CITY OF DRUMRIGHT
Drumright, Oklahoma

BASIC FINANCIAL STATEMENTS
June 30, 2011

CITY OF DRUMRIGHT
Drumright, Oklahoma

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Drumright, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

October 21, 2011

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, 2011 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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, 2011, 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 21, 2011, 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.

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Management's Discussion and analysis on pages 3 through 10, the budgetary comparison information on pages 46 through 47 and notes on page 48 are not a required part of the financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 Schedule of Expenditures of Federal awards, the combining and individual non-major governmental fund statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

CITY OF DRUMRIGHT

Management's Discussion and Analysis

For the Year Ended June 30, 2011

Introduction

The management of the City of Drumright, Oklahoma is pleased to present its perspective of the City's financial performance as a whole for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to summarize for the reader the financial information more fully detailed in the financial statements which follow along with the notes and to explain the highlights and major points in the financial statements, both positive and negative. The City reports under the GASB 34 model. Comparisons with the previous fiscal year are provided as needed to help the reader understand the City's progress.

Financial Highlights

Key financial highlights for 2011 were:

- The assets of the City of Drumright, the Drumright Utility Authority and the Drumright Gas Authority exceeded their liabilities at the close of the fiscal year by more than $4.557 million. Of this amount, $2.190 million may be used to meet the city's ongoing obligations to its citizens and creditors.
- The city's main governmental revenue source, the sales and use tax, ended the year with an increase of 5.0%.
- Gas sales decreased in dollar terms by $232,956 or 15.0% for the Drumright Gas Authority while the cost of gas sold decreased by $124,370. Net income (before inter-fund transfers) decreased from $281,120 to $161,762. The overall reduction in gas revenue was due to lower rates the City elected to charge.
- The Water Utility Fund saw an increase in net income (before operating transfers) of $109,077. This was due to a warmer and dryer than normal summer period.

Using this Annual Financial Report

This discussion and analysis is intended to serve as an introduction to the City of Drumright's basic financial statements. The city's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) individual fund financial statements; and 3) notes to the financial statements.

Government-wide financial statements – Reporting the City of Drumright as a whole.

Statement of Net Assets and Statement of Activities

The Statement of Net Assets presents information on all of the City of Drumright's assets and liabilities with the difference between the two being reported as net assets. Over time, the increase or decrease in net assets is a useful indicator of whether the financial position of the City is improving or deteriorating. In the evaluation of the overall financial position, factors such as the changes in laws related to certain key revenue sources and the condition of capital assets should also be considered. Both the Statement of Net Assets and the Statement of Activities use the accrual basis of accounting, similar to the accounting basis used by most private-sector companies. This basis of accounting includes all of the current years' revenue and expenses, regardless of when cash is actually received or disbursed.

Fund Financial Statements – Reporting the City of Drumright's Most Significant Funds

Fund Financial Statements

Fund Financial statements provide detailed information about the city's major funds. These reports begin on page 13. The City of Drumright uses many funds to account for a variety of financial transactions although some of the smaller and less significant funds are not presented in detail. The determination of which funds to present in detail is made based on the "significance" of each fund. Significance can be determined in one of two ways. The first method is based on the amounts of assets, liabilities, revenues and expenses when compared to other funds of the same type. This method is prescribed by the Governmental Accounting Standards Board (GASB) statement 34 and attempts to present the funds that are the most significant from a financial perspective. The second method allows for the inclusion of other funds if they are deemed to be significant based on other attributes. These funds may be of special interest to the community or other stakeholders, or may have been close enough to the financial threshold of the first method that they are deemed significant.

Governmental Funds

Governmental Funds are used to account for functions reported as governmental functions in the government-wide financial statements. Unlike these reports, however, the Governmental Fund Financial Statements focus on near-term inflows and outflows of spendable resources as well as the balance of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financial requirement. These funds are reported using an accounting method called the modified accrual basis, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the city's general government operations and the basic services it provides. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate a comparison between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds.

Government-wide Financial Analysis – City of Drumright as a whole.

The Statement of Net Assets and the Statement of Activities look at the city as a whole and are useful indicators of the city's overall financial position, but other factors should also be considered when evaluating the city's financial picture as of the end of the fiscal year.

TABLE 1
Governmental Activities
Net Assets (In Thousands)

	2011	2010
Assets		
Current and other assets	$ 852.9	$1,136.7
Capital Assets, net	1,218.5	1,225.7
Total Assets	$2,071.4	$2,362.3
Liabilities		
Current Liabilities	$ 171.1	$ 96.1
Long-term Liabilities:		
Due Within one year	-0-	11.3
Due in more than one year	-0-	-0-
Total Liabilities	$ 171.1	$ 107.4
Net Assets		
Invested in capital assets (net of related debt)	$ 1,138.5	$1,214.3
Restricted for:		
Capital Projects	551.6	556.5
Other Purposes	50.9	61.0
Unrestricted	217.0	423.0
Total Net Assets	$1,900.3	$2,254.8

Note: This is a recap of the Governmental Activities Column from the Statement of Net Assets on page11 of the financial statements.

Government-wide Financial Analysis – City of Drumright as a Whole

Table 2
Governmental Activities
Statement of Activities (In Thousands)

	2011	2010
Governmental Activities (Expenses)		
General Government	$ 441.6	$ 398.9
Public Safety & Judiciary	635.7	668.0
Transportation	531.4	397.2
Sanitation	(109.5)	(71.3)
Culture and Recreation	53.0	87.5
Unallocated Depreciation	-0-	8.6
Total Governmental Activities	$1,552.2*	$1,488.8*
General Revenue		
Table 2 cont.		
Taxes:		
Sales and use Taxes	$ 742.7	$ 733.3
Franchise Taxes	138.3	140.6
Intergovernmental	55.6	41.3
Grants	-0-	-0-
Investment Earnings	5.8	11.7
Miscellaneous	23.3	119.0
Charges for Services	7.2	5.6
Transfers In	224.6	165.1
Total General Revenues, Special Items and Transfers	$1,197.6	$1,216.6
Change in net assets:	($ 354.6)	($ 272.4)
Net Assets – beginning	2,254.8	2,527.2
Net Assets - ending	$1,900.3	$ 2,254.8

**May not add due to rounding.*

Note: This is a recap of the Governmental Activities Column from the Statement of Activities on page12-13 of the financial statement.

Government-wide Financial Analysis – City of Drumright as a Whole (*continued)*

Total assets from governmental activity are about $1.9 million (rounded), which represents a decrease of $354,587 from the prior fiscal year. Factors influencing this change in governmental assets include: 1) a depressed economy causing a generally low level of revenues; 2) a decrease in transfers in from other funds and 3) continued need for a minimum level of effort in all areas of the local government.

The city's investment strategy is simple. For 2011, as in prior years, the city's main focus is on safety and liquidity; however, during 2011 roughly $300,000 was invested in government bonds and securities with longer maturity periods (less liquidity) in order to take advantage of higher yields. The Finance Director actively manages the portfolio within that framework so that fair yields can be obtained. As interest rates dropped during the year, the city reinvested in the lower yielding instruments which will impact the future periods investment earnings. The city mainly invests in fully insured or collateralized certificates of deposit and money market accounts. This practice is consistent with the City Commission's adopted investment policy.

