

CITY OF STROUD, OKLAHOMA
Report on Audit of Financial Statements
June 30, 2012

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Independent Auditor's Report

City Council
City of Stroud
Stroud, Oklahoma

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Stroud, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City of Stroud's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Stroud, Oklahoma's management. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Stroud, Oklahoma, as of June 30, 2012, and the respective changes in financial position and cash flow, where applicable, thereof for the year then ended in conformity with accounting principals generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated December 20, 2012 on my consideration of the City of Stroud's internal control over financial reporting and on my 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 my 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 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 my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 and page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Stroud's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Julith K. Ballard, CPA, PC

Stroud, Oklahoma
December 20, 2012

Management's Discussion and Analysis

The following discussion and analysis of the City of Stroud's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012.

Financial Highlights

- ❖ The assets of the City of Stroud exceeded its liabilities at the close of the most recent fiscal year by \$12,042,712 (net assets). Of this amount, \$1,567,743 (unrestricted net assets) may be used to meet the government's obligations to citizens and creditors.
- ❖ The government's total net assets increased by \$317,474 for the year ended June 30, 2012.
- ❖ As of the close of the current fiscal year the City of Stroud's governmental funds reported combined ending fund balances of \$971,119 an increase of \$67,194 in comparison with the prior year. Approximately \$304,440 is available for spending at the government's discretion (unassigned fund balance).
- ❖ At the end of the current fiscal year, unassigned fund balance for the general fund was \$141,724.
- ❖ The City of Stroud's total debt increased by \$141,724 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Stroud's basic financial statements. The City of Stroud's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad view of the City of Stroud's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the City of Stroud's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Stroud is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Stroud that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of

the City of Stroud include general government, public safety, public works, and culture and recreation. The business-type activity of the City of Stroud, the Stroud Utility Authority, provides the City's electric, water, wastewater and sanitation utility operation.

The government-wide financial statements include not only the City of Stroud itself (known as the primary government), but also the legally separate authorities (Stroud Hospital Authority and Stroud Industrial Authority) for which the City of Stroud is financially accountable. Financial information for these component units is reported separately from the financial information for the primary government itself. The Stroud Utility Authority, although also legally separate, functions for all practical purposes as a department of the City of Stroud, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 10-12 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Stroud, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Stroud can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflow and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital expenditure fund, and special revenue fund, which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general and other governmental funds. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 13-14 of this report.

Proprietary funds. The City maintains a type of proprietary funds, an Enterprise fund which is used to report the same functions presented as business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Stroud Utility Authority.

The basic proprietary fund financial statements can be found on pages **16-18** of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The City has three fiduciary funds- the meter deposit fund, the HRA employee benefit fund and the municipal court fund, which are agency funds.

The fiduciary fund financial statements can be found on **page 19** of the report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on **pages 20-36** of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's actual revenues and expenditures on a budgetary basis compared with the original and final budgets for the general fund. Required supplementary information can be found on **page 37** of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on budget and actual revenues and expenditure for the general fund. Combining and individual fund statements and schedules can be found on **pages 38-39** of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$12,042,712 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (80%) reflects its investment in capital assets (e.g. land buildings, improvements, vehicles and equipment) less any related debt used to acquire those assets that are still outstanding. The City used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Table 1
Net Assets
(In Thousands)

	Governmental Activities	Business-type Activities	Total Primary Government
Current and other assets	\$ 1,037	\$ 1,832	\$ 2,869
Capital assets	4,467	7,243	11,710
Total assets	5,504	9,075	14,579
Long-term debt outstanding	156	1,925	2,081
Other liabilities	127	328	455
Total liabilities	283	2,253	2,536
Net assets:			
Invested in capital assets, net of debt	4,310	5,318	9,628
Restricted	660	187	847
Unrestricted	251	1,317	1,568
Total in net assets	\$ 5,221	\$ 6,822	\$ 12,043

A portion of the City's net assets (7%) represents resources that are subject to external restrictions on how they may be used. Unrestricted net assets of \$1,567,743 may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental activities. Governmental activities increased the City's net assets by \$41,080.

Table 2
Statement of Activities
(in Thousands)
Year Ended June 30, 2012

	Governmental Activities	Business-type Activities	Total Primary Government
Revenues			
Program Revenues			
Charges for services	\$265	\$4,540	\$4,805
Operating grants and contributions	-	-	-
Capital grants and contributions	103	134	237
General Revenue			
Sales and use tax	1,247	-	1,247
Franchise tax/fee	30	-	30
Other tax	75	-	75
Investment income	4	1	5
Other	197	154	351
Total revenues	1,921	4,829	6,750
Expenses			
General Government	551	405	956
Public Safety	818	-	818
Public Works	545	-	545
Culture and recreation	484	-	484
Electric	-	2,560	2,560
Water	-	301	301
Sewer	-	151	151
Economic Development	-	2	2
Sanitation	-	262	262
Lake	-	151	151
Depreciation/Amortization	-	443	443
Interest Expense	-	47	47
Maintenance	-	64	64
Other	-	2	2
Total expense	2,398	4,388	6,786
Increase/(decr) in net assets before transfers	-477	441	(36)
Transfers-internal activity	365	(365)	-
Transfers (to)/from SIA	158	-	158
Capital contributions	-	203	203
Other	(5)	-	(5)
Gain/(Loss) on Sale of Assets	-	(2)	(2)
Change in net assets	41	277	318
Beginning net assets	5,180	6,545	11,725
Ending net assets	5,221	6,822	12,043

Business-type activities. Business-type activities increased the City's net assets by \$276,394. The key element in this increase is the excess of operating income over operating expenses.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$971,119 an increase of \$67,194, in comparison with the prior year. Approximately 31% of this total amount or \$304,440 constitutes unassigned fund balance in the general fund, which is available for spending at the government's discretion. The remainder of the fund balances is designated to indicate that it is not available for new spending because it has already been restricted, committed, or assigned for projects such as capital improvements or is unavailable for spending.

- The fund balance of the City's general fund decreased by \$26,128 during the current fiscal year.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Stroud Utilities Authority at the end of the year amounted to \$1,316,734.

The total increase in net assets was \$276,394.

General Fund Budgetary Highlights

There was an increase of \$126,300 between the original budget and the final budget for the general fund. Overall, actual revenues on the budgetary basis of \$1,863,247 were \$9,389 more than the estimated revenues in the budget of \$1,853,858. Actual expenditures of \$1,889,375 were \$15,538 less than the \$1,904,913 approved in budget appropriations. After a transfer in of \$472,308 from the Stroud Utilities Authority, the City had \$26,128 excess expenditures over revenues.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$11,709,423 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, vehicles, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- Utility infrastructure improvements and equipment purchases

Table 3
Capital Assets (net of accumulated depreciation)
(In Thousands)
June 30, 2012

	Governmental Activities	Business-type Activities	Totals
Land	723	-	723
Construction in Progress	12	183	195
Buildings	780	229	1,009
Machinery & Equipment	339	163	502
Vehicles	329	139	468
Infrastructure	2,283	6,529	8,812
TOTAL	4,466	7,243	11,709

Long-term debt. As of the end of the current fiscal year, the City had total debt outstanding of \$2,081,343. This represents debt secured solely by specified revenue sources (i.e., revenue notes and bonds) of \$1,925,209 and capital lease obligations totaling \$156,134. This represents a increase of \$141,724 over last year.

