
City of Marlow, Oklahoma

Financial Statements

Year –End: June 30, 2012

City of Marlow
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For the Fiscal Year Ended June 30, 2012

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FINANCIAL

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Marlow, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marlow, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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.

As discussed in Note 1.B., the City of Marlow, Oklahoma prepares its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2013, on our consideration of the City'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marlow's basic financial statements as a whole. The accompanying supplementary information as listed in the table of contents is presented for the purposes of additional analysis and is not a required part of the financial statements. The accompanying supplementary information as listed in the table of contents are 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 by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.B.

Angel Johnston + Blessingame, P.C.

Chickasha, Oklahoma
March 29, 2013

BASIC FINANCIAL STATEMENTS

City of Marlow
Government-Wide Statement of Assets, Liabilities and Net Assets – Modified Cash Basis
June 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	MEDA
ASSETS				
Cash and Cash Equivalent	4,298,307	2,444,802	6,743,109	308,126
Restricted Cash and Cash Equivalents	77,700	2,779,379	2,857,079	-
Investments	530,300	1,590,901	2,121,201	-
Land and Construction in Progress	486,033	1,376,317	1,862,350	99,939
Other Capital Assets, net of depreciation	5,195,595	22,639,376	27,834,971	17,312
Debt Issue Costs	-	64,500	64,500	-
Total Assets	10,587,935	30,895,275	41,483,210	425,377
LIABILITIES AND EQUITY				
Current Liabilities				
Bonds Pending Court	1,900	-	1,900	-
Refundable Meter Deposits	-	247,592	247,592	-
Long -term liabilities				
Due within one year	24,716	530,000	554,716	-
Due in more than one year	68,613	3,130,000	3,198,613	-
Total Liabilities	95,229	3,907,592	4,002,821	-
Net Assets				
Invested in Capital Assets	5,588,299	26,132	5,614,431	-
Restricted for				
Sewer Project and Debt Service	863,686	2,540,954	3,404,640	-
Street and Alley	84,006	-	84,006	-
Cemetery	37,011	-	37,011	-
EMS	1,018,612	-	1,018,612	-
Grants	3	-	3	-
Unrestricted	2,901,089	24,420,597	27,321,686	425,377
Total Net Assets	\$ 10,492,706	\$ 26,987,683	\$ 37,480,389	\$ 425,377

The notes to the financial statements are an integral part of this statement

City of Marlow
Government-Wide Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis
For the Year Ended June 30, 2012

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Primary Government Total	Unit
							MEDA	
<i>Functions/Programs</i>								
Primary Government								
Governmental Activities								
General Government	382,506	37,981	\$ -	\$ -	\$ (344,525)	\$ -	\$ (344,525)	
Highways and Streets	534,514	-	-	-	(534,514)	-	(534,514)	
Public Safety	1,295,763	106,217	8,889	-	(1,180,657)	-	(1,180,657)	
Culture and Recreation	234,464	-	-	219,198	(15,266)	-	(15,266)	
Cemetery	136,675	38,078	-	-	(98,597)	-	(98,597)	
Public Health and Welfare	258,013	-	258,013	-	-	-	-	
Total Governmental Activities	<u>2,841,935</u>	<u>182,276</u>	<u>266,902</u>	<u>219,198</u>	<u>(2,173,559)</u>	<u>-</u>	<u>(2,173,559)</u>	
Business-Type Activities								
Electric	3,465,470	4,214,523	-	-	-	749,053	749,053	
Water	580,375	535,679	-	-	-	(44,696)	(44,696)	
Sanitation	621,417	591,493	-	-	-	(29,924)	(29,924)	
Sewer	295,207	227,864	-	-	-	(67,343)	(67,343)	
General Government and Recreation	404,969	252,673	-	-	-	(152,296)	(152,296)	
Total Business Type Activities	<u>5,367,438</u>	<u>5,822,232</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>454,794</u>	<u>454,794</u>	
Total Primary Government	<u>8,209,373</u>	<u>6,004,508</u>	<u>266,902</u>	<u>219,198</u>	<u>(2,173,559)</u>	<u>454,794</u>	<u>(1,718,765)</u>	
Component Unit								
Marlow Economic Development Authority	<u>34,842</u>	<u>8,940</u>	<u>38,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,598</u>	
General Revenues								
Taxes					1,751,192	-	1,751,192	
Investment Return					52,601	53,791	106,392	
Rent and Royalties					107,494	-	107,494	
Miscellaneous					82,569	-	82,569	
Transfers					(1,081,923)	1,081,923	-	
Total General Revenues and Transfers					<u>911,933</u>	<u>1,135,714</u>	<u>2,047,647</u>	
Change in Net Assets					(1,261,626)	1,590,508	328,882	
Contributed Capital					469,751	-	469,751	
Net Assets - Beginning, as restated					<u>11,284,581</u>	<u>25,397,175</u>	<u>36,681,756</u>	
Net Assets - Ending					<u>\$ 10,492,706</u>	<u>\$ 26,987,683</u>	<u>\$ 37,480,389</u>	
							<u>\$ 425,377</u>	

The notes to the financial statements are an integral part of this statement

City of Marlow
Statement of Assets, Liabilities and Net Assets – Modified Cash Basis
Governmental Funds
June 30, 2012

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total
Assets					
Cash and Cash Investments	\$ 810,105	\$ 1,850,263	\$ 601,718	\$ 1,036,220	\$ 4,298,306
Restricted Cash	77,700	-	-	-	77,700
Investments	<u>164,923</u>	<u>-</u>	<u>261,968</u>	<u>103,409</u>	<u>530,300</u>
Total Assets	<u>\$ 1,052,728</u>	<u>\$ 1,850,263</u>	<u>\$ 863,686</u>	<u>\$ 1,139,629</u>	<u>\$ 4,906,306</u>
Liabilities					
Bonds Pending Court	<u>\$ 1,899</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,899</u>
Total Liabilities	<u>1,899</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,899</u>
Fund Balances					
Restricted	\$ 4,413	\$ -	\$ 822,291	\$ 1,103,658	\$ 1,930,362
Committed	-	-	-	-	-
Assigned	17,922	1,850,263	41,395	35,971	1,945,551
Unreserved	<u>1,028,494</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,028,494</u>
Total Fund Balances	<u>\$ 1,050,829</u>	<u>\$ 1,850,263</u>	<u>\$ 863,686</u>	<u>\$ 1,139,629</u>	<u>\$ 4,904,407</u>
Total Liabilities and Fund Balances	<u>\$ 1,052,728</u>	<u>\$ 1,850,263</u>	<u>\$ 863,686</u>	<u>\$ 1,139,629</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the	5,681,628
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the fund.	<u>(93,329)</u>
Net assets of governmental activities.	<u>\$ 10,492,706</u>

