CDBG Grant Fund		
Drumright Utility Trust, Water Fund:	6,588	-
Drumright Utility Trust, Water Fund:		
CDBG Grant Fund	-	6,588
General Fund	-	112,500
Drumright Utility Trust, Sewer Fund:		
General Fund	-	35,000
Drumright Gas Authority:		
General Fund	-	110,000
	\$ 264,088	\$ 264,088

**4. OTHER INFORMATION**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; unemployment; and natural disasters. The City purchases commercial insurance to cover these and other risks, including general auto liability, property damage, and public officials' liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The City is a member of the Oklahoma Municipal Assurance Group Workers' Compensation Plan (the Plan), an organization formed for the purpose of providing workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities, including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for all claims submitted to it during the plan year.

As a member of the Plan, the City is required to pay fees set by the Plan according to an established payment schedule. A Loss Fund has been established from the proceeds of these fees for each participant in the Plan. The State Insurance Fund provides coverage in excess of the Loss Fund so the City's liability for claim loss is limited to the balance of that fund.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**4. OTHER INFORMATION (Continued)**

**A. Risk Management (Continued)**

In addition to the Loss Fund, the City maintains two additional funds with the Plan. The Rate Stabilization Reserve (RSR), which can be applied against future premium increases and an Escrow Fund made up of past refunds left on deposit with the Plan. Escrow funds earn interest and are readily available for use by the governing board. In accordance with GASB No. 10, the City reports the required contribution to the pool, net of refunds, as insurance expense. The balances in the RSR Fund and the Escrow Fund were \$3,515 and \$0, respectively.

**B. Contingent Liabilities**

The City is a defendant in ongoing litigation and various legal actions arising from normal governmental activities. Although most of such actions are covered by insurance, certain actions might have some degree of exposure to the City. The outcome of these lawsuits is not presently determinable, and it is not known if the resolution of these matters will have a material adverse effect on the financial condition of the City.

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

On April 1, 2009 the Drumright Regional Hospital was purchased by a for-profit corporation from the Drumright Municipal Healthcare Authority. During June 2011, the City Manager questioned bond counsel whether this transaction met the compliance requirements of the Internal Revenue Code since the Drumright Regional Hospital was constructed with the proceeds from a tax exempt bond issue involving HUD governmental funds. During 2012 it was concluded that this sale to the for-profit corporation should have resulted in a taxable transaction. In October 2012 a voluntary payment of \$196,278, including applicable penalties, has been proposed to the Internal Revenue Service in settlement of this taxable transaction. The IRS has not acknowledged or accepted this offer as of the date of the audit report. This liability has not been recorded on the books of Authority as of June 30, 2012.

**C. North and South Cemetery's**

On November 3, 1987, the Drumright Cemetery Association conveyed five acres of land known as the North Cemetery together with a certificate of Deposit in the amount of \$33,500 to the City. According to the agreement, the corpus of the certificate of deposit is to remain intact and the interest earned is to be used for maintenance of the North Cemetery. An additional donation in the amount of \$6,040 was also received which included a similar restriction. During 1996, the South Cemetery Association disbanded and donated the land known as the South Cemetery together with cash in the amount of \$3,699. There were no restrictions placed on the use of the funds. However, it is the City's intention to use only the interest earnings for maintenance and operations of the Cemetery and retain the principal of the contribution intact.

**D. Related Organizations**

City officials are responsible for appointing members of the Drumright Housing Authority and certain other organizations. These organizations are not accountable to the City nor does the City's responsibility extend beyond the appointments. The City has a beneficial interest in the residue of the Trusts' if terminated. The City incurs no other financial benefit or burden in relation to these Authorities.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**4. OTHER INFORMATION (Continued)**

**E. Employee Retirement Plans**

Description of Plan

The City of Drumright, Drumright Utility Trust and Drumright Gas Authority provides pension benefits for substantially all of its full time employees (excluding firemen and police officers which are covered under state retirement systems). The City maintains a defined benefit plan through The Oklahoma Municipal Retirement Fund. The City also maintains a defined contribution plan with the Oklahoma Municipal Retirement Fund. The defined benefit plan through the Oklahoma Municipal Retirement Fund is a defined benefit plan and an agent multiple-employer pension plan. An employee is eligible to participate in the Plan on the employee's employment commencement date, which means the first day of the first pay period during which the employee receives wages as an employee from which federal taxes are withheld. To participate in the plan an employee must have 1,800 hours of service per year. An employee becomes fully vested after ten years or normal retirement. More information about the plan may be obtained by writing to Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, OK 73105, or by contacting the City of Drumright.