The city continues in its efforts to control expenditures through more efficient procurement and use of goods and services. It is also encouraging energy efficiency and reduced and more efficient use of city vehicles.

The city is making a concerted effort in improve work place safety so that worker's compensation costs are contained or reduced. This includes in house safety training. The City is insured for worker's compensation through the Oklahoma Municipal Assurance Group. The city will once again receive a refund of premium recognizing its outstanding safety record.

The city was a participant in a single employer, small group health plan operated by the Community Care insurance program. The city does not have a large enough workforce to have a stand-alone, self-funded plan but has gone to a stand-alone, fully-insured HMO plan from Community Care offered through the Spirit Financial agency for FY 2010 and 2011. The City experienced no rate increase for 2011 after one year in this plan.

Money saving programs and approaches to service delivery are constantly sought. This entails regular reevaluation of our approaches to all types of work performed by the city.

Governmental Activities

Several revenue sources fund the City of Drumright's governmental activities. The largest of these is the sales and use tax. The city's current sales tax rate is 4.5% which is high among the states many cities and towns. The General Fund received one-half of the receipts generated by the sales and use tax and this constitutes the sales tax for operations. This portion has not changed in many years. The remaining half is divided between the Capital Improvement Fund, the Street Improvement Fund and the Water Debt Service. The 2011 operational portion of the sales and use tax revenue of $993,395 represented an increase of 5.0% from 2010. This increase was due to the slight recovery from the prior year's nearly 15% decrease caused by poor area economy and rising unemployment. Investment earnings decreased as the interest rate environment has deteriorated. Better opportunities for investments have been sought but all appropriate investment vehicles have lower yields than previously.

Public safety is the most costly governmental expense activity for the city, excluding capital projects. Combined, the Police and Fire departments accounted for 39% of governmental expenditures. Both the

Governmental Activities (continued)

Fire department consists of five full-time employees and the Police department consists of six full-time employees. All of the police employees are sworn law enforcement personnel.

The city has other operating departments involved in governmental type activities including streets and parks, library and general government which provide services to the general public. The City Commission, legal, administration and finance areas provide services both internally and to the general public and are categorized as general governmental functions.

The City's Funds

Information on the city's major funds begins on page 16. The governmental funds utilize the modified accrual basis of accounting. All governmental funds had total revenues of $1,827,589 for the year and $2,334,606 in expenditures resulting in expenditures exceeding revenue by $507,017.

The general fund reflects a decrease in fund balance of $263,670. While there is not a standard for the desired level of fund balance that should be carried, it is desirable to have at least three months of average expenditures in reserve so that any extreme fluctuations in revenue or disaster experiences increasing expenditures can be absorbed without major disruptions to normal operations. With careful monitoring of revenue and expenditures combined with conservative budgeting, the city management believes the fund balance is adequate to allow the city to meet its obligations and reflects a good financial condition of the city as a whole.

General Fund Budgeting Highlights

The city prepares its budget in accordance with Oklahoma law. It is based on carefully estimated revenues and planned expenditures. The General Fund is always one of the most significant budgets considered. An annual budget is required of all funds except agency funds. The City Commission is provided with a detailed line-item budget for all revenue and for each department's expenditures. The budget is adopted with the legal level of control set at the departmental level, which means that individual line-items may exceed the budget but the departmental appropriations in total must not exceed the budget. Normally, several commission meetings are devoted to reviewing and discussing the budget with the city management. When the commission is satisfied with the budget, it is adopted and the powers of the city commission and the City Manager are defined as follows:

The City Manager may transfer appropriations from one department to another within a fund after the budget is adopted by the City Commission. The Commission must approve any budget amendments that would alter the total budget by fund or change any inter-fund transfers of money. The Finance Director closely monitors the budget throughout the year and works with department directors to resolve any budget issues that may arise over the course of the year. She also provides the City Manager and the City Commission with a summary report on the revenue and expenditures after the close of each monthly budget cycle.

For the General Fund, budget basis revenue was $32,625 in deficit of the budget estimates of $1,250,635. The City continues the conservative practice of estimating revenue based on long-term trends, adjusted for any known factors. Expenditures are estimated using the most detailed information regarding staffing, salaries, benefits and price trends for known goods and services. Expenditures were $48,431 over the final budget estimates and transfers in were $3,053 under budget estimates. These

General Fund Budgeting Highlights (continued)

factors combined to decrease the City's ending unreserved General Fund balance to $220,783 some $84,109 less than was planned in the final budget.

Business-Type Activities

The City has established the Drumright Utility Authority and the Drumright Gas Authority to operate its enterprise activities or business-type activities. The comments contained herein relate only to the Water and Sewer Utilities Authority and the Drumright Gas Authority. All of the other business-type activities are operated and managed by other boards and staff. The Water and Sewer Utilities Authority and the Drumright Gas Authority experienced an increase in the Net Assets of $79,729. The Gas Authority saw an increase in Net Assets of $87,163 while the Water and Sewer Utilities Authority saw a decrease in Net Assets of $7,434. The Water Utility fund saw its Net Assets increase from a negative $1,096,471 to a negative $1,063,726. This negative position is caused by reflecting the debt on outstanding bonds which were used to fund the construction of a local hospital rather than invest in Water-related assets.

The Sewer Utility Fund experienced a decrease in net assets of $40,179, mainly due to transfers out of $30,000, which is less than the prior year's transfer out of $46,932. Transfers out are being reduced in the current year and future years to prevent a decline in Net Assets and to "save up" for some major capital investments that will need to be made.

The Drumright Gas Authority saw its net assets increase by $87,163. Operating expenses decreased by $101,642 or 9.0% mainly due to a drop in the wholesale cost of gas. Revenue decreased by $232,956 due to rate reductions and decreased demand for gas.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2011, the City of Drumright had $6,953,342 invested in land, buildings and capital improvements (net of depreciation). Of this amount, the governmental funds owned $1,218,473 in capital assets. The business-type funds owned $5,734,869 in assets. In business-type funds, the depreciation is expensed as the asset is used in some appropriate way. The City of Drumright uses a straight-line depreciation method with various time frames assigned based on the type of asset and its expected useful life.

Funds provided by the capital improvements sales tax are permitting some street improvements. This is expected to continue for the foreseeable future. Water and sewer projects are done, usually through revenue bonds or notes. Some smaller projects are funded through the operating budgets. Revenue bonds or notes are payable over a period of up to 30 years with favorable interest rates. When such notes and bonds are used, water and/or sewer revenues are pledged to the repayment of principal and interest.

Capital Assets and Debt Administration – (continued)

Debt

As of June 30, 2011, the City of Drumright had no outstanding long-term governmental or general obligation debt. The Drumright Utility Authority and the Drumright Gas Authority had a combined $5,926,224 in long-term debt outstanding (net of reserves and the balances in debt service funds).

