

City of Grove, Oklahoma
Audited Financial Statements
June 30, 2012

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The City of Grove, Oklahoma

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December 18, 2012

Management and the City Council
The City of Grove
Grove, Oklahoma

Please be advised, due to a miscalculation in an underlying spreadsheet, there were some changes made subsequent to issuance of the financial statements issued for year ended June 30, 2012.

The following changes were made to the Statement of Net Asset on page 12 of the enclosed financial statements:

	Previously Reported			Updated Reporting		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Total noncurrent assets	11,211,805	38,272,014	46,957,544	11,211,805	38,272,014	49,483,819
Total assets	14,447,099	43,177,835	55,098,659	14,447,099	43,177,835	57,624,934
Due to Gov't Funds	-	-	-	-	65,933	65,933
Total current liabilities	243,926	2,766,564	3,010,490	243,926	2,832,497	3,076,423
TIF Bonds Payable	-	-	-	-	2,526,275	2,526,275
Total non current liabilities	1,405,481	14,484,497	15,889,977	1,405,481	17,010,772	18,416,253
Total liabilities	1,649,406	17,251,060	18,900,467	1,649,406	19,843,269	21,492,675
Net assets:						
Debt service	206,821	768,910	975,731	-	768,910	768,910
Unrestricted	(13,199)	2,982,690	2,969,491	193,622	2,982,690	3,176,312

Very truly yours,



WINGARD, RAGSDALE & LANGLEY

CERTIFIED PUBLIC ACCOUNTANTS, PLLC

City of Grove, Oklahoma
Report on Audit of Financial Statements
June 30, 2012
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INDEPENDENT AUDITOR'S REPORT

To the City Council,
City of Grove
Delaware County, 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 Grove, 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 Grove'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 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 the 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 above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Grove, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, 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 29, 2012 on our consideration of the City of Grove's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and 43 through 45 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Grove's financial statements as a whole. The combining and individual nonmajor fund financial statements is presented for purposes of additional and is not a required part of the financial statements. These 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 our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



WINGARD, RAGSDALE & LANGLEY
CERTIFIED PUBLIC ACCOUNTANTS, PLLC

OCTOBER 29, 2012

City of Grove, Oklahoma
Management's Discussion and Analysis
June 30, 2012

The following discussion and analysis of the City of Grove's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the City's financial statements, which begin on page 12.

Financial Highlights

- ❖ The assets of the City of Grove exceeded its liabilities at the close of the most recent fiscal year by \$36,132,259 (net assets). Of this amount, \$ 3,176,312 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- ❖ The government's total net assets increased by \$ 619,062 for the year ended June 30, 2012.
- ❖ As of the close of the current fiscal year the City of Grove's governmental funds reported combined ending fund balances of \$ 2,549,830, an increase of \$ 320,520 in comparison with the prior year. Approximately \$ 764,134 is available for spending at the government's discretion (unassigned fund balance).
- ❖ At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 764,134 or 17% of total general fund expenditures.
- ❖ The City of Grove's total debt increased by \$ 2,700,106 during the current fiscal year. The key factors in this increase was the addition of a series 2011 Sales Tax Revenue note for the Automated Meter Reading System in the amount of \$2,050,000 and a 2011 TIF Tax Increment Revenue note for the Harbor Point project in the amount of 2,415,000, with offsetting principal payments reducing the balance of existing debt.

Overview of the Financial Statements

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

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Grove that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Grove include general government, public safety, public works, and culture and recreation. The business-type activities of the City of Grove, which include the City's natural gas, water, wastewater, and sanitation utility operations, include the Grove Municipal Services Authority and the Grove Municipal Airport Managing Authority.

The government-wide financial statements include not only the City of Grove itself (known as the primary government), but also the legally separate authorities (Grove Municipal Services Authority, Grove Municipal Airport Managing Authority, and the Grove Industrial Development Authority) for which the City of Grove is financially accountable. Financial information for these component units is blended with the primary government itself. The government-wide financial statements can be found on pages 12–13 of this report.

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

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

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

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

The City adopts an annual appropriated budget for its general and capital projects funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 14–16 of this report.

Proprietary funds. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its utility services, Economic Development operations and municipal airport operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Grove Municipal Services Authority, the Grove Economic Development Authority and the Grove Municipal Airport Managing Authority, which are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 17–19 of this report.

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

The basic fiduciary fund financial statements can be found on page 20 of this report.

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

The notes to the financial statements can be found on pages 21–41 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City’s actual revenues and expenditures on a budgetary basis compared with the original and final budgets for the general fund. Required supplementary information can be found on pages 42-44 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, and internal service funds are presented immediately following the required supplementary information on budget and actual revenues and expenditures for the major governmental fund. Combining statements and schedules can be found on pages 45-46 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets exceeded liabilities by \$ 36,132,259 at the close of the most recent fiscal year.

By far the largest portion of the City’s net assets (83%) reflects its investment in capital assets (e.g., land, buildings, improvements, vehicles, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Grove
Net Assets
June 30, 2012, and 2011

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Current assets	\$ 3,235,294	\$ 2,941,513	\$ 4,905,821	\$ 5,825,304	\$ 8,141,115	\$ 8,766,816
Capital and other	11,211,805	13,011,348	38,272,014	32,402,280	46,957,544	45,413,629
Total assets	<u>14,447,099</u>	<u>15,952,861</u>	<u>43,177,835</u>	<u>38,227,584</u>		<u>54,180,445</u>
Current liabilities	243,926	681,375	2,766,564	2,432,845	3,010,490	3,114,220
Long-term liabilities	1,405,481	2,545,178	14,484,496	13,007,849	15,889,977	15,553,027
Total liabilities	<u>1,649,407</u>	<u>3,226,553</u>	<u>17,251,060</u>	<u>15,440,694</u>	<u>18,900,467</u>	<u>18,667,248</u>
Net assets:						
Invested in capital assets, net of related debt	10,886,610	10,936,295	19,255,002	17,785,058	30,141,612	28,721,353
Restricted	1,717,461	1,551,932	1,096,874	1,689,336	2,814,335	3,241,268
Unrestricted	193,622	238,081	2,982,690	3,312,495	3,176,312	3,550,576
Total net assets	<u>\$ 12,797,693</u>	<u>\$ 12,726,308</u>	<u>\$ 23,334,566</u>	<u>\$ 22,786,889</u>	<u>\$ 36,132,259</u>	<u>\$ 35,513,197</u>

An additional portion of the City's net assets (7.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$ 3,176,312) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's net assets increase by 619,062 during the current fiscal year. This increase resulted from the acquisition of fixed assets, namely the Harbor Point Shopping Center

City of Grove
Statement of Activities
June 30, 2012, and 2011

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Program revenues:						
Charges for services	\$ 879,463	\$ 873,701	\$ 7,931,425	\$ 8,494,029	\$ 8,810,888	\$ 9,367,730
Grants/contributions	432,608	252,424	63,359	162,400	495,967	414,824
General revenues	<u>6,265,594</u>	<u>5,992,184</u>	<u>1,055,222</u>	<u>587,090</u>	<u>7,320,816</u>	<u>6,579,274</u>
Total revenues	<u>7,577,665</u>	<u>7,118,309</u>	<u>9,050,006</u>	<u>9,243,519</u>	<u>16,627,671</u>	<u>16,361,828</u>

	Governmental Activities		Business-Type Activities		Totals	
	2012	2011	2012	2011	2012	2011
Expenses:						
General government/administration	1,034,721	1,293,820			1,034,721	1,293,820
Public safety	3,238,490	3,660,660			3,238,490	3,660,660
Public works	2,505,406	2,065,839			2,505,406	2,065,839
Culture and recreation	143,304	492,009			143,304	492,009
Utilities			7,906,799	8,431,905	7,906,799	8,431,905
Airport			726,464	603,813	726,464	603,813
Economic Development			453,426		453,426	
Total expenses	<u>6,921,921</u>	<u>7,512,328</u>	<u>9,086,689</u>	<u>9,035,718</u>	<u>16,008,610</u>	<u>16,548,046</u>
Increase (decrease) in net assets	655,745	(486,066)	(36,683)	299,848	619,062	(186,218)
Transfers, net	<u>59,790</u>	<u>92,047</u>	<u>(59,790)</u>	<u>(92,047)</u>	<u>0</u>	<u>0</u>
Increase (decrease) in net assets	715,535	(394,019)	(96,473)	207,801	619,062	(186,218)
Net assets, beginning, as restated	<u>12,082,158</u>	<u>13,120,327</u>	<u>23,431,039</u>	<u>22,579,088</u>	<u>35,513,197</u>	<u>35,699,415</u>
Net assets, ending	<u>\$ 12,797,693</u>	<u>\$ 12,726,308</u>	<u>\$ 23,334,566</u>	<u>\$ 22,786,889</u>	<u>\$ 36,132,259</u>	<u>\$ 35,513,197</u>

Governmental activities. Governmental activities increased the City's net assets by \$ 619,062. The key elements of this increase was the acquisition of fixed assets.

City of Grove
Governmental Activities
June 30, 2012, and 2011

	Program Revenues		Cost Of Services	
	2012	2011	2012	2011
General government	\$ 207,438	\$ 296,215	\$ 1,034,721	\$ 1,293,820
Public safety	226,077	219,384	3,238,490	3,660,660
Public works	861,951	598,889	2,505,406	2,065,839
Culture and recreation	<u>16,605</u>	<u>11,637</u>	<u>143,304</u>	<u>492,009</u>
Total governmental activities	<u>\$ 1,312,071</u>	<u>\$ 1,126,125</u>	<u>\$ 6,921,920</u>	<u>\$ 7,512,328</u>

For the most part, decrease in expenses resulted in the completion of projects.

Business-type activities. Business-type activities increased the City's net assets by \$ 547,677.

