



City of Marlow, Oklahoma

Financial Statements

Year –End: June 30, 2013

City of Marlow
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 For the Fiscal Year Ended June 30, 2013

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FINANCIAL



CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Marlow, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Marlow, Oklahoma as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.B; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

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 Governmental 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 involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marlow, Oklahoma, as of

June 30, 2013, and the respective changes in modified cash basis financial position, and cash flows, where applicable, thereof for the year then ended in accordance with the basis of accounting described in Note 1.B.

Basis of Accounting

We draw your attention to Note 1.B. of the financial statements, which describes the basis of accounting. The financial statements are prepared on a modified cash basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Comanche, Oklahoma basic financial statements. The Supplemental Information as listed in the table of contents, are presented for additional analysis and are not a required part of the basic financial statements.

The budgetary comparison information, combining fund financial statements and schedule of federal and state awards are the responsibility of management, derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, budgetary comparison information, combining fund financial statements and schedule of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2014, 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* in considering the City's internal control over financial reporting and compliance.

Angel, Johnston + Blessingame, P.C.

Chickasha, Oklahoma
January 16, 2014

BASIC FINANCIAL STATEMENTS

City of Marlow
Government-Wide Statement of Net Position – Modified Cash Basis
June 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	MEDA
ASSETS				
Cash and Cash Equivalent	3,673,897	2,128,823	5,802,720	328,948
Restricted Cash and Cash Equivalents	104,176	1,836,420	1,940,596	-
Investments	540,724	1,622,176	2,162,900	-
Land and Construction in Progress	1,174,821	1,328,161	2,502,982	99,939
Other Capital Assets, net of depreciation	4,965,494	24,160,584	29,126,078	16,607
Total Assets	10,459,112	31,076,164	41,535,276	445,494
LIABILITIES				
Current Liabilities				
Bonds Pending Court	1,899	-	1,899	-
Refundable Meter Deposits	-	254,574	254,574	-
Long -term liabilities				
Due within one year	25,724	995,000	1,020,724	-
Due in more than one year	42,888	2,585,000	2,627,888	-
Total Liabilities	70,511	3,834,574	3,905,085	-
NET POSITION				
Invested in Capital Assets	6,071,703	-	6,071,703	-
Restricted for				
Sewer Project and Debt Service	885,780	1,589,071	2,474,851	-
Street and Alley	116,045	-	116,045	-
Cemetery	43,298	-	43,298	-
EMS	1,016,109	-	1,016,109	-
Grants	3	-	3	-
Unrestricted	2,255,663	25,652,519	27,908,182	431,189
Total Net Position	\$ 10,388,601	\$ 27,241,590	\$ 37,630,191	\$ 431,189

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 Position– Modified Cash Basis
For the Year Ended June 30, 2013

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			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	410,181	31,652	\$ -	\$ -	\$ (378,529)	\$ -	\$ (378,529)	
Highways and Streets	548,755	-	-	-	(548,755)	-	(548,755)	
Public Safety	1,445,341	180,172	9,928	-	(1,255,241)	-	(1,255,241)	
Culture and Recreation	283,545	-	-	287,233	3,688	-	3,688	
Cemetery	102,895	45,437	-	-	(57,458)	-	(57,458)	
Total Governmental Activities	<u>2,790,717</u>	<u>257,261</u>	<u>9,928</u>	<u>287,233</u>	<u>(2,236,295)</u>	<u>-</u>	<u>(2,236,295)</u>	
Business-Type Activities								
Electric	3,473,497	4,014,622	-	-	-	541,125	541,125	
Water	526,806	563,978	-	-	-	37,172	37,172	
Sanitation	544,458	613,126	-	-	-	68,668	68,668	
Sewer	314,571	232,898	-	-	-	(81,673)	(81,673)	
General Government and Recreation	444,783	236,424	-	-	-	(208,359)	(208,359)	
Total Business Type Activities	<u>5,304,115</u>	<u>5,661,048</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>356,933</u>	<u>356,933</u>	
Total Primary Government	<u>8,094,832</u>	<u>5,918,309</u>	<u>9,928</u>	<u>287,233</u>	<u>(2,236,295)</u>	<u>356,933</u>	<u>(1,879,362)</u>	
Component Unit								
Marlow Economic Development Authority	<u>27,619</u>	<u>4,684</u>	<u>42,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,065</u>	
General Revenues								
Taxes					1,869,332	-	1,869,332	-
Investment Return					36,515	52,671	89,186	1,051
Rent and Royalties					83,062	-	83,062	-
Miscellaneous					52,087	-	52,087	-
Transfers					91,195	(91,196)	(1)	-
Total General Revenues and Transfers					<u>2,132,191</u>	<u>(38,525)</u>	<u>2,093,666</u>	<u>1,051</u>
Change in Net Position					(104,104)	318,408	214,304	20,116
Net Position - Beginning, as restated					10,492,705	26,923,182	37,415,887	411,073
Net Position - Ending					<u>\$ 10,388,601</u>	<u>\$ 27,241,590</u>	<u>\$ 37,630,191</u>	<u>\$ 431,189</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, 2013