Table 4
Outstanding Debt
(In Thousands)
June 30, 2012

	Governmental Activities	Business-Type Activities	Total
Capital lease obligations	\$ 156	-	156
Revenue bonds payable	-	1,925	1,925

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal-year 2011-2012 budgets, tax rates, and fees that will be charged for the proprietary fund type activities. One of these factors is the economy. A downturn in the national economy is expected to have a continuing effect on the local economy for the coming year. Employment costs are currently stable and sales tax revenues are expected to remain stable.

City of Stroud, Oklahoma
Statement of Net Assets
June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 964,706	509,326	1,474,032	1,269,581
Investments	281,759	156,433	438,192	1,827,474
Receivables, net	274,383	580,368	854,751	-
Internal balances	(488,663)	488,663	-	-
Due from/(to) fiduciary funds	5,409	4,117	9,526	-
Total current assets	<u>1,037,594</u>	<u>1,738,907</u>	<u>2,776,501</u>	<u>3,097,055</u>
Noncurrent assets:				
Bond issuance costs, net	-	93,354	93,354	11,184
Capital assets, net of accumulated depreciation	4,466,793	7,242,630	11,709,423	3,267,046
Total noncurrent assets	<u>4,466,793</u>	<u>7,335,984</u>	<u>11,802,777</u>	<u>3,278,230</u>
Total assets	<u>5,504,387</u>	<u>9,074,891</u>	<u>14,579,278</u>	<u>6,375,285</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	66,475	272,291	338,766	11,910
Accrued interest payable	-	14,316	14,316	-
Current portion of long-term obligation	-	110,128	110,128	43,879
Total current liabilities	<u>66,475</u>	<u>396,735</u>	<u>463,210</u>	<u>55,789</u>
Noncurrent liabilities:				
Accrued compensated absences	60,571	41,570	102,141	-
Capital lease obligations	156,134	-	156,134	-
Notes payable	-	1,815,081	1,815,081	759,099
Total noncurrent liabilities	<u>216,705</u>	<u>1,856,651</u>	<u>2,073,356</u>	<u>759,099</u>
Total liabilities	<u>283,180</u>	<u>2,253,386</u>	<u>2,536,566</u>	<u>814,888</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,310,659	5,317,421	9,628,080	2,464,068
Restricted for:				
Capital improvements	298,781	187,350	486,131	1,146,142
Other purposes	360,758	-	360,758	-
Unrestricted	251,009	1,316,734	1,567,743	1,950,187
Total net assets	<u>\$ 5,221,207</u>	<u>6,821,505</u>	<u>12,042,712</u>	<u>5,560,397</u>

See accompanying notes to the basic financial statement.

City of Stroud, Oklahoma
Statement of Activities
For the Year Ended June 30, 2012

	Expenses	Program Revenues		Net (Expense) Revenue	Component Units
		Charges for Services	Operating Grants and Contributions		
PRIMARY GOVERNMENT					
Governmental activities:					
General government	\$ 550,701	177,476	-	(373,225)	-
Public safety	818,518	9,258	-	(789,596)	-
Public works	544,720	-	-	(468,635)	-
Culture and recreation	483,810	78,516	-	(397,999)	-
Total government activities	<u>2,397,749</u>	<u>265,250</u>	<u>-</u>	<u>(2,029,455)</u>	<u>-</u>
Business-type activities:					
Administration	404,966	-	-	(404,966)	-
Electric	2,560,321	3,554,166	-	993,845	-
Water	300,853	451,597	-	150,744	-
Sewer	151,077	247,283	-	96,206	-
Economic Development	2,088	-	-	(2,088)	-
Sanitation	262,185	286,955	-	24,770	-
Lake	150,958	-	-	(150,958)	-
Maintenance	64,549	-	-	(64,549)	-
Depreciation & Amortization	442,572	-	-	(442,572)	-
Interest Expense	47,121	-	-	(47,121)	-
Other	1,776	-	-	132,224	-
Total business-type activities	<u>4,388,466</u>	<u>4,540,001</u>	<u>-</u>	<u>285,535</u>	<u>-</u>
Total primary government	<u>\$ 6,786,215</u>	<u>4,805,251</u>	<u>-</u>	<u>(1,743,920)</u>	<u>-</u>
Component units	<u>\$215,117</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(\$215,117)</u>

See accompanying notes to the basic financial statement.

City of Stroud, Oklahoma
Statement of Activities
For the Year Ended June 30, 2012

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Change in net assets:				
Net (expense) revenue	\$ (2,029,455)	285,535	(1,743,920)	(\$215,117)
General revenues:				
Taxes:				
Sales and Use	1,247,188	-	1,247,188	-
Tobacco	17,439	-	17,439	-
Franchise	29,859	-	29,859	-
Alcoholic beverage	28,038	-	28,038	-
Gas and Vehicle	29,328	-	29,328	-
Other	12,024	-	12,024	-
Investment income	4,479	1,277	5,756	30,368
Miscellaneous	185,141	142,250	327,391	100
Rental and lease income		11,811	11,811	318,675
Transfers - internal activity	364,630	(364,630)	-	-
Transfers-Stroud Industrial Authority	157,724	-	157,724	(157,724)
Gain/(Loss) on Sale of Assets	-	(2,420)	(2,420)	625,596
Basis of fixed assets sold	(5,315)	-	(5,315)	-
Capital Contributions	-	202,571	202,571	-
Total general revenues and transfers	<u>2,070,535</u>	<u>(9,141)</u>	<u>2,061,394</u>	<u>817,015</u>
Change in net assets	41,080	276,394	317,474	\$601,898
Net assets - beginning	5,180,127	6,545,111	11,725,238	4,958,499
Net assets - ending	<u>\$ 5,221,207</u>	<u>\$ 6,821,505</u>	<u>12,042,712</u>	<u>\$5,560,397</u>

See accompanying notes to the basic financial statement.