The notes to the financial statements are an integral part of this statement

City of Marlow
Statement of Revenues, Expenditures and
Changes in Net Assets – Modified Cash Basis – Governmental Funds
For the Year Ended June 30, 2012

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total
REVENUE					
Taxes	\$ 974,887	\$ 103,524	\$ 421,470	\$ 251,312	1,751,193
Intergovernmental	266,902	-	-	-	266,902
License and Permits	25,536	-	-	-	25,536
Charges for Service	37,981	-	-	-	37,981
Fines	80,681	-	-	-	80,681
Miscellaneous	82,558	219,197	-	-	301,755
Investment Return	8,512	11,648	26,175	7,590	53,925
Royalties	5,156	102,338	-	-	107,494
Cemetery	33,536	-	-	4,542	38,078
	<u>\$ 1,515,749</u>	<u>436,707</u>	<u>447,645</u>	<u>263,444</u>	<u>2,663,545</u>
EXPENDITURES					
Current					
General Government	\$ 361,140	-	-	6	361,146
Public Safety	1,028,884	-	-	120,000	1,148,884
Highways and Streets	156,662	833	-	8,726	166,221
Culture and Recreation	188,456	-	-	-	188,456
Cemetery	101,138	-	-	-	101,138
Public Health and Welfare	258,013	-	-	-	258,013
Capital Outlay					
General Government	-	123,304	2	-	123,306
Public Safety	9,490	8,947	-	11,950	30,387
Highways and Streets	1,809	164,155	-	179,579	345,543
Culture and Recreation	1,471	3,875	-	-	5,346
	<u>\$ 2,107,063</u>	<u>301,114</u>	<u>2</u>	<u>320,261</u>	<u>2,728,440</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(591,314)</u>	<u>135,593</u>	<u>447,643</u>	<u>(56,817)</u>	<u>(64,895)</u>
Other Financing Sources					
Transfers In	575,742	-	-	-	575,742
Transfers Out	(742)	-	(1,656,923)	-	(1,657,665)
Total Other Financing Sources	<u>575,000</u>	<u>-</u>	<u>(1,656,923)</u>	<u>-</u>	<u>(1,081,923)</u>
Net Change in Fund Balances	(16,314)	135,593	(1,209,280)	(56,817)	(1,146,818)
Fund Balances - Beginning as restated	<u>1,067,143</u>	<u>1,714,670</u>	<u>2,072,966</u>	<u>1,196,446</u>	<u>6,051,225</u>
Fund Balances - Ending	<u>\$ 1,050,829</u>	<u>\$ 1,850,263</u>	<u>\$ 863,686</u>	<u>\$ 1,139,629</u>	<u>\$ 4,904,407</u>

The notes to the financial statements are an integral part of this statement

City of Marlow
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Net Assets – Modified Cash Basis – Governmental Funds
to the Statement of Revenue, Expenses and Changes in Net Assets – Modified Cash Basis
For the Year Ended June 30, 2012

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

Net change in fund balances - total governmental funds	\$ (1,146,818)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	(137,237)
The net effect of various miscellaneous transactions involving capital assets (I.e., sales, trade-ins, and donations) is to decrease net assets.	(1,320)
The issuance of long-term debt (e.g., 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. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>23,749</u>
Change in net assets of governmental activities.	<u><u>\$ (1,261,626)</u></u>

The notes to the financial statements are an integral part of this statement

City of Marlow
Statement of Assets, Liabilities, Net Assets – Modified Cash Basis – Proprietary Fund
June 30, 2012

	<u>Marlow Municipal Authority</u>
<i>ASSETS</i>	
Current Assets	
Cash and Cash Equivalent	\$ 2,444,802
Restricted Cash and Cash Equivalents	238,425
Investments	<u>1,590,901</u>
Total Current Assets	<u>4,274,128</u>
Noncurrent Assets	
Restricted Cash and Cash Equivalents	2,540,954
Debt Issue Costs	64,500
Capital Assets	
Land and Construction in Progress	1,376,317
Other Capital Assets	40,836,401
Less Accumulated Depreciation	<u>(18,197,025)</u>
Total Noncurrent Assets	<u>26,621,147</u>
Total Assets	<u>30,895,275</u>
<i>LIABILITIES AND EQUITY</i>	
Current Liabilities	
Refundable Meter Deposits	247,592
Notes Payable, Current Portion	<u>530,000</u>
Total Current Liabilities	777,592
Noncurrent Liabilities	
Notes Payable	<u>3,130,000</u>
Total Noncurrent Liabilities	<u>3,130,000</u>
Total Liabilities	<u>3,907,592</u>
Net Assets	
Invested in Capital Assets, net of related debt	20,355,693
Restricted for Debt Service	2,540,954
Unrestricted	<u>4,091,036</u>
Total Net Assets	<u>\$ 26,987,683</u>

The notes to the financial statements are an integral part of this statement

City of Marlow
Statement of Revenue, Expenses and Changes in Net Assets – Modified Cash Basis
Proprietary Fund
For the Year Ended June 30, 2012

	<u>Marlow Municipal Authority</u>
Operating Revenues:	
Electric	\$ 4,214,523
Water	535,679
Sanitation	591,493
Sewer	227,864
Pool	12,467
Miscellaneous	<u>240,206</u>
Total Operating Revenue	<u>5,822,232</u>
Operating Expenses:	
Electric	3,465,470
Water	456,670
Sanitation	621,417
Sewer	295,207
Pool	27,536
General Government	<u>377,433</u>
Total Operating Expenses	<u>5,243,733</u>
Operating Income (Loss)	578,499
Nonoperating Revenues (Expenses):	
Interest Revenue	53,791
Interest Expense	<u>(123,705)</u>
Total Nonoperating Revenues (Expenses)	<u>(69,914)</u>
Income (Loss) before Transfers	<u>508,585</u>
Other Financing Sources (Uses):	
Transfers In	1,662,520
Transfers Out	<u>(580,597)</u>
Total Other Financing Sources	<u>1,081,923</u>
Net Change in Net Assets	1,590,508
Total Net Assets - Beginning	<u>25,397,175</u>
Total Net Assets - Ending	<u>\$ 26,987,683</u>

