

THE CITY OF MORRIS, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

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

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

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and City Council
City of Morris, Oklahoma

I 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 Morris, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Morris, Oklahoma's management. My responsibility is to express opinions on these financial statements based on my audit.

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

As discussed in Note 1, the City of Morris, Oklahoma prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this method, the City has elected to exclude capital asset and long term debt transactions from reporting within the financial statements. Accounting principles generally accepted in the United States of America, when applied to a modified cash basis of accounting, require that capital assets be capitalized and depreciated which would increase net assets and expenses of governmental and business-type activities; and that long-term liabilities are reported which would decrease net assets and decrease expense. The amount by which these departures would affect the modified cash basis assets, liabilities, and expenses of the governmental and business-type activities is not reasonably determinable.

In my opinion, due to the omission of capital assets and long term debt, the financial statements referred to above do not present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities and the business-type activities of the City of Morris, Oklahoma, as of June 30, 2012, and the respective changes in financial position—modified cash basis, and, where applicable, cash flows thereof for the year then ended in conformity with the modified cash basis of accounting as defined by accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, I have also issued my report dated December 14, 2012, on my consideration of the City of Morris, Oklahoma's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 12 and 35 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

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



Anne Marie Elfrink, MS, CPA

Tulsa, OK

December 14, 2012

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

The management of the City of Morris is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2012. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the City's total net assets increased by \$49,026, and the assets of the City exceed its liabilities at June 30, 2012, by \$893,800 (net assets). Of this amount, \$701,941 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2012, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$321,898.
- At the end of fiscal year 2012, unassigned fund balance on a modified cash basis for the General Fund was \$92,188 or 25.3% of General Fund revenues.

ABOUT THE CITY

The City of Morris is an incorporated municipality with a population of approximately 1,479 located in eastern Oklahoma. The City is an Aldermanic form of government that provides for three branches of government:

- Legislative – the City Council is an eight-member governing body elected by the citizens at large
- Executive – the Mayor is the Chief Executive Officer and is elected by the citizens at large
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City provides typical municipal services such as public safety, cemetery, streets and public works, culture and recreation, and utility services including water, sewer, and sanitation.

The City's Financial Reporting Entity

This annual report includes all activities for which the City Council is financially accountable. These activities, defined as the City's financial reporting entity, are operated within separate legal entities.

The City's financial reporting entity includes the following separate legal entities.

- **The City of Morris** – operates the public safety, cemetery, streets and public works, culture and recreation, and administrative activities of the City.

- **The Morris Public Works Authority (MPWA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, sewer and sanitation services of the City. The City of Morris is the beneficiary of the trust and the City Council serves as the governing body of the trust.

In addition, as required by state law, all debt obligations incurred by the trusts must be approved by two-thirds vote of the City Council. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trust within the City's financial reporting entity. The public trust does not issue separate annual financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Morris (the "City") and the Morris Public Works Authority (the "Authority"). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus using the modified cash basis of accounting. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt). They present governmental activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

The Statement of Net Assets and Statement of Activities

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

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities: *Governmental activities* - Most of the City's basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities*– Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City's water, sewer, and sanitation utilities are reported as business-type activities.

Reporting the City's Most Significant Funds - Fund Financial Statements

Fund Financial Statements

The fund financial statements provide detailed information about the City's most significant (major) funds -- not the City as a whole. Some funds are required to be established by State law and by debt covenants. However, the City Council may also establish certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds – *governmental and proprietary* - use different accounting approaches.

Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting and current financial resources measurement focus that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary funds - When the City, through the Public Works Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. The City's proprietary fund is the Morris Public Works Authority that accounts for the operation of the water, sewer, and sanitation activities.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 23-33 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund and major special revenue funds, federal and state award schedules and a debt service coverage schedule.

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

THE CITY AS A WHOLE

For the year ended June 30, 2012, net assets on a modified cash basis for the governmental and business-type activities increased \$49,026.

The City of Morris's Net Assets (Modified Cash Basis)
June 30, 2012

	Governmental Activities	Business-type Activities	Total
Beginning net assets	\$ 312,842	\$ 531,932	\$ 844,774
Increase/(Decrease)	9,056	39,970	49,026
Ending net assets	\$ 321,898	\$ 571,902	\$ 893,800

Following is a summary of net assets reported on a modified cash basis for the City of Morris.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$ 323,156	\$ 314,655	\$ 601,566	\$ 560,978	\$ 924,722	\$ 875,633
Total assets	323,156	314,655	601,566	560,978	924,722	875,633
Liabilities:						
Current and other liabilities	1,258	1,813	29,664	29,046	30,922	30,859
Total liabilities	1,258	1,813	29,664	29,046	30,922	30,859
Net assets:						
Restricted	191,859	178,775	-	-	191,859	178,775
Unrestricted	130,039	134,067	571,902	531,932	701,941	665,999
Total net assets	\$ 321,898	\$ 312,842	\$ 571,902	\$ 531,932	\$ 893,800	\$ 844,774

A portion of the City's net assets, \$191,859, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$701,941, may be used to meet the government's ongoing needs.