City of Grove
Business-type Activities
June 30, 2012, and 2009

	Program Revenues		Cost Of Services	
	2012	2011	2012	2011
Gas	\$ 4,400,863	\$ 5,393,895	\$ 3,402,506	\$ 4,335,423
Water	2,484,545	2,098,384	1,699,071	1,258,477
Wastewater	509,141	454,722	1,047,822	999,488
Sanitation	36,258	33,743		
Service Charges	52,250	48,750		
Airport	360,510	260,961	726,465	603,813
Administration/other	52,505	31,631	1,757,400	1,335,465
Economic Development	98,712		453,426	
Total business-type activities	<u>\$ 7,994,784</u>	<u>\$ 8,322,087</u>	<u>\$ 9,086,690</u>	<u>\$ 8,532,667</u>

Decreases in program revenues of \$ 461,487 were due to a decrease in natural gas costs and the lack of cold winter weather, which resulted in lower natural gas revenues, where increase in costs had to do with increases in costs of basic service (i.e. utilities & fuel) as well as increases in interest expense and depreciation expense.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 2,549,830, an increase of \$ 320,520 in comparison with the prior year. Approximately 29% of this total amount (\$ 764,134) constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is restricted, committed or assigned to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, fund balance of the general fund was \$ 764,134. As a measure of the general fund's liquidity, it may be useful to compare fund balance to total fund expenditures. The unassigned portion of the fund balance (\$764,134) represents 17% of total general fund expenditures.

The fund balance of the City's general fund increased by \$ (244,023) during the current fiscal year. The key component of this increase was increased sales tax revenues.

The capital projects fund has a total fund balance of \$ 1,504,483, all of which is reserved for capital improvements. The net increase in fund balance during the current year in the capital projects fund was \$ 216,527. The major revenue during the year was sales tax.

Major capital projects fund expenditures included:

- ◆ Public Works Facility
- ◆ Harbor Point Project

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

Unrestricted net assets of the Grove Municipal Services Authority as of the end of the year amounted to \$ 2,453,428. The total increase in net assets was \$ 64,561. Operating revenues decreased \$ 594,546 over the previous year due to reduce sales of natural gas. A decrease of \$ 514,384 in expenses was primarily due to a decrease in the amount of natural gas purchased.

The Grove Municipal Airport Managing Authority had an increase of revenues of \$ 100,132 due to an increase in fuel sales revenues.

General Fund Budgetary Highlights

There were only slight differences between the original budget and the final budget for the general fund. Overall, actual revenues on the budgetary basis of 4,873,540 were \$ 11,211 less than the estimated revenues in the budget of \$ 4,884,751. Actual expenditures of \$ 4,499,184 were \$ 47,309 less than the \$ 4,546,493 approved in budget appropriations. The City budgeted \$ (188,330) to try to make up for its negative cash balance in the general fund.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012 amounts to \$ 46,410,239 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment, and vehicles.

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

- ◆ Complete Construction on the Public Works Facility
- ◆ Harbor Point Project

City of Grove
Capital Assets
June 30, 2012, and 2011
(net of depreciation)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Land	\$ 1,006,783	\$ 967,448	\$ 738,712	\$ 738,712	\$ 1,745,495	\$ 1,706,160
Construction in progress	288,481	646,828	146,545	374,228	435,026	1,021,056
Buildings and improvements	8,434,289	9,353,213	30,475,456	29,240,182	38,909,745	38,593,395
Equipment	907,474	1,029,741	3,478,707	1,653,215	4,386,181	2,682,956
Vehicles	574,777	661,174	90,709	43,298	665,486	704,472
Capital assets, net	<u>\$ 11,211,804</u>	<u>\$ 12,658,404</u>	<u>\$ 34,930,129</u>	<u>\$ 32,049,635</u>	<u>\$ 46,141,933</u>	<u>\$ 44,708,039</u>

Additional information of the City's capital assets can be found in Note V.D. on pages 30–32 of this report.

Long-term debt. As of the end of the current fiscal year, the City had total debt outstanding of \$ 19,473,485. This represents debt secured solely by specified revenue sources (i.e., revenue bonds and notes) of \$ 14,546,534, TIF Note of \$2,415,000, other notes payable of \$ 1,285,000 capital lease obligations totaling \$ 325,195, and accrued compensated absences of \$ 789,859.

City of Grove
Outstanding Debt
June 30, 2012, and 2011

	Governmental		Business-Type		Total	
	Activities		Activities			
	2012	2011	2012	2011	2012	2011
Revenue notes	\$	\$	\$ 14,161,534	\$ 13,274,935	\$ 14,161,534	\$ 13,274,935
Revenue bonds			385,000	555,000	385,000	555,000
TIF Notes			2,415,000		2,415,000	
Other notes		1,360,000	1,285,000	266,748	1,285,000	1,626,748
Capital lease obligations	325,195	362,087	111,897	164,751	437,092	526,838
Total outstanding debt	<u>\$ 325,195</u>	<u>\$ 1,722,087</u>	<u>\$ 18,358,431</u>	<u>\$ 14,417,522</u>	<u>\$ 18,683,626</u>	<u>\$ 15,983,521</u>

The City's total debt increased by \$ 2,700,106 during the current fiscal year. The key factors in this increase was the addition of a series 2011 Sales Tax Revenue Note for the Automated Meter Reading System, and the 2011 TIF Tax Increment Revenue Note for the Harbor Point Project, with offsetting principal payments reducing the balance of existing debt. In addition, the 2010 Note was previously reported under governmental activities, but has been moved and reported under the Grove Economic Development Authority under the proprietary funds.

Subsequent to the end of the fiscal year, the City obtained a \$1,000,000 note to help fund the Wolf Creek Public Fishing Facility project which will include land acquisition, the addition of

docks, restrooms and a pavilion that can be utilized by fishing tournaments as well as festivals, etc. The interest rate is 2.33% with a maturity date of July 1, 2016.

GMSA is in the process of applying for a loan through the Oklahoma Water Resources Board for the expansion/upgrade of the Water Treatment Plant facility in an amount of approximately \$6,500,000.

Additional information on the City's long-term debt can be found in Notes V.F. and V.G. on pages 33-37 of this report.

Economic Factors and Next Year's Budgets and Rates

The City's elected and appointed officials considered many factors when setting the fiscal-year 2012 budget, tax rates, and fees that will be charged for the proprietary fund type activities. One of these factors is the economy. The downturn of the national economy has affected the local economy. Unemployment is up, sales tax revenues have been decreasing.

These indicators were taken into account when adopting the general fund budget for 2012.

- ◆ Population Growth
- ◆ Decreasing Sales Tax Revenue
- ◆ Commercial Growth
- ◆ Changes in Commodity Prices

All of these factors were considered in preparing the City's budget for the 2012 fiscal year.

During the current fiscal year, fund balance in the general fund increased to \$ 520,111. This is an increase of (244,023) from last fiscal year.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, funding agencies, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the City of Grove, 104 West 3rd Street, Grove, Oklahoma 74344.

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,289,010	\$ 2,712,064	\$ 4,001,074
Receivables, net of allowance for uncollectibles:			
Accounts	11,457	223,092	234,550
Taxes	1,293,922	-	1,293,922
Due from other governments	10,868	-	10,868
Due from Intra-government	414,972	139,528	554,500
Inventories	-	724,432	724,432
Prepaid Expenses	8,244	9,831	18,075
Restricted assets - cash and investments	206,821	1,096,873	1,303,694
Total current assets	<u>3,235,294</u>	<u>4,905,821</u>	<u>8,141,115</u>
Noncurrent assets:			
TIF Receivables	-	2,526,275	2,526,275
Investment in land held for sale	-	149,800	149,800
Debt issuance costs, net of accumulated amortization	-	397,505	397,505
Capital assets, net of accumulated depreciation	11,211,805	35,198,434	46,410,239
Total noncurrent assets	<u>11,211,805</u>	<u>38,272,014</u>	<u>49,483,819</u>
Total assets	<u>14,447,099</u>	<u>43,177,835</u>	<u>57,624,934</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	196,959	266,245	463,204
Payable from restricted assets:			
Accrued interest payable	8,267	172,410	180,677
Customer deposits	-	709,595	709,595
Due to Gov't Funds	-	65,933	65,933
Current portion of long-term obligations	38,700	1,618,314	1,657,014
Total current liabilities	<u>243,926</u>	<u>2,832,497</u>	<u>3,076,423</u>
Noncurrent liabilities:			
Due to intra-government	488,505	-	488,505
TIF Bonds Payable	-	2,526,275	2,526,275
Bonds payable	-	200,000	200,000
Notes payable	-	14,068,111	14,068,111
Lease/Purchase Obligations	286,495	57,006	343,501
Accrued compensated absences	630,480	159,379	789,859
Total noncurrent liabilities	<u>1,405,481</u>	<u>17,010,772</u>	<u>18,416,253</u>
Total liabilities	<u>1,649,406</u>	<u>19,843,269</u>	<u>21,492,675</u>
Net assets			
Invested in capital assets, net of related debt	10,886,610	19,255,002	30,141,612
Restricted for:			
Capital improvements	1,504,483	327,964	1,832,447
Debt service	-	768,910	768,910
Fire Department	212,978	-	212,978
Unrestricted	193,622	2,982,690	3,176,312
Total net assets	<u>\$ 12,797,693</u>	<u>\$ 23,334,566</u>	<u>\$ 36,132,259</u>

The accompanying notes are an integral part of these financial statements.