City of Stroud, Oklahoma
Governmental Funds
Balance Sheet
June 30, 2012

	General Fund	Capital Expenditure Fund	Special Reserve Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 30,322	\$ 181,191	\$ 428,441	324,752	964,706
Investments	236,540	-	-	45,219	281,759
Receivables, net	162,280	75,655	-	36,448	274,383
Due(to)/from other funds	(61,401)	22,295	(421,301)	(22,846)	(483,253)
Total assets	<u>367,741</u>	<u>279,141</u>	<u>7,140</u>	<u>383,573</u>	<u>1,037,595</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and Accrued Liabilities	63,301	2,680	-	495	66,476
Total liabilities	<u>63,301</u>	<u>2,680</u>	<u>-</u>	<u>495</u>	<u>66,476</u>
Fund balances:					
Nonspendable	-	-	-	-	-
Restricted	-	-	-	79,462	79,462
Committed	-	276,461	-	303,616	580,077
Assigned	-	-	7,140	-	7,140
Unassigned	304,440	-	-	-	304,440
Total fund balances	<u>304,440</u>	<u>276,461</u>	<u>7,140</u>	<u>383,078</u>	<u>971,119</u>
Total liabilities and fund balances	<u>\$ 367,741</u>	<u>\$ 279,141</u>	<u>\$ 7,140</u>	<u>\$ 383,573</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not required in the funds.

Governmental capital assets	\$ 13,471,524	
Less accumulated depreciation	<u>(9,004,731)</u>	4,466,793

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

Capital leases payable	(156,134)	
Accrued compensated absences	<u>(60,571)</u>	(216,705)

Net assets of governmental activities \$ 5,221,207

See accompanying notes to the basic financial statements

City of Stroud, Oklahoma
 Governmental Funds
 Statement of Revenues, Expenditures, and Changes in Fund Balances
 For the Year Ended June 30, 2012

	General Fund	Capital Expenditure Fund	Special Reserve Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 918,819	\$ 415,729	-	29,328	1,363,876
Intergovernmental	22,064	-	-	80,705	102,769
Licenses and permits	5,367	-	-	-	5,367
Charge for services	262,262	-	-	2,988	265,250
Fines and forfeitures	80,776	-	-	-	80,776
Interest	2,653	622	834	370	4,479
Miscellaneous	98,998	-	-	-	98,998
Total revenues	<u>1,390,939</u>	<u>416,351</u>	<u>834</u>	<u>113,391</u>	<u>1,921,515</u>
EXPENDITURES					
Current:					
General government	454,489	-	-	-	454,489
Public safety	784,922	-	-	-	784,922
Public works	185,355	-	-	53,185	238,540
Culture and recreation	464,609	-	-	5,219	469,828
Capital outlay	-	159,347	-	78,003	237,350
Total expenditures	<u>1,889,375</u>	<u>159,347</u>	<u>-</u>	<u>136,407</u>	<u>2,185,129</u>
Excess (deficiency) of revenues over expenditures	<u>(498,436)</u>	<u>257,004</u>	<u>834</u>	<u>(23,016)</u>	<u>(263,614)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	472,308	16,000	-	152,724	641,032
Transfers out	-	(118,678)	-	-	(118,678)
Capital Contributions	-	-	-	-	-
Expenses Paid for Other Funds	-	(191,546)	-	-	(191,546)
Total other financing sources and uses	<u>472,308</u>	<u>(294,224)</u>	<u>-</u>	<u>152,724</u>	<u>330,808</u>
Net change in fund balances	(26,128)	(37,220)	834	129,708	67,194
Fund balances - beginning	330,568	313,681	6,306	253,370	903,925
Fund balances - ending	<u>\$ 304,440</u>	<u>\$ 276,461</u>	<u>\$ 7,140</u>	<u>\$ 383,078</u>	<u>971,119</u>

See accompanying notes to the basic financial statement.

City of Stroud, Oklahoma
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2012

Net Change in fund balances - total governmental funds		\$ 67,194
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital asset expenditures in the current reporting period.</p>		
Capital outlay expenditures, net	175,450	
Depreciation expense	<u>(261,772)</u>	
		(86,322)
<p>Repayment of principal on capital leases is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments exceeded proceeds.</p>		
		38,367
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. This includes the net increase in compensated absences of \$21,841</p>		
		<u>21,841</u>
Change in net assets of governmental activities		<u><u>\$ 41,080</u></u>

See accompanying notes to the basic financial statement.

City of Stroud, Oklahoma
Proprietary Funds
Statement of Net Assets
June 30, 2012

Business-type Activities
Enterprise Funds
Stroud
Utilities
Authority

ASSETS

Current assets:

Cash and cash equivalents	\$ 509,326
Investments	156,433
Receivables	580,368
Due from other funds	492,780
Total current assets	<u>1,738,907</u>

Non-current assets:

Bond issue cost - net	93,354
Capital assets, net of accumulated depreciation	7,242,630
Total non-current assets	<u>7,335,984</u>

Total assets	<u>9,074,891</u>
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LIABILITIES

Current liabilities:

Accounts payable and Accrued Liabilities	272,291
Accrued interest payable	14,316
Current portion of long-term obligation	110,128
Total current liabilities	<u>396,735</u>

Non-current liabilities:

Accrued compensated absences	41,570
Note payable	1,815,081
Total non-current liabilities	<u>1,856,651</u>
Total liabilities	<u>2,253,386</u>

NET ASSETS

Invested in capital assets, net of related debt	5,317,421
Restricted:	
Capital improvement	187,350
Unrestricted	<u>1,316,734</u>
Total net assets	<u>\$ 6,821,505</u>

See accompanying notes to the basic financial statement.

City of Stroud, Oklahoma
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2012

	Business-type Activities Enterprise Funds
	Stroud Utilities Authority
<u>OPERATING REVENUES:</u>	
Charges for services	
Electric	\$ 3,554,166
Water	451,597
Wastewater	247,283
Sanitation	286,955
Other (including ice storm fee)	115,018
Total operating revenues	4,655,019
<u>OPERATING EXPENSES:</u>	
General and administration	404,966
Electric	2,560,321
Water	300,853
Sewer	151,077
Sanitation	262,185
Economic development	2,088
Legal	1,776
Shop	31,767
Building and grounds	32,782
Lake	150,958
Depreciation and amortization	442,572
Total operating expenses	4,341,345
Operating income(loss)	313,674
<u>NONOPERATING REVENUES (EXPENSES):</u>	
Loss on Sale of Assets	(2,420)
Grant Revenue	134,000
Miscellaneous revenues	27,232
Rental and lease income	11,811
Interest and investment income	1,277
Interest expense	(47,121)
Total nonoperating revenues (expenses)	124,779
Income before other revenues, expenses, gains, losses and transfers	438,453
<u>CAPITAL CONTRIBUTIONS, SPECIAL AND EXTRA ITEMS AND TRANSFERS</u>	
Transfers in	118,678
Transfers out	(483,308)
Capital Contributions	202,571
Total operating transfers & other	(162,059)
Change in net assets	276,394
Net assets - beginning	6,545,111
Net assets - ending	\$ 6,821,505

See accompanying notes to the basic financial statement.