Of this amount, $1,240,000 in Utility System revenue bonds have been advance refunded. In 2006, $1,621,453 was placed in a reserve fund for this purpose. These funds were included in a $3,570,000 utility system revenue bond issue, of which $3,310,000 remains outstanding.

The Drumright Gas Authority issued a revenue note in 1996 in the original amount of $3,448,000 with the Rural Economic and Community Development Administration to replace gas lines in the City. The note carries interest at the rate of 4.5% and is payable over a forty (40) year period. Monthly deposits are made with the fiscal agent to make the payments. The current outstanding balance of these bonds totals $2,783,283.

The other remaining outstanding amount is the remaining amount due on one note.

Current Related Financial Activities

The City of Drumright maintains a healthy financial condition by actively managing its expenditures. The city maintains a flexible management style by exercising constraint on filling vacancies in the workforce, stressing the performance of key revenue sources, enforcing budgetary control on departments and encouraging the City Commission to adjust rates for services when justified. We believe the City is well positioned to meet the challenges of the near future. The employees and management of the City are committed to providing excellent service to its citizens. The financial management team is further committed to providing full disclosure of the financial position of the city.

Contacting the City of Drumright Financial Management Team

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the city's finances and to show the city's accountability for the tax and service revenues it receives. If you have questions about this report or need additional financial information, please contact the City Clerk/Finance Director, Holly Maschino at the City of Drumright, 122 W. Broadway, Drumright, OK 74030, by phone at (918)352-2631 or by email at maschino@swbell.net.

CITY OF DRUMRIGHT
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and investments:			
Cash & cash equivalents (Note 1)	$ 171,283	$ 1,280,461	$ 1,451,744
Investments, at cost	420,118	1,075,624	1,495,742
Receivables (net of allowance for uncollectibles):			
Accounts receivable	61,347	142,268	203,615
Taxes	132,188	-	132,188
Franchise	17,809	-	17,809
Interest	-	2,121	2,121
Tax		34,526	34,526
Due from other funds	-	-	-
Deferred billing	-	10,163	10,163
Note receivable	-	227,805	227,805
Restricted assets:			
Cash & cash equivalents (Note 1)	10,599	15,929	26,528
Investments, at cost	39,540	181,000	220,540
Gas loan reserve	-	189,400	189,400
Revenue bond accounts	-	1,531,535	1,531,535
Capital assets:			
Land	64,900	40,425	105,325
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	1,153,573	5,694,444	6,848,017
Deferred charges:			
Debt issue cost (net of accumulated amortization) (Note 1)	-	247,477	247,477
Total assets	$ 2,071,357	$ 10,673,178	$ 12,744,535
Liabilities:			
Accounts payable	$ -	$ 27,712	$ 27,712
Claims pending	21,153	-	21,153
Reserve for court improvements	12,171	-	12,171
Accrued interest	-	112,604	112,604
Accrued liabilities	-	-	-
Deferred compensation	57,767	31,858	89,625
Due to other funds	-	-	-
Payable from restricted assets:			
Polycart deposits	-	-	-
Meter deposits	-	196,929	196,929
Capital leases payable (Note 3)	-	-	-
Notes payable (Note 3)	80,000	453,363	533,363
Revenue bonds payable (Notes 3)	-	4,410,513	4,410,513
Revenue notes payable (Notes 3)	-	2,783,283	2,783,283
Total liabilities	171,091	8,016,262	8,187,353
Net assets:			
Invested in capital assets, net of related debt	1,138,473	(1,912,290)	(773,818)
Restricted	602,548	2,537,842	3,140,390
Unrestricted	159,246	2,031,364	2,190,610
Total net assets	$ 1,900,266	$ 2,656,915	$ 4,557,182

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, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense)/ Revenue
Governmental activities:					
General government:					
City clerk	$ 165,410	$ -	$ -	$ -	$ (165,410)
City manager	92,077	-	-	-	(92,077)
General government	193,715	9,585	-	-	(184,130)
Total general government	451,202	9,585	-	-	(441,617)
Public safety and judiciary:					
City attorney	16,500	-	-	-	(16,500)
Fire	322,345	7,100	15,348	13,262	(286,635)
Municipal court	14,843	-	-	-	(14,843)
Police	448,609	130,866	-	-	(317,743)
Total public safety and judiciary	802,297	137,966	15,348	13,262	(635,721)
Transportation:					
Streets	804,156	-	-	272,800	(531,356)
Total transportation	804,156	-	-	272,800	(531,356)
Cultural, parks and recreation:					
Cemetery	-	2,550	-	-	2,550
Library	73,411	1,699	4,012	15,000	(52,700)
Parks	-	-	-	-	-
Pool	-	-	-	-	-
Total cultural, parks and recreation	73,411	4,249	4,012	15,000	(50,150)
Public health and welfare					
Sanitation	275,709	385,186	-	-	109,477
Total public health and welfare	275,709	385,186	-	-	109,477
Unallocated depreciation*		-	-	-	-
Total governmental activities	2,406,775	536,986	19,360	301,062	(1,549,367)
Business-type activities					
Water utility	613,997	683,754	-	-	69,757
Sewer utility	250,434	238,556	-	-	(11,878)
Gas utiltiy	1,061,207	1,321,589	-	-	260,382
Industrial authority	54,044	76,050	-	-	22,006
Heatlhcare facility	10,828	701	-	-	(10,127)
Financing costs	380,744	-	-	-	(380,744)
Unallocated depreciation*	-	-	-	-	-
Total business-type activities	2,371,254	2,320,650	-	-	(50,604)
Total primary government	$ 4,778,029	$ 2,857,636	$ 19,360	$ 301,062	$ (1,599,971)

* - This amount does not include the depreciation that is included in the direct expenses of various programs.

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, 2011

	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	(1,549,367)	(50,604)	(1,599,971)
General revenues:			
Taxes:			
Sales and use taxes	742,733	250,662	993,395
Franchise taxes	138,310	-	138,310
Intergovernmental	55,633	-	55,633
Investment earnings	5,846	94,928	100,774
Miscellaneous	20,460	131,432	151,892
Noncapital gifts	-	-	-
Grant	-	-	-
Rental	7,200	-	7,200
Sale or disposal of assets	-	-	-
Transfers	224,599	(224,599)	(0)
Total general revenues and transfers	1,194,780	252,422	1,447,203
Change in net assets	(354,587)	201,818	(152,769)
Net assets - beginning of year	2,254,853	2,455,097	4,709,950
Net assets - end of year	$ 1,900,266	$ 2,656,915	$ 4,557,182