**City of Grove, Oklahoma
Statement of Activities
Year Ended June 30, 2012**

	Program Revenues					Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Governmental activities:								
General government	\$ 1,034,721	\$ 167,748	\$ 39,690	\$ -	\$ (827,284)	\$ -	\$ (827,284)	
Public safety	3,238,490	147,685	47,003	31,389	(3,012,413)	-	(3,012,413)	
Public works	2,505,406	551,425	4,014	306,512	(1,643,454)	-	(1,643,454)	
Culture and recreation	143,304	12,605	4,000	-	(126,699)	-	(126,699)	
Total governmental activities	6,921,920	879,463	94,707	337,901	(5,609,849)	-	(5,609,849)	
Business-type activities:								
Utilities	7,414,470	7,472,202	21,936	41,423	-	121,092	121,092	
Airport	726,160	360,510	-	-	-	(365,650)	(365,650)	
Economic Development	401,142	98,713	-	-	-	(302,429)	(302,429)	
Interest on long term debt	544,918	-	-	-	-	(544,918)	(544,918)	
Total business-type activities	9,086,690	7,931,426	21,936	41,423	-	(1,091,905)	(1,091,905)	
Total government	\$ 16,008,610	\$ 8,810,888	\$ 116,643	\$ 379,324	\$ (5,609,849)	\$ (1,091,905)	\$ (6,701,754)	
General revenues:								
Taxes:								
Sales and use					\$ 5,664,440	709,182	\$ 6,373,622	
Franchise					210,575	-	210,575	
Other					332,407	-	332,407	
Interest income					21,115	47,647	68,762	
Miscellaneous					33,557	298,393	331,950	
Transfers - internal activity					59,790	(59,790)	-	
Gain on sale of assets					3,500	-	3,500	
Total general revenues and transfers					6,325,384	995,432	7,320,816	
Change in net assets					715,535	(96,473)	619,061	
Net assets, beginning					12,726,308	22,786,889	35,513,197	
Prior Period Adjustment (Note VI, D)					(644,150)	644,150	-	
Net assets, ending					\$ 12,797,693	\$ 23,334,566	\$ 36,132,259	

The accompanying notes are an integral part of these financial statements.

City of Grove, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2012

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 88,343	\$ 1,103,492	\$ 97,175	\$ 1,289,010
Receivables:				
Accounts	11,457	-	-	11,457
Taxes	1,287,765	-	6,157	1,293,922
Due from other governments	-	-	10,868	10,868
Due from other funds	61	414,911	-	414,972
Prepaid Expenses	8,244	-	-	8,244
Restricted cash and investments	-	-	206,821	206,821
Total assets	1,395,871	1,518,403	321,021	3,235,295
Liabilities and fund balances				
Liabilities:				
Accounts payable and accrued liabilities	143,231	13,920	39,808	196,959
Due to other funds	488,505	-	-	488,505
Total liabilities	631,737	13,920	39,808	685,465
Fund balances:				
Reserved for:				
Nonspendable	-	-	-	-
Restricted	-	1,504,483	241,313	1,745,796
Committed	-	-	-	-
Assigned	-	-	39,900	39,900
Unassigned, reported in:				
General fund	764,134	-	-	764,134
Total fund balances	764,134	1,504,483	281,213	2,549,830
Total liabilities and fund balances	\$ 1,395,871	\$ 1,518,403	\$ 321,021	
<p style="margin-left: 40px;">Amounts reported for governmental activities in the statement of net assets are different because:</p> <p style="margin-left: 40px;">Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p> <p style="margin-left: 40px;">Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds:</p> <p style="margin-left: 40px;"> Capital lease obligations</p> <p style="margin-left: 40px;"> Accrued interest on long-term debt</p> <p style="margin-left: 40px;"> Accrued compensated absences</p>				<p>11,211,805</p> <p>(325,195)</p> <p>(8,267)</p> <p>(630,480)</p> <hr style="width: 100%;"/>
Net assets of governmental activities				\$ 12,797,693

The accompanying notes are an integral part of these financial statements.

City of Grove, Oklahoma
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds
Year Ended June 30, 2012

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Taxes	\$ 4,320,654	\$ 1,773,759	113,007	\$ 6,207,421
Licenses and permits	46,736	-	-	46,736
Intergovernmental	84,039	266,388	2,577	353,004
Fines and forfeitures	128,155	-	3,131	131,286
Charges for services	69,282	-	464,462	533,744
Other	205,667	71,513	3,679	280,858
Interest	19,008	-	2,107	21,115
Total revenues	<u>4,873,540</u>	<u>2,111,661</u>	<u>588,964</u>	<u>7,574,165</u>
Expenditures				
Current:				
General government	869,292	-	-	869,292
Public safety	2,293,726	-	220,954	2,514,680
Public works	1,193,363	-	461,184	1,654,546
Culture and recreation	142,804	-	500	143,304
Debt service	-	-	53,409	53,409
Capital outlay	-	1,938,844	-	1,938,844
Total expenditures	<u>4,499,184</u>	<u>1,938,844</u>	<u>736,047</u>	<u>7,174,074</u>
Excess of revenues over (under) expenditures	374,356	172,817	(147,083)	400,091
Other financing sources (uses)				
Transfers in	3,778,207	2,166,466	242,000	6,186,673
Transfers (out)	(3,908,540)	(2,122,755)	(95,587)	(6,126,883)
Total other financing sources (uses)	<u>(130,333)</u>	<u>43,711</u>	<u>146,413</u>	<u>59,790</u>
Net change in fund balances	244,023	216,527	(670)	459,881
Fund balances, beginning	520,111	1,287,956	421,243	2,229,310
Fund balance, beginning adjustment	-	-	(139,361)	(139,361)
Fund balances, ending	<u>\$ 764,134</u>	<u>\$ 1,504,483</u>	<u>\$ 281,213</u>	<u>\$ 2,549,830</u>

The accompanying notes are an integral part of these financial statements.

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

Net change in fund balances – total governmental funds	\$	459,881
Adjustments for the statement of activities:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets are allocated over their estimated useful lives as a depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation in the current reporting period.		
Capital outlay expenditures, net		2,097,625
Depreciation expense		(1,243,615)
Gain on sale of assets		3,500
		857,509
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.		
Principal payments on capital leases		36,892
		36,892
Some expenses reported in the statement of activities do not require the use of current financial resources, and, therefore, are not reported in governmental funds.		
Accrued interest payable on long-term debt		(8,267)
Accrued compensated absences, net change		(630,480)
		(638,747)
Change in net assets of governmental activities	\$	715,535

The accompanying notes are an integral part of these financial statements.

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

	Business-Type Activities – Enterprise Funds			Total
	Grove Municipal Services Authority	Grove Economic Development Authority	Grove Municipal Airport Managing Authority	
Assets				
Current assets:				
Cash and cash equivalents	\$ 2,344,157	\$ 300,817	\$ 67,091	\$ 2,712,064
Receivables:				
Accounts, net of allowance for uncollectibles	202,514	-	20,578	223,092
Due from other funds	139,528	-	-	139,528
Inventories	673,112	-	51,319	724,432
Prepaid Expenses	9,831	-	-	9,831
Restricted assets - cash and investments	1,054,462	42,411	-	1,096,873
Total current assets	<u>4,423,605</u>	<u>343,228</u>	<u>138,988</u>	<u>4,905,821</u>
Noncurrent assets:				
TIF Receivables	-	2,526,275	-	2,526,275
Investment in land held for sale	-	149,800	-	149,800
Debt issuance costs, net of accumulated amortization	368,889	28,615	-	397,505
Capital assets, net of accumulated depreciation	32,583,003	1,623,346	992,085	35,198,434
Total noncurrent assets	<u>32,951,893</u>	<u>4,328,037</u>	<u>992,085</u>	<u>38,272,014</u>
Total assets	<u>37,375,498</u>	<u>4,671,265</u>	<u>1,131,073</u>	<u>43,177,835</u>
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	262,904	-	3,341	266,245
Payable from restricted assets:				
Accrued interest payable	153,831	18,579	-	172,410
Customer deposits	709,595	-	-	709,595
Due to other funds	-	-	65,933	65,933
Current portion of long-term obligations	1,538,314	80,000	-	1,618,314
Total current liabilities	<u>2,664,644</u>	<u>98,579</u>	<u>69,274</u>	<u>2,832,497</u>
Noncurrent liabilities:				
TIF Bonds & Payables	-	2,526,275	-	2,526,275
Revenue bonds	200,000	-	-	200,000
Notes payable	12,863,111	1,205,000	-	14,068,111
Lease/Purchase Obligations	57,006	-	-	57,006
Accrued compensated absences	158,274	-	1,105	159,379
Total noncurrent liabilities	<u>13,278,391</u>	<u>3,731,275</u>	<u>1,105</u>	<u>17,010,772</u>
Total liabilities	<u>15,943,036</u>	<u>3,829,854</u>	<u>70,379</u>	<u>19,843,269</u>
Net assets				
Invested in capital assets, net of related debt	17,924,572	338,346	992,085	19,255,002
Restricted:				
Capital improvements	327,964	-	-	327,964
Debt service	726,498	42,411	-	768,910
Unrestricted	2,453,428	460,653	68,609	2,982,690
Total net assets	<u>\$ 21,432,462</u>	<u>\$ 841,410</u>	<u>\$ 1,060,694</u>	<u>\$ 23,334,566</u>

The accompanying notes are an integral part of these financial statements.

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

	Business-Type Activities – Enterprise Funds			Total
	Grove Municipal Services Authority	Grove Economic Development Authority	Grove Municipal Airport Managing Authority	
Operating revenues				
Charges for services:				
Gas	\$ 4,381,663	\$ -	\$ -	\$ 4,381,663
Water	2,483,645	-	-	2,483,645
Wastewater	509,141	-	-	509,141
Sanitation	36,258	-	-	36,258
Service Fees	52,250	-	-	52,250
Pool Fees	-	98,713	-	98,713
Other	3,623	294,186	361,093	658,903
Total operating revenues	<u>7,466,580</u>	<u>392,899</u>	<u>361,093</u>	<u>8,220,573</u>
Operating expenses				
Administration	1,096,550	-	-	1,096,550
Gas	3,250,549	-	-	3,250,549
Water	1,375,472	-	-	1,375,472
Wastewater	623,163	-	-	623,163
Airport	-	-	339,953	339,953
Economic Development	-	99,091	-	99,091
Pool	-	121,145	-	121,145
Bad debt expense	7,167	-	-	7,167
Depreciation and amortization	1,061,568	180,906	386,206	1,628,680
Total operating expenses	<u>7,414,470</u>	<u>401,142</u>	<u>726,159</u>	<u>8,541,772</u>
Net operating income (loss)	<u>52,111</u>	<u>(8,243)</u>	<u>(365,066)</u>	<u>(321,199)</u>
Nonoperating revenues (expenses)				
Taxes	709,182	-	-	709,182
Miscellaneous revenues	31,180	-	-	31,180
Capital Grants	19,200	-	-	19,200
Interest income	40,401	7,170	76	47,647
Interest expense and fiscal charges	(492,330)	(52,284)	(304)	(544,918)
Total nonoperating revenues (expenses)	<u>307,634</u>	<u>(45,114)</u>	<u>(228)</u>	<u>262,292</u>
Operating transfers				
Transfers in	5,274,966	250,616	7,000	5,532,583
Transfers (out)	(5,592,373)	-	-	(5,592,372)
Total operating transfers	<u>(317,407)</u>	<u>250,616</u>	<u>7,000</u>	<u>(59,790)</u>
Contributions				
Capital Contributions	22,223	-	-	22,223
Total Contributions	<u>22,223</u>	<u>-</u>	<u>-</u>	<u>22,223</u>
Net income (loss)	<u>64,561</u>	<u>197,259</u>	<u>(358,295)</u>	<u>(96,473)</u>
Net assets, beginning	21,367,901	-	1,418,989	22,786,890
Prior Period Adjustment (Note VI, D)	-	644,150	-	644,150
Net assets, ending	<u>\$ 21,432,462</u>	<u>\$ 841,410</u>	<u>\$ 1,060,694</u>	<u>\$ 23,334,566</u>

The accompanying notes are an integral part of these financial statements.