Funding Policy

The City is required to contribute at an actuarially determined rate to fund the benefit level as elected by the City. For 2011-2012 the rate was 13.28% of each participants covered payroll contributed by the City and the employees contributed 6%. The total salary as reported on Form W-2, paid to the employee during the year is used in computing the costs. The employees contributed 2% of pay to the defined contribution plan.

Annual Pension Cost

The City's annual pension cost of \$87,760 was equal to the City's required and actual contributions. The required contribution was determined as part of the latest actuarial valuation. The contributions from the City for the plan were \$86,962, \$87,374, and \$87,760 for 2010, 2011 and 2012 respectively.

CITY OF DRUMRIGHT  
Drumright, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012

4. OTHER INFORMATION (Continued)

E. Employee Retirement Plans (Continued)

Schedule of Funding Progress

Actuarial Valuation Date	Value of Assets	Asset Valuation Basis	Actuarial Accrued Liability (AAL)*	Unfunded AAL (UAAL)	Funded Ratio
1/1/1996	\$ 560,424	Market	\$ 738,228	\$ 177,804	75.9%
1/1/1997	638,088	Market	754,676	116,588	84.6%
1/1/1998	723,853	Actuarial	926,174	202,321	78.2%
<b>1/1/1998</b>	<b>723,853</b>	<b>Actuarial</b>	<b>1,054,267</b>	<b>330,414</b>	<b>68.7%</b>
<b>1/1/1999</b>	<b>875,781</b>	<b>Actuarial</b>	<b>1,334,623</b>	<b>458,842</b>	<b>65.6%</b>
<b>1/1/2000</b>	<b>1,026,106</b>	<b>Actuarial</b>	<b>1,476,045</b>	<b>449,939</b>	<b>69.5%</b>
<b>1/1/2001</b>	<b>1,100,231</b>	<b>Actuarial</b>	<b>1,314,946</b>	<b>214,715</b>	<b>83.7%</b>
<b>1/1/2002</b>	<b>1,103,150</b>	<b>Actuarial</b>	<b>1,291,566</b>	<b>188,416</b>	<b>85.4%</b>
<b>1/1/2003</b>	<b>1,037,458</b>	<b>Actuarial</b>	<b>1,382,447</b>	<b>344,989</b>	<b>75.0%</b>
<b>1/1/2004</b>	<b>1,087,054</b>	<b>Actuarial</b>	<b>1,387,236</b>	<b>300,182</b>	<b>78.4%</b>
6/30/2005	807,995	Actuarial	2,505,858	1,697,863	32.2%
6/30/2006	1,267,243	Actuarial	3,036,155	1,768,912	41.7%
6/30/2007	1,570,119	Actuarial	2,977,943	1,407,824	52.7%
6/30/2008	1,617,486	Actuarial	2,829,721	1,212,235	57.2%
6/30/2009	1,350,396	Actuarial	2,412,975	1,062,579	56.0%
6/30/2011	1,824,137	Actuarial	2,735,483	911,346	66.7%
6/30/2012	1,852,041	Actuarial	2,514,909	662,868	73.6%

\* Covered payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year.

GASB 25 results are shown in bold type. Both values are shown 1/1/98 for comparative purposes.

The mortality table used in the actuarial valuation was updated effective with the 1/1/98 valuation. The new table is the 1994 GAM table projected for cohort mortality improvement.