CITY OF MORRIS, OKLAHOMA
Management's Discussion and Analysis
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The City of Morris's Revenues, Expenses and Changes in Net Assets (Modified Cash Basis)
Year Ended June 30, 2012

	Governmental		Business-type		Total	
	Activities		Activities			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for Services	\$ 98,923	\$ 107,133	\$ 696,037	\$ 702,280	\$ 794,960	\$ 809,413
Grants & Contributions	21,143	18,355	-	-	21,143	18,355
Capital Grants & Contributions	-	15,000	-	-	-	15,000
General Revenues:						
Sales & Use Tax	216,666	199,776	-	-	216,666	199,776
Other Taxes	27,442	27,303	-	-	27,442	27,303
Other General Revenues	18,531	50,945	280	454	18,811	51,399
Net Transfers	-	2,994	-	(2,994)	-	-
Total Revenues	382,705	421,506	696,317	699,740	1,079,022	1,121,246
Program Expenses:						
General Government	92,705	93,360	-	-	92,705	93,360
Public Safety	202,784	175,121	-	-	202,784	175,121
Highways & Streets	62,612	68,554	-	-	62,612	68,554
Cemetery	15,548	58,277	-	-	15,548	58,277
Interest on long-term debt	-	735	-	-	-	735
Water	-	-	351,301	310,966	351,301	310,966
Sewer	-	-	210,735	174,738	210,735	174,738
Sanitation	-	-	94,311	90,734	94,311	90,734
Total Expenses	373,649	396,047	656,347	576,438	1,029,996	972,485
Increase in Net Assets	\$ 9,056	\$ 25,459	\$ 39,970	\$ 123,302	\$ 49,026	\$ 148,761

Governmental Activities

The City's governmental activities had an increase in net assets of \$9,056. Charges for services decreased by approximately \$8,000 due to a decrease in cemetery lot sales and fine revenue in the current year. Also, other general revenues decreased by approximately \$32,000 due to the City receiving a large surety bond reimbursement in the prior year. Public safety expenses increased by approximately \$27,000 due to the City hiring an additional part-time officer. Cemetery expenses decreased by approximately \$42,000 due to the City making significant improvements to the cemetery in the prior year.

Net Revenue (Expense) of Governmental Activities

	Total Expense		% Inc.	Net Revenue		% Inc.
	of Services			(Expense)		
	<u>2012</u>	<u>2011</u>	<u>(Dec.)</u>	<u>of Services</u>	<u>(Dec.)</u>	<u>(Dec.)</u>
General government	92,705	93,360	-1%	(\$87,317)	(\$87,676)	0%
Public Safety	202,784	175,121	16%	(123,733)	(94,949)	30%
Streets	62,612	68,554	-9%	(50,940)	(40,897)	25%
Cemetery	15,548	58,277	-73%	8,407	(31,302)	-127%
Interest on long-term debt	-	735	-100%	-	(735)	-100%
Total	373,649	396,047	-6%	(\$253,583)	(\$255,559)	-1%

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

Business-type Activities

The business-type activities had an increase in net assets of \$39,970. In reviewing the departmental net (expense)/revenue, all utility activity charges for services in 2012 were sufficient to cover expenses. Net revenues decreased in the current year due to personnel expenses increasing approximately \$33,000 due mainly to increased insurance costs as well as costs associated with the purchase of water increasing approximately \$33,000.

Net Revenue (Expense) of Business-type Activities

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	2012	2011		2012	2011	
Water	\$ 351,301	\$ 301,966	16%	\$ 6,951	\$ 50,074	-86%
Sewer	210,735	174,738	21%	14,746	54,367	-73%
Sanitation	94,311	90,734	4%	17,993	21,401	16%
Total	<u>\$ 656,347</u>	<u>\$ 567,438</u>	16%	<u>\$ 39,690</u>	<u>\$ 125,842</u>	-68%

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2012 fiscal year, the governmental funds reported a combined fund balance of \$321,898.

Other fund highlights include:

- For the year ended June 30, 2012, the General Fund's total fund balance decreased by \$4,028.

Budgetary Highlights

For the year ended June 30, 2012, the General Fund reported actual budgetary basis revenues more than final estimates by \$45,464 or a 15.42% positive variance. General Fund actual expenditures were under final appropriations by \$13,536 or a 3.7% positive variance.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

The following information outlines significant known factors that will affect subsequent year finances:

- For the FY 2013 budget, management does not anticipate any major changes as the budget was reduced in the previous year and increased slightly in the current year.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at 501 S. Hughes, Morris, Oklahoma 74447 or telephone at 918-733-4222.