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total
Assets					
Cash and Cash Investments	\$ 668,039	\$ 1,317,185	\$ 618,662	\$ 1,070,011	\$ 3,673,897
Restricted Cash	104,176	-	-	-	104,176
Investments	168,165	-	267,118	105,441	540,724
Total Assets	\$ 940,380	\$ 1,317,185	\$ 885,780	\$ 1,175,452	\$ 4,318,797
Liabilities					
Bonds Pending Court	\$ 1,899	\$ -	\$ -	\$ -	\$ 1,899
Total Liabilities	1,899	-	-	-	1,899
Fund Balances					
Restricted	\$ -	\$ -	\$ 833,209	\$ 1,132,933	\$ 1,966,142
Assigned	18,223	1,317,185	52,571	42,519	1,430,498
Unreserved	920,258	-	-	-	920,258
Total Fund Balances	\$ 938,481	\$ 1,317,185	\$ 885,780	\$ 1,175,452	\$ 4,316,898
Total Liabilities and Fund Balances	\$ 940,380	\$ 1,317,185	\$ 885,780	\$ 1,175,452	

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 6,140,315

Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the fund. (68,612)

Net position of governmental activities. \$ 10,388,601

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, 2013

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total
REVENUE					
Taxes	\$ 1,044,095	\$ 92,690	\$ 460,537	\$ 272,011	1,869,333
Intergovernmental	9,928	-	-	-	9,928
License and Permits	27,491	-	-	-	27,491
Charges for Service	31,652	-	-	-	31,652
Fines	152,680	-	-	-	152,680
Miscellaneous	52,090	287,233	-	-	339,323
Investment Return	7,085	11,616	11,176	6,636	36,513
Royalties	4,858	78,204	-	-	83,062
Cemetery	39,239	-	-	6,198	45,437
	<u>\$ 1,369,118</u>	<u>469,743</u>	<u>471,713</u>	<u>284,845</u>	<u>2,595,419</u>
EXPENDITURES					
Current					
General Government	\$ 394,557	-	-	-	394,557
Public Safety	1,132,535	-	-	173,180	1,305,715
Highways and Streets	192,262	220,547	-	10,347	423,156
Culture and Recreation	245,506	-	-	-	245,506
Cemetery	91,605	-	-	-	91,605
Capital Outlay					
General Government	-	375,260	5	-	375,265
Public Safety	-	-	-	65,493	65,493
Highways and Streets	-	372,825	-	-	372,825
	<u>\$ 2,056,465</u>	<u>968,632</u>	<u>5</u>	<u>249,020</u>	<u>3,274,122</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(687,347)</u>	<u>(498,889)</u>	<u>471,708</u>	<u>35,825</u>	<u>(678,703)</u>
Other Financing Sources					
Transfers In	575,000	-	-	-	575,000
Transfers Out	-	(34,190)	(449,615)	-	(483,805)
Total Other Financing Sources	<u>575,000</u>	<u>(34,190)</u>	<u>(449,615)</u>	<u>-</u>	<u>91,195</u>
Net Change in Fund Balances	(112,347)	(533,079)	22,093	35,825	(587,508)
Fund Balances - Beginning as restated	1,050,828	1,850,264	863,687	1,139,627	4,904,406
Fund Balances - Ending	<u>\$ 938,481</u>	<u>\$ 1,317,185</u>	<u>\$ 885,780</u>	<u>\$ 1,175,452</u>	<u>\$ 4,316,898</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 Position – Modified Cash Basis
For the Year Ended June 30, 2013