City of Stroud, Oklahoma
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2012

	Business-type Activities
	Enterprise Funds
	Stroud
	Utilities
	Authority
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from customers	\$ 4,739,105
Payments to suppliers	(3,469,791)
Payments to employees	(494,538)
Net cash provided (used) by operating activities	774,776
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>	
Miscellaneous revenues	27,232
Operating transfers in (out)	(364,630)
Decrease in due from other funds	19,193
Rent and lease proceeds	11,811
Grant revenue	134,000
Net cash provided (used) by noncapital financing activities	(172,394)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Proceeds from / (paid) debt issuance	180,091
Interest expense	(44,331)
(Acquisition) disposition of fixed assets	(553,358)
Capital Contributions	202,571
Net cash provided (used) by capital and related financing activities	(215,027)
<u>CASH FLOWS INVESTING ACTIVITIES</u>	
(Increase) decrease in investments	(669)
Interest received	1,277
Net cash provided (used) by investing activities	608
Net increase (decrease) in cash and cash equivalents	387,963
Cash and cash equivalents, beginning of the year	121,363
Cash and cash equivalents, end of the year	\$ 509,326
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>	
Operating income (loss)	313,674
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and Amortization expense	442,572
Change in assets and liabilities:	
Receivable, net	84,086
Accounts payable and accrued liabilities	(67,313)
Compensated Absences	1,757
Total adjustments	461,102
Net cash provided by (used in) operating activities	\$ 774,776

See accompanying notes to the basic financial statements.

City of Stroud, Oklahoma
Statement of Fiduciary Net Assets
Agency Funds
June 30, 2012

	Agency Funds		
	Meter Deposit Fund	HRA Fund	Municipal Court Fund
ASSETS			
Cash and cash equivalents	\$ 31,392	10,116	7,899
Investments	56,171	-	-
Due from other funds	-	-	-
 Total assets	87,563	10,116	7,899
 LIABILITIES			
Customer deposits	83,447	-	-
Employee deposits	-	10,116	-
Due to bondholders	-	-	2,490
Due to other funds	4,116	-	5,409
 Total liabilities	87,563	10,116	7,899
 NET ASSETS	\$ -	-	-

See accompanying notes to the basic financial statement.

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

I. Organization

The City of Stroud, Oklahoma (the City) was established in 1898 and operates under a council-manager form of government under Title 11 of the *Oklahoma Statutes*. The City provides the following services to its citizens: public safety (police and fire), public works (streets and cemetery), culture and recreation, general government and administration, along with utility services to include electric, water, wastewater, and sanitation, and golf and airport facilities.

II. Summary of significant accounting policies.

A. Reporting entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. Discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that they are legally separate from the City.

Blended component units. The Stroud Utilities Authority (SUA), serves all the citizens of the City and is governed by a board comprised of the City's elected council (Trustees). The rates for user charges and debt authorization are approved by the city council. The SUA was created May 27, 1963, to finance, develop, and operate the electric, water, wastewater, and solid waste activities of the City. The SUA is reported as an enterprise fund type.

Discretely presented component units. Discretely presented component units of the City issue separately audited financial statements. Copies of these audit reports may be obtained from the City Hall offices in Stroud.

There are two discretely presented component units of the City. The Stroud Hospital Authority was created April 1, 1976 to operate and maintain the Stroud Municipal Hospital, which was sold in May, 2004. This Authority continues to operate to stimulate economic growth and development of the City. The Trustees are different from the City's governing body and the City is the beneficiary.

The Stroud Industrial Authority was created February 25, 1974 to aid in the City's economic growth and development by financing, operating, constructing and administering any public works, improvements or facilities. The Trustees are a body separate from the City's governing body and the City is the beneficiary.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function of the segment.

Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

Sales and use taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The general fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The capital expenditure fund is used for major capital expenditures of the City. It is funded by one-third of the three cents sales tax imposed by the City.

The special reserve fund is used for special projects the City may need additional funds for. Monies are transferred from other funds whenever the Town Council deems it appropriate.

The City reports the following major proprietary funds:

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

The Stroud Utilities Authority accounts for the City's utility operations including electric, water, wastewater, and sanitation, as well as broadband communications and ambulance services.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance of their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Stroud Utilities Authority are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, savings accounts, money market accounts, and certificates of deposit or short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the City to invest in obligations of the U.S. Treasury; time deposits with financial institutions, if such deposits are fully insured by federal depository insurance or pledged collateral; and debt securities issued by the State of Oklahoma, and Oklahoma County, school district, or municipality.

Investments for the City, as well as for its component units are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either: "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade receivables are shown net of an allowance for uncollectibles.

3. Inventories and prepaid items

Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Inventory amounts not consumed at year end are insignificant.

4. Capital assets

Capital assets, which includes property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	40-50
Equipment	5-10
Vehicles	7-20
Infrastructure	15-50

5. Compensated absences

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees accrue vacation from 2 - 4 weeks a year, depending on length of service, up to a maximum of 240 hours for all employees. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Sick leave may be accumulated up to a maximum of 480 hours for employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Long-term obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

7. Fund equity

The Town reports governmental fund balances on the governmental fund financial statements according to the following classifications:

Nonspendable - This is the portion of the fund balance that cannot be spent because it is either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted - This is the portion of the fund balance that has constraints placed on the use of resources that are (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - This is the portion of the fund balance that has been constrained by formal action of the Town Council to be used only for specific purposes. The committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to previously commit those amounts. It is distinguished from *restricted* fund balance in that amounts in the committed fund balance classification may be redeployed for other purposes with appropriate due process as mentioned. Constraints imposed on the use of *committed* amounts are imposed by the Town Council, separate from the authorization to raise the underlying revenue. Therefore, compliance with constraints imposed by the Town Council that *commit* amounts to specific purposes is not considered to be legally enforceable.

Assigned - This is the portion of the fund balance constrained by the *intent* of the Town Council to be used for specific purposes, but is neither restricted nor committed.

Unassigned - This is the residual classification of fund balance in the *general fund*. It represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

When an expenditure is incurred for purposes for which amounts in any of the fund balance classifications of committed, assigned or unassigned could be used, the Town considers the expenditure spent out of the committed fund balance.

III. Stewardship, compliance, and accountability

Budgetary information

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

- a. Prior to June 1, the City Clerk submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1.
- b. Public hearings are conducted to obtain citizen comments. At least one public hearing must be held no later than 15 days prior to July 1.

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is adopted by resolution of the City Council.

d. By July 1, the adopted budget is filed with the Office of the State Auditor and Inspector.