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

BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET ASSETS AND ACTIVITIES

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

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

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 286,863	\$ 614,512	\$ 901,375
Investments	23,347	-	23,347
Internal balances	12,946	(12,946)	-
Total Assets	<u>323,156</u>	<u>601,566</u>	<u>924,722</u>
LIABILITIES			
Due to other governments	521	-	521
Due to bondholders	587	-	587
EMS payable	-	1,982	1,982
Refundable deposits	150	27,682	27,832
Total Liabilities	<u>1,258</u>	<u>29,664</u>	<u>30,922</u>
NET ASSETS			
Restricted	191,859	-	191,859
Unrestricted	130,039	571,902	701,941
Total Net Assets	<u>\$ 321,898</u>	<u>\$ 571,902</u>	<u>\$ 893,800</u>

See accompanying notes to the basic financial statements.

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

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

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
Primary Government:						
Governmental activities:						
General Government	\$ 92,705	\$ 5,388	-	-	\$ (87,317)	\$ (87,317)
Public Safety	202,784	71,135	\$ 7,916	-	(123,733)	(123,733)
Highways and Streets	62,612	-	11,672	-	(50,940)	(50,940)
Cemetery	15,548	22,400	1,555	-	8,407	8,407
Total governmental activities	<u>373,649</u>	<u>98,923</u>	<u>21,143</u>	<u>-</u>	<u>(253,583)</u>	<u>(253,583)</u>
Business-type activities:						
Water	351,301	358,252	-	-	-	6,951
Sewer	210,735	225,481	-	-	-	14,746
Sanitation	94,311	112,304	-	-	-	17,993
Total business-type activities	<u>656,347</u>	<u>696,037</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,690</u>
Total primary government	<u>\$ 1,029,996</u>	<u>\$ 794,960</u>	<u>\$ 21,143</u>	<u>\$ -</u>	<u>(253,583)</u>	<u>39,690</u>
General revenues:						
Taxes:						
Sales and use tax					216,666	216,666
Franchise and public service taxes					27,442	27,442
Intergovernmental revenue not restricted to specific programs					10,370	10,370
Investment income					190	470
Miscellaneous					7,971	7,971
Total general revenues and transfers					<u>262,639</u>	<u>280</u>
Change in net assets					9,056	49,026
Net assets - beginning					312,842	844,774
Net assets - ending					<u>\$ 321,898</u>	<u>\$ 893,800</u>

See accompanying notes to the basic financial statements.

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

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2012

	General Fund	Street & Alley Fund	Cemetery Care Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 95,105	\$ 137,878	\$ 53,880	\$ 286,863
Investments	23,347	-	-	23,347
Due from other funds	13,040	-	195	13,235
	\$ 131,492	\$ 137,878	\$ 54,075	\$ 323,445
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 195	\$ 94	\$ -	\$ 289
Due to other governments	521	-	-	521
Due to bondholders	587	-	-	587
Refundable deposits	150	-	-	150
	1,453	94	-	1,547
Fund Balances:				
Restricted:				
Street & alley purposes	-	137,784	-	137,784
Cemetery	-	-	54,075	54,075
Assigned:				
Cemetery	37,851	-	-	37,851
Unassigned	92,188	-	-	92,188
	130,039	137,784	54,075	321,898
Total Fund Balances	\$ 130,039	\$ 137,784	\$ 54,075	\$ 321,898
Total Liabilities and Fund Balances	\$ 131,492	\$ 137,878	\$ 54,075	\$ 323,445

See accompanying notes to the basic financial statements.

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

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

	General Fund	Street & Alley Fund	Cemetery Care Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 244,108	\$ -	\$ -	\$ 244,108
Intergovernmental	18,285	11,672	-	29,957
Charges for services	16,800	-	5,600	22,400
Fines and forfeitures	71,135	-	-	71,135
Licenses and permits	1,438	-	-	1,438
Investment income	190	-	-	190
Miscellaneous	11,923	-	1,554	13,477
Total Revenues	363,879	11,672	7,154	382,705
Expenditures:				
Current:				
General government	92,705	-	-	92,705
Public safety	200,334	-	-	200,334
Highways and streets	56,870	5,742	-	62,612
Cemetery	15,548	-	-	15,548
Capital outlay	1,756	-	-	1,756
Debt service:				
Principal	631	-	-	631
Interest	63	-	-	63
Total Expenditures	367,907	5,742	-	373,649
Excess (deficiency) of revenues over expenditures	(4,028)	5,930	7,154	9,056
Net change in fund balances	(4,028)	5,930	7,154	9,056
Fund balances - beginning	134,067	131,854	46,921	312,842
Fund balances - ending	\$ 130,039	\$ 137,784	\$ 54,075	\$ 321,898

See accompanying notes to basic financial statements.