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

CITY OF DRUMRIGHT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets:			
Cash and investments:			
Cash & cash equivalents	$ (103,264)	$ 274,547	$ 171,283
Investments, at cost	178,578	241,540	420,118
Receivables (net):			
Accounts receivable	61,347	-	61,347
Taxes	89,037	43,151	132,188
Interest	-	-	-
Franchise	17,809		17,809
Grant	-	-	-
Due from other funds	-	-	-
Restricted assets:			
Cash & cash equivalents	10,599	-	10,599
Investments, at cost	-	39,540	39,540
Total assets	$ 254,106	598,778	$ 852,884
Liabilities:			
Accounts payable	$ -	$ -	$ -
Claims pending	21,152	-	21,152
Reserve for court improvements	12,171	-	12,171
Due to other funds	-	-	-
Payable from restricted assets:			
Polycart deposits	-	-	-
Total liabilities	33,323	-	33,323
Fund balance:			
Restricted for:			
Cemetery	-	39,540	39,540
Capital Projects	-	551,640	551,640
Workers compensation	3,770	-	3,770
Other purposes	-	7,598	7,598
Unassigned	217,013	-	217,013
Total fund balance	220,783	598,778	819,561
Total liabilities and fund equity	$ 254,106	$ 598,778	$ 852,884

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, 2011

Total Fund Balances - Total Governmental Funds			$ 819,561
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)			(80,000)
Deferred compensation			(57,767)
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		24,973	
Sanitation		57,737	
Police		223,409	
Fire		789,154	
Water		74,971	
Streets		755,371	
Park		213,860	
Library		9,866	
Accumulated Depreciation		(2,058,665)	
Total			1,153,573
Net assets of governmental activities			$ 1,900,266

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

CITY OF DRUMRIGHT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Charges for services	$ 427,195	$ -	$ 427,195
Licenses and permits	9,585	-	9,585
Intergovernmental programs	55,633	-	55,633
Sales and use taxes	421,766	320,967	742,734
Loan Proceeds	-	-	-
Franchise fees	138,310	-	138,310
Fines and forfeitures	97,656	-	97,656
Interest	5,846	-	5,846
Rentals	7,200	-	7,200
Lot sales	-	2,550	2,550
Grants and donations	34,360	286,062	320,422
Miscellaneous revenue	20,460	-	20,460
Total revenues	1,218,010	609,579	1,827,589
Expenditures:			
Current:			
General government	363,018	-	363,018
Public safety	695,248	1,908	697,156
Highways & roads	288,402	135,340	423,742
Cultural, parks & recreation	68,411	5,000	73,411
Health & welfare	275,709	-	275,709
Capital outlay	-	489,689	489,689
Lease payments	11,881	-	11,881
Total expenditures	1,702,669	631,937	2,334,606
Excess of revenues over (under) expenditures	(484,659)	(22,357)	(507,017)
Other financing uses:			
Operating transfers in (out)	220,989	3,610	224,599
Excess of revenues over (under) expenditures & transfers	(263,670)	(18,748)	(282,418)
Fund balance - beginning of year	484,453	617,526	1,101,979
Fund balance - end of year	$ 220,783	$ 598,778	$ 819,560

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, 2011

Net Change in Fund Balances - Total Governmental Funds	$	(282,418)
Amounts reported for governemental activities in the Statement of Activities are different because:		
Governmental funds do not record inter-fund payables and receivables. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the amount payable from governmental funds to business type funds is reflected as a liability. (Note 3)		(80,000)
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.		11,298
Government-Wide Statement of Activities and Changes in Net Assets report accrued compensated absenses 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 absenses recorded in the current period.		3,720
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.		111,752
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.		(118,939)
Change in Net Assets of Governmental Activities	$	(354,587)

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

CITY OF DRUMRIGHT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Business-type Activities - Enterprise Funds						
	Drumright Utility Trust						
	Water Utility	Sewer Utility (Non-major)	Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	Drumright Municipal Healthcare Authority	Totals
Assets:							
Cash and investments:							
Cash & cash equivalents (Note 3)	$ 134,350	$ 18,158	$ 167,541	$ 115,255	$ 40,006	$ 805,151	$ 1,280,461
Investments, at cost	370,420	23,000	682,204	-	-	-	1,075,624
Receivables (net of allowance for uncollectibles):							
Accounts receivable	61,899	25,376	54,993	-	-	-	142,268
Interest	2,012	-	109	-	-	-	2,121
Tax	34,526	-	-	-	-		34,526
Deferred billing	-	-	10,163	-	-	-	10,163
Due from other funds	-	-	-	-	(4,288)	4,288	-
Note receivable	-	-	80,000	147,805	-	-	227,805
Restricted assets:							
Cash & cash equivalents (Note 3)	-	-	15,929	-	-	-	15,929
Investments, at cost	-	-	181,000	-	-	-	181,000
Gas loan reserve	-	-	189,400	-	-	-	189,400
Revenue bond accounts	1,531,535	-	-	-	-	-	1,531,535
Capital assets:							
Land & work in progress	-	-	4,300	36,125	-	-	40,425
Depreciable buildings, property, equipment and infrastructure, net of depreciation (Notes 1 & 3)	1,091,512	679,820	2,331,231	1,591,881	-	-	5,694,444
Deferred charges:							
Debt issue cost (net of accumulated amortization) (Note 1)	247,477	-	-	-	-	-	247,477
Total assets	$ 3,473,731	$ 746,354	$ 3,716,870	$ 1,891,066	$ 35,718	$ 809,439	$ 10,673,178

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

CITY OF DRUMRIGHT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

(Continued)	Business-type Activities - Enterprise Funds						
	Drumright Utility Trust						
	Water Utility	Sewer Utility (Non-major)	Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	Drumright Municipal Healthcare Authority	Totals
Liabilities:							
Accounts payable	$ -	$ -	$ 27,412	$ -	$ 300	$ -	$ 27,712
Accrued interest	111,918	-	686	-	-	-	112,604
Deferred compensation	15,026	7,106	9,726	-	-	-	31,858
Due to other funds	-	-	-	-	-	-	-
Payable from restricted assets:							
Meter deposits	-	-	196,929	-	-	-	196,929
Notes payable (Note 3)	-	-	-	425,413	-	27,950	453,363
Revenue bonds payable (Note 3)	4,410,513	-	-	-	-	-	4,410,513
Revenue notes payable (Note 3)	-	-	2,783,283	-	-	-	2,783,283
Total liabilities	4,537,457	7,106	3,018,036	425,413	300	27,950	8,016,262
Net assets:							
Invested in capital assets, net of related debt	(3,319,001)	679,820	(447,752)	1,202,593	-	-	(1,884,340)
Restricted	1,531,535	-	189,400	-	35,418	781,489	2,537,842
Unrestricted	723,740	59,428	957,186	263,060	-	-	2,003,414
Total net assets	$ (1,063,726)	$ 739,248	$ 698,834	$ 1,465,653	$ 35,418	$ 781,489	$ 2,656,915