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

Net change in fund balances - total governmental funds	\$ (587,508)
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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.	458,687
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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>24,717</u>
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Change in net position of governmental activities.	<u><u>\$ (104,104)</u></u>
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The notes to the financial statements are an integral part of this statement

City of Marlow
Statement of Net Position – Modified Cash Basis – Proprietary Fund
June 30, 2013

	<u>Marlow Municipal Authority</u>
<i>ASSETS</i>	
Current Assets	
Cash and Cash Equivalent	\$ 2,128,823
Restricted Cash and Cash Equivalents	247,349
Investments	<u>1,622,176</u>
Total Current Assets	<u>3,998,348</u>
Noncurrent Assets	
Restricted Cash and Cash Equivalents	1,589,071
Capital Assets	
Land and Construction in Progress	1,328,161
Other Capital Assets	42,761,649
Less Accumulated Depreciation	<u>(18,601,065)</u>
Total Noncurrent Assets	<u>27,077,816</u>
Total Assets	<u>31,076,164</u>
<i>LIABILITIES</i>	
Current Liabilities	
Refundable Meter Deposits	254,574
Notes Payable, Current Portion	<u>995,000</u>
Total Current Liabilities	1,249,574
Noncurrent Liabilities	
Notes Payable	<u>2,585,000</u>
Total Noncurrent Liabilities	<u>2,585,000</u>
Total Liabilities	<u>3,834,574</u>
<i>NET POSITION</i>	
Invested in Capital Assets, net of related debt	21,908,745
Restricted for Debt Service	1,589,071
Unrestricted	<u>3,743,774</u>
Total Net Position	<u><u>\$ 27,241,590</u></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 Position – Modified Cash Basis
Proprietary Fund
For the Year Ended June 30, 2013

	Marlow Municipal Authority
Operating Revenues:	
Electric	\$ 4,014,622
Water	563,978
Sanitation	613,126
Sewer	232,898
Pool	13,468
Miscellaneous	222,956
Total Operating Revenue	5,661,048
Operating Expenses:	
Electric	3,473,497
Water	432,897
Sanitation	544,458
Sewer	314,571
Pool	27,964
General Government	416,819
Total Operating Expenses	5,210,206
Operating Income (Loss)	450,842
Nonoperating Revenues (Expenses):	
Interest Revenue	52,671
Interest Expense	(93,909)
Total Nonoperating Revenues (Expenses)	(41,238)
Income (Loss) before Transfers	409,604
Other Financing Sources (Uses):	
Transfers In	483,804
Transfers Out	(575,000)
Total Other Financing Sources	(91,196)
Net Change in Net Position	318,408
Total Net Position - Beginning	26,923,182
Total Net Position - Ending	\$ 27,241,590

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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Revenues Received	\$ 5,661,048
Vendors and Others Paid	<u>(4,799,185)</u>
Net Cash Provided by Operating Activities	861,863

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfer, Net	<u>(91,196)</u>
Net Cash Used by Noncapital Financing Activities	(91,196)

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Payment of Debt	(80,000)
Purchase of Property, Plant and Equipment	(1,877,092)
Decrease in Restricted Cash - Capital Financing	<u>951,883</u>
Net Cash Used by Capital Financing Activities	(1,005,209)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	52,671
Interest Expense	(93,909)
Increase in Restricted Cash and Investments	<u>(40,199)</u>
Net Cash Used by Investing Activities	<u>(81,437)</u>

Net Decrease in Cash and Cash Equivalents (315,979)