City of Grove, Oklahoma
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2012

	Business-Type Activities – Enterprise Funds			Totals
	Grove Municipal Services Authority	Grove Economic Development Authority	Grove Municipal Airport Managing Authority	
Cash flows from operating activities				
Receipts from customers	\$ 7,488,803	\$ 392,899	\$ 361,093	\$ 8,242,795
Payments to suppliers	(1,508,996)	(162,161)	(245,997)	(1,917,155)
Payments to employees	(5,172,863)	(70,357)	(24,860)	(5,268,080)
Net cash provided (used) by operating activities	<u>806,944</u>	<u>160,380</u>	<u>90,236</u>	<u>1,057,560</u>
Cash flows from capital and related financing activities				
Capital grants	19,200	-	-	19,200
Capital Contributions	22,223	-	-	22,223
Proceeds from Long-term Debt	2,050,000	-	-	2,050,000
Paid on Due To Long Term Debt	-	(253,333)	(2,566)	(255,899)
Principal paid on long-term debt	(1,639,587)	(75,000)	(13,416)	(1,728,003)
Interest expense and fiscal charges	(492,330)	(54,359)	(304)	(546,992)
Tax revenues received	709,182	-	-	709,182
(Increase)decrease in restricted assets	634,874	6,673	-	641,547
Transfers in (out)	(317,407)	250,616	7,000	(59,791)
(Acquisition) of debt costs	(48,300)	-	-	(48,300)
(Acquisition) disposition of capital assets	(2,847,130)	-	(68,800)	(2,915,930)
Net cash provided (used) by capital and related financing activities	<u>(1,909,274)</u>	<u>(125,402)</u>	<u>(78,086)</u>	<u>(2,112,762)</u>
Cash flows from investing activities				
Receivable income	-	111,634	-	111,634
Interest income	40,401	7,170	76	47,647
Net cash provided (used) by investing activities	<u>40,401</u>	<u>118,803</u>	<u>76</u>	<u>159,280</u>
Net increase (decrease) in cash and cash equivalents	(1,061,929)	153,782	12,226	(895,921)
Cash and cash equivalents, beginning	4,460,548	189,446	54,865	4,704,859
Cash and cash equivalents, ending	<u>3,398,619</u>	<u>343,227</u>	<u>67,091</u>	<u>3,808,938</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Net income (loss)	64,561	197,259	(358,295)	(96,475)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation and amortization	1,061,568	180,906	386,206	1,628,680
Changes in assets and liabilities:				
(Increase) decrease in receivables	931	(2,414,642)	(6,256)	(2,419,967)
(Increase) decrease in prepaids	(3,090)	-	-	(3,090)
(Increase) decrease in inventories	(48,699)	-	3,695	(45,004)
(Increase)decrease in accounts payable	(87,612)	2,451,275	(4,924)	2,358,739
Increase (decrease) in customer deposits	49,275	-	-	49,275
Increase (decrease) in accrued expenses	9,744	(1,084)	3,875	12,535
Increase (decrease) in intra-government	(239,734)	(253,333)	65,933	(427,134)
Total adjustments	<u>742,383</u>	<u>(36,879)</u>	<u>448,530</u>	<u>1,154,035</u>
Net cash provided (used) by operating activities	<u>\$ 806,944</u>	<u>\$ 160,380</u>	<u>\$ 90,236</u>	<u>\$ 1,057,560</u>

The accompanying notes are an integral part of these financial statements.

City of Grove, Oklahoma
Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2012

	Agency Funds	
	Municipal Court Fund	Meter Deposit Fund
Assets		
Cash and cash equivalents	\$ 2,872	\$ 660,454
Total assets	2,872	660,454
Liabilities		
Due to bondholders/employees		
Due to other funds	2,872	660,454
Total liabilities	2,872	660,454
Net Assets	\$ 0	\$ 0

The accompanying notes are an integral part of these financial statements.

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

I. Organization

The City of Grove, Oklahoma (the City) was incorporated November 22, 1902, and operates under a council/city manager form of government under Title 11 of the *Oklahoma Statutes*. The City provides the following services to its citizens: public safety; streets and highways; culture and recreation; public improvements; utilities including natural gas, water, sewer, and sanitation; airport services; and general government and administrative services.

II. Summary of significant accounting policies

A. Reporting entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations. The City's financial statements do not include any discretely presented component units, which would be reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

Blended component units. The Grove Municipal Services Authority (GMSA) is a public trust created under authority of and pursuant to the provision of Title 60, *Oklahoma Statutes* 1961, Sections 176 to 180, for the use and benefit of the City of Grove. GMSA has as its purpose to develop and operate utility facilities and services including water, sewer, gas, sanitation, or other forms or types of public and municipal services within and without the corporate boundaries of the City of Grove. The city council appoints the trustees of the GMSA. The City of Grove is the beneficiary of the trust.

The Grove Municipal Airport Managing Authority (Airport) is a public trust created on January 5, 1960, and amended December 22, 1975, to develop, construct, and operate a municipal airport in the City of Grove. The Grove city council appoints the trustees of the Airport board. The City of Grove is the beneficiary of the trust.

The Grove Economic Development Authority (GEDA), previously the Grove Industrial Development Authority, is a public trust created on September 3, 1968, and amended February 1, 1984, for the purpose of promoting industrial development within the City of Grove. The Grove city council appoints the trustees of GIDA. The City of Grove is the beneficiary of the trust.

The Grove Healthcare Authority is a public trust created on September 21, 1999, for the purpose of developing and maintaining health care facilities to serve the needs of the people of Grove, Oklahoma. The board of trustees consists of five members, one of which is a member of the city council of the City of Grove, with the remaining four trustees being members at large. The City of Grove is the beneficiary of the trust.

Separate financial statements have not been prepared for the component units.

B. Government-wide and fund financial statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

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

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

The City reports the following major governmental funds:

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

The capital projects fund accounts for the resources accumulated from grants, contributions, and transfers from other funds or entities and payments made for capital improvements and other capital outlay expenditures, as well as debt service payments on capital lease obligations.

The City reports the following major proprietary funds:

The Grove Municipal Services Authority accounts for the City's natural gas, water, and wastewater utility operations, as well as sanitation services.

The Grove Municipal Airport Managing Authority accounts for the municipal airport operations and improvements.

The Grove Economic Development Authority accounts for economic development operations.

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's utility functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

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

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

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

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

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

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 90 days comprise the trade accounts receivable allowance for uncollectibles.

3. Inventories and prepaid items

All inventories are valued at the lower of weighted average cost or market and consist of expendable supplies held for consumption and fuel for sale at the airport. Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain proceeds of the Grove Municipal Services Authority's enterprise fund Oklahoma Water Resources Board promissory note and utility and sales tax revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts, and their use is limited by applicable debt covenants. The project fund account is used to report those proceeds that are restricted for use in construction. The debt service fund account is used to segregate resources accumulated for debt service payments over the next 12 months. The debt service reserve account is used to report resources set aside to make up potential future deficiencies in the debt service account.

5. *Capital assets*

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$ 500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest on long-term financing of construction projects is capitalized as part of the cost of the asset as construction period interest and amortized to expense over the life of the debt.

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

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

Assets	Years
Buildings	25–50
Improvements other than buildings	20–50
Furniture, equipment, and vehicles	5–10

6. *Compensated absences*

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. Employees may accumulate from 24 to 90 days of unused vacation, depending on length of service. Sick leave may be accumulated up to a maximum of 90 days. Accumulated sick leave may be applied toward service credit for retirement benefits or may be paid for the accumulated sick leave, provided the employee has the required number of years of continuous service with the City. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds on a straight-line basis over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

8. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

III. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the funds. The details of this difference are as follows:

Accrued interest payable	\$	(8,267)
Leases payable		(325,195)
Accrued compensated absences		<u>(630,480)</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	\$	<u>(963,942)</u>

Another difference concerns capital asset reporting. The cost of capital assets, net of accumulated depreciation, are reported on the government-wide statement of net assets, but not on the governmental fund financial statements since they are not financial resources. The details of this difference are as follows:

Capital assets, net of accumulated depreciation	\$	<u>11,211,805</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	\$	<u>11,211,805</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Capital outlay	\$	1,938,844
Depreciation expense		(1,243,615)
Gain on sale of assets		<u>3,500</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	\$	<u>698,729</u>

Another element of that reconciliation states that the issuance of long-term debt (e.g., notes, capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. The details of this difference are as follows:

Principal repayments:	
Capital Leases	\$ 36,892
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>36,892</u>

A final element of that reconciliation states that some expenses in the statement of activities do not require the use of current financial resources, and therefore, are not reported in the governmental fund financial statements. The net changes in accrued interest payable and compensated absences are included in the expenses in the government-wide statement of activities. The details of this difference are as follows:

Accrued interest payable	\$ (413,451)
Accrued compensated absences	(74,759)
Accrued Prepayments	<u>8,244</u>
Adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (479,966)</u>

IV. Stewardship, compliance, and accountability

Budgetary information

Annual budgets are adopted for all governmental funds, the Special Utility Authority, and Department of Public Utilities. All unencumbered, annual appropriations lapse at fiscal year-end. Actual expenditures within a fund may not legally exceed 90% of the adopted budget.