The notes to the financial statements are an integral part of this statement

City of Marlow
Statement of Cash Flows – Modified Cash Basis – Proprietary Fund
For the Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Revenues Received	\$ 5,822,232
Vendors and Others Paid	<u>(4,820,436)</u>
Net Cash Provided by Operating Activities	1,001,796

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfer, Net	<u>1,081,923</u>
Net Cash Provided by Noncapital Financing Activities	1,081,923

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Payment of Debt	455,109
Purchase of Property, Plant and Equipment	(122,426)
Increase in Restricted Cash - Capital Financing	(2,116,039)
Increase in Debt Issue Costs - Capital Financing	<u>(64,500)</u>
Net Cash Used by Capital Financing Activities	(1,847,856)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	53,791
Interest Expense	(123,705)
Increase in Restricted Cash and Investments	<u>(47,415)</u>
Net Cash Used by Investing Activities	<u>(117,329)</u>

Net Increase in Cash and Cash Equivalents 118,534

Cash and Cash Equivalents, July 1, 2011 2,326,268

Cash and Cash Equivalents, June 30, 2012 \$ 2,444,802

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income	<u>\$ 578,499</u>
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation and Amortization Expense	393,765
Increase in Meter Deposits Payable	<u>29,532</u>
Net Cash Provided by Operating Activities	<u>\$ 1,001,796</u>

The notes to the financial statements are an integral part of this statement

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City of Marlow, Oklahoma, (the City) is a charter city operating under a Council-Manager form of government authorized by the charter and Title 11 of the Oklahoma statutes. The governing body of the City is the City Council comprised of five elected members. The appointed City Manager is the administrative head of the City.

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

Blended Component Unit

The Marlow Municipal Authority (Authority) serves all the citizens of the government and is governed by a board comprised of the government's elected council and two appointed members. The rates for user charges and bond issuance authorizations are approved by the government's council and the legal liability for the general obligation portion of the Authority's debt remains with the government. The Authority is presented as an Enterprise fund.

Discretely presented Component Unit

The Marlow Economic Development Authority (MEDA) was established to promote industrial development in the Marlow area. MEDA has a separate governing board. The City transfers funds to this Authority. Complete financial statements can be obtained from the City.

B. Government-wide and fund financial statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of assets, liabilities and net assets and the statement of revenues, expenses and changes in net assets) 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.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-wide and fund financial statements (continued)

The statement of revenues, expenses and changes in net assets 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*.

The government-wide financial statements of the City are prepared on a modified cash basis of accounting. Under this basis, cash receipts are recognized as revenue at the date of receipt and cash payments are recognized as expenditures at date of payment with the following modifications:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred. Donated capital assets are recorded at estimated fair market value at date of donation.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.

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.

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 government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in each fund-type financial statements.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-wide and fund financial statements (continued)

Fund Financial Statements – (continued)

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The modified cash basis of accounting is used. However, the governmental funds focus on a current financial resources measurement thus capital assets and debt is not recorded.

The City reports the following major government funds:

General Fund - is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Funds combined with the General Fund are OHFA Grant, Lake Taylor and Special Library.

Capital Improvement Fund - is a special revenue fund which accounts for dedicated sales tax to be used for capital improvements throughout the City.

Sewer Project Fund - is a special revenue fund which accounts for one-percent dedicated sales tax to be used for sewer and sanitation improvements.

Nonmajor Governmental Funds are the Cemetery Care, EMS, Street and Alley Funds.

The City reports the Marlow Municipal Authority (MMA) as a major proprietary fund. MMA accounts for the activities related to the provision of water and sewer services to businesses and residents. It operates the water and sewer treatment plants, water distribution system, sewer collections systems and pump stations.

Proprietary funds are accounted for using the modified cash basis of accounting modified as follows:

- Capital assets are recorded as assets when purchased and related depreciation is recorded. Donated capital assets are recorded at estimated fair market value at date of donation.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

B. Government-wide and fund financial statements (continued)

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 City's enterprise fund are charges to customers for sales and services. Operating expenses for enterprise 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 government's policy to use restricted resources first, then unrestricted resources as they are needed.

C. Assets, liabilities, and net assets or equity

1. Deposits and investments

For purposes of the statement of cash flows, the City considers short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents

Oklahoma Statutes authorize the City to invest in direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposits of financial institutions located in the state of Oklahoma or fully-insured certificates of deposits of financial institutions located outside the state; savings accounts, and county, municipal or school district general obligation debt.

The City does not have a specific policy limiting the concentration amount that may be invested with one issuer. The City has no formal policy on managing credit risk.

Public trusts created under Oklahoma Statutes Title 60 are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

2. Interfund transactions

Interfund receivables and payables arise from interfund transactions and are recorded in the period transacted. Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to move unrestricted revenue collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

3. Restricted assets

Certain proceeds of the Authority's notes payable, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable loan covenants. The debt service reserve accounts are used to report resources set aside to make up potential futures deficiencies, or to meet unexpected contingencies or to fund asset construction, renewals and replacements. Customer utility deposits and reserves held with the Oklahoma Municipal Assurance Group are reported as restricted cash.

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 (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. 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Infrastructure	50
System infrastructure	30
Vehicles, Office and computer equipment	5
Machinery and equipment	10

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

5. Fund equity

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the entity is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Town did not have any nonspendable resources as of June 30, 2012.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Town has restricted resources by state law and from grants as of June 30, 2012.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal ordinance or resolution of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the council delegating this responsibility to the clerk through the budgetary process. The Town has assigned resources of interest earnings in special revenue funds as of June 30, 2012.

Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

5. Fund equity - continued

As of June 30, 2012, fund balances are composed of the following:

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total Governmental Funds
Restricted					
Cemetery	\$ -	\$ -	\$ -	\$ 37,011	\$ 37,011
Grants	4,413	-	-	-	4,413
EMS	-	-	-	1,003,053	1,003,053
Street and Alley	-	-	-	63,594	63,594
Sewer Construction and Debt Service	-	-	822,291	-	822,291
Committed					
Assigned					
Capital Improvements	-	1,850,263	-	-	1,850,263
EMS	-	-	-	15,559	15,559
Street and Alley	-	-	-	20,412	20,412
Sewer Construction and Debt Service	-	-	41,395	-	41,395
Library	17,922	-	-	-	17,922
Unassigned	1,028,494	-	-	-	1,028,494
	<u>\$ 1,050,829</u>	<u>\$ 1,850,263</u>	<u>\$ 863,686</u>	<u>\$ 1,139,629</u>	<u>\$ 4,904,407</u>

The City would typically use restricted fund balances first, followed by committed resources and the assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

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

II. 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 a reconciliation of the \$5,588,298 difference 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 is capital assets used in governmental activities that are not financial resources.

Capital assets, not being depreciated	\$ 486,033
Capital assets, being depreciated	13,169,690
Less Accumulated Depreciation	<u>(7,974,095)</u>
	<u>\$ 5,681,628</u>

The last element of the reconciliation is long-term liabilities, are not due and payable in the current period and, are not reported in the funds.

Capital Leases	<u>\$ (93,330)</u>
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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 government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the \$114,808 difference 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.

Capital Outlay	\$ 756,157
Assets Donated	(469,751)
Depreciation Expense	<u>(423,643)</u>
	<u>\$ (137,237)</u>

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS –
(continued)

**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. –
(continued)**

The next element of the reconciliation explains, the net effect of various miscellaneous transactions involving capital assets is to decrease net assets.

Loss on sale of assets	<u>\$ (1,320)</u>
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The final element of the reconciliation explains that the repayment of the principal of long-term debt consumes current financial resources, but has no effect on net assets.

Capital Lease, principal repayment	<u>\$ (23,749)</u>
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III. BUDGETARY INFORMATION

The city manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. In June the City Council adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personnel services, materials and supplies, other services and charges, capital outlay, debt services and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

IV. DEPOSITS AND INVESTMENTS

Deposit Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City follows state statutes regarding custodial credit risk which requires collateral for all deposits in excess of Federal Deposit Insurance. At June 30, 2012, the bank balance was \$7,244,555. This amount, was insured and collateralized.

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

IV. DEPOSITS AND INVESTMENTS – (continued)

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

	Maturity	Cost	Fair Value
Federal National Mortgage Association	May, 2017	\$ 1,994,005	\$ 2,100,980
Certificate of Deposits - Bank of China	May, 2013	127,000	127,210
Federated Prime Cash Money Market Mutual Fund	NA	196	196
		<u>\$ 2,121,201</u>	<u>\$ 2,228,386</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 : Credit risk is the risk that an issuer of a debt-type investment will not fulfill its obligation to the holder of the investment. The City does not have a formal investment policy limiting the types of investments measured by assignment of a credit rating by a nationally recognized rating organization. The investment in the Federal National Mortgage Association were rated Aaa by Moody’s Investors and AA+ by Standard and Poors. The money market mutual fund is unrated.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The City does not have a formal policy limiting the amount that may be invested with one issuer. The investment in Federal National Mortgage Association totals 94% of investments.

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

V. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
<i>Government Activities:</i>					
<i>Capital assets, not being depreciated</i>					
Land and Easements	\$ 289,036	\$ -	\$ -	\$ -	\$ 289,036
Construction in progress	28,467	168,530	-	-	196,997
Total capital assets, not being depreciated	<u>317,503</u>	<u>168,530</u>	<u>-</u>	<u>-</u>	<u>486,033</u>
<i>Capital assets, being depreciated</i>					
Land Improvements	4,520,216	-	-	-	4,520,216
Buildings	1,389,625	469,751	30,450	-	1,828,926
Building Improvements	32,766	-	-	-	32,766
Computers	50,663	-	-	-	50,663
Artwork	6,200	-	-	-	6,200
Vehicles	1,189,505	33,955	27,320	27,409	1,223,549
Machinery and Equipment	1,213,084	83,921	18,000	(27,409)	1,251,596
Infrastructure	4,255,774	-	-	-	4,255,774
Total capital assets, being depreciated	<u>12,657,833</u>	<u>587,627</u>	<u>75,770</u>	<u>-</u>	<u>13,169,690</u>
Less Accumulated Depreciation	<u>7,624,900</u>	<u>423,643</u>	<u>74,448</u>	<u>-</u>	<u>7,974,095</u>
Total capital assets, being depreciated, net	<u>5,032,933</u>	<u>163,984</u>	<u>1,322</u>	<u>-</u>	<u>5,195,595</u>
Governmental activities capital assets, net	<u>5,350,436</u>	<u>332,514</u>	<u>1,322</u>	<u>-</u>	<u>5,681,628</u>
<i>Business-type Activities:</i>					
<i>Capital assets, not being depreciated</i>					
Land and Easements	\$ 1,288,998	\$ -	\$ -	\$ -	\$ 1,288,998
Construction in progress	26,314	61,005	-	-	87,319
Total capital assets, not being depreciated	<u>1,315,312</u>	<u>61,005</u>	<u>-</u>	<u>-</u>	<u>1,376,317</u>
<i>Capital assets, being depreciated</i>					
Land Improvements	1,925,039	-	-	-	1,925,039
Buildings	1,974,144	-	-	-	1,974,144
Vehicles	478,047	-	-	78,728	556,775
Machinery and Equipment	616,568	5,000	-	(78,728)	542,840
Water Rights	190,157	-	-	-	190,157
Infrastructure	35,591,027	56,420	-	-	35,647,447
Total capital assets, being depreciated	<u>40,774,982</u>	<u>61,420</u>	<u>-</u>	<u>-</u>	<u>40,836,402</u>
Less Accumulated Depreciation	<u>17,803,261</u>	<u>393,765</u>	<u>-</u>	<u>-</u>	<u>18,197,026</u>
Total capital assets, being depreciated, net	<u>22,971,721</u>	<u>(332,345)</u>	<u>-</u>	<u>-</u>	<u>22,639,376</u>
Business activities capital assets, net	<u>24,287,033</u>	<u>(271,340)</u>	<u>-</u>	<u>-</u>	<u>24,015,693</u>
Total Primary Government	<u>\$ 29,637,469</u>	<u>\$ 61,174</u>	<u>\$ 1,322</u>	<u>\$ -</u>	<u>\$ 29,697,321</u>