Effective 12-1-2004 the City dropped the defined benefit portion of their plan with the Oklahoma Municipal Retirement Fund (they retained the defined contribution portion) and adopted a defined benefit pension plan through the Governmental Alliance of Oklahoma, Inc. In January of 2011, the defined benefit pension plan was moved back to the Oklahoma Municipal Retirement Fund. A schedule of funding progress for the year ended June 30, 2010 was not available from the Governmental Alliance of Oklahoma, Inc.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**4. OTHER INFORMATION (Continued)**

**E. Employee Retirement Plans (Continued)**

Police and Fire Department

Full-Time Police and Firemen:

All full-time police and firemen hired before age 45 are covered by statewide cost-sharing multi-employer defined benefit plans adopted under Oklahoma Statutes. These plans are operated and administered by the Oklahoma Firefighters Pension and Retirement System (OFPRS) and the Oklahoma Police Pension and Retirement System (OPPRS). Under these plans, fire department personnel and police department personnel contribute 8% of base salary and the City contributes an additional 13%. The OFPRS and OPPRS issue publicly available financial reports that include financial statements and required supplementary information for the funds. Those reports may be obtained by writing to Oklahoma Firefighters Pension and Retirement Systems, 4545 North Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414, 1-800-525-7461 or the Oklahoma Police Pension and Retirement System, 1001 NW 63<sup>rd</sup> Street, Suite 305, Oklahoma City, OK 73116-7335 1-800-347-6552.

Volunteer Firemen:

The City is required to make annual contributions of \$60 per active volunteer fireman to OFPRS. This contribution covers a portion of the cost of benefits that will be paid to vested volunteer firemen. Additional funding comes from a percentage on all taxes collected on premiums collected by insurance companies and an appropriation by the State of Oklahoma.

Funding Policy

The City's contributions to OFPRS for volunteer firemen were \$1,080, \$1,140, and \$1,140 for 2010, 2011 and 2012 respectively. The City's portions of contributions to OFPRS for full time firemen were \$21,158, \$26,930, and \$22,279 for 2010, 2011, and 2012 respectively.

**F. Other Post-Employment Benefits**

*Plan Description:* City provides post-retirement benefit options for health care, prescription drug, dental and vision benefits for retired employees and their dependents that elect to make required contributions. The benefits are provided in accordance with State law, police and firefighter's union contracts and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). The relationship for these benefits is not formalized in a contract or plan document, only a few sentences in the administrative policy. These benefits are considered for accounting purposes to be provided in accordance with a single employer substantive plan. A substantive plan is one in which the plan terms are understood by the City and plan members. This understanding is based on communications between the employers and plan member and the historical pattern of practice with regard to the sharing of benefit costs. Substantially all of the government's employees may become eligible for those post-retirement benefits if they reach normal retirement age while working for the City. As of June 30, 2012, no employees are receiving benefits under this plan.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2012**

**5. SUBSEQUENT EVENTS**

**A. Dissolution of Entities**

In a special meeting held October 15, 2012, the board of trustees voted to dissolve the Drumright Municipal Healthcare Authority and the Drumright Municipal Healthcare Facility. The City of Drumright is the beneficiary of the public trusts and the remaining assets held as of the date of dissolution will be transferred to the City. As more fully explained in note 4B, a contingent tax liability exists with the Drumright Municipal Healthcare Authority regarding the sale of the Drumright Regional Hospital in compliance with IRS requirements. Sufficient funds remain in the Authority's accounts to cover such liability.

Management has evaluated subsequent events through October 30, 2012, which is the date the financial statements were available to be issued and has determined that no additional information needs to be added to the financial statements.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**REQUIRED SUPPLEMENTAL INFORMATION  
June 30, 2012**

**CITY OF DRUMRIGHT**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2012**  
**(Unaudited)**

**GENERAL FUND**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues:</b>				
Charges for services	\$ 412,700	\$ 412,700	\$ 399,393	\$ (13,307)
Licenses and permits	4,500	4,500	4,816	316
Intergovernmental programs	25,456	25,456	34,299	8,843
Taxes	492,440	492,440	563,344	70,904
Franchise fees	143,000	143,000	145,308	2,308
Fines and forfeitures	95,000	95,000	98,257	3,257
Interest	7,500	7,500	3,620	(3,880)
Rentals	7,200	7,200	3,600	(3,600)
Grants	14,000	14,000	30,307	16,307
Miscellaneous	24,825	24,825	29,071	4,246
<b>Total revenues</b>	<u>1,226,621</u>	<u>1,226,621</u>	<u>1,312,016</u>	<u>85,395</u>
<b>Expenditures:</b>				
Current:				
General government	375,644	375,644	359,337	16,307
Public safety	686,938	686,938	693,543	(6,605)
Highways, roads	22,960	22,960	5,007	17,953
Cultural & recreational	72,459	72,459	67,805	4,654
Health & welfare	302,850	302,850	267,253	35,597
Capital outlay	-	-	-	-
<b>Total expenditures</b>	<u>1,460,851</u>	<u>1,460,851</u>	<u>1,392,945</u>	<u>67,906</u>
<b>Excess of revenue over (under) expenditures</b>	(234,230)	(234,230)	(80,929)	153,301
<b>Other financing sources (uses):</b>				
Operating transfers in (out)	<u>258,625</u>	<u>258,625</u>	<u>257,500</u>	<u>(1,125)</u>
<b>Net changes in fund balance</b>	24,395	24,395	176,571	152,176
<b>Fund balance at beginning of year</b>	<u>300,668</u>	<u>300,668</u>	<u>220,783</u>	<u>(79,885)</u>
<b>Fund balance at end of year</b>	<u>\$ 325,063</u>	<u>\$ 325,063</u>	<u>\$ 397,354</u>	<u>\$ 72,291</u>