Prior to June of each year, all department heads of the City submit requests for appropriations to the city manager so that a budget may be prepared. The city council meets with the city manager and city financial officer to review the needs estimates and requests of the departments. The council holds a public hearing prior to June 15, and a final budget is formally approved and adopted by the city council no later than June 24.

The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between classification categories within a department or between departments within a fund require the approval of the council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the object classification level within a department. Object classifications include personal services, materials and supplies, other services and charges, capital outlay, and debt service. Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

V. Detailed notes on all funds

A. Deposits and investments

Deposits

The City's carrying amount of deposits was \$ 3,933,179 as of June 30, 2012, and the bank balances totaled \$ 4,265,624. Deposits are carried at cost.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

Investments

As of June 30, 2012, the City had the following investments.

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
U.S. Treasury mutual funds	N/A	\$ 5,853,417
Certificate of deposit	< 12 months	<u>0</u>
Total		<u>\$ 5,853,417</u>

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State statutes limit investments to the following: a) direct obligations of the U.S. Government, its agencies or instrumentalities; b) collateralized or insured certificates of deposit within the state, and insured certificates only if out of state; c) savings accounts or savings certificates; d) fully collateralized prime banker acceptances, prime commercial paper, repurchase agreements, or SEC regulated money market funds; e) obligations to the payment of which the full faith and credit of the state is pledged; f) county, municipal, or school district and valorem tax funded debt; g) bonds, notes, or money judgments of a county, municipality, or school district; h) revenue anticipation notes of a public trust of which the municipality is beneficiary; or; i) any bond, note, or other debt of any public trust of which the municipality is sole beneficiary, or other entities whose governing boards were appointed by the municipality. The City has no investment policy that would further limit its investment choices. As of June 30, 2012, the City had no investments in certificates of deposit.

Concentration of Credit Risk. The City places no limit on the amount it may invest in any one issuer. None of the City's investments are in certificates of deposit. The investment is 100% of the City's total investments.

B. Receivables

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

	General Fund	Capital Projects	Nonmajor Governmental Funds	Grove Municipal Services Authority	Grove Municipal Airport Managing Authority	Total
Receivables:						
Taxes	1,287,765		6,157			1,293,922
Accounts	11,457			275,648	20,578	307,683
Notes						
Other governments			10,868			10,868
Gross receivables	1,299,222		17,025	275,648	20,578	1,612,473
Less: allowance for uncollectibles				(73,134)		(73,134)
Net total receivables	1,299,222		17,025	202,514	20,578	1,539,339

Notes receivable include an amount due from a loan in the form of payment of construction costs on a building for economic development by the Grove Economic Development Authority. The original amount of the note was \$ 250,000. Loan payments of \$ 2,129 per month, including interest at 3.50% are due beginning November 2003. There is no balance outstanding at June 30, 2012.

C. Restricted assets

The Grove Municipal Services Authority Utility and Sales Tax Revenue Bonds Series 1989 includes restricted cash and investments for a debt service fund for repayment of the principal and interest when due, and a debt service reserve to be used for payment of principal and interest provided sufficient funds are not available in the debt service fund. The Grove Municipal Services Authority Sales Tax Revenue Notes Series 2005, 2006, 2011 and the 2011 Note also include debt service accounts, and the 2011 Sales Tax Revenue Note includes a construction fund. The 2009 CWSRF OWRB note has a specific cash account. The meter deposit account for customer refunds is also shown as restricted. Additionally, the Grove Economic Development Authority Series 2010 note has debt service funds. All funds are on deposit with trustee banks. Also listed as restricted cash is the money on deposit with the Delaware County Treasurer from the Delaware County Fire Tax Revenues.

	Grove Municipal Services Authority			GEDA
	Revenue Bonds & Notes	Meter Deposits	Totals	Notes
Debt service – 1989 bonds	71,956		71,956	
Reserve – 1989 bonds	217,192		217,192	
Debt service – 2005 note	125,477		125,477	
Debt service – 2006 note	166,772		166,772	
2009 CWSRF OWRB Funds	44,598		44,598	
Customer meter deposits		660,454	660,454	
Debt service – 2011 note	27,506		27,506	
Debt Service – 2011 Sales Tax note	72,997		72,997	
2011 Sales Tax Rev note–Const Fund	327,964		327,964	
Debt service – GEDA 2010 note				42,411
Totals	<u>1,054,462</u>	<u>660,454</u>	<u>1,714,916</u>	<u>42,411</u>

D. Capital assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Land	\$ 967,448	39,335		1,006,783
Construction in progress	646,828	67,218	(425,566)	288,480
Total capital assets, not being depreciated	<u>1,614,276</u>	<u>106,553</u>	<u>(425,566)</u>	<u>1,295,263</u>
Capital assets, being depreciated:				
Buildings and improvements	12,072,519	1,565,161	(2,066,106)	11,571,574
Equipment	2,628,953	208,225	(11,143)	2,826,035
Vehicles	2,004,950	143,219	(16,660)	2,131,509
Total capital assets, being depreciated	<u>16,706,422</u>	<u>1,916,605</u>	<u>(2,093,909)</u>	<u>16,529,118</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,719,306)	(777,660)	320,449	(3,176,517)
Equipment	(1,599,212)	(291,259)	11,143	(1,879,328)
Vehicles	(1,343,776)	(229,616)	16,659	(1,556,733)
Total accumulated depreciation	<u>(5,662,294)</u>	<u>(1,298,535)</u>	<u>348,251</u>	<u>6,612,578</u>
Total capital assets, being depreciated, net	<u>11,044,128</u>	<u>618,070</u>	<u>(1,745,658)</u>	<u>9,916,540</u>
Total governmental activities capital assets, net	<u>\$ 12,658,404</u>	<u>724,623</u>	<u>(2,171,224)</u>	<u>11,211,803</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Grove Municipal Services Authority				
Capital assets, not being depreciated:				
Land	\$ 700,312			700,312
Construction in progress	374,228	81,943	(309,626)	146,545
Total capital assets, not being depreciated	<u>1,074,540</u>	<u>81,943</u>	<u>(309,626)</u>	<u>846,857</u>
Capital assets, being depreciated:				
Buildings and improvements	36,753,262	1,130,992		37,884,254
Equipment	2,760,052	1,898,243		4,658,295
Vehicles	365,051	70,819		435,870
Total capital assets, being depreciated	<u>39,878,365</u>	<u>3,100,054</u>		<u>42,978,419</u>
Less accumulated depreciation for:				
Buildings and improvements	(8,783,149)	(874,089)		(9,657,238)
Equipment	(1,107,859)	(132,017)		(1,239,876)
Vehicles	(321,753)	(23,408)		(345,161)
Total accumulated depreciation	<u>(10,212,761)</u>	<u>(1,029,514)</u>		<u>(11,242,275)</u>
Total capital assets, being depreciated, net	<u>29,665,604</u>	<u>2,070,540</u>	<u>(309,626)</u>	<u>31,736,144</u>
GMSA capital assets, net	<u>30,740,144</u>	<u>2,152,483</u>	<u>(309,626)</u>	<u>32,583,001</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Grove Municipal Airport Managing Authority				
Capital assets, not being depreciated:				
Land	\$ 38,400			38,400
Total capital assets, not being depreciated	<u>38,400</u>			<u>38,400</u>
Capital assets, being depreciated:				
Buildings and improvements	4,536,673			4,536,673
Equipment	118,292	68,800		187,092
Total capital assets, being depreciated	<u>4,654,965</u>	<u>68,800</u>		<u>4,723,765</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,266,604)	(377,783)		(3,644,387)
Equipment	(117,270)	(8,423)		(125,693)
Total accumulated depreciation	<u>(3,383,874)</u>	<u>(386,206)</u>		<u>(3,770,080)</u>
Total capital assets, being depreciated, net	<u>1,271,091</u>	<u>(317,406)</u>		<u>953,685</u>
Airport capital assets, net	<u>1,309,491</u>	<u>(317,406)</u>		<u>992,085</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Grove Economic Development Authority				
Capital assets, not being depreciated:				
Land	\$ 0	149,800		149,800
Total capital assets, not being depreciated	0	149,800		149,800
Capital assets, being depreciated:				
Buildings and improvements	0	2,066,106		2,206,106
Equipment	0			
Total capital assets, being depreciated	0	2,066,106		2,206,106
Less accumulated depreciation for:				
Buildings and improvements	0	(442,760)		(442,760)
Equipment	0			
Total accumulated depreciation	0	(442,760)		(442,760)
Total capital assets, being depreciated, net	0	1,623,346		1,623,346
GEDA capital assets, net	0	1,773,146		1,773,146
Total business-type activities, capital assets	32,049,635	3,608,221	(309,626)	35,348,232

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 74,839
Public safety	372,678
Public works	796,098
Total depreciation expense – governmental activities	<u>\$ 1,243,615</u>
Business-type activities:	
Administration	\$ 161,353
Gas	151,957
Water	323,599
Wastewater	424,659
Airport	386,206
Economic Development	180,906
Total depreciation expense – business-type activities	<u>\$ 1,628,680</u>

Construction period interest of \$ 356,972 is included above in buildings and improvements for Grove Municipal Services Authority, as well as accumulated amortization of \$ (88,668). The current year amortization was \$ 8,635. The unamortized balance at June 30, 2012 was \$ 268,304.

E. Deposits subject to refund

Utility customers are required to make a meter deposit, which is refunded upon the customer's termination of services, provided there are no outstanding bills. Monies are deposited in separate accounts, and a liability has been recorded to represent the amount of deposits due to customers. As of June 30, 2012, restricted cash and investments included \$ 660,454 available for refund of customer deposits, while the liability to customers was \$ 660,454.

Appearance bonds and other payments made to the municipal court funds are held until final disposition by the court at which time they are refunded to the bondholder or paid over to the City general fund as fines. As of June 30, 2012, \$ 2,872 was being held that was subject to refund.