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

V. CAPITAL ASSETS (continued)

Capital asset activity for MEDA for the year ended June 30, 2012 was as follows:

Component Unit Activities:

Capital assets, not being depreciated

Land and Easements	\$ 99,939	\$ -	\$ -	\$ -	\$ 99,939
Total capital assets, not being depreciated	<u>99,939</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>99,939</u>

Capital assets, being depreciated

Buildings	-	17,615	-	-	17,615
Total capital assets, being depreciated	<u>-</u>	<u>17,615</u>	<u>-</u>	<u>-</u>	<u>17,615</u>

Less Accumulated Depreciation	<u>-</u>	<u>303</u>	<u>-</u>	<u>-</u>	<u>303</u>
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Total capital assets, being depreciated, net	<u>-</u>	<u>17,312</u>	<u>-</u>	<u>-</u>	<u>17,312</u>
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Component Unit capital assets, net	<u>\$ 99,939</u>	<u>\$ 17,312</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 117,251</u>
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Depreciation expense was charged to functions/programs of the primary government as follows:

Government activities:

General Government	\$ 16,147
Highways and Streets	171,858
Public Safety	155,931
Culture and Recreation	45,645
Cemetery	<u>34,062</u>

Total depreciation expense - governmental activities	<u>\$ 423,643</u>
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Business-type activities

Electric	\$ 77,792
Water	110,068
General Government	7,139
Pool	7,600
Sewer	<u>191,166</u>

Total depreciation expense - business-type activities	<u>\$ 393,765</u>
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City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2012

VI. INTERFUND TRANSFERS

Interfund transfers as of June 30, 2012 were as follows:

T r a n s f e r T o	Transfer From						
	General Fund	Capital		Sewer Project	Marlow	All Others	Total
		Improvements	Municipal		Authority		
General Fund	\$ 742	\$ -	\$ -	\$ 575,000	\$ -	\$ 575,742	
Marlow Municipal Authority	-	-	1,656,923	5,597	-	1,662,520	
Total	<u>\$ 742</u>	<u>\$ -</u>	<u>\$ 1,656,923</u>	<u>\$ 580,597</u>	<u>\$ -</u>	<u>\$ 2,238,262</u>	

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

VII. LONG-TERM LIABILITIES

A summary of long-term liability activity for the year ended June 30, 2012, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Primary Government					
<i>Governmental Activities</i>					
AT&T Oklahoma	\$ 117,079	\$ -	\$ 23,749	\$ 93,330	\$ 24,717
<i>Business-Type Activities</i>					
Oklahoma Water Resources Board	1,589,890	-	1,589,890	-	-
BancFirst 2012 Tax Revenue Note	-	2,190,000	-	2,190,000	380,000
Sales Tax Revenue Note Payable 2008	1,615,000	-	145,000	1,470,000	150,000
Total Business-Type Activities	<u>3,204,890</u>	<u>2,190,000</u>	<u>1,734,890</u>	<u>3,660,000</u>	<u>530,000</u>
Total Primary Government	<u>\$ 3,321,969</u>	<u>\$ 2,190,000</u>	<u>\$ 1,758,639</u>	<u>\$ 3,753,330</u>	<u>\$ 554,717</u>

Governmental activities long-term liabilities at June 30, 2012, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2012
<i>Governmental Activities</i>					
AT&T Oklahoma	January , 2016	4.20%	\$ 28,000	\$ 126,698	\$ 93,330
E911 Equipment					

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

VII. LONG-TERM LIABILITIES (continued)

Capital assets obtained from capital leases and related depreciation are as follows:

Machinery and equipment	\$ 219,244
less accumulated depreciation	<u>(51,157)</u>
	<u>\$ 168,087</u>

Principal maturities and the amount representing interest on capital leases at June 30, 2012, is as follows:

	Year Ending June 30		
	2013	\$	28,000
	2014		28,000
	2015		28,000
	2016		<u>16,333</u>
Present value of future minimum lease payments		\$	100,333
less: Interest			<u>(7,003)</u>
Net Minimum lease payments		\$	93,330
Current portion			<u>(24,717)</u>
Long-term portion		\$	<u>68,613</u>

Business-type activities long-term liabilities at June 30, 2012, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2012
<i>Business-Type Activities</i>					
Sales Tax Revenue Note Payable, Series 2008 (refinanced Oklahoma Water Resources Board 2004 note)	April, 2020	4.20%	\$ 135,000	\$ 2,300,000	\$ 1,470,000
BancFirst 2012 Sales Tax Revenue Note	June, 2012	1.71%	199,091	2,190,000	<u>2,190,000</u>
					<u>\$ 3,660,000</u>

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

VII. LONG-TERM LIABILITIES (continued)

As of June 30, 2012, annual debt service requirements of the business-type activities to maturity are as follows:

Year Ending June 30	Principal	Interest
2012	\$ 530,000	\$ 93,770
2013	545,000	82,964
2014	560,000	69,529
2015	575,000	55,735
2016	590,000	41,188
2017-2020	860,000	48,864
	<u>\$ 3,660,000</u>	<u>\$ 392,050</u>

All net revenues (gross revenues less operating expenses) received by the Authority by reason of its ownership and/or operation of the properties are pledged for the payment of the interest and timely retirement of the debt as well as a dedicated sewer improvement sales tax.

The Authority at all times will maintain schedules of rates and charges for services rendered through the mortgage property which will provide annually net revenues available for debt service not less than one and one-quarter times the average annual principal and interest required to be paid.

VIII. RESTRICTED ASSETS

Restricted cash as of June 30, 2012 is as follows:

Funds restricted for debt service reserves	\$ 2,540,954
Meter deposits	186,085
Health Savings	56,043
Oklahoma Municipal Assurance Group Escrow	73,997
	<u>\$ 2,857,079</u>

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

IX. PENSION PLANS

Municipal Retirement Plan

The City of Marlow and its employees participate in the Oklahoma Municipal Retirement Fund as a defined contribution plan. All regular full-time employees, except those covered under another retirement system are eligible. Employees are vested at 7 years.