The Notes to Required Supplemental Information are an integral part of this statement.

**CITY OF DRUMRIGHT**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2012**  
**(Unaudited)**

**SPECIAL REVENUE FUNDS**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues:</b>				
Sales and use taxes	\$ 164,146	\$ 164,146	\$ 160,400	\$ (3,746)
Intergovernmental programs	26,000	26,000	28,584	2,584
Cemetery Lot sales	1,500	1,500	1,385	(115)
Loan proceeds	-	-	-	-
Misc	-	-	835	-
Grants	-	-	17,208	17,208
<b>Total revenues</b>	<u>191,646</u>	<u>191,646</u>	<u>208,412</u>	<u>15,931</u>
<b>Expenditures:</b>				
Current:				
Public safety	-	-	-	-
Highways & roads	411,660	411,660	273,283	138,377
Cultural, parks & recreation	18,201	18,201	750	17,451
Capital outlay	-	-	55,169	(55,169)
Lease payments	-	-	-	-
<b>Total expenditures</b>	<u>429,861</u>	<u>429,861</u>	<u>329,202</u>	<u>100,659</u>
<b>Excess of revenue over (under) expenditures</b>	<u>(238,215)</u>	<u>(238,215)</u>	<u>(120,790)</u>	<u>116,590</u>
<b>Other financing sources (uses):</b>				
Operating transfers in (out)	<u>(1,125)</u>	<u>(1,125)</u>	<u>(6,588)</u>	<u>(5,463)</u>
<b>Net changes in fund balance</b>	<u>(239,340)</u>	<u>(239,340)</u>	<u>(127,378)</u>	<u>111,127</u>
<b>Fund balance at beginning of year</b>	<u>289,103</u>	<u>289,103</u>	<u>353,676</u>	<u>(64,573)</u>
<b>Fund balance at end of year</b>	<u>\$ 49,763</u>	<u>\$ 49,763</u>	<u>\$ 226,298</u>	<u>\$ 46,554</u>

The Notes to Required Supplemental Information are an integral part of this statement.

**CITY OF DRUMRIGHT**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2012**  
**(Unaudited)**

**CAPITAL PROJECTS FUNDS**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original Budget</u>	<u>Final Budget</u>		
<b>Revenues:</b>				
Sales and use taxes	\$ 109,300	\$ 109,300	\$ 106,805	\$ (2,495)
Grants	60,000	60,000	60,000	-
<b>Total revenues</b>	<u>169,300</u>	<u>169,300</u>	<u>166,805</u>	<u>(2,495)</u>
<b>Expenditures:</b>				
Current:				
Public safety	21,636	21,636	21,266	370
Highways & roads	-	-	-	-
Cultural, parks & recreation	-	-	-	-
Capital outlay	165,000	165,000	204,579	(39,579)
<b>Total expenditures</b>	<u>186,636</u>	<u>186,636</u>	<u>225,845</u>	<u>(39,209)</u>
<b>Excess of revenue over (under) expenditures</b>	(17,336)	(17,336)	(59,040)	(41,704)
<b>Other financing sources (uses):</b>				
Operating transfers in (out)	-	-	-	-
<b>Net changes in fund balance</b>	(17,336)	(17,336)	(59,040)	(41,704)
<b>Fund balance at beginning of year</b>	<u>190,072</u>	<u>190,072</u>	<u>205,562</u>	<u>15,490</u>
<b>Fund balance at end of year</b>	<u>\$ 172,736</u>	<u>\$ 172,736</u>	<u>\$ 146,522</u>	<u>\$ (26,214)</u>