**CITY OF MORRIS, OKLAHOMA
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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

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

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

	Morris Public Works Authority
	<u> </u>
ASSETS	
Cash and cash equivalents	\$ 586,830
Restricted cash and cash equivalents	27,682
Total Assets	<u>\$ 614,512</u>
LIABILITIES	
EMS payable	\$ 1,982
Due to other funds	12,946
Meter deposit liability	27,682
Total liabilities	<u>42,610</u>
NET ASSETS	
Unrestricted	571,902
Total net assets	<u>\$ 571,902</u>

See accompanying notes to the basic financial statements.

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

	Morris Public Works Authority
Operating Revenues:	
Charges for services:	
Water	\$ 340,197
Sewer	214,561
Sanitation	106,944
Tap fees	1,250
Penalties	21,249
Reconnect fees	9,671
Miscellaneous	2,165
Total Operating Revenues	696,037
Operating Expenses:	
Public Works	542,683
Total Operating Expenses	542,683
Operating Income	153,354
Non-Operating Revenues (Expenses):	
Investment income	280
Debt service:	
Principal retirement	(82,488)
Interest expense	(31,176)
Total Non-Operating Revenues (Expenses)	(113,384)
Net Income	39,970
Change in net assets	39,970
Total net assets - beginning	531,932
Total net assets - ending	\$ 571,902

See accompanying notes to the basic financial statements.

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

	<u>Morris Public Works Authority</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 696,037
Payments to suppliers	(403,900)
Payments to employees	(138,751)
Receipts of customer utility deposits	11,081
Refunds of customer utility deposits	(10,495)
Net Cash Provided by Operating Activities	<u>153,972</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(82,488)
Interest and fiscal agent fees paid on capital debt	(31,176)
Net Cash Provided by (Used in) Capital and Related Financing Activities	<u>(113,664)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	280
Net Cash Provided by Investing Activities	<u>280</u>
Net Increase in Cash and Cash Equivalents	40,588
Balance - beginning of the year	<u>573,924</u>
Balance - end of the year	<u>\$ 614,512</u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	586,830
Restricted cash and cash equivalents - current	<u>27,682</u>
Total cash and cash equivalents	<u>\$ 614,512</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 153,354
Change in assets and liabilities:	
AMS payable	74
EMS payable	(42)
Meter deposit liability	<u>586</u>
Net cash provided by operating activities	<u>\$ 153,972</u>

See accompanying notes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Statement of Net Assets and Activities:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City's financial reporting entity includes two separate legal entities reported as the primary government.

- **The City of Morris** – that operates the public safety, cemetery, streets, health and welfare, culture and recreation, and administrative activities.

- **The Morris Public Works Authority** – that operates the water, sewer, and sanitation services of the City through a public trust of which the City is the beneficiary. The City Council serves as trustees for the Authority and all debt obligations of the Authority must be approved by 2/3rds vote of the City Council.

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Council Statement No. 14, *The Financial Reporting Entity*, and includes all component units for which the City is financially accountable.

The component unit is a Public Trust established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the City has leased certain existing assets at the creation of the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statement of net assets and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions, adjusted only for certain modifications stated below that have substantial support in generally accepted accounting principles (GAAP). These modifications include adjustments for the following balances arising from cash transactions:

- cash-based interfund receivables and payables
- other cash-based receivables/payables
- utility deposit liabilities

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and

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expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

In addition, due to the use of this modified cash basis of accounting, capital asset and long-term debt transactions are excluded from reporting within the financial statements. Capital assets are expensed when purchased and long-term debts are reported as cash receipts when issued and received. However, information about long-term debts is disclosed in Note 8 Commitments and Contingencies.

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

- General government: License and permits, rents and royalties
- Public safety: Fine revenue, operating and capital grants
- Streets and highways: Gas excise and commercial vehicle taxes
- Cemetery: Cemetery lot sales

For business-type activities, Financial Accounting Standard Council (FASB) pronouncements and Accounting Principles Council (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

Governmental Funds:

The City's governmental funds are comprised of the following:

Major Funds:

- General Fund - accounts for all activities not accounted for in other special-purpose funds.
- Street and Alley Fund (Special Revenue Fund) - accounts for commercial vehicle tax and gasoline excise tax legally restricted for street and alley repairs and maintenance.
- Cemetery Care Fund (Capital Projects Fund) - accounts for the transfer of 25% (state law requires 12.5%) of cemetery lot sales and interment fees restricted for cemetery capital improvements.

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

Proprietary Fund:

The City's proprietary fund is comprised of the following:

Morris Public Works Authority:

- Morris Public Works Authority – accounts for the operation of the water, sewer, and sanitation activities.