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, 2011

	Business-type Activities - Enterprise Funds						
	Drumright Utility Trust						
	Water Utility	Sewer Utility (Non-major)	Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	Drumright Municipal Healthcare Authority	Totals
Revenues:							
Water	$ 683,754	$ -	$ -	$ -	$ -	$ -	$ 683,754
Sewer	-	238,556	-	-	-	-	238,556
Gas	-	-	1,321,589	-	-	-	1,321,589
Lease income	-	-	-	76,050	-	-	76,050
Rental	-	-	-	-	701	-	701
Miscellaneous	7,222	1,409	8,909	-	585	113,307	131,432
Total revenues	690,976	239,965	1,330,498	76,050	1,286	113,307	2,452,082
Operating expenses:							
Gas & oil	9,625	4,873	14,184	-	-	-	28,682
Hospitalization	26,821	9,284	14,428	-	-	-	50,533
Insurance	39,656	7,250	24,684	633	-	-	72,223
Legal & accounting	5,700	-	3,600	2,225	-	-	11,525
Materials & supplies	72,694	27,516	21,471	-	28	-	121,709
Miscellaneous	14,266	31,674	6,693	101	10,800	-	63,534
Office-credit card fees, postage	5,351	601	-	-	-	-	5,952
Payroll taxes	14,007	5,096	7,855	-	-	-	26,958
Purchase of gas	-	-	750,265	-	-	-	750,265
Rent	-	-	-	-	-	-	-
Repairs & maintenance	76,260	31,504	8,757	2,968	-	-	119,489
Retirement	23,047	8,579	13,046	-	-	-	44,672
Salaries	192,917	67,617	103,329	-	-	-	363,863
Taxes	-	-	3,120	-	-	-	3,120
Telephone	1,640	404	4,291	-	-	-	6,335
Utilities	59,481	3,785	506	-	-	-	63,772
Depreciation	72,532	52,251	84,978	48,117	-	-	257,878
Total operating expenses	613,997	250,434	1,061,207	54,044	10,828	-	1,990,510

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, 2011

(Continued)	Business-type Activities - Enterprise Funds						
	Drumright Utility Trust						
	Water Utility	Sewer Utility (Non-major)	Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	Drumright Municipal Healthcare Authority	Totals
Income before non-operating revenues, expenses & transfers	76,979	(10,469)	269,291	22,006	(9,542)	113,307	461,571
Non-operating revenues (expenses):							
Interest	70,909	290	19,055	203	654	3,817	94,928
Sales and use tax	250,662	-	-	-	-	-	250,662
Sale or disposal of assets	-	-	-	-	-	-	-
Grants and donations	-	-	-	-	-	-	-
Interest expense	(226,148)	-	(126,584)	(8,355)	-	-	(361,087)
Amortization of debt issue cost	(7,665)	-	-	-	-	-	(7,665)
Amortization of deferred loss on early retiremen	(11,992)	-	-	-	-		(11,992)
Trustee fees	-	-	-	-	-	-	-
Total non-operating	75,766	290	(107,529)	(8,152)	654	3,817	(35,154)
Income (loss) before operating transfers	152,745	(10,179)	161,762	13,854	(8,888)	117,123	426,417
Transfers in (out)	(120,000)	(30,000)	(74,599)	-	-		(224,599)
Change in net assets	32,745	(40,179)	87,163	13,854	(8,888)	117,123	201,818
Net assets at beginning of year	(1,096,471)	779,427	611,671	1,451,799	44,306	664,365	2,455,097
Net assets at end of year	$ (1,063,726)	$ 739,248	$ 698,834	$ 1,465,653	$ 35,418	$ 781,489	$ 2,656,915

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, 2011

	Business-type Activities - Enterprise Funds						
	Drumright Utility Trust						
	Water Utility	Sewer Utility (Non-major)	Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	Drumright Municipal Healthcare Authority	Totals
Cash flows from operating activities:							
Cash received from customers & service users	$ 643,693	$ 236,110	$ 1,238,032	$ 99,125	$ 701	$ -	$ 2,217,661
Cash payments for goods & services & employees	(537,893)	(197,556)	(1,000,502)	(5,927)	(10,528)	-	(1,752,406)
Change in customer meter deposits	-	-	76,748	-	-		76,748
Other operating revenues	7,222	1,409	8,909	-	585	113,307	131,432
Net cash provided by operating activities	113,022	39,963	323,187	93,198	(9,242)	113,307	673,435
Cash flows from noncapital financing activities:							
Sales and use tax revenue	250,662	-	-	-	-		250,662
Grant revenue/(expense)	-	-	-	-	-		-
Operating transfers in/(out) to other funds	(120,000)	(30,000)	(74,599)	-	-	-	(224,599)
Net cash provided (used) for noncapital financing activities	130,662	(30,000)	(74,599)	-	-	-	26,063
Cash flows from capital and related financing activities:							
Acquisition & construction of capital assets	-	-	(21,116)	-	-	-	(21,116)
Principal paid on debt	(95,000)	-	(61,094)	(44,040)	-	(113,307)	(313,441)
Interest paid on debt	(226,148)	-	(126,584)	(8,355)	-	-	(361,087)
Loans to/(from) others	-	-	-	-	4,288	(4,288)	-
Trustee fees	-	-	-	-	-	-	-
Net cash provided (used) for capital and related financing activities	(321,148)	-	(208,794)	(52,395)	4,288	(117,595)	(695,643)
Cash flows from investing activities:							
(Purchase) liquidation of investments	(67,482)	-	(199,204)	-	-	-	(266,686)
Interest on investments	70,909	290	19,055	203	654	3,817	94,928
Net cash provided by investing activities	3,427	290	(180,149)	203	654	3,817	(171,758)
Net increase (decrease) in cash & cash equivalents	(74,037)	10,253	(140,355)	41,006	(4,300)	(471)	(167,904)
Cash and cash equivalents - beginning of year	208,387	7,905	323,825	74,249	44,306	805,622	1,464,294
Cash and cash equivalents - end of year	$ 134,350	$ 18,158	$ 183,470	$ 115,255	$ 40,006	$ 805,151	$ 1,296,390

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, 2011

(Continued)	Business-type Activities - Enterprise Funds						
	Drumright Utility Trust						
	Water Utility	Sewer Utility (Non-major)	Drumright Gas Authority	Drumright Industrial Authority	Municipal Healthcare Facility (Non-major)	Drumright Municipal Healthcare Authority	Totals
Reconciliation of operating income to net cash provided by operating activities:							
Operating income	$ 76,979	$ (10,469)	$ 269,291	$ 22,006	$ (9,542)	$ 113,307	$ 461,571
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation	72,532	52,251	84,978	48,117	-	-	257,878
Change in assets and liabilities:							
(Increase) decrease in accounts receivable	(40,061)	(2,446)	(83,558)	23,075	-	-	(102,989)
Change in customer meter deposits	-	-	76,749	-	-		76,749
Increase (decrease) in accounts payable	(178)	-	(26,872)	-	300	-	(26,750)
Increase (decrease) in accrued expenses	3,750	628	2,599	-	-	-	6,977
Total adjustments	36,043	50,433	53,896	71,192	300	-	211,864
Net cash provided by operating activities	$ 113,022	$ 39,963	$ 323,187	$ 93,198	$ (9,242)	$ 113,307	$ 673,435

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

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.

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.

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.

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: Street Improvement, Capital Improvement, Cemetery Care Fund, Broadway Sidewalk II, Library Improvement, Title 63, REAP grant and CDBG grant.

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.

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

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

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

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

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 $233,246 in the Sinking Fund Reserve Account and they have met this requirement for the year ending June 30, 2011. 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.

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:

Annual Period Commencing August 1,	Minimum Total Deposit During Annual Period	Approximate Monthly Payment
2011	213,365.00	$ 17,780.42
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.