The Notes to Required Supplemental Information are an integral part of this statement.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**NOTES TO REQUIRED SUPPLEMENTAL INFORMATION  
For the Year Ended June 30, 2012  
(Unaudited)**

**BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for all governmental funds. The enterprise funds and internal service fund adopt budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

Prior to July 1, the City Manager (not an elected official) submits a proposed operating budget for the fiscal year commencing July 1, to the Commissioners (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted funds, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlay, transfers, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. A more detailed budget is used for operating purposes. All budget revisions at the legal level are subject to final approval by the City Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**SUPPLEMENTAL INFORMATION  
June 30, 2012**

CITY OF DRUMRIGHT  
 COMBINING BALANCE SHEET  
 NON-MAJOR GOVERNMENTAL FUNDS  
 June 30, 2012

	Special Revenue				Permanent Funds	Total Non-Major Governmental Funds
	Cemetery Care Fund	Broadway Sidewalk II Fund	Library Improvement Fund	CDBG Grant Fund	Cemetery Trust Fund	
<b>Assets:</b>						
Cash and equivalents	\$ 2,023	\$ 428	\$ 2,315	\$ -	\$ -	\$ 4,766
Investments at cost	6,960	268	1,452	-	-	8,680
Restricted assets:						
Investments at cost	-	-	-	-	39,540	39,540
<b>Total assets</b>	<b>\$ 8,983</b>	<b>\$ 696</b>	<b>\$ 3,767</b>	<b>\$ -</b>	<b>\$ 39,540</b>	<b>\$ 52,986</b>
<b>Liabilities:</b>						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund balances:</b>						
Restricted	8,983	696	3,767	-	39,540	52,986
Unrestricted	-	-	-	-	-	-
<b>Total fund balances</b>	<b>8,983</b>	<b>696</b>	<b>3,767</b>	<b>-</b>	<b>39,540</b>	<b>52,986</b>
<b>Total liabilities and fund balances</b>	<b>\$ 8,983</b>	<b>\$ 696</b>	<b>\$ 3,767</b>	<b>\$ -</b>	<b>\$ 39,540</b>	<b>\$ 52,986</b>

**CITY OF DRUMRIGHT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2012**

	<u>Special Revenue</u>				<u>Permanent Funds</u>	<u>Total Non-Major Governmental Funds</u>
	<u>Cemetery Care Fund</u>	<u>Broadway Sidewalk II Fund</u>	<u>Library Improvement Fund</u>	<u>CDBG Grant Fund</u>	<u>Cemetery Trust Fund</u>	
<b>Revenues:</b>						
Sales and use taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lot sales	1,385	-	-	-	-	1,385
Grants	-	-	-	17,208	-	17,208
<b>Total revenues</b>	<u>1,385</u>	<u>-</u>	<u>-</u>	<u>17,208</u>	<u>-</u>	<u>18,592</u>
<b>Expenditures:</b>						
Public safety	-	-	-	3,088	-	3,088
Cultural, parks & recreation	-	-	750	-	-	750
Capital outlay	-	-	5,761	25,625	-	31,386
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>6,511</u>	<u>28,713</u>	<u>-</u>	<u>35,224</u>
<b>Excess of revenues over (under) expenditures</b>	1,385	-	(6,511)	(11,505)	-	(16,632)
<b>Other financing uses:</b>						
Operating transfers in (out)	-	-	-	(6,588)	-	(6,588)
<b>Excess of revenues over (under) expenditures &amp; transfers</b>	1,385	-	(6,511)	(18,093)	-	(23,220)
<b>Fund balance - beginning of year</b>	<u>7,598</u>	<u>696</u>	<u>10,278</u>	<u>18,093</u>	<u>39,540</u>	<u>76,205</u>
<b>Fund balance - end of year</b>	<u>\$ 8,983</u>	<u>\$ 696</u>	<u>\$ 3,767</u>	<u>\$ -</u>	<u>\$ 39,540</u>	<u>\$ 52,985</u>

CITY OF DRUMRIGHT  
Drumright, Oklahoma

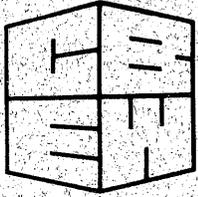
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ending June 30, 2012