The OMRF issues a publicly available financial report that includes financial statements and the required supplementary information that can be obtained by requesting a copy at City Hall.

Funding Policy: The contribution requirements are established and may be amended by the OMRF board. Employees are required to contribute 5 percent of their annual covered salary after tax. The City's required contribution rate is 10%.

Annual Pension Cost: For 2011-2012, City of Marlow and Marlow Municipal Authority's annual pension cost of \$97,409, were equal to the required contributions

Policemen's Retirement Plan

Police department employees in Oklahoma participate in a state administered pension program established under legislative authority, Oklahoma Police Pension and Retirement System, which is a cost-sharing multiple-employer public employee retirement system (PERS). Under this program, contributions are made by each of three parties - the City, the State of Oklahoma, and the participating employees. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements. A participant with twenty years of service may retire with a normal retirement allowance. The normal retirement allowance paid monthly for life and then to beneficiaries equals 2.5% of the average compensation of the highest 30 consecutive months of the last 60 months of contributory service multiplied by the number of years of credited service up to the maximum of 30 years.

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

IX. PENSION PLANS (continued)

Policemen's Retirement Plan – (continued)

The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% for the year ended June 30, 2012. Participating members are required to contribute 8%.

The Oklahoma State Legislature has the authority to grant percentage increases or special one-time payments to persons receiving benefits from the System and is required by statute to make appropriations as necessary to insure benefit payments are made.

Trend Information:

Year Ending June 30	Covered Payroll	Pension Cost	City Share	Employee Share	On-Behalf Payments
2012	\$ 274,505	\$ 57,646	\$ 35,719	\$ 21,927	\$ 48,862
2011	224,295	47,102	29,158	17,944	20,411
2010	229,185	48,129	29,794	18,335	20,168

Additional information can be obtained by writing Oklahoma Police Pension and Retirement Board, 1001 N.W. 63rd, Suite 305, Oklahoma City, OK 73116.

Firefighters' Retirement Plan

Fire department employees in Oklahoma participate in a state administered pension program established under legislative authority, Oklahoma Firefighters' Pension Fund, which is a cost-sharing multiple-employer public employee retirement system (PERS). Under this program, contributions are made by each of three parties - the City, the State of Oklahoma, and the participating employees. The City has no responsibility or authority for the operation and administration of the pension program nor has it any related liability, except for the current contribution requirements.

A participant with twenty years of service may retire with a normal retirement allowance. The normal retirement allowance paid monthly for life and then to beneficiaries equal to 2.5% of the average compensation of the highest 30 months of the last 60 months of contributory service multiplied by the number of years of credited service up to the maximum of 30 years. The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% per the year June 30, 2012. Participating members are required to contribute 8%.

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

IX. PENSION PLANS (continued)

Firefighters' Retirement Plan – (continued)

The Oklahoma State Legislature has the authority to grant percentage increases or special one-time payments to persons receiving benefits from the System and is required by statute to make appropriations as necessary to insure benefit payments are made.

Trend Information:

Year Ending June 30	Covered Payroll	Pension Cost	City Share	Employee Share	On-Behalf Payments
2012	\$ 98,551	\$ 20,696	\$ 12,812	\$ 7,884	\$ 24,244
2011	107,908	22,661	14,028	8,633	23,524
2010	107,069	22,485	13,919	8,566	23,341

Additional information can be obtained by writing Oklahoma Firefighters Pension and Retirement Board, 4545 N. Lincoln Blvd., Suite 165, Oklahoma City, OK 73105.

X. CONTINGENCIES

Federal Programs

The City participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The final acceptance of the audits of these programs including the year ended June 30, 2012, has not been given. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, the City expects such amounts, if any, to be immaterial.

XI. RISK MANAGEMENT

The City is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

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

XII. PRIOR PERIOD CORRECTION

The City noted a capital lease not recorded in the prior period in the governmental activities statement of net assets, and investments were reported at fair market value, which is not required in modified cash basis reporting.

The following shows the effect of this correction on June 30, 2012 amounts:

	As Previously Reported	<u>Restatement</u>	<u>As Restated</u>
<i>Governmental Funds</i>			
General Fund			
Fund Balance	1,027,143	2,709	1,029,852
Investment Return	10,367	(2,709)	7,658
Net Change in Fund Balance	255,301	(2,709)	252,592
EMS Fund			
Fund Balance	931,180	1,698	932,878
Investment Return	8,611	(1,698)	6,913
Net Change in Fund Balance	53,955	(1,698)	52,257
Sewer Project			
Fund Balance	2,068,662	4,304	2,072,966
Investment Return	15,221	(4,304)	10,917
Net Change in Fund Balance	175,113	(4,304)	170,809
<i>Governmental Activities</i>			
Long Term Liabilities	-	117,078	117,078
Investment Return	48,686	(8,711)	39,975
Net Assets	11,392,948	(108,367)	11,284,581
<i>Business Type Activities</i>			
Fund Balance	25,371,043	26,132	25,397,175
Gain on Investments	37,409	(26,132)	11,277
Net Change in Fund Balance	358,713	(26,132)	332,581

City of Marlow, Oklahoma
Supplemental Schedule
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis
Budget to Actual
General Fund
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 925,000	\$ 925,000	\$ 974,887	\$ 49,887
Intergovernmental	4,397	4,397	8,389	3,992
License	20,530	20,530	25,536	5,006
Charges for Service	28,100	28,100	37,981	9,881
Fines	54,800	54,800	65,471	10,671
Miscellaneous	448,352	448,352	81,961	(366,391)
Interest	12,000	12,000	7,886	(4,114)
Royalties	7,000	7,000	5,156	(1,844)
Cemetery	<u>35,000</u>	<u>35,000</u>	<u>33,536</u>	<u>(1,464)</u>
Total Revenue	<u>1,535,179</u>	<u>1,535,179</u>	<u>1,240,803</u>	<u>(294,376)</u>
EXPENDITURES				
Current				
General Government	455,764	437,364	361,140	76,224
Public Safety	1,026,326	1,084,176	1,020,838	63,338
Highways and Streets	213,986	188,986	156,662	32,324
Culture and Recreation	227,602	227,602	187,860	39,742
Cemetery	133,296	133,296	101,138	32,158
Capital Outlay				
General Government	23,500	13,700	-	13,700
Public Safety	19,000	15,350	9,490	5,860
Highways and Streets	3,000	2,000	1,809	191
Culture and Recreation	3,605	3,605	-	3,605
Cemetery	<u>4,100</u>	<u>4,100</u>	<u>1,471</u>	<u>2,629</u>
Total Expenditures	<u>2,110,179</u>	<u>2,110,179</u>	<u>1,840,408</u>	<u>269,771</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(575,000)</u>	<u>(575,000)</u>	<u>(599,605)</u>	<u>(24,605)</u>
Other Financing Sources				
Transfers In	575,000	575,000	575,742	742
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources	<u>575,000</u>	<u>575,000</u>	<u>575,742</u>	<u>742</u>
Net Change in Fund Balance	-	-	(23,863)	(23,863)
Fund Balance - Beginning	<u>-</u>	<u>-</u>	<u>1,028,790</u>	<u>1,028,790</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,004,927</u>	<u>\$ 1,004,927</u>