F. Leases

Capital leases – The City has entered into two lease agreements as lessee for financing the acquisition of fire vehicles utilizing its portion of the Delaware County Fire Tax Funds. GMSA has entered into a lease agreement as lessee for financing the acquisition of equipment. These lease agreement qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The Capital lease obligations at June 30, 2012 are as follows:

Government-type activities

Capital Leases

First National Bank and Trust Co. of Chickasha, OK dated October 26, 2009, in the Amount of \$273,870, payable in annual installments of \$35,128.63 plus interest at 4.80%, For a 2011 Freightliner 4 door commercial pumper	\$228,849
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Welch State Bank dated March 28, 201, in the amount of \$110,200, payable in annual installments of 18,280.48 plus interest of 3.76% for a 1989 Pierce 75' Quint Ladder Truck	\$96,346
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Total Governmental-type Capital Lease activities	<u>\$325,195</u>
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Business-type activities

Capital Leases

BOKF Equipment, Inc. dated April 20, 2009, in the amount of \$ 264,646, payable in quarterly installments of \$ 14,592 plus interest at 3.80%, for a 2009 sewer vacuum truck.	<u>\$ 111,898</u>
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Total business-type activities	<u><u>\$ 111,898</u></u>
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The assets acquired through capital leases are as follows:

Asset:		
2009 Sewer Vacuum Truck	\$	264,646
Less accumulated depreciation		<u>83,805</u>
Net	<u>\$</u>	<u>180,841</u>

Asset:		
2011 Freightliner Pumper Truck	\$	273,870
1989 Pierce 75' Quint Ladder Truck		123,200
Less accumulated depreciation		<u>105,885</u>
Net	<u>\$</u>	<u>291,185</u>

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

Year Ending June 30,	Government Activities	Business-type Activities
2013	\$ 390,712	\$ 116,734
Total required payments	390,712	116,734
Less: amount representing interest	65,517	4,836
Total principal payments	<u>\$ 325,195</u>	<u>\$ 111,898</u>

Operating Leases – The City has entered into two operating lease agreements for a copy machine and a postage machine. Grove Municipal Services Authority has entered into two operating lease agreements for a folder/sorter machine and a printer. The balance of those operating lease are as follows:

Government-type activities

Operating Leases

Standley Systems, Inc. for a Savin C9155SP Color Multi Function Copier beginning June 2011 for a period of 60 months with monthly installments of \$203.14 \$9,724

Great American Leasing for an FP Ultimail 95 postage machine beginning February 2012 For a period of 60 months with monthly installments of \$240.73 \$13,527

Total Governmental-type Operating Lease activities \$23,251

Business-type activities

Operating Leases

Leaf for an Okidata B930N Printer beginning February 2012 for a period of 60 months With monthly installments of \$91. \$ 5,096

Wells Fargo Financial Leasing for an FP Folder/Sorter machine beginning January 2011 For a period of 60 months with monthly installments of \$309.56. 13,621

\$ 18,717

G. Long-term debt

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

Business-type activities

Grove Municipal Services Authority:

Notes payable:

\$945,000 Grove Municipal Services Authority, Series 2011 Promissory Note to the Bank of Grove, Dated March 30, 2012, payable in semi-annual installments ranging from \$109,322 – \$116,680, with payments commencing on October 1, 2012. Payments are plus interest at a rate of 3.47%, for the construction of a Public Works Facility. The note matures on April 1, 2021.

\$ 865,000

<p>\$1,900,000 Grove Municipal Services Authority, Series 2009 Small Community Clean Water SRF Promissory Note to the Oklahoma Water Resources Board, Dated August 21, 2009, payable in semi-annually with repayment commencing no later than one (1) year after the date construction of the project is completed, and shall mature on the earlier of (i) March 15 or September 15 next preceding the date which is twenty(20) years after completion of construction of project as certified to the OWRB by the borrower, or (ii) September 15, 2021. Payments are plus interest at a rate of 1.87% and an administrative fee of 0.5%, for the construction of an upgrade/expansion to the existing wastewater treatment plant, secured by revenues generated by the utility system plus a pledge of 2.4% sales tax from the City of Grove.</p>	<u>\$ 1,120,312</u>
<p>Note payable to the Oklahoma Department of Commerce for a Community Development Block Grant loan, dated November 18, 2002, in the amount of \$ 400,000 payable in monthly installments of \$ 1,667 to amortize the loan balance over 20 years with no interest. This loan is to provide funds to the City of Grove for certain infrastructure improvements benefiting the City with job opportunities for low- and moderate-income individuals in the City.</p>	<u>\$ 0</u>
<p>\$ 7,500,000 Grove Municipal Services Authority, Series 2003 Small Community Clean Water SRF Promissory Note to the Oklahoma Water Resources Board, dated November 6, 2003, payable semi-annually commencing on the earlier of (1) the March 15 or September 15 next following the date construction of the project is completed or (2) March 15, 2005, over twenty years, plus interest at 2.157% and an administrative fee of 0.5% beginning March 15, 2004, for the construction of a wastewater treatment plant, secured by revenues generated by the utility system plus a pledge of 2.4% sales tax from the City of Grove.</p>	<u>\$ 5,071,222</u>
<p>\$ 4,080,000 Grove Municipal Services Authority Sales Tax Revenue Note Series 2005, dated September 26, 2005, payable in semi-annual installments of \$ 75,000 to \$ 185,000 plus interest at 3.00%, beginning March 1, 2007, to finance water, sewer, and natural gas line relocation costs and improvements to the water and sanitary sewer systems, secured by a year-to-year pledge of sales tax from the City of Grove.</p>	<u>\$ 2,655,000</u>
<p>\$ 4,170,000 Grove Municipal Services Authority Sales Tax Revenue Refunding Notes Series 2006, dated February 15, 2006, payable in semi-annual installments of \$ 165,000 to \$ 225,000 beginning September 1, 2008, plus interest at 4.10% beginning September 1, 2007, to refund the \$ 6,540,000 Utility and Sales Tax Revenue Bonds Series 1996, secured by a pledge of sales tax from the City of Grove.</p>	<u>\$ 2,400,000</u>
<p>\$ 2,050,000 Grove Municipal Services Authority Sales Tax Revenue Note Series 2011, dated October 27, 2011, payable in semi-annual installments of \$110,000 to \$180,000 beginning September 1, 2012, plus interest of 3.18% to finance the acquisition and installation of an automated meter reading system for water and gas meters, secured by a year-to-year pledge of sales tax from the City of Grove,</p>	<u>\$ 2,050,000</u>
<p>Revenue Bonds:</p>	
<p>\$ 2,350,000 Utility and Sales Tax Revenue Bonds Series 1989, payable from revenues of GMSA for the purpose of refunding outstanding bonds of 1967. The bonds are due in annual installments ranging from \$ 35,000 to \$ 200,000. The final installment is due March 1, 2014. The interest rates range from 6.65% to 7.85%.</p>	<u>\$ 385,000</u>
<p>Total Grove Municipal Services Authority</p>	<u><u>\$ 14,546,534</u></u>

Grove Economic Development Authority:

Grove Economic Development Authority Series 2011 Promissory Notes, dated February 1, 2011, In the amount of \$1,435,000, payable in semi-annual payments ranging form \$35,000 to \$60,000 With an interest rate of 3.47% over 15 years. These notes are obligations of the GEDA payable solely from a year-to-year pledge of revenues and funds and accounts established by indenture. 1,285,000

Grove Economic Development Authority Series 2011 TIF Tax Increment Revenue Note dated September 28, 2011 in the principal amount of \$2,415,000, to mature on June 1, 2036. The Note shall bear interest at a variable rate of interest equal to BBA LIBOR 6-month rate plus 200 basis points, initially 2.29%, with rate being rest every June 1 and December 1, not to exceed 14%. The note is payable on a semi-annual basis. This note will be paid with ad valorem tax received on the property. 2,415,000

Total Grove Economic Development Authority 3,700,000

Total Business Type Activities 18,246,534

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

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities					
Lease/Purchase obligations	362,087		(36,892)	325,195	38,700
Total governmental activities	<u>362,087</u>		<u>(36,892)</u>	<u>325,195</u>	<u>38,700</u>

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Business-type activities					
Grove Municipal Services Authority:					
Notes payable:					
CDBG	253,333		(253,333)	0	
OWRB 2003	5,420,809		(349,587)	5,071,221	347,047
OWRB 2009	1,224,125		(103,813)	1,120,312	106,386
Series 2005	2,905,000		(250,000)	2,655,000	260,000
Series 2006	2,780,000		(380,000)	2,400,000	395,000
Series 2011 Promissory Note	945,000		(80,000)	865,000	80,000
Series 2011 Sales Tax Note	0	2,050,000		2,050,000	110,000
Revenue bonds:					
Series 1989	555,000		(170,000)	385,000	185,000
Lease/Purchase obligations	164,751		(52,853)	111,898	54,891
Grove Municipal Airport Managing Authority:					
Notes payable – hangars	13,416		(13,416)	0	
Grove Economic Development Authority:					
Series 2011 Promissory Note	1,360,000		(75,000)	1,285,000	80,000
Series 2011 Tax Increment Note	0	2,415,000		2,415,000	0
Total business-type activities	<u>15,621,434</u>	<u>4,465,000</u>	<u>(1,728,002)</u>	<u>18,358,431</u>	<u>1,618,324</u>
Total long-term debt	<u>\$ 15,983,521</u>	<u>4,465,000</u>	<u>(1,764,894)</u>	<u>18,683,626</u>	<u>1,657,024</u>

Annual debt service requirements to maturity for long-term debt are as follows:

Year Ending June 30,	Business-Type Activities			
	Notes Payable		Revenue Bonds	
	Principal	Interest	Principal	Interest
2013	1,423,424	475,464	185,000	30,223
2014	1,635,404	441,444	200,000	15,700
2015	1,802,701	443,107		
2016	1,874,993	386,257		
2017	1,543,273	383,383		
2018-2030	10,581,740	1,552,443		
Totals	<u>18,861,535</u>	<u>3,682,098</u>	<u>385,000</u>	<u>45,923</u>

In the fiscal year 2012-2013, GEDA will be adding a \$1,000,000 note for the Wolf Creek Public Fishing Facility Project which will consist land acquisition, constructing parking lots, bathroom facilities, boat docks, and a pavilion.