The proprietary fund is reported on a modified cash basis, as defined above, and economic resources measurement focus. Financial Accounting Standard Council (FASB) pronouncements and Accounting Principles Council (APB) opinions issued on or before November 30, 1989, have been applied as applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

For purposes of the statement of revenues, expenses and changes in fund net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less, and money market accounts. Investments consist of long-term certificates of deposits and are reported at cost.

D. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 9.

E. Fund Balances and Net Assets

Fund Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – included amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city's highest level of decision-making authority. The City's highest level of decision-making authority is made by ordinance.

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- d. Assigned – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

It is the City’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance is available. The City’s policy for the use of the unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used

Net Assets:

Net assets are normally displayed in three components:

- a. *Invested in capital assets, net of related debt* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. *Restricted net assets* - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net assets* - All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

However, due to the City's use of the modified cash basis of accounting, no capital assets or long-term debts are reported, therefore no net assets for such transactions are reported.

In addition, the City has restricted net assets for streets and cemetery.

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

F. Internal and Interfund Balances and Transfers

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

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2. Deposits and Investments

For the year ended June 30, 2012, the City recognized \$470 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City's deposits are in demand and short-term time deposits.

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

Primary Government	Carrying Value
Deposits:	
Petty cash	\$ 200
Demand deposits	901,175
Time deposits - certificates of deposit	23,347
Total Deposits	\$ 924,722
 Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 901,375
Investments	23,347
	\$ 924,722

Custody Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2012, the City was not exposed to custodial credit risk as defined above.

Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable.

At June 30, 2012, the City's investments with maturity dates were limited to time deposits that were not exposed to interest rate risk.

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial

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paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts.

Concentration of Investment Credit Risk

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no investment policy regarding concentration of credit risk.

At June 30, 2012, the City had no concentration of credit risk as defined above.

Restricted cash and investments – The amounts reported as restricted assets on the proprietary fund statement of net assets are comprised of amounts restricted for utility deposits of the Morris Public Works Authority. The restricted assets as of June 30, 2012 are as follows:

<u>Type of Restricted Assets</u>	<u>Current Cash and Cash Equivalents</u>
Utility Deposits	<u>\$ 27,682</u>
Total Restricted Assets	<u><u>\$ 27,682</u></u>

3. Sales Tax Revenue

Sales tax revenue represents a 3.0 cent local tax on each dollar of taxable sales within the City. All three cents of the sales tax received are recorded as sales tax revenue within the General Fund to be used for general operations of the City.

4. Property Tax Levy

The City presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the City.

5. Internal and Interfund Balances and Transfers

Balances:

Interfund balances at June 30, 2012, were as follows:

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<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
MPWA	General Fund	\$ 12,946	Claims paid on behalf of others
Street and Alley Fund	Cemetery Fund	94	Claims paid on behalf of others
General Fund	Cemetery Care Fund	195	Claims paid on behalf of others
		<u>\$ 13,235</u>	

Reconciliation to fund financial statements:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>	<u>Internal Balance</u>
Governmental Funds	\$ 13,235	\$ (289)	\$ 12,946
Proprietary Funds	-	(12,946)	(12,946)
Total	<u>\$ 13,235</u>	<u>\$ (13,235)</u>	<u>\$ -</u>

Transfers:

There were no internal transfers between funds and activities for the year ended June 30, 2012.

6. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

7. Pension Plan Participation

The City of Morris participates in one pension or retirement plan:

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Municipal Retirement System Defined Contribution Plan (OMRF) - an agent multiple-employer defined contribution plan

Firefighter Pension System:

Plan Summary Information. The City of Morris, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ full-time or volunteer firefighters.

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The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

Funding Policy. OFPRS plan members that are volunteer firefighters are not required to contribute to the plan. The City is required by state law to contribute \$60 per year for each volunteer firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OFPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2010	\$900	\$900
2011	\$900	\$900
2012	\$840	\$840

OMRF Defined Contribution Plan:

For the year ending June 30, 2010, the City began providing a defined contribution plan and trust known as the City of Morris Plan and Trust (the “OMRF Plan”) in the form of The Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF) available to all full-time employees. OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The Plan is administered by Bank One Trust Company of Oklahoma City. The defined contribution plan is mandatory to all full-time employees who are not already participating in another plan. The employee contributes to the Plan an amount up to 2% of their gross wages. The City as employer, contributes a match amount up to 2% of the employee contribution. If an employee terminates before becoming fully vested, the employer’s contributions that are forfeited may be used to reduce the City’s current-period contribution requirements. The authority to amend the provisions of the plan rests with the City Council.