Additional restricted assets represent customer deposits, other reserves and Cemetery Trust funds.

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.

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.

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.

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	$ 4,012
Department of Transportation sidewalk grant	212,800
REAP grant (street resurfacing)	60,000
Community Development Block Grant	13,262
BIA Grant	10,950
Rural Fire Assistance Grant	4,398
OK Highway Safety Grant	12,135
Total	$317,557

3. DETAILED NOTES CONCERNING THE FUNDS AND COMPONENT UNIT

A. Deposits and Investments

Custodial Credit Risk

At June 30, 2011, the City held deposits of approximately $4,915,489 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:

Section1.

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.

3. DETAILED NOTES CONCERNING THE FUNDS AND COMPONENT UNIT (Continued)

A. Deposits and Investments (Continued)

The investments held at June 30, 2011 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Money Market	N/A	AAAm	$ 113,250	$ 113,250
Certificate of deposit	10.00	N/A	1,001,500	1,001,500
Govt Bond and Mutual Funds	N/A	N/A	391,951	397,204
Total investments			$ 1,506,702	$ 1,511,954

Reconciliation to Statement of Net Assets	
Governmental activities	$ 426,750
Business-type activities	1,085,204
	$ 1,511,954

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: 66% in Certificates of deposit ($1,001,500), 7% in Money Market funds ($113,250), and 27% in Government bond and mutual funds ($397,204).

B. Restricted Cash and Investments

Cash and investments have been restricted as follows:

City of Drumright:	
Juvenile programs	$ 6,829
Rate stablilization reserve, State Insurance Fund	3,770
Cemetery trust fund	39,540
Drumright Gas Authority:	
Customer meter deposits	196,929
Gas loan reserve	189,400
Drumright Utility Trust:	
Bond fund reserve	1,531,534
Total restricted cash and investments	$ 1,968,002

3. DETAILED NOTES CONCERNING THE FUNDS AND COMPONENT UNIT (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	$ -	$ -	$ -	$ -	$ -
Health care	-	-	-	-	-
Fire run	4,500	-	-	-	4,500
Fines	35,945	-	-	-	35,945
Water	-	-	-	-	-
Sewer	-	-	-	-	-
Gas	-	-	-	-	-
Total	$ 40,445	$ -	$ -	$ -	$ 40,445

Note: The City wrote off all uncollectible accounts on June 30, 2011.

3. DETAILED NOTES CONCERNING THE FUNDS AND COMPONENT UNIT (Continued)

D. Capital Assets

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

Governmental Activities:	Balance 6/30/10	Additions	Disposals	Balance 6/30/11
Non-depreciable assets:				
Land	$ 64,900	$ -	$ -	$ 64,900
Total non-depreciable assets	64,900	-	-	64,900
Depreciable assets:				
General Government	1,062,897	-	-	1,062,897
Sewer	24,973	-	-	24,973
Sanitation	57,737	-	-	57,737
Police	215,163	84,499	76,253	223,409
Fire	789,154	-	-	789,154
Water	74,971	-	-	74,971
Streets	749,771	5,600	-	755,371
Park	192,207	21,653	-	213,860
Library	9,866	-	-	9,866
Total depreciable assets	3,176,739	111,752	76,253	3,212,238
Less accumulated depreciation:				
General Government	(846,426)	(17,327)	-	(863,753)
Sewer	(24,973)	-	-	(24,973)
Sanitation	(57,129)	(304)	-	(57,433)
Police	(178,772)	(27,637)	76,253	(130,156)
Fire	(518,061)	(18,503)	-	(536,564)
Water	(74,971)	-	-	(74,971)
Streets	(204,412)	(45,406)	-	(249,818)
Park	(104,549)	(9,064)	-	(113,613)
Library	(6,686)	(698)	-	(7,384)
Total Accumulated depreciation	(2,015,979)	(118,939)	76,253	(2,058,665)
Net depreciable assets	$ 1,160,760	$ (7,187)	$ -	$ 1,153,573

3. DETAILED NOTES CONCERNING THE FUNDS AND COMPONENT UNIT (Continued)

D. Capital Assets (Continued)

Business-Type Activities:	Balance 6/30/10	Additions	Disposals	Balance 6/30/11
Non-depreciable assets:				
Land	$ 40,425	$ -	$ -	$ 40,425
Total non-depreciable assets	40,425	-	-	40,425
Depreciable assets:				
Water	2,632,126	-	-	2,632,126
Sewer	1,836,113	-	-	1,836,113
Gas	4,151,716	21,116	-	4,172,832
Drumright Industrial Authority	1,983,122	-	-	1,983,122
	-	-	-	-
Total depreciable assets	10,603,077	21,116	-	10,624,193
Less accumulated depreciation:				
Water	(1,468,083)	(72,532)	-	(1,540,615)
Sewer	(1,104,041)	(52,251)	-	(1,156,292)
Gas	(1,756,624)	(84,978)	-	(1,841,602)
Drumright Industrial Authority	(343,123)	(48,118)	-	(391,241)
	-	-	-	-
Total accumulated depreciation	(4,671,871)	(257,878)	-	(4,929,749)
Net depreciable assets	5,931,206	(236,762)	-	5,694,444
Net business-type activities capital assets	$ 5,971,631	$ (236,762)	$ -	$ 5,734,869

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 $80,000 recognized on the government wide statement of net assets.

3. DETAILED NOTES CONCERNING THE FUNDS AND COMPONENT UNIT (Continued)

G. Capital Leases

The City has entered into capitalized lease agreements. The lease agreements met the criteria of a capital lease as defined by *FASB Accounting Standards Codification* (ASC) 840-10 (Formerly FAS No. 13), *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as expenditures on the fund financial statements.

The capital leases are described below.

Lease payable to Spiritbank for the lease/purchase of a 2008 Chevrolet Impala Police vehicle. Three annual payments of $4242 beginning December 2008. Interest is at 5.25%.	-
Lease payable to Spiritbank for the lease/purchase of a 2009 Chevrolet Impala police vehicle. Two annual payments of 7676.26 beginning January 2010. Interest is at 4%.	-
Total Capital Lease Obligations	$ -

The following is a summary of capitalized lease transactions for the year:

	Balance July 1, 2010	Additions	Payments	Balance June 30, 2011
Capital Lease Obligations	$ 11,881	$ -	$ 11,881	$ -

3. DETAILED NOTES CONCERNING THE FUNDS AND COMPONENT UNIT (Continued)

H. 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 $1,835,000 to retire existing debt and provide funds for hospital improvements. The bonds carry interest rates from 4.5% to 6.2%. The water fund remits monthly payments of $13,806 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 preaid over a period of 22 years. With the issuance of the Drumright Utility Trust Revenue Bonds Series 2006, $1,531,535 has been placed in reserve to advance refund these bonds.	$	1,155,000
2) 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 $21,377 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.		3,310,000
Less: Deferred loss on early retirement of debt		(54,487)
Drumright Gas Authority:		
3) 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 montly payments of $15,654.		2,783,283
Drumright Industrial Authority:		
4) 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.		134,258
5) 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 tennants occupy the Industrial Park Building.		125,344
6) Note payable to Spiritbank in the amount of $259,452.05 dated 12-27-04. The loan originally carried an interest rate of 4% and was to be repaid with monthly payments of $1,992.91for 36 months and one payment of $220,875. On 1-18-08 the note was renewed with an interest rate of 5.5% and monthly payments of $2,030.15 for 5 years.		165,811
Total Proprietary Fund long-term debt	$	7,619,209