City of Marlow, Oklahoma
Supplemental Schedule
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis
Budget to Actual
Capital Improvement Fund
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 100,000	\$ 100,000	\$ 103,524	\$ 3,524
Intergovernmental	400,000	400,000	-	(400,000)
Miscellaneous	34,000	34,000	219,197	185,197
Interest	9,000	9,000	11,648	2,648
Royalties	120,000	120,000	102,338	(17,662)
Total Revenue	<u>663,000</u>	<u>663,000</u>	<u>436,707</u>	<u>(226,293)</u>
EXPENDITURES				
Current				
Highways and Streets	1,000	1,000	833	167
Capital Outlay				
General Government	391,000	391,000	123,304	267,696
Culture and Recreation	5,000	5,000	3,875	1,125
Public Safety	9,000	9,000	8,947	53
Highways and Streets	750,000	750,000	164,155	585,845
Total Expenditures	<u>1,156,000</u>	<u>1,156,000</u>	<u>301,114</u>	<u>854,886</u>
Net Change in Fund Balance	(493,000)	(493,000)	135,593	628,593
Fund Balance - Beginning	<u>493,000</u>	<u>493,000</u>	<u>1,714,670</u>	<u>1,221,670</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,850,263</u>	<u>\$ 1,850,263</u>

City of Marlow, Oklahoma
Supplemental Schedule
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis
Budget to Actual
Sewer Project Fund
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 400,000	\$ 421,470	\$ 421,470	\$ -
Interest	-	-	26,175	26,175
Total Revenue	<u>400,000</u>	<u>421,470</u>	<u>447,645</u>	<u>26,175</u>
EXPENDITURES				
Current				
General Government	<u>650</u>	<u>650</u>	<u>2</u>	<u>648</u>
Total Expenditures	<u>650</u>	<u>650</u>	<u>2</u>	<u>648</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	399,350	420,820	447,643	26,823
Other Financing Sources				
Transfers Out	<u>(256,000)</u>	<u>(1,656,923)</u>	<u>(1,656,923)</u>	<u>-</u>
Total Other Financing Sources				
Net Change in Fund Balance	143,350	(1,236,103)	(1,209,280)	26,823
Fund Balance - Beginning	<u>-</u>	<u>1,379,453</u>	<u>2,072,966</u>	<u>693,513</u>
Fund Balance - Ending	<u>\$ 143,350</u>	<u>\$ 143,350</u>	<u>\$ 863,686</u>	<u>\$ 720,336</u>

City of Marlow, Oklahoma
Supplemental Schedule
Combining Statement of Assets, Liabilities and Net Assets – Modified Cash Basis
Nonmajor Governmental Special Revenue Funds
June 30, 2012

	<u>Cemetery Care</u>	<u>EMS Fund</u>	<u>Street & Alley</u>	<u>Total</u>
Assets				
Cash	\$ 37,011	\$ 915,203	\$ 84,006	\$ 1,036,220
Investments	<u>-</u>	<u>103,409</u>	<u>-</u>	<u>103,409</u>
Total Assets	<u>\$ 37,011</u>	<u>\$ 1,018,612</u>	<u>\$ 84,006</u>	<u>1,139,629</u>
Fund Balances				
Restricted	\$ 37,011	\$ 1,003,053	\$ 63,594	\$ 1,103,658
Committed	-	-	-	-
Assigned	-	15,559	20,412	35,971
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>37,011</u>	<u>1,018,612</u>	<u>84,006</u>	<u>1,139,629</u>
Total Liabilities and Fund Balances	<u>\$ 37,011</u>	<u>\$ 1,018,612</u>	<u>\$ 84,006</u>	<u>\$ 1,139,629</u>

City of Marlow, Oklahoma
Supplemental Schedule
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Modified Cash Basis
Nonmajor Governmental Special Revenue Funds
For the Year Ended June 30, 2012

	<u>Cemetery Care</u>	<u>EMS Fund</u>	<u>Street & Alley</u>	<u>Total</u>
REVENUE				
Taxes	\$ -	\$ 210,735	\$ 40,577	\$ 251,312
Investment Return	61	6,949	580	7,590
Cemetery	<u>4,542</u>	<u>-</u>	<u>-</u>	<u>4,542</u>
Total Revenue	<u>4,603</u>	<u>217,684</u>	<u>41,157</u>	<u>263,444</u>
EXPENDITURES				
Current				
General Government	-	-	6	6
Public Safety	-	120,000	-	120,000
Highways and Streets	-	-	8,726	8,726
Capital Outlay				
Public Safety	-	11,950	-	11,950
Highways and Streets	<u>-</u>	<u>-</u>	<u>179,579</u>	<u>179,579</u>
Total Expenditures	<u>-</u>	<u>131,950</u>	<u>188,311</u>	<u>320,261</u>
Net Change in Fund Balances	4,603	85,734	(147,154)	(56,817)
Fund Balances, Beginning	<u>32,408</u>	<u>932,878</u>	<u>231,160</u>	<u>1,196,446</u>
Fund Balances, Ending	<u>\$ 37,011</u>	<u>\$ 1,018,612</u>	<u>\$ 84,006</u>	<u>\$ 1,139,629</u>

City of Marlow, Oklahoma
Supplemental Schedule
Combining Statement of Assets, Liabilities and Net Assets – Modified Cash Basis
General Fund
June 30, 2012