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Federal Expend- itures</u>
<b><u>U.S. Department of Housing and Urban Development:</u></b>				
<b><u>Passed through the Oklahoma Department of Commerce:</u></b>				
CDBG Contract #14308 Economic Payback #9108	14.228	<u>30,469</u>	<u>17,208</u>	<u>17,208</u>
<b><u>U.S. Department of Transportation:</u></b>				
Federal Aid Surface Transportation Program	20.932	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>
<b><u>U.S. Department of Justice:</u></b>				
Edward Byrne Memorial Justice Assistance Grant	16.738	<u>6,095</u>	<u>6,095</u>	<u>6,095</u>
<b><u>Office of Library Services, Institute of Museum and Library Services, National Foundation on the Arts and the Humanities:</u></b>				
<b><u>Passed through the Oklahoma Department of Libraries:</u></b>				
State Library Program	45.31	<u>397</u>	<u>397</u>	<u>397</u>
<b>Total of Expenditures of Federal Awards</b>		<b>\$ <u>96,961</u></b>	<b>\$ <u>83,700</u></b>	<b>\$ <u>83,700</u></b>

Note A - This schedule was prepared on an accrual (GAAP) basis of accounting consistent with the preparation of the basic financial statements.

**CITY OF DRUMRIGHT**  
**Drumright, Oklahoma**

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS***  
**June 30, 2012**



**CBEW**  
**Professional**  
**Group, LLP**

Certified Public Accountants

206 N. HARRISON • P.O. BOX 790 • CUSHING, OKLAHOMA 74023 • 918-225-4216 • FAX 918-225-4315

DON K. ETHRIDGE, CPA  
WALTER H. WEBB, CPA  
JANE FRAZIER, CPA  
CHARLES E. CROOKS, CPA  
TRISHA J. RIEMAN, CPA

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

October 30, 2012

Honorable Board of City Commissioners  
City of Drumright  
Drumright, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Drumright, Oklahoma, (City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The City did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies in internal control over financial reporting. The finding reference numbers are 12-1 and 12-2. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specified parties.

*CBEW Professional Group, LLP*  
CBEW Professional Group, LLP  
Certified Public Accountants

**CITY OF DRUMRIGHT  
Drumright, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2012**

12-1. Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the city's assets and ensure accurate financial reporting.

Condition: Presently the same individual is responsible for issuing purchase orders, writing checks, making deposits, posting transactions and reconciles the monthly bank statements. This finding was also noted in 2011.

Cause: The city's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to purchasing and depositing activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management should consider a formal evaluation of their risks associated with these procedures. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including performing compensating procedures where applicable.

Responsible Official's Response: The city concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the city has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as appropriate.

12-2. Internal Control – Material Adjusting Journal Entries

Criteria: The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition: The government's trial balances for the year ended June 30, 2012, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: depreciation expense, balancing and recording note payables, interest expenses, purchased assets, and accrued revenue and expense transactions. This finding was also noted in 2011.

CITY OF DRUMRIGHT  
Drumright, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2012

12-2. Internal Control – Material Adjusting Journal Entries (continued)

Cause: Although the government's accounting and financial reporting staff possess the necessary knowledge and expertise to provide reasonable assurance that the trial balances used for preparing the governmental GAAP financial statements are complete and accurate prior to audit, because of work load and other time constraints sufficient efforts were not expended to correct these misstatements prior to the auditors' arrival to perform fieldwork. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances. However, management was able to review, understand and accept the adjusting entries proposed by the auditor in order to take responsibility for them and the financial statements.

Effect or Potential Effect: As a result of this condition, without reliance on its external auditors, the government did not comply with its internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence since management is responsible for the completeness and accuracy of the financial statements.

Recommendation: The accounting and financial reporting staff should spend sufficient time in evaluating the completeness and accuracy of trial balances that will be used to prepare the government's annual financial statements. If accounting staff doesn't have sufficient time because of workload constraints the government might consider outsourcing certain activities to other individuals or a qualified accounting firm other than the external auditor.

Responsible Official's Response: The City concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements. We have seen significant progress in the City's effort to reduce the number of material adjusting entries needed by the auditor.