Cash and Cash Equivalents, July 1, 2012 2,444,802

Cash and Cash Equivalents, June 30, 2013 \$ 2,128,823

**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities**

Operating Income \$ 450,842

Adjustment to Reconcile Operating Income to
Net Cash Provided by Operating Activities:

Depreciation and Amortization Expense 404,039

Increase in Meter Deposits Payable 6,982

Net Cash Provided by Operating Activities \$ 861,863

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2013

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 position and the statement of revenues, expenses and changes in net position) 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, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The statement of revenues, expenses and changes in net position 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, 2013

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, 2013

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 position 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, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net position 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, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net position 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, 2013.

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, 2013.

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, 2013.

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, 2013

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

5. Fund equity - continued

As of June 30, 2013, fund balances are composed of the following:

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total Governmental Funds
Restricted					
Cemetery	\$ -	\$ -	\$ -	\$ 43,298	\$ 43,298
Grants	-	-	-	-	-
EMS	-	-	-	994,647	994,647
Street and Alley	-	-	-	94,988	94,988
Sewer Construction and Debt Service	-	-	833,209	-	833,209
Committed					
Assigned					
Capital Improvements	-	1,317,185	-	-	1,317,185
EMS	-	-	-	21,462	21,462
Street and Alley	-	-	-	21,057	21,057
Sewer Construction and Debt Service	-	-	52,571	-	52,571
Library	18,223	-	-	-	18,223
Unassigned	920,258	-	-	-	920,258
	<u>\$ 938,481</u>	<u>\$ 1,317,185</u>	<u>\$ 885,780</u>	<u>\$ 1,175,452</u>	<u>\$ 4,316,898</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.

D. Accounting Changes

Change in Accounting Principles – As the result of implementing GASB Statement No. 65, the City has restated the beginning net position in the government-wide Statement of Net Position, effectively decreasing net position as of July 1, 2012 by \$64,500. The decrease results from no longer deferring and amortizing debt issuance costs.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2013

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 position

The governmental fund balance sheet includes a reconciliation of the \$6,071,703 difference between *fund balance - total governmental funds* and *net position - 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	\$ 1,174,821
Capital assets, being depreciated	13,269,480
Less Accumulated Depreciation	<u>(8,303,986)</u>
	<u>\$ 6,140,315</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>\$ (68,612)</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 \$483,404 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	\$ 813,578
Depreciation Expense	<u>(354,891)</u>
	<u>\$ 458,687</u>

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>\$ 24,717</u>
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City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2013

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 statues regarding custodial credit risk which requires collateral for all deposits in excess of Federal Deposit Insurance. At June 30, 2013, the bank balance was \$8,736,831. This amount was insured and collateralized.

As of June 30, 2013, the City had the following investments:

	Maturity	Cost	Fair Value
Federal National Mortgage Association	May, 2017	\$ 1,994,005	\$ 2,076,120
Federated Prime Cash Money Market Mutual Fund	NA	<u>168,896</u>	<u>168,896</u>
		<u>\$ 2,162,901</u>	<u>\$ 2,245,016</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 92% of investments.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2013