GMSA will be adding a note through the Oklahoma Water Resources Board for \$6,500,000 to expand and upgrade the Water Treatment Plant in the 2012-2013 fiscal year.

H. Conduit Debt

The Grove Economic Development Authority (GEDA) is involved in conduit debt for Precision Leasing Co, LLC, through GE Government Finance, Inc. The proceeds are to be utilized to purchase equipment. The amount of this debt is not to exceed 8 million dollars. GEDA has no obligation whatsoever in repaying this debt. Repayment of this debt obligation rests solely with Precision Leasing Co, LLC.

I. Tax Increment Financing District 2011 Note

The City adopted and approved the Harbor Point Economic Development project Plan which envisions the generation of substantial capital investment and creation of significant new retail opportunities with the reinvestment area by establishment of the Project within the Increment District. The Increment District is generally described as an area bordered on the west by South Broadway Street, on the north by West 13th Street, on the east by Main Street (State Highway 59), and on the south by Elm Branch Creek. The City has used sales tax revenues as collateral of the note, with ad valorem taxes to pay the future note obligations.

J. Debt issuance costs

Debt issuance costs of \$ 688,031 have been capitalized on enterprise fund revenue bonds and notes payable, and are being amortized on the straight-line basis over the term of the relevant debt issues. During the year ended June 30, 2012, \$ 38,890 in debt issuance costs was amortized.

J. Compensated absences

Full-time employees with at least one year of service earn vacation of twelve to twenty-four days per year depending on years of service completed. Employees may accrue up to a maximum of two years entitlement. Additionally, employees receive compensatory time off for overtime worked. Upon separation from service, any accumulated compensatory time not taken would be paid to the employee.

In accordance with the guidelines set forth by GASB Statement No. 16, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, a provision has been made for accumulated vacation, sick and compensatory time as follows:

Governmental activities	\$ 630,480
Business-type activities	159,379
Total accrued compensated absences	<u>\$ 789,859</u>

Full-time employees earn sick leave at the rate of eight hours per month, up to 720 hours. Employees may be paid for unused accumulated sick leave upon separation from service, provided they have at least 7 ½ years of service.

K. Interfund receivables, payables, and transfers

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

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
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General Fund	Municipal Court	\$ 61
GMSA Debt Service	General Fund	139,528
Capital Outlay	General Fund	348,978
Capital Outlay	Airport	65,933
Total		<u>\$ 554,500</u>

Interfund transactions:

	Transfers In					Total
	General	Capital	Non-Major	GMSA	GEDA	
Transfers Out:						
General Fund			200,000	3,479,495	100,900	3,780,395
Capital Projects	200,000			1,793,471	127,284	2,120,755
Non-Major		53,587				53,587
GMSA	<u>3,479,495</u>	<u>2,112,879</u>				<u>5,592,374</u>
Totals	<u>3,679,495</u>	<u>2,166,466</u>	<u>200,000</u>	<u>5,272,966</u>	<u>228,184</u>	<u>11,547,11</u>

VI. 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; and natural disasters. The City has insurance for the major risks such as property and general liability. Commercial insurance is used to cover general liability claims and the risk of loss to City buildings and mobile equipment, as well as worker's compensation. Judgments against the City may be paid by a property tax assessment over a three-year period.

B. Contingent liabilities

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

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

C. Employee retirement systems and pension plans

The City of Grove participates in the Oklahoma State Police Pension and Retirement System and the Oklahoma State Firefighters' Pension and Retirement System, both of which are

cost-sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma. Additionally, for other City employees not covered by the other plans, the City of Grove maintains a defined benefit plan—the Oklahoma Municipal Retirement Fund Employee Retirement System of Grove, Oklahoma (the Plan).

Oklahoma State Police Pension and Retirement System (OPPRS)

Plan Description – The OPPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OPPRS. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the police employees of the City. That report may be obtained by writing to the Oklahoma State Police Pension and Retirement System, 1001 N.W. 63rd Street, Suite 305, Oklahoma City, Oklahoma 73116-7339, or by calling 1-405-840-3555.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City of Grove contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OPPRS for the year ended June 30, 2012, for employees and employer were \$ 63,491 and \$ 103,173, respectively, on covered payroll of \$ 793,641.

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

Plan Description – The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OFPRS. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the firefighting employees of the City. That report may be obtained by writing to the Oklahoma State Firefighters' Pension and Retirement System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105, or by calling 1-405-525-7813.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City of Grove contributes 13.0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by the state legislature. Contributions to the OFPRS for the year ended June 30, 2012, for employees and employer were \$ 17,545 and \$ 28,510, respectively, on covered payroll of \$ 219,308.

Oklahoma Public Employees Retirement System of Grove, Oklahoma

Plan Description – The Oklahoma Public Employees Retirement System of Grove, Oklahoma (OPERS) provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to OPERS members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OPERS. The OPERS issues a publicly available financial report that includes financial statements and required supplementary information for the public employees of the City. The report may be obtained by writing to the Oklahoma State Public Employees Pension and Retirement

System, 4545 N. Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105, or by calling 405-525-7813.

Funding Policy – OPERS members are required to contribute 3.5% of their annual covered salary and the City contributes 11.5%. The contribution requirements of OPERS members and the City are established and may be amended by the state legislature. Contributions to the OPERS for the year ended June 30, 2012, for employees and employer were \$ 72,353 and \$ 337,390, respectively, on covered payroll of \$ 2,059,907.

D. Prior Period Adjustment

During the current period, management determined that the Grove Economic Development Authority should be reported as a proprietary business-type fund instead of as an other governmental fund.

Grove Economic Development Authority

As presented June 30, 2011:

Capital Assets, net of accumulated depreciation:	\$ 0
Invested in capital assets, net of related Debt:	0
Total Net Assets:	0

As adjusted in the current Financial Statements

Capital Assets, net of accumulated depreciation:	\$1,512,554
Invested in capital assets, net of related Debt:	152,554
Total Net Assets:	644,150

Business-Type Activities – Totals

As presented June 30, 2011:

Net Assets, ending	\$ 22,786,889
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As adjusted in the current Financial Statements

Net Assets, beginning	\$ 23,431,039
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Governmental Activities

As presented June 30, 2011:

Capital Assets, net of accumulated depreciation:	\$ 12,658,382
Invested in capital assets, net of related Debt:	10,936,295
Non-Major Governmental Funds, Fund Balance	421,243
Net Asset, beginning	12,726,308

As adjusted in the current Financial Statements

Capital Assets, net of accumulated depreciation:	\$ 10,857,828
Invested in capital assets, net of related Debt:	10,857,828
Non-Major Governmental Funds, Fund Balance	281,882
Net Asset, beginning	12,082,158

City of Grove, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund
Balances – Budget and Actual – Major Governmental Funds
Year Ended June 30, 2012

	General Fund			Capital Projects Fund			Variance with Final Budget Positive (Negative)
	Budget	Final	Actual	Budget	Final	Actual	
Other financing sources (uses)							
Transfers in	\$ 3,700,000	\$ 3,700,000	\$ 3,679,495	\$ 1,740,000	\$ 1,780,000	\$ 1,793,335	\$ 13,335
Transfers (out)	(3,700,000)	(3,800,900)	(3,780,395)	(2,080,750)	(2,123,009)	(2,122,755)	254
Total other financing sources (uses)	-	(100,900)	(100,900)	(340,750)	(343,009)	(329,421)	13,588
Net change in fund balances	250,500	189,114	237,359	(800,000)	(972,990)	113,715	(965,846)
Fund balances, beginning	(250,500)	(189,114)	601,533	800,000	972,990	1,390,768	2,470,329
Fund balances, ending	\$ -	\$ -	\$ 838,892	\$ -	\$ -	\$ 1,504,483	\$ 1,504,483

The accompanying notes are an integral part of these financial statements.

City of Grove, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund
Balances – Budget and Actual – Major Governmental Funds
Year Ended June 30, 2012

	General Fund			Capital Projects Fund			Variance with Final Budget Positive (Negative)
	Budget	Final	Actual	Original	Budget	Final	
Revenues							
Taxes	\$ 4,425,000	\$ 4,425,000	\$ 4,253,599	\$ 1,700,000	\$ 1,700,000	\$ 1,739,747	\$ 39,747
Licenses and permits	37,000	37,000	26,584	(10,416)	-	-	-
Intergovernmental	67,000	86,500	84,039	(2,461)	-	266,388	(24,419)
Fines and forfeitures	190,000	190,000	129,229	(60,771)	290,807	-	-
Charges for services	101,500	130,500	114,513	(15,987)	-	-	-
Miscellaneous	155,100	280,925	257,780	(23,145)	40,000	71,513	31,513
Interest	60,000	20,000	19,008	(692)	-	-	-
Total revenues	5,035,600	5,169,925	4,884,751	2,221,000	2,030,807	2,077,648	46,841
Expenditures							
General government:							
Administration	599,750	581,379	535,908	(45,471)	-	-	-
Governing board	181,703	206,655	176,470	(30,185)	-	-	-
Legal court	60,650	60,650	53,783	(6,867)	-	-	-
Finance	57,750	59,275	57,910	(1,365)	-	-	-
City hall	37,746	37,449	31,983	(5,466)	-	-	-
Public safety:							
Police	1,461,150	1,508,753	1,466,630	(42,123)	-	-	-
Dispatch and jail	330,256	303,288	258,246	(45,042)	-	-	-
Animal control	61,550	60,415	51,571	(8,844)	-	-	-
Emergency management	50,000	50,000	50,000	-	-	-	-
Fire	424,750	424,751	406,997	(17,754)	-	-	-
Public works:							
Building and grounds	375,368	388,094	355,114	(32,980)	-	-	-
Streets	516,955	528,344	498,975	(29,369)	-	-	-
Vehicle maintenance	100,800	102,500	89,658	(12,842)	-	-	-
Community Development	208,122	208,082	196,138	(11,944)	-	-	-
Airport	54,900	54,813	45,211	(9,602)	-	-	-
Cemetery	7,402	6,889	5,402	(1,487)	-	-	-
Culture and recreation:							
Library	18,900	16,358	14,833	(1,525)	-	-	-
Senior center	18,800	17,130	17,130	(1,670)	-	-	-
Civic center	83,732	81,291	64,871	(16,420)	-	-	-
Sports and recreation	39,920	40,713	39,859	(854)	-	-	-
Parks	2,200	2,240	1,588	(652)	-	-	-
NEO Higher Ed	3,400	3,250	2,177	(1,073)	-	-	-
Swimming pool	121,296	129,272	120,083	(9,189)	-	-	-
YMCA	8,000	6,650	5,956	(694)	-	-	-
Debt service	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Total expenditures	4,785,100	4,879,911	4,546,493	(333,418)	2,680,250	2,660,788	(1,026,276)
Excess of revenues over expenditures	\$ 250,500	\$ 290,014	\$ 338,259	\$ (618,592)	\$ (459,250)	\$ (629,981)	\$ 443,136

The accompanying notes are an integral part of these financial statements.