3. DETAILED NOTES CONCERNING THE FUNDS AND COMPONENT UNIT (Continued)

H. 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
2012	$ 570,365
2013	575,175
2014	574,477
2015	578,572
2016-2020	2,877,663
2021-2025	2,766,872
2026-2030	2,087,327
2031-2035	2,093,166
2036	547,035
Total principal and interest	12,670,652
Less interest	(4,996,956)
Less deferred loss on early retirement of debt	(54,487)
Total	$ 7,619,209

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

Drumright Utility Trust:	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011
Revenue Bonds	$ 1,200,000	$ -	$ 45,000	$ 1,155,000
Revenue Bonds	3,360,000	-	50,000	3,310,000
Deferred loss on early retirement of debt	(59,293)	-	(4,806)	(54,487)
Drumright Gas Authority:				
Revenue Bonds	2,844,377	-	61,094	2,783,283
Drumright Industrial Authority:				
CDBG Loan	151,770	-	17,512	134,258
Creek County Industrial Authority	137,152	-	11,808	125,344
Spiritbank Loan	180,531	-	14,720	165,811
Total	$ 7,814,537	$ -	$ 195,328	$ 7,619,209

The Gas Authority is a co-signer for the Municipal Healthcare Authority (component unit) on a note payable to Spiritbank. The loan originated on 8-5-05 in the amount of $643, 542 with an interest rate of 5.25. As of June 20, 2010 the loan principle balance was $27,950. The payments on this loan are being made by the new owners of the Drumright Regional Hospital and the liability for the loan is reflected on the financial statements of the Municipal Healthcare Authority.

3. DETAILED NOTES CONCERNING THE FUNDS AND COMPONENT UNIT (Continued)

I. 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	100,000	-
Drumright Utility Trust, Sewer Fund	30,000	-
Drumright Gas Authority	74,599	-
Cemetery Care Fund	16,390	-
CDBG Grant Fund		
Drumright Utility Trust, Water Fund:	20,000	
Cemetery Care Fund		
General Fund	-	16,390
Drumright Utility Trust, Water Fund:		
CDBG Grant Fund		20,000
General Fund	-	100,000
Drumright Utility Trust, Sewer Fund:		
General Fund	-	30,000
Drumright Gas Authority:		
General Fund	-	74,599
	$ 240,989	$ 240,989

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.

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 $3,770 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.

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.

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 Governmental Alliance of Oklahoma, Inc. The City also maintains a defined contribution plan with the Oklahoma Municipal Retirement Fund. The defined benefit plan through The Governmental Alliance 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 twenty years or normal retirement. As of completion of this years audit a financial report for the retirement fund was not available. More information about the plan may be obtained by writing to Ameritas Retirement P.O. Box 81889 Lincoln, NE 68501-1889 ATTN: Jessie Waller, Manager Retirement Claims.

Funding Policy

The City is required to contribute at an actuarially determined rate to fund the benefit level as elected by the City. For 2009-2010 the rate was 13% of each participants covered payroll contributed by the City and the employees contributed 7%. 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 1% of pay to the defined contribution plan.

Annual Pension Cost

The City's annual pension cost of $87,374 was equal to the City's required and actual contributions. The required contribution was determined as part of the latest actuarial valuation. As of the audit date the actuarial assumptions were not available.

The contributions from the City for the plan were $53,302, $77,484, $124,068, $138,363, $176,237, $122,024, $99,627, $86,962, and $87,374 for 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010 and 2011 respectively.

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%
1/1/1998	**723,853**	**Actuarial**	**1,054,267**	**330,414**	**68.7%**
1/1/1999	**875,781**	**Actuarial**	**1,334,623**	**458,842**	**65.6%**
1/1/2000	**1,026,106**	**Actuarial**	**1,476,045**	**449,939**	**69.5%**
1/1/2001	**1,100,231**	**Actuarial**	**1,314,946**	**214,715**	**83.7%**
1/1/2002	**1,103,150**	**Actuarial**	**1,291,566**	**188,416**	**85.4%**
1/1/2003	**1,037,458**	**Actuarial**	**1,382,447**	**344,989**	**75.0%**
1/1/2004	**1,087,054**	**Actuarial**	**1,387,236**	**300,182**	**78.4%**
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%**

* 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. A schedule of funding progress for the year ended June 30, 2010 was not available from the Governmental Alliance of Oklahoma, Inc.

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 63rd 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 $1,320 $1,380 $1320, $1,320, $1,200, $1,080, and $1,140 for 2005, 2006, 2007, 2008, 2009, 2010, and 2011 respectively. The City's portions of contributions to OFPRS for full time firemen were $16,059, $16,654, $19,479, $22,078, $24,735, $19,289, $21,008, $21,158, and $26,930 for 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, and 2011 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, 2011, no employees are receiving benefits under this plan.

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 23, 2011, 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, 2011

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, 2011
(Unaudited)

GENERAL FUND

	Budgeted Amounts			Variance with
	Original Budget	Final Budget	Actual	Final Budget Over (Under)
Revenues:				
Charges for services	$ 415,500	$ 415,500	$ 427,195	$ 11,695
Licenses and permits	4,500	4,500	9,585	5,085
Intergovernmental programs	44,000	44,000	55,633	11,633
Taxes	636,635	636,635	421,766	(214,869)
Franchise fees	-	-	138,310	138,310
Fines and forfeitures	105,000	105,000	97,656	(7,344)
Interest	15,000	15,000	5,846	(9,154)
Rentals	-	-	7,200	7,200
Grants	-	-	31,495	31,495
Miscellaneous	30,000	30,000	23,325	(6,675)
Total revenues	1,250,635	1,250,635	1,218,010	(32,625)
Expenditures:				
Current:				
General government	388,701	388,701	374,899	13,802
Public safety	697,519	697,519	695,248	2,271
Highways, roads	292,400	292,400	288,402	3,998
Cultural & recreational	79,374	79,374	68,411	10,963
Health & welfare	315,100	315,100	275,709	39,391
Capital outlay	-	-	-	-
Total expenditures	1,773,094	1,773,094	1,702,669	70,425
Excess of revenue over (under) expenditures	(522,459)	(522,459)	(484,659)	37,800
Other financing sources (uses):				
Operating transfers in (out)	224,042	224,042	220,989	(3,053)
Net changes in fund balance	(298,417)	(298,417)	(263,670)	34,747
Fund balance at beginning of year	484,453	484,453	484,453	-
Fund balance at end of year	$ 186,036	$ 186,036	$ 220,783	$ 34,747

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, 2011
(Unaudited)