All funds (except those of the Public Trust component units) with revenues and expenditures are required to have annual budgets approved by the City Council. The legal level of control at which expenditures may not legally exceed appropriations is the total department level within a fund. The Budget Act recognizes the following object categories as a control level by department within a fund:

- | | |
|------------------------------|-----------------------|
| - Personal Services | - Capital Outlay |
| - Material and Supplies | - Debt Service |
| - Other Services and Charges | - Interfund Transfers |

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

In accordance with Title 60 of the Oklahoma State Statutes, the Stroud Utilities Authority (accounted for as a blended component unit in this report) is required to prepare an annual budget and submit a copy to the City as beneficiary. However, there are no further requirements such as form of budget, approval of the budget or definition of a legal level of control; and, therefore no budget and actual financial presentations for the public trusts are included in this report.

The city prepares its budgets for all funds on the modified accrual basis of accounting.

The City utilizes encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation. All appropriations and encumbrances outstanding at year-end lapse and any open commitments to be honored in the subsequent budget year are reappropriated in the new year's budget. As a result, encumbrances outstanding at year-end are not treated as expenditures in the budget and actual financial statements until the year they become expenditures.

For the year ended June 30, 2012, the City complied, in all material respects, with the applicable budget laws as discussed above. Supplemental appropriations reflected in the budget amounts reported in the financial statements were properly approved by the City Council. For the year ended June 30, 2012, the following supplemental appropriations were approved:

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

<u>Fund Type</u>	<u>Original</u> <u>Appropriations</u>	<u>Increase In</u> <u>Appropriations</u>	<u>Revised</u> <u>Appropriations</u>
General Fund	\$ 1,778,613	\$ 126,300	\$ 1,904,913
SUA	4,205,839	85,000	4,290,839
Street & Alley Fund	100,000	-	100,000
Capital Expenditure Fund	406,000	-	406,000

IV. Detailed notes on all funds

A. Deposits and investments

It is the City's policy for deposits to be secured by collateral and/or be federally insured. The City's deposits were fully covered by FDIC insurance and securities held by the pledging financial institution's trust department or agent in the entity's name at June 30, 2012.

Oklahoma Statutes allow the City to invest in bonds of cities, school districts, or counties within the State of Oklahoma; public trusts revenue bonds, except industrial revenue bonds; bonds of the State of Oklahoma and wholly owned corporations of the United States; short-term obligations of the United States; and certificates of deposit. All City funds have been invested in accordance with Oklahoma Statutes.

B. Receivables

Receivables as of June 30, 2012, for the City of Stroud's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Capital Expenditure Fund	Nonmajor Governmental Funds	Stroud Utilities Authority	Total
Gross Receivables	162,756	75,655	36,448	680,368	955,227
Less: allowance for uncollectibles	(476)	0	0	(100,000)	(100,476)
Net total receivables	<u>162,280</u>	<u>75,655</u>	<u>36,448</u>	<u>580,368</u>	<u>854,751</u>

C. Capital assets

Capital asset balances and activities for the year ended June 30, 2012, were as follows:

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	723,266	-	-	723,266
Construction in Progress	9,025	3,175	-	12,200
Total capital assets, not being depreciated	<u>732,291</u>	<u>3,175</u>	<u>0</u>	<u>735,466</u>
Capital assets, being depreciated:				
Buildings and improvements	2,158,688	11,800	-	2,170,488
Equipment	747,609	117,726	(31,500)	833,835
Vehicles	1,238,665	50,607	(49,348)	1,239,924
Infrastructure	8,491,811	-	-	8,491,811
Total capital assets, being depreciated	<u>12,636,773</u>	<u>180,133</u>	<u>(80,848)</u>	<u>12,736,058</u>
Less accumulated depreciation for:				
Buildings	(1,337,263)	(53,832)	-	(1,391,095)
Equipment	(480,198)	(45,730)	31,500	(494,428)
Vehicles	(879,311)	(72,957)	41,490	(910,778)
Infrastructure	(6,119,177)	(89,253)	-	(6,208,430)
Total accumulated depreciation	<u>(8,815,949)</u>	<u>(261,772)</u>	<u>72,990</u>	<u>(9,004,731)</u>
Total capital assets, being depreciated, net	<u>3,820,824</u>	<u>(81,639)</u>	<u>(7,858)</u>	<u>3,731,327</u>
Governmental activities capital assets, net	<u>4,553,115</u>	<u>(78,464)</u>	<u>(7,858)</u>	<u>4,466,793</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities-SUA				
Capital assets, not being depreciated:				
Land	-	-	-	-
Construction in Progress	360,381	139,745	(317,061)	183,065
Total Capital assets, not being depreciated	<u>360,381</u>	<u>139,745</u>	<u>(317,061)</u>	<u>183,065</u>
Capital assets, being depreciated:				
Buildings	529,959	87,405	(50,000)	567,364
Equipment	329,682	14,819	(44,495)	300,006
Vehicles	320,332	27,293	(25,000)	322,625
Infrastructure	15,197,304	616,408	-	15,813,712
Total capital assets, being depreciated	<u>16,377,277</u>	<u>745,925</u>	<u>(119,495)</u>	<u>17,003,707</u>
Less accumulated depreciation:				
Buildings	(363,301)	(14,457)	39,375	(338,383)
Equipment	(145,868)	(21,786)	30,217	(137,437)
Vehicles	(195,857)	(19,963)	32,233	(183,587)
Infrastructure	(8,906,191)	(378,544)	-	(9,284,735)
Total accumulated depreciation	<u>(9,611,217)</u>	<u>(434,750)</u>	<u>101,825</u>	<u>(9,944,142)</u>
Total capital assets, being depreciated, net	<u>6,766,060</u>	<u>311,175</u>	<u>(17,670)</u>	<u>7,059,565</u>
Business-type activities capital assets, net	<u>7,126,441</u>	<u>450,920</u>	<u>(334,731)</u>	<u>7,242,630</u>

Depreciation expense was charged to functions/programs as follows:

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

Governmental activities:	Current Year Depreciation	Retirements	Net
General government	38,635	(21,618)	17,017
Public safety	76,070	(19,872)	56,198
Public works	41,109	-	41,109
Culture and recreation	105,958	(31,500)	74,458
Total depreciation expense - governmental activities	<u>261,772</u>	<u>(72,990)</u>	<u>188,782</u>
Business-type activities:			
Electric	98,391	(25,000)	73,391
Water	70,958	(30,217)	40,741
Sewer	136,942	-	136,942
Lake	115,975	(46,608)	69,367
General and administration	12,483	-	12,483
Total depreciation expense - business-type activities	<u>434,749</u>	<u>(101,825)</u>	<u>332,924</u>

D. Deposits subject to refund

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2012, cash and investments included \$83,447 available for refund of customer deposits.

Appearance bonds and other payments made to the municipal court funds are held until final disposition by the court at which time they are refunded to the bondholder or paid over to the City general fund as fines. As of June 30, 2012, there were \$2,490 in bonds being held that were subject to refund.