The OMRF contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2010	\$1,070	\$1,070
2011	\$2,902	\$2,902
2012	\$2,393	\$2,393

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

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8. Commitments and Contingencies

Long-term Debt Commitments:

At June 30, 2012, the City and MPWA reported the following as long-term debt commitments:

Notes Payable of the Morris Public Works Authority (Payable from future utility revenues):

OWRB Promissory Note for water improvements dated October 1, 2002, original amount of \$1,650,000, payments of \$52,397 made semi-annually each March 15 and September 15, with an annual interest rate of 2.865%. 1,020,780

Oklahoma Department of Commerce Note (8675 CDBG 98), original amount of \$175,000, payable in 240 monthly installments of \$729 interest free, final payment due June 1, 2022. 87,501

Balance of Notes Payable at June 30, 2012 \$1,108,281

Payment Requirements to Maturity

Year Ended June 30,	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2013	84,846	28,698
2014	87,041	26,502
2015	89,300	24,243
2016	91,625	21,919
2017	94,016	19,527
2018-2022	508,438	59,281
2023-2025	<u>153,015</u>	<u>3,658</u>
Total	<u>\$ 1,108,281</u>	<u>\$ 183,828</u>

9. Pledge of Future Revenues

Utility Net Revenues Pledge – The City has also pledged future net water and sewer revenues to repay \$1,650,000 of the OWRB ORF Promissory Note. Proceeds from the note provided financing for utility system capital assets. The note is payable through September 2023. The total principal and interest payable for the remainder of the life of these notes is \$1,205,346. The note is payable from the above-mentioned utility net revenues. The debt service payments on the note this year were \$104,914, which was 74% of pledged net utility revenues of \$141,001.

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Compensated Absences:

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation, sick and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2012, is summarized as follows:

- General Fund – accrued compensated absences \$3,035
- MPWA – accrued compensated absences \$1,681

Litigation:

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City. These statutory provisions do not apply to the City's public trust Authorities. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

Federal and State Award Programs:

The City of Morris participates in various federal or state grant/loan programs from year to year. In 2012, the City's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

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SUPPLEMENTARY INFORMATION

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

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 73,230	\$ 100,021	\$ 100,021	\$ -
Resources (Inflows):				
Taxes	221,300	221,300	244,108	22,808
Intergovernmental	9,000	9,000	13,873	4,873
Fines and Forfeitures	55,000	55,000	71,135	16,135
Licenses and Permits	1,200	1,200	1,438	238
Investment Income	150	150	20	(130)
Miscellaneous	8,000	8,000	9,540	1,540
Total Resources (Inflows)	<u>294,650</u>	<u>294,650</u>	<u>340,114</u>	<u>45,464</u>
Amounts available for appropriation	<u>\$ 367,880</u>	<u>\$ 394,671</u>	<u>\$ 440,135</u>	<u>\$ 45,464</u>
Charges to Appropriations (Outflows):				
General Government	\$ 90,400	\$ 90,400	\$ 87,617	\$ 2,783
Streets	54,731	54,731	56,870	(2,139)
Police	189,179	189,179	187,883	1,296
Fire	11,997	11,997	14,901	(2,904)
Council	3,360	3,360	5,088	(1,728)
City Clerk/Treasurer	16,228	16,228	-	16,228
Total Charges to Appropriations	<u>365,895</u>	<u>365,895</u>	<u>352,359</u>	<u>13,536</u>
Ending Budgetary Fund Balance	<u>\$ 1,985</u>	<u>\$ 28,776</u>	<u>\$ 87,776</u>	<u>\$ 59,000</u>

	STREET AND ALLEY FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 131,854	\$ 131,854	\$ 131,854	\$ -
Resources (Inflows):				
Intergovernmental	9,500	9,500	11,672	2,172
Total Resources (Inflows)	<u>9,500</u>	<u>9,500</u>	<u>11,672</u>	<u>2,172</u>
Amounts available for appropriation	<u>\$ 141,354</u>	<u>\$ 141,354</u>	<u>\$ 143,526</u>	<u>\$ 2,172</u>
Charges to Appropriations (Outflows):				
Streets	\$ 9,500	\$ 9,500	\$ 5,742	\$ 3,758
Total Charges to Appropriations	<u>9,500</u>	<u>9,500</u>	<u>5,742</u>	<u>3,758</u>
Ending Budgetary Fund Balance	<u>\$ 131,854</u>	<u>\$ 131,854</u>	<u>\$ 137,784</u>	<u>\$ 5,930</u>

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Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require City Manager’s approval, while supplemental appropriations require City Council approval.
3. The budgetary basis differs from the modified cash basis as shown in the schedule below:

	<u>General Fund</u>
Sources/Inflows of resources	
Actual amounts (budgetary basis) “available appropriation” from the budgetary comparison schedule	\$440,135
Differences – budget to Modified Cash:	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(100,021)
A rural fire grant was revenue for financial reporting purposes, but not for budgetary purposes. City did not flow through their accounts.	4,412
Cemetery Fund combined as an account of the General Fund per GASB 54	<u>19,353</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$363,879</u>
Uses/Outflows of resources	
Actual amounts (budgetary basis) “total charges to appropriations” from the budgetary comparison schedule	\$352,359
Differences – budget to Modified Cash:	
Cemetery Fund combined as an account of the General Fund per GASB 54	<u>15,548</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balance – governmental funds	<u>\$367,907</u>