	<u>General Fund</u>	<u>Lake Taylor</u>	<u>OHFA Grant</u>	<u>Special Library</u>	<u>Total</u>
Assets					
Cash and Cash Investments	\$ 772,442	\$ 19,738	\$ 3	\$ 17,922	\$ 810,105
Restricted Cash	77,700	-	-	-	77,700
Investments	<u>\$ 164,923</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>164,923</u>
	<u>\$ 1,015,065</u>	<u>\$ 19,738</u>	<u>\$ 3</u>	<u>\$ 17,922</u>	<u>\$ 1,052,728</u>
Total Assets					
Liabilities					
Due to Other Funds					
Bonds Pending Court	<u>\$ 1,899</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,899</u>
Total Liabilities	<u>1,899</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,899</u>
Fund Balances					
Restricted	\$ 4,413	\$ -	\$ -	\$ -	\$ 4,413
Committed	-	-	-	-	-
Assigned	-	-	-	17,922	17,922
Unassigned	<u>1,008,753</u>	<u>19,738</u>	<u>3</u>	<u>-</u>	<u>1,028,494</u>
Total Fund Balances	<u>1,013,166</u>	<u>19,738</u>	<u>3</u>	<u>17,922</u>	<u>1,050,829</u>
Total Liabilities and Fund Balances	<u>\$ 1,015,065</u>	<u>\$ 19,738</u>	<u>\$ 3</u>	<u>\$ 17,922</u>	<u>\$ 1,052,728</u>

City of Marlow, Oklahoma
Supplemental Schedule
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Modified Cash Basis
General Fund
For the Year Ended June 30, 2012

	General Fund	Lake Taylor	OHFA Grant	Special Library	Total
REVENUE					
Taxes	\$ 974,887	\$ -	\$ -	\$ -	\$ 974,887
Intergovernmental	8,389	-	258,013	500	266,902
License and Permits	25,536	-	-	-	25,536
Charges for Service	37,981	-	-	-	37,981
Fines	80,681	-	-	-	80,681
Miscellaneous	81,965	-	-	593	82,558
Interest	7,895	583	-	34	8,512
Royalties	5,156	-	-	-	5,156
Cemetery	33,536	-	-	-	33,536
	<u>1,256,026</u>	<u>583</u>	<u>258,013</u>	<u>1,127</u>	<u>1,515,749</u>
EXPENDITURES					
Current					
General Government	361,140	-	-	-	361,140
Public Safety	1,028,884	-	-	-	1,028,884
Highways and Streets	156,662	-	-	-	156,662
Culture and Recreation	187,860	-	-	596	188,456
Cemetery	101,138	-	-	-	101,138
Public Health and Welfare	-	-	258,013	-	258,013
Capital Outlay					
Public Safety	9,490	-	-	-	9,490
Highways and Streets	1,809	-	-	-	1,809
Cemetery	1,471	-	-	-	1,471
	<u>1,848,454</u>	<u>-</u>	<u>258,013</u>	<u>596</u>	<u>2,107,063</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(592,428)</u>	<u>583</u>	<u>-</u>	<u>531</u>	<u>(591,314)</u>
Other Financing Sources					
Transfers In	575,742	-	-	-	575,742
Transfers Out	-	(742)	-	-	(742)
Total Other Financing Sources	<u>575,742</u>	<u>(742)</u>	<u>-</u>	<u>-</u>	<u>575,000</u>
Net Change in Fund Balances	(16,686)	(159)	-	531	(16,314)
Fund Balances, Beginning	<u>1,029,852</u>	<u>19,897</u>	<u>3</u>	<u>17,391</u>	<u>1,067,143</u>
Fund Balances, Ending	<u>\$ 1,013,166</u>	<u>\$ 19,738</u>	<u>\$ 3</u>	<u>\$ 17,922</u>	<u>\$ 1,050,829</u>



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

Members of the City Council
City of Marlow, Oklahoma

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marlow, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 29, 2013. The report was a special report on the City's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our 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 the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses in internal control over financial reporting: 12-1.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We

consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 12-2.

Compliance and Other Matters

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

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

This report is intended solely for the information and use of management, City Council, others within the City of Marlow, 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.

Angel, Johnston + Blessingame, P.C.

Chickasha, Oklahoma

March 29, 2013

**CITY OF MARLOW, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

Deficiencies of Internal Control, Compliance and Other Matters:

- 12-1. **Criteria** – All governmental indebtedness is disclosed in the government-wide financial statements.

Condition – The debt related to the latest E-911 acquisition was not reflected in the financial statements and related note disclosures.

Cause – This information and disclosure is only reported in the yearend financial statements and only in the government-wide financial statements. Therefore, there is no systematic tracking of the debt.

Effect – The government-wide liabilities were understated prior to the adjustment \$117,078.

Recommendation – An on-going schedule tracking of all City debt should be maintained in the same manner as tracking of capital assets.

Management response – This was entered into as a lease purchase and paying out on the monthly phone bill. The equipment was added to fixed assets but did not acknowledge this as a debt. We will recognize and determine when lease agreements are entered into how that financial obligation should be recognized in the financial statements.

- 12-2. **Criteria** – Good control procedures over utility collections should require independent verification of all adjustments to customer utility bills.

Condition – The adjustments can be made by the utility clerks. In many cases this is done without a formal independent approval process. However, some adjustments were checked independently but no formal process is in place.

Cause – There is no established independent approval process.

Effect – Utility revenue could be underreported without being identified.

Recommendation – Require every utility adjustment to be independently approved. At least monthly an independent review of all adjustments should be made to verify that all adjustments received the appropriate approvals.

Management response – Staff knows that checks and balances on adjustments to bills are to be done and our procedures for adjustments became a more informal approval process. However, policy now will be each adjustment will be verified by the City Clerk or designee.

**CITY OF MARLOW, OKLAHOMA
SUMMARY OF PRIOR YEAR FINDINGS
Year Ended June 30, 2012**

2011-1 Financial Reporting

Condition – In prior year material adjustments were necessary to prepare the financial statements. In addition, the City did not have a financial reporting system in place to ensure that all relevant financial information is disclosed in the appropriate accounting period and in accordance with the modified cash basis of accounting.

Disposition – Personnel was trained to maintain and track capital assets. And a consulting firm was utilized to properly implement a financial reporting system.