E. Leases

Capital Leases

The City has entered into various lease agreements as lessee for financing the acquisition of capital assets. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The capital lease obligations are as follows:

City of Stroud

Lease purchase agreement with US Bank dated August, 2009, payable in monthly installments of \$184, including interest at 8.35%, through August, 2012, for a copier.

365

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

Lease purchase agreement with Oshkosh Capital dated August 30, 2007
 Payable in monthly installments of \$2,766, including interest at 5.0%,
 through August 2017, for one 2007 Prince Contender Custom Pumper. 155,769

Total Governmental-type activities 156,134

Total capital lease obligation \$ 156,134

The future minimum lease obligations and the net present value of these minimum
 lease payments as of June 30, 2012, are as follows:

Year Ending June 30,	Activities
2013	\$ 33,564
2014	33,195
2015	33,195
2016	33,195
2017	33,195
2018-2022	5,643
2023-2027	-
Total required payments	171,987
Less: Interest expense	15,853
Total principal payments	\$ 156,134

F. Long-term debt

Long-term liabilities of the City of Stroud as of June 30, 2012, are summarized as follows:

Governmental activities

Accrued compensated absences \$ 60,571

Total governmental activities 60,571

Business-type activities

Stroud Utilities Authority

\$1,700,000 promissory note, Series 2005, to the Oklahoma Water Resources
 Board, dated November 22, 2005, payable in semi-annual installments over 20
 years including interest at 2.60% secured by pledged one cent sales tax. 1,316,815

Stroud Utilities Authority

\$138,032 promissory note to Spiritbank, dated October 25, 2006, payable
 in monthly payments of \$2,039 at an interest rate of 6.25%, secured by an electric
 bucket truck. 14,609

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

Stroud Utilities Authority

\$611,486 promissory note, Series 2011 Clean Water, to the Oklahoma Water Resource Board, dated February 22, 2011 payable in semi-annual installments over 20 years, including interest at 2.62%, secured by a pledged sales tax and utility revenues. 593,663

Stroud Utilities Authority

\$1,952 note to US Bank, dated September 2009, payable at \$61/month, including interest at 8.35%, through August 2012, for a copier 122

Accrued compensated absences 41,570

Total business-type activities \$ 1,966,779

Long-term liabilities transactions for the year ended June 30, 2012 and changes therein were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities					
Accrued compensated absences	82,412	-	21,841	60,571	15,143
Total governmental activities	<u>82,412</u>	<u>-</u>	<u>21,841</u>	<u>60,571</u>	<u>15,143</u>
Business-type activities					
US Bank-copier	818	-	696	122	122
SpiritBank Truck	53,239	-	38,630	14,609	14,609
SpiritBank-Trailer	24,739	-	24,739	-	-
OWRB-Series 2011	278,892	314,771	-	593,663	22,429
OWRB - Series 2005	1,387,430	-	70,615	1,316,815	72,968
Accrued compensated absences	39,813	1,757	-	41,570	10,392
Total business-type activities	<u>1,784,931</u>	<u>-</u>	<u>134,680</u>	<u>1,966,779</u>	<u>120,520</u>
Total long-term debt	<u><u>1,867,343</u></u>	<u><u>-</u></u>	<u><u>156,521</u></u>	<u><u>2,027,350</u></u>	<u><u>135,663</u></u>

Annual debt service requirements to maturity for notes payable are as follows:

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

Year Ending <u>June 30,</u>	Business-Type <u>Activities</u>
2013	\$ 159,139
2014	145,751
2015	146,254
2016	146,750
2017	147,307
2018-2022	745,143
2023-2027	704,442
2028-2032	182,442
Total principal and interest	
	2,377,228
Less interest	
	<u>452,019</u>
Principal outstanding at June 30, 2012	
	<u><u>\$ 1,925,209</u></u>

G. Compensated absences

Full-time employees with at least one year of service earn vacation of ten to twenty days per year depending on years of service completed. A maximum of 240 hours may be carried over from one benefit year into another. Payment in lieu of vacation is limited to a maximum of ten days. In accordance with the guidelines set fourth by GASB Statement No. 16, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, a provision has been made for accumulated vacation and sick leave as follows:

Governmental activities	\$60,571
Business-type activities	<u>41,570</u>
Total accrued compensated absences	\$102,141

Full-time employees earn sick leave at the rate of ten hours per month, up to 60 days. Police employees earn 10 hours per month up to 480 hours. Upon retirement, employees are paid at the rate of ½ hour for every 1 hour accumulated sick leave up to the maximum accrual of 240 hours compensation for 480 hours.

H. Interfund receivables, payables and transfers

Interfund transactions:

The composition of interfund balances as of June 30, 2012 is as follows:

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

General fund	Other Government	578
Capital Expenditure fund	Other Government	22,295
Other Government	General fund	27
SUA	General fund	94,148
SUA	Special Reserve fund	394,515
SUA	Agency	4,116
Total		547,874

Interfund transactions:

	Transfers In				Totals
	General Fund	Capital Expenditure Fund	Nonmajor Governmental	Stroud Utilities Authority	
Transfers out:					
Nonmajor governmental	-	-	-	-	-
Stroud Utilities Authority	483,308	-	-	-	483,308
Capital Expenditure Fund	-	-	-	118,678	118,678
Totals	483,308	-	-	118,678	601,986

V. Other information

A. Risk management

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

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Retained</u>
a. Torts, errors and omissions, health and life, and vehicle loss	Participation in Oklahoma Municipal Assurance Group	None
b. Injuries to employees (workers compensation)	Participation in Oklahoma Municipal Assurance Group	None
c. Physical property loss and natural disaster	Participation in Oklahoma Municipal Assurance Group.	None

Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

B. Contingent liabilities

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 that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel the resolution of these matters will not have a materially adverse effect on the financial condition of the City.

C. Employee retirement systems and pension plans

The City of Stroud participates in the Oklahoma State Firefighters' Pension and Retirement System (OFPRS). Additionally, for other City employees not covered by the other plans, the City of Stroud maintains a defined benefit plan, Oklahoma Municipal Retirement Fund (OMRF), for employees not covered by other plans.

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Plan Description - The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OFPRS. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the fire fighting employees of the City. That report may be obtained by writing to the Oklahoma State Firefighters' Pension and Retirement System in Oklahoma City, Oklahoma.

Funding Policy - The City of Stroud contributes \$60 per volunteer firefighter for the year ended June 30, 2012.

Oklahoma Municipal Retirement (OMRF)

Plan Description - The City maintains a defined benefit retirement plan which covers employees not covered by other plans. The plan operates as a trust maintained by the Oklahoma Municipal Retirement Fund (OMRF). All regular, full-time City employees not covered by other plans are required to participate in the OMRF. Benefits vest after ten years of service. Effective July 1, 1993, employees who retire at age 65 or completion of ten years of service, if later, are entitled to annual retirement benefits, payable monthly in an amount equal to 1.875% of final average compensation multiplied by the number of years credited service. Final average compensation is defined as the average of the five highest consecutive annual salaries out of the last ten calendar years of service.