SPECIAL REVENUE FUNDS

	Budgeted Amounts			Variance with
	Original Budget	Final Budget	Actual	Final Budget Over (Under)
Revenues:				
Sales and use taxes	$ 259,575	$ 259,575	$ 320,967	$ 61,392
Title 63	-	-	-	-
Cemetery Lot sales	400	400	2,550	2,150
Loan proceeds	-	-	-	-
Misc	-	-	-	
Grants	365,000	365,000	286,062	(78,938)
Total revenues	624,975	624,975	609,578	(15,396)
Expenditures:				
Current:				
Public safety	-	-	-	-
Highways & roads	165,000	165,000	135,340	29,660
Cultural, parks & recreation	15,278	15,278	5,000	10,278
Capital outlay	727,614	727,614	491,596	236,018
Lease payments	-	-	-	-
Total expenditures	907,892	907,892	631,936	275,956
Excess of revenue over (under) expenditures	(282,917)	(282,917)	(22,357)	260,561
Other financing sources (uses):				
Operating transfers in (out)	19,042	19,042	3,610	(15,432)
Net changes in fund balance	(263,875)	(263,875)	(18,748)	245,128
Fund balance at beginning of year	617,526	617,526	617,526	-
Fund balance at end of year	$ 353,651	$ 353,651	$ 598,778	$ 245,128

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, 2011
(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.

The City uses encumbrance accounting. Encumbrances are recorded when purchase orders are issued but generally are not considered expenditures until liabilities for payments are incurred. At year-end, open purchase orders are reviewed and payments are made on those where the receipt of goods and services is eminent. The remaining purchase orders (and encumbrances) are cancelled and reissued during the following year. There are no outstanding encumbrances at year-end.

CITY OF DRUMRIGHT
Drumright, Oklahoma

SUPPLEMENTAL INFORMATION
June 30, 2011

CITY OF DRUMRIGHT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
June 30, 2011

	Special Revenue								Permanent Funds	
	Street Improvement Fund	Capital Improvement Fund	Cemetery Care Fund	Broadway Sidewalk II Fund	Library Improvement Fund	Title 63 Fund	REAP Street Grant Fund	CDBG Fire Station Grant Fund	Cemetery Trust Fund	Total Non-Major Governmental Funds
Assets:										
Cash and equivalents	$ 151,857	$ 98,234	$ 638	$ 363	$ 5,362	$ -	$ -	$ 18,093	$ -	$ 274,547
Investments at cost	139,251	90,080	6,960	333	4,916	-	-	-	-	241,540
Grant receivable	-	-	-	-	-	-	-	-		-
Tax receivable	25,903	17,248	-	-	-	-	-	-	-	43,151
Restricted assets:										
Investments at cost	-	-	-	-	-	-	-	-	39,540	39,540
Total assets	$ 317,011	$ 205,562	$ 7,598	$ 696	$ 10,278	$ -	$ -	$ 18,093	$ 39,540	$ 598,778
Liabilities:										
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Claims pending	-	-	-	-	-	-	-	-	-	-
Due to other funds	-	-	-	-	-	-	-	-	-	-
Deferred compensation	-	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	-	-	-	-	-	-	-
Fund balances:										
Restricted	317,011	205,562	7,598	696	10,278	-	-	18,093	39,540	598,778
Unrestricted	-	-	-	-	-	-	-	-	-	-
Total fund balances	317,011	205,562	7,598	696	10,278	-	-	18,093	39,540	598,778
Total liabilities and fund balances	$ 317,011	$ 205,562	$ 7,598	$ 696	$ 10,278	$ -	$ -	$ 18,093	$ 39,540	$ 598,778

CITY OF DRUMRIGHT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2011

	Special Revenue								Permanent Funds	
	Street Improvement Fund	Capital Improvement Fund	Cemetery Care Fund	Broadway Sidewalk II Fund	Library Improvement Fund	Title 63 Fund	REAP Street Grant Fund	CDBG Fire Station Grant Fund	Cemetery Trust Fund	Total Non-Major Governmental Funds
Revenues:										
Sales and use taxes	$ 192,673	$ 128,294	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 320,967
Interest	-	-	-	-	-	-	-	-	-	-
Lot sales	-	-	2,550	-	-	-	-	-	-	2,550
Loan proceeds		-	-	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-		-		-
Grants	60,000	-	-	212,800	-	-	-	13,262	-	286,062
Total revenues	$ 252,673	$ 128,293	$ 2,550	$ 212,800	$ -	$ -	$ -	$ 13,262	$ -	$ 609,578
Expenditures:										
Public safety	$ -	$ -	$ -	$ -	$ -	-	$ -	$ 1,907	$ -	$ 1,907
Highways & roads	135,340	-	-	-	-	-	-	-	-	135,340
Cultural, parks & recreation	-	-	-	-	5,000	-	-	-	-	5,000
Capital outlay	-	96,013	-	380,414	-	-	-	13,262	-	489,689
Lease payments	-	-	-	-	-	-	-	-	-	-
Total expenditures	135,340	96,013	-	380,414	5,000	-	-	15,169	-	631,936
Excess of revenues over (under) expenditures	117,333	32,280	2,550	(167,614)	(5,000)	-	-	(1,907)	-	(22,357)
Other financing uses:										
Operating transfers in (out)	-	-	(16,390)	-	-	-	-	20,000	-	3,610
Excess of revenues over (under) expenditures & transfers	117,333	32,280	(13,840)	(167,614)	(5,000)	-	-	18,093	-	(18,748)
Fund balance - beginning of year	199,678	173,282	21,438	168,310	15,278	-	-	-	39,540	617,526
Fund balance - end of year	$ 317,011	$ 205,562	$ 7,598	$ 696	$ 10,278	$ -	$ -	$ 18,093	$ 39,540	$ 598,778

CITY OF DRUMRIGHT
Drumright, Oklahoma

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ending June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Program or Award Amount	Revenue Collected	Federal Expend-itures
U.S. Department of Housing and Urban Development:				
Passed through the Oklahoma Department of Commerce:				
13787 CDBG 09	14.228	40,000	13,262	13,262
U.S. Department of Transportation:				
Federal Aid Surface Transportation Program	20.932	250,000	212,800	212,800
Office of Library Services, Institute of Museum and Library Services, National Foundation on the Arts and the Humanities:				
Passed through the Oklahoma Department of Libraries:				
State Library Program	45.310	4,409	4,409	4,409
Total of Expenditures of Federal Awards		$ 294,409	$ 230,471	$ 230,471

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, 2011

CBEW Professional Group, LLP
Certified Public Accountants

424 E. BROADWAY ● P.O. BOX 888 ● DRUMRIGHT, OKLAHOMA 74030 ● 918-352-2121 ● FAX 918-352-2200

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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 21, 2011

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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 21, 2011. 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.

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 11-1 and 11-2. 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.

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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, 2011

11-1. 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 2010.

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.

11-2. 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 it 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, 2011, 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, amortization of bond issue costs, balancing and recording note payables, interest expenses, purchased assets and Bank of Oklahoma account transactions. This finding was also noted in 2010.

11-2. 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.