City of Grove, Oklahoma
Explanation of Differences Between Revenues, Expenditures, and Other
Financing Sources (Uses) for Budgetary Funds on a Budgetary Basis and
GAAP General Fund and Major Special Revenue Funds on a GAAP Basis
Year Ended June 30, 2012

<u>Budgetary funds</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>
<u>Financial statement major funds</u>		
Revenues		
Actual amounts (budgetary basis) "revenues" from the budgetary comparison schedules	\$ 4,884,751	\$ 2,077,648
Adjustments:		
<i>Budgetary</i> general fund revenues are reported on the cash basis, rather than the modified accrual basis	(11,211)	34,012
	<hr/>	<hr/>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>4,873,540</u>	<u>2,111,661</u>
Expenditures		
Actual amounts (budgetary basis) "expenditures" from the budgetary comparison schedules	4,546,493	1,634,512
Adjustments:		
	<u>(47,309)</u>	<u>304,331</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances – governmental funds	<u>4,499,184</u>	<u>1,938,844</u>
Other financing sources (uses)		
Actual amounts (budgetary basis) "other financing sources and uses" from the budgetary comparison schedules	(100,900)	(329,421)
Adjustments:		
	<u>(29,433)</u>	<u>373,131</u>
Total other financing sources as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	<u>\$ (130,333)</u>	<u>\$ 43,711</u>

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

	Special Revenue											Total Nonmajor Governmental Funds	
	Street and Alley Fund	Library Fund	Olympus Cemetery Fund	Special Park Fund	Special Fire Department Fund	Drug Forfeiture Fund	Special Police Fund	Technology Fund	Animal Control Fund	Sanitation Fund	Veteran's Memorial Perpetual Care Fund		Health Care Trust Authority Fund
Assets													
Cash and cash equivalents	\$ -	\$ 10,437	\$ 17,467	\$ 20	\$ 15,369	\$ 2,692	\$ 3,742	\$ 3,467	\$ 4,098	\$ 39,783	\$ 100	\$ -	\$ -
Receivables:													
Taxes	-	-	-	-	-	-	-	-	-	-	-	6,157	-
Accounts	10,868	-	-	-	-	-	-	-	-	-	-	10,868	-
Restricted cash and investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	10,868	10,437	17,467	20	15,369	2,692	3,742	3,467	4,098	39,783	100	206,821	321,021
Liabilities													
Accounts payable	-	-	-	-	-	-	-	-	25	39,783	-	-	39,808
Total liabilities	-	-	-	-	-	-	-	-	25	39,783	-	-	39,808
Fund balances													
Unreserved:													
Designated	10,868	10,437	17,467	20	15,369	2,692	3,742	3,467	4,073	-	100	212,978	281,213
Total fund balances	10,868	10,437	17,467	20	15,369	2,692	3,742	3,467	4,073	-	100	212,978	281,213
Total liabilities and fund balances	\$ 10,868	\$ 10,437	\$ 17,467	\$ 20	\$ 15,369	\$ 2,692	\$ 3,742	\$ 3,467	\$ 4,098	\$ 39,783	\$ 100	\$ 212,978	\$ 321,021

The accompanying notes are an integral part of these financial statements.

City of Grove, Oklahoma
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances – Nonmajor Governmental Funds
Year Ended June 30, 2012

	Special Revenue											Total Nonmajor Governmental Funds	
	Street and Alley	Library Fund	Olympus Cemetery Fund	Special Park Fund	Special Fire Department Fund	Drug Forfeiture Fund	Special Police Fund	Technology Fund	Animal Control Fund	Sanitation Fund	Veteran's Memorial Fund		Health Care Trust Authority
Revenues													
Taxes	\$ 56,083	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56,924	\$ 113,007
Licenses and permits	-	-	-	-	-	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	77	-	-	-	-	-	-	2,577
Fines and forfeitures	-	-	-	-	-	-	3,131	-	-	-	-	-	3,131
Charges for services	-	-	2,559	-	-	-	-	120	461,184	600	-	-	464,462
Other	-	-	75	20	3,584	-	-	-	-	-	-	-	3,679
Interest	-	199	248	-	248	46	35	70	-	18	-	1,150	2,107
Total revenues	56,083	199	2,882	20	3,831	123	3,166	190	461,184	618	-	58,074	588,964
Expenditures													
Current:													
Public safety	-	-	-	-	-	-	-	25	-	-	200,000	17,880	220,954
Culture and recreation	-	-	-	-	-	-	-	-	461,184	-	-	-	461,184
Debt service	-	-	-	-	-	-	-	-	-	500	-	-	500
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	53,409	53,409
Total expenditures	-	-	-	-	-	-	-	25	461,184	500	200,000	71,289	736,047
Excess of revenues over (under) expenditures	56,083	199	2,882	20	3,831	123	3,166	165	-	118	(200,000)	(13,215)	(147,083)
Other financing sources (uses)													
Transfers in	-	-	-	-	-	-	-	-	-	-	200,000	42,000	242,000
Transfers (out)	(53,587)	-	-	-	-	-	-	-	-	-	-	(42,000)	(95,587)
Total other financing sources (uses)	(53,587)	-	-	-	-	-	-	-	-	-	200,000	-	146,413
Net change in fund balances	2,496	199	2,882	20	3,831	123	3,166	165	-	118	-	(13,215)	(670)
Fund balances, beginning	8,372	10,238	14,585	-	11,538	2,569	301	3,908	-	(18)	-	226,193	281,882
Fund balances, ending	\$ 10,868	\$ 10,437	\$ 17,467	\$ 20	\$ 15,369	\$ 2,692	\$ 3,467	\$ 4,073	\$ -	\$ 100	\$ -	\$ 212,978	\$ 281,213

The accompanying notes are an integral part of these financial statements.

WINGARD, RAGSDALE & LANGLEY

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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 Honorable Mayor and City Council
City of Grove
Delaware County, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, the each major fund, and the aggregate remaining fund information of City of Grove, State of Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City of Grove's basic financial statements and have issued our report thereon dated October 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Grove'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*.

This report is intended solely for the information and use of management, the Council, other 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.



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CERTIFIED PUBLIC ACCOUNTANTS, PLLC

OCTOBER 29, 2012

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SCHEDULE OF FINDINGS AND RESPONSES

The following represents an update on a finding from the audit conducted for the City of Grove, Oklahoma as of June 30, 2011.

2011-1 Recognition of Capital Contributions

Criteria or specific requirement: Capital contributions should be recognized at fair value at the time of the contribution.

Condition: Capital contributions result during the normal course of the City's operations, therefore require specific action by the City to properly report items received.

Context: Inquiries of management revealed material capital contributions were not properly recognized in previously issued financial statements.

Effect: Fixed asset records are misstated without recognition of capital contributions.

Cause: No specific control or policy is present regard the recognition of contributions, whether monetary or capital in nature.

Recommendation: Implementation of a control procedure, such as a reporting requirement, should occur at the time of formal acceptance of contributions. Formal acceptance of contributions should be contingent upon completion of the established reporting requirement, whereas, all required information to properly report such amounts has been reviewed and approved by the accounting department, before acceptance of such items.

Update: The City implemented a new application for donations made to the City which requires all applicable aspects of financial reporting be completed before accepting such items. This procedure satisfies the deficiency as reported above.

**City of Grove, Oklahoma
Expenditures of Federal Awards
June 30, 2012**

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	Federal <u>CFDA</u> <u>Number</u>	Pass-through <u>Entity</u>	Entity <u>Identifying</u> <u>Number</u>	Current <u>Period</u> <u>Expenditures</u> <u>Recognized</u>
US Dept. of Housing & Urban Dev	14.228	OK Dept. of Commerce	13103 CDBG 07	2,000.00
US Dept of Justice	16.579	Grove Public Schools - DARE	FY12	6,000.00
US Dept. of Housing & Urban Dev	14.228	OK Dept. of Commerce	14127 CDBG 10	1,500.00
US Homeland Security	97.036	OK Dept of Emergency Mngmt	FEMA-1678-DR-OK	9,401.00
US Dept. of Transportation	20.6	OK Highway Safety Office	PT-11-03-08-02	6,648.63
US Dept. of Transportation	20.016	Federal Aviation Administration	3-40-0035-012-2008	0.00
US Dept. of Transportation	20.016	Federal Aviation Administration	3-40-0035-013-2009	0.00
US Dept. of Transportation	20.016	Federal Aviation Administration	3-40-0035-014-2011	142,020.25
US Dept. of Transportation	20.016	Federal Aviation Administration	3-40-0035-016-2012	20,975.00
US Dept. of Transportation	20.6	OK Highway Safety Office	PT-12-03-15-03	14,056.57
US Dept. of Transportation	20.6	OK Highway Safety Office	K8-12-03-17-03	13,500.00
US Dept. of Transportation	20.205	OK Dept. of Transportation	SAFETEALU-10-16	0.00
US Dept. of Transportation	20.71	Pipeline & Hazardous Materials Safety Administration	DTPH56-11-G-PHPT03	<u>19,200.00</u>
			Total	235,301.45