4. The City had a negative variance in the following funds and departments:
 - General Fund – Council - \$1,728
 - General Fund – Fire - \$2,904
 - General Fund – Streets - \$2,139

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

	<u>General Fund</u>	<u>Cemetery Fund</u>	<u>Totals</u>
ASSETS			
Cash and cash equivalents	\$ 81,796	\$ 13,309	\$ 95,105
Investments	-	23,347	23,347
Due from other funds	12,946	1,195	14,141
 Total Assets	 <u>\$ 94,742</u>	 <u>\$ 37,851</u>	 <u>\$ 132,593</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	\$ 1,296	\$ -	\$ 1,296
Due to other governments	521	-	521
Due to bondholders	587	-	587
Refundable deposits	150	-	150
 Total Liabilities	 <u>2,554</u>	 <u>-</u>	 <u>2,554</u>
Fund Balances:			
Assigned for:			
Cemetery	-	37,851	37,851
Unassigned	92,188	-	92,188
Total Fund Balances	<u>92,188</u>	<u>37,851</u>	<u>130,039</u>
 Total Liabilities and Fund Balances	 <u>\$ 94,742</u>	 <u>\$ 37,851</u>	 <u>\$ 132,593</u>

CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund Accounts (Modified Cash Basis) – Year Ended June 30, 2012

	<u>General Fund</u>	<u>Cemetery Fund</u>	<u>Totals</u>
Revenues:			
Taxes	\$ 244,108	\$ -	\$ 244,108
Intergovernmental	18,285	-	18,285
Charges for services	-	16,800	16,800
Fines & forfeitures	71,135	-	71,135
Licenses & permits	1,438	-	1,438
Investment income	20	170	190
Miscellaneous	9,540	2,383	11,923
Total Revenues	<u>344,526</u>	<u>19,353</u>	<u>363,879</u>
Expenditures:			
Current:			
General government	92,705	-	92,705
Public safety	200,334	-	200,334
Highways and streets	56,870	-	56,870
Cemetery	-	15,548	15,548
Capital outlay	1,756	-	1,756
Debt service:			
Principal retirement	631	-	631
Interest expense	63	-	63
Total Expenditures	<u>352,359</u>	<u>15,548</u>	<u>367,907</u>
Excess (deficiency) of revenues over expenditures	(7,833)	3,805	(4,028)
Net change in fund balances	(7,833)	3,805	(4,028)
Fund balances, beginning	100,021	34,046	134,067
Fund balances, ending	<u>\$ 92,188</u>	<u>\$ 37,851</u>	<u>\$ 130,039</u>

**CITY OF MORRIS, OKLAHOMA
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Schedule of Expenditures of State Awards (Modified Cash Basis) – Year Ended June 30, 2012

<u>Federal/State Grantor/Pass through agency Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Thru Grant #</u>	<u>Award Amount</u>	<u>Contract Expenditures</u>
STATE AWARD:				
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Rural Fire Grant	N/A	N/A	\$ 4,413	\$ 4,413
FEDERAL AWARDS:				
<u>DISTRICT ATTORNEY'S COUNCIL</u>				
J09-10-070	16.738	J09-10-070	\$ 2,753	\$ 2,753
<u>DEPARTMENT OF EMERGENCY MANAGEMENT:</u>				
PA-1985PW131	97.036	PA-1985PW131	\$ 750	\$ 750
TOTAL FEDERAL AWARDS			\$ 3,503	\$ 3,503

CITY OF MORRIS, OKLAHOMA
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Schedule of Debt Service Coverage Requirements Compliance

Gross Revenue Available for Debt Service:

Operating revenues of leased systems	\$ 589,093
Interest income	<u>280</u>

Total Gross Revenues Available	589,373
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System Operating Expenses	<u>448,372</u>
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Net Revenues Available for Debt Service	<u><u>\$ 141,001</u></u>
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Debt Service Requirements:

Maximum annual debt service - OWRB ORF note and ODOC note	<u>\$ 113,544</u>
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Total Debt Service Requirements	<u><u>\$ 113,544</u></u>
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Coverage	<u><u>124%</u></u>
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Coverage Requirement	<u><u>125%</u></u>
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**CITY OF MORRIS, OKLAHOMA
ANNUAL FINANCIAL REPORT
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INTERNAL CONTROL AND COMPLIANCE

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

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

To the City Council
City of Morris, Oklahoma

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Morris, Oklahoma, as of and for the year ended June 30, 2012, which were prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and which collectively comprise the City of Morris, Oklahoma's basic financial statements and have issued my report thereon dated December 14, 2012. My opinion on the report was qualified as the City has defined its modified cash basis of accounting to exclude fixed assets and long-term debt. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that I consider to be significant deficiencies in internal control over financial reporting. [2012-01, 2012-02]. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Morris, Oklahoma's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2012-03, 2012-04.