An employee is eligible for an early retirement benefit once he has attained age 55 and has completed ten years of service. The amount of benefit is determined based on the final average salary and credited service as of the date of termination. If benefit payments are to begin before age 65 the amount of benefit will be actuarially reduced. A late retirement benefit is computed in the same manner as a normal retirement based on average salary and credited service as of the termination of employment.

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

A participant who becomes totally and permanently disabled after completion of ten years of service will be entitled to a disability benefit computed as an early retirement benefit based on average salary and service as of the date of disability but without actuarial reduction for payments beginning prior to normal retirement age if the employee is also eligible for a disability benefit from Social Security.

Employee contributions are returned with accrued interest if their employment is terminated prior to completion of ten years of service. A death benefit is payable after ten years of service based on 50% of the employee's accrued benefit. This benefit is payable for life or until remarriage of the surviving spouse.

Funding Policy - The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the system on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to the system.

The actuarial accrued liability was computed as part of an actuarial valuation performed as of March 2012. Significant actuarial assumptions used in the valuation include 1) a rate of return on the investment of present and future assets of 7.5% compounded annually, 2) future salary increases of 4% - 7.42% depending on age.

Actuarially Determined Contribution Requirements and Contributions Made

The System's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so sufficient assets will be available to pay benefits when due. Required contributions are determined using the aggregate entry age normal cost method. Unfunded actuarial accrued liabilities are being amortized as a level percent of payroll over a period of 30 years.

For the fiscal year ended June 30, 2012, employees were required to contribute 3.75% of annual compensation. The City is required to contribute the remaining amounts necessary to fund the pension plan, using an actuarial basis. The City's contribution rate, for the fiscal year ended June 30, 2012, was 6.89%. During the year ended June 30, 2012, the City and the employees contributed \$99,935 and \$44,880, respectively, to the OMRF.

Significant actuarial assumptions used to compute the actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation as described above.

Historical trend information for the OMRF Employee Retirement System of Stroud, Oklahoma for the past ten years is as follows:

**City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012**

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Annual Covered Payroll	UAAL as a Percentage Covered Payroll
1/1/2003	1,996,291	2,237,382	89.2%	241,091	863,607	27.9%
1/1/2004	2,076,721	2,442,410	85.0%	365,689	899,674	40.6%
1/1/2005	2,178,601	2,479,171	87.9%	300,570	973,817	30.9%
1/1/2006	2,264,870	2,645,581	85.6%	380,711	982,802	38.7%
1/1/2007	2,372,187	2,502,866	94.8%	130,679	1,051,509	12.4%
1/1/2008	2,475,867	2,648,246	93.5%	172,380	1,096,224	15.7%
1/1/2009	2,261,072	2,579,015	87.7%	317,943	1,013,934	31.4%
1/1/2010	2,232,361	2,663,862	83.8%	431,501	1,007,505	42.8%
1/1/2011	2,275,998	2,823,191	80.6%	547,192	1,118,232	48.9%
1/1/2012	2,311,328	2,978,982	77.6%	667,654	1,104,738	60.4%

City Manager Only Plan (COM)

Plan Description - The City of Stroud participates in the Oklahoma Municipal Retirement Fund's City Manager Only Plan for its city manager. The City Manager Only Plan provides portable retirement plans for municipal managers.

The participant vests immediately in all contributions, however, benefits are not available to the participant until retirement, termination, death, or unforeseeable emergency.

Funding Policy - The City of Stroud contributes 13.0% of participant compensation to the plan and the participant contributes 10.0% of compensation. Contributions made by the City on behalf of the participant during the year ended June 30, 2012 were \$8,179 and participant contributions were \$4,545.

D. Expanded Governmental Fund Balance Classification

The following shows the governmental fund balances by classification. Where the amounts are nonspendable, restricted, committed or assigned, the purposes for which they are so designated are noted below.

City of Stroud, Oklahoma
Notes to Financial Statements
June 30, 2012

	<u>Major Special Revenue Funds</u>				<u>Total</u>
	<u>General Fund</u>	<u>Capital Expenditure Fund</u>	<u>Special Reserve Fund</u>	<u>Other Funds</u>	
Fund balances:					
Nonspendable:	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted For:					
Capital projects	-	-	-	-	-
Airport	-	-	-	-	-
Streets	-	-	-	-	-
Library	-	-	-	2,698	2,698
Economic Dev	-	-	-	-	-
Cemetery	-	-	-	64,363	64,363
Committed:					
Special Projects	-	276,461	-	303,616	580,077
Assigned:	-	-	7,140	-	7,140
Unassigned:	304,440	-	-	(9,919)	294,521

E. Net Assets

The government-wide and business-type fund financial statements utilize a net asset presentation. Net assets are categorized as investment in fixed assets (net of related debt), restricted and unrestricted.

Investment in Capital Assets (net of related debt) - is intended to reflect the portion of net assets which are associated with non-liquid capital assets less outstanding capital asset related debt. The net related debt is the outstanding capital debt less any unspent debt proceeds (held as liquid assets) and any associated unamortized cost.

Restricted Net Assets - represent liquid assets (generated from revenues and not bond proceeds) which have third party (statutory, bond covenant or granting agency) limitations on their use. The Town would typically use restricted net assets first, as appropriate opportunities arise, but reserve the right to selectively defer the use thereof to a future project or replacement equipment acquisition.

Unrestricted Net Assets - represent unrestricted liquid assets.

F. Capital Contributions

The Stroud Utilities Authority reported \$202,571 in capital contributions for the fiscal year. This represents the assets purchased and various operating expenses paid for by the Capital Expenditure Fund during the fiscal year.

City of Stroud, Oklahoma
 General Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual
 For the Year Ended June 30, 2012