I noted certain matters that I reported to management of City of Morris, Oklahoma, in a separate letter dated December 14, 2012.

City of Morris, Oklahoma's responses to the findings identified in my audit are described in the accompanying schedule of findings. I did not audit the City of Morris, Oklahoma's response and, accordingly, I express no opinion on it.

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



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma

December 14, 2012

City of Morris, Oklahoma
Schedule of Findings
June 30, 2012

2012-01 – Meter Deposit Liability

CONDITION: The Deposit Audit Report from the utility accounting system used by the City of Morris shows a total meter deposit liability at June 30, 2012 of \$49,439 yet the financial statements show \$27,096, a difference of \$22,343. Six of the twenty-seven customers sampled from the report showed inactive accounts, in most cases dating back a number of years. A review of the history of several of the inactive accounts revealed credit adjustments being made to the customer's bill through journal entries.

CRITERIA: Title 11 Section 35 – of the Oklahoma Statutes requires that deposits for utility service shall be refunded or credited to the customer upon termination of service or at an earlier date as allowed by the municipality. The City should be able to produce a valid, reconciled listing of deposits payable.

CAUSE OF CONDITION: The City's management reports that a previous utility clerk struggled in using the system. It appears that some of the discrepancy may be attributable to a lack of understanding on how to refund the deposit through the system in the proper way which would clear the liability.

POTENTIAL EFFECT OF CONDITION: The City could be in violation of the above referenced statute by not refunding or crediting the customer upon termination and/or the meter deposit liability could be understated. In addition, the lack of a reconciled reliable meter deposit listing weakens internal controls over these funds and could conceal the misappropriation of funds.

RECOMMENDATION: The City should research and resolve the status of the deposits, and maintain the list in a current fashion.

RESPONSE: City management reports that they are maintaining the deposit status of current customers in a reliable manner and that they are making every effort to identify the cause of the deposits shown on the system as remaining on inactive accounts.

2012-02 – Segregation of Duties

CONDITION: The City uses essentially two positions to perform certain duties that are incompatible with effective internal control. This is somewhat mitigated by considerable onsite supervision by the Mayor.

CRITERIA: The segregation of duties and responsibilities between 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.

CAUSE OF CONDITION: 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.

POTENTIAL EFFECT OF CONDITION: Without sufficient segregation of duties, the risk increases that errors and fraud could occur and not be detected on a timely basis.

RECOMMENDATION: The City Council should continue to exercise oversight control of daily functions.

RESPONSE: City management is aware of the risk and will continue to look for opportunities to strengthen internal controls

2012-03 – Debt Service Requirements

CONDITION: Morris Public Works Authority (MPWA) showed debt service coverage of 124% which is below that required by the debt covenants by 1% or \$929.

CRITERIA: MPWA has a loan payable to the Oklahoma Water Resources Board. Debt covenants associated with this loan require the MPWA to provide Net Revenues Available for Debt Service equal to at least 125% of the maximum annual amount required for debt service on all obligations secured by a lien on the Revenues.

CAUSE OF CONDITION: Net Revenues are calculated as Gross Revenues less System Operating Expenses. In the year ended June 30, 2012, materials and supplies expense was \$63,190, or 23% above the prior year.

POTENTIAL EFFECT OF CONDITION: Since the MPWA does not record major purchases of equipment and system improvements as capital assets that are depreciated over their useful life, the full amount of capital acquisitions are included in System Operating Expenses which causes fluctuations from year to year..

RECOMMENDATION: The MPWA should consider adopting a policy of capitalizing and depreciating major asset acquisitions, or plan major purchases within the requirements of the debt covenants.

RESPONSE: City management is aware of the need to closely monitor System Operating Expenses.

2012-04 – Negative Budget Variances

CONDITION: The City had expenditures during the year ended June 30, 2012 in excess of appropriations in the General Fund for the following departments: Council, Fire, and Streets.

CRITERIA: The Municipal Budget Act (Title 11, Section 17 of the Oklahoma Statutes) requires that the legal level of expenditure and encumbrance control is department appropriation total within a fund, if not established at a lower level by resolution.

CAUSE OF CONDITION: The City did not amend its budget during the year for changes in plans or needs of specific departments.

POTENTIAL EFFECT OF CONDITION: The City could be in violation of the Municipal Budget Act; expenditures could be approved by the City Council which exceed available appropriations.

RECOMMENDATION: The City should confirm available appropriations at the department level prior to approving expenditures. When appropriations are insufficient for an identified need, a budget revision should be approved by the Council prior to approving the additional expenditures.

RESPONSE: City management will assure that the Council is provided with an accurate reporting of available appropriations at the department level prior to approving additional expenditures.