	Budget		Actual	Variance with
	Original	Final		Final Budget Over (Under)
REVENUES				
Taxes	\$ 874,000	\$ 912,700	918,819	6,119
Intergovernmental	5,000	25,000	22,064	(2,936)
Licenses and permits	10,150	10,150	5,367	(4,783)
Charge for services	259,600	259,600	262,262	2,662
Fines and forfeitures	35,000	71,950	80,776	8,826
Interest	3,000	3,000	2,653	(347)
Miscellaneous	86,520	107,750	98,998	(8,752)
Total revenues	<u>\$ 1,273,270</u>	<u>\$ 1,390,150</u>	<u>\$ 1,390,939</u>	<u>\$ 789</u>
EXPENDITURES				
General government:				
Administration	\$ 438,686	\$ 461,686	\$ 441,332	\$ (20,354)
Legal	11,380	13,160	13,157	(3)
Public safety:				
Police	600,749	664,299	671,704	7,405
Fire	98,160	113,210	113,213	3
Civil defense	1,000	10	5	(5)
Public works:				
Streets	102,562	102,062	102,461	399
Airport	-	150	145	(5)
Cemetery	15,600	15,600	13,115	(2,485)
Shop	30,537	30,537	27,500	(3,037)
Building & Grounds	38,838	42,568	42,134	(434)
Culture and recreation:				
Library	90,802	81,252	78,633	(2,619)
Community center	12,025	10,265	8,746	(1,519)
Golf course	139,226	157,216	153,583	(3,633)
Recreation/parks	159,548	167,298	178,516	11,218
Fitness center	39,500	45,600	45,131	(469)
Total expenditures	<u>\$ 1,778,613</u>	<u>\$ 1,904,913</u>	<u>\$ 1,889,375</u>	<u>\$ (15,538)</u>
Excess (deficiency) of revenues over (under) expenditures	(505,343)	(514,763)	(498,436)	16,327
OTHER FINANCING SOURCES (USES)				
Transfers	454,558	463,708	472,308	8,600
Net changes in fund balances	(50,785)	(51,055)	(26,128)	24,927
Fund balances - beginning			330,568	
Fund balances - ending			<u>\$ 304,440</u>	

See Disclaimer in Independent Accountant's Report and the notes to the financial statements as they are an integral part of this statement.

City of Stroud, Oklahoma
 Nonmajor Governmental Funds
 Combining Balance Sheet
 June 30, 2012

	Special Revenue						Total Nonmajor Governmental Funds
	Street & Alley	Library Society	Airport	CDBG MEMCO	Cemetery Care	CDBG Grant	
ASSETS							
Cash and cash equivalents	\$ 224,599	2,698	4,131	73,629	19,117	578	324,752
Investments	-	-	-	-	45,219	-	45,219
Receivables, net	5,883	-	30,565	-	-	-	36,448
Due from other funds	-	-	(22,295)	-	27	(578)	(22,846)
TOTAL	\$ 230,482	2,698	12,401	73,629	64,363	-	383,573
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	495	-	-	-	-	-	495
Total Liabilities	\$ 495	-	-	-	-	-	495
Fund balances:							
Nonspendable	-	-	-	-	-	-	-
Restricted	-	2,698	12,401	-	64,363	-	79,462
Committed	229,987	-	-	73,629	-	-	303,616
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-
Total Fund Balances	\$ 229,987	\$ 2,698	\$ 12,401	\$ 73,629	\$ 64,363	\$ -	\$ 383,078
TOTAL	\$ 230,482	\$ 2,698	\$ 12,401	\$ 73,629	\$ 64,363	\$ -	\$ 383,573

See Disclaimer in Independent Accountant's Report and the notes to the financial statements as they are an integral part of this statement.

City of Stroud, Oklahoma
 Nonmajor Governmental Funds
 Statement of Revenues, Expenses and Changes in Fund Net Assets
 For the Year Ended June 30, 2012

	Special Revenue						Total Nonmajor Governmental Funds
	Street & Alley	Library Society	Airport	CDBG MEMCO	Cemetery Care	CDBG Grant	
REVENUES							
Taxes	29,328	-	-	-	-	-	29,328
Intergovernmental	-	7,020	73,685	-	-	-	80,705
Charge for services	-	-	-	-	2,988	-	2,988
Interest	-	-	147	221	2	-	370
Miscellaneous	-	-	-	-	-	-	-
Total revenues	<u>29,328</u>	<u>7,020</u>	<u>73,832</u>	<u>221</u>	<u>2,990</u>	<u>-</u>	<u>113,391</u>
EXPENDITURES							
Current							
General government	-	-	-	-	-	-	-
Cultural and Recreation	-	5,219	-	-	-	-	5,219
Public safety	-	-	-	-	-	-	-
Public Works	53,151	-	-	-	34	-	53,185
Capital outlay	3,175	1,143	73,685	-	-	-	78,003
Total expenditures	<u>56,326</u>	<u>6,362</u>	<u>73,685</u>	<u>-</u>	<u>34</u>	<u>-</u>	<u>136,407</u>
Excess (deficiency) of revenues over expenditures	<u>(26,998)</u>	<u>658</u>	<u>147</u>	<u>221</u>	<u>2,956</u>	<u>-</u>	<u>(23,016)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	152,724	-	-	-	-	-	152,724
Transfers out	-	-	-	-	-	-	-
Expenditures paid for other funds	-	-	-	-	-	-	-
Total other financing sources and uses	<u>152,724</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>152,724</u>
Net change in fund balances	125,726	658	147	221	2,956	-	129,708
Fund balances - beginning	104,261	2,040	12,254	73,408	61,407	-	253,370
Fund balances - ending	<u><u>229,987</u></u>	<u><u>2,698</u></u>	<u><u>12,401</u></u>	<u><u>73,629</u></u>	<u><u>64,363</u></u>	<u><u>-</u></u>	<u><u>383,078</u></u>

See Disclaimer in Independent Accountant's Report and the notes to the financial statements as they are an integral part of this statement.

City of Stroud, Oklahoma
 Schedule of Expenditures of Federal and State Awards
 For the Year Ended June 30, 2012

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PROGRAM OR AWARD AMOUNT	EXPENDITURES
<u>U.S. Department of Housing and Urban Development</u> Community Development Block Grants	14.228	270,000	30,000
<u>US Department of Transportation</u> Airport Improvement Program	20.205	353,339	73,685
<u>US Environmental Protection Agency</u> (Passed through Oklahoma Water Resource Board)			
ARRA-Clean Water State Revolving Fund	66.458	611,486	280,215
ARRA-Drinking Water State Revolving Fund	66.468	125,000	124,000
Total Federal Funds		<u>1,359,825</u>	<u>507,900</u>
<u>STATE PROGRAMS</u>			
<u>State of Oklahoma</u>			
Passed through Oklahoma Dept. of Agriculture Fire Grant		4,413	4,413
Passed through Oklahoma Dept. of Libraries		6,184	5,575
Passed through Department of Justice Police Grants		19,980	15,250
Total State of Oklahoma		<u>30,577</u>	<u>25,238</u>
Total Federal and State Assistance		<u>\$ 1,390,402</u>	<u>\$ 533,138</u>

Notes to Schedule of Expenditures of Federal Awards

Note A - Significant Accounting Policies - The accompanying schedule of expenditures of federal awards is prepared on the basis of accounting consistent with the definition of federal awards expended in paragraph 205 of OMB Circular A-133.

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

City Council
City of Stroud, Oklahoma

I have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Stroud, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City of Stroud's basic financial statements and have issued my report thereon dated December 20, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Stroud, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered City of Stroud, Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Stroud's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Stroud, Oklahoma'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.

My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Stroud, Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



Stroud, Oklahoma 74079
December 20, 2012