IV. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Government Activities:					
Capital assets, not being depreciated					
Land and Easements	\$ 289,036	\$ -	\$ -	\$ -	\$ 289,036
Construction in progress	196,997	688,788	-	-	885,785
Total capital assets, not being depreciated	<u>486,033</u>	<u>688,788</u>	<u>-</u>	<u>-</u>	<u>1,174,821</u>
Capital assets, being depreciated					
Land Improvements	4,520,216	-	-	-	4,520,216
Buildings	1,828,926	-	-	-	1,828,926
Building Improvements	32,766	6,662	-	-	39,428
Computers	50,663	-	-	-	50,663
Artwork	6,200	-	-	-	6,200
Vehicles	1,223,549	105,455	7,000	-	1,322,004
Machinery and Equipment	1,251,596	12,673	18,000	-	1,246,269
Infrastructure	4,255,774	-	-	-	4,255,774
Total capital assets, being depreciated	<u>13,169,690</u>	<u>124,790</u>	<u>25,000</u>	<u>-</u>	<u>13,269,480</u>
Less Accumulated Depreciation	<u>7,974,095</u>	<u>354,891</u>	<u>25,000</u>	<u>-</u>	<u>8,303,986</u>
Total capital assets, being depreciated, net	<u>5,195,595</u>	<u>(230,101)</u>	<u>-</u>	<u>-</u>	<u>4,965,494</u>
Governmental activities capital assets, net	<u>5,681,628</u>	<u>458,687</u>	<u>-</u>	<u>-</u>	<u>6,140,315</u>
Business-type Activities:					
Capital assets, not being depreciated					
Land and Easements	\$ 1,288,998	\$ 7,000	\$ -	\$ -	\$ 1,295,998
Construction in progress	87,319	-	55,156	-	32,163
Total capital assets, not being depreciated	<u>1,376,317</u>	<u>7,000</u>	<u>55,156</u>	<u>-</u>	<u>1,328,161</u>
Capital assets, being depreciated					
Land Improvements	1,925,039	5,233	-	-	1,930,272
Buildings	1,974,144	1,331,455	-	-	3,305,599
Vehicles	556,775	121,031	-	-	677,806
Machinery and Equipment	542,840	450,000	-	-	992,840
Water Rights	190,157	-	-	-	190,157
Infrastructure	35,647,447	17,528	-	-	35,664,975
Total capital assets, being depreciated	<u>40,836,402</u>	<u>1,925,247</u>	<u>-</u>	<u>-</u>	<u>42,761,649</u>
Less Accumulated Depreciation	<u>18,197,026</u>	<u>404,039</u>	<u>-</u>	<u>-</u>	<u>18,601,065</u>
Total capital assets, being depreciated, net	<u>22,639,376</u>	<u>1,521,208</u>	<u>-</u>	<u>-</u>	<u>24,160,584</u>
Business activities capital assets, net	<u>24,015,693</u>	<u>1,528,208</u>	<u>55,156</u>	<u>-</u>	<u>25,488,745</u>
Total Primary Government	<u>\$ 29,697,321</u>	<u>\$ 1,986,895</u>	<u>\$ 55,156</u>	<u>\$ -</u>	<u>\$ 31,629,060</u>

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2013

V. CAPITAL ASSETS (continued)

Capital asset activity for MEDA for the year ended June 30, 2013 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>17,615</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,615</u>

Less Accumulated Depreciation	<u>303</u>	<u>705</u>	<u>-</u>	<u>-</u>	<u>1,008</u>
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Total capital assets, being depreciated, net	<u>17,312</u>	<u>(705)</u>	<u>-</u>	<u>-</u>	<u>16,607</u>
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Component Unit capital assets, net	<u>\$ 117,251</u>	<u>\$ (705)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 116,546</u>
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Depreciation expense was charged to functions/programs of the primary government as follows:

Government activities:

General Government	\$ 15,621
Highways and Streets	125,599
Public Safety	161,077
Culture and Recreation	41,305
Cemetery	<u>11,289</u>

Total depreciation expense - governmental activities	<u><u>\$ 354,891</u></u>
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Business-type activities

Electric	\$ 92,802
Water	109,058
General Government	7,916
Pool	7,324
Sewer	<u>186,939</u>

Total depreciation expense - business-type activities	<u><u>\$ 404,039</u></u>
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City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2013

VI. INTERFUND TRANSFERS

Interfund transfers as of June 30, 2013 were as follows:

T r a n s f e r T o	Transfer From					
	General Fund	Capital		Sewer Project	Marlow Municipal Authority	
		Improvements			Authority	All Others
General Fund	\$ -	\$ -	\$ -	\$ 575,000	\$ -	\$ 575,000
Marlow Municipal Authority	-	34,190	449,615	-	-	483,805
Total	<u>\$ -</u>	<u>\$ 34,190</u>	<u>\$ 449,615</u>	<u>\$ 575,000</u>	<u>\$ -</u>	<u>\$ 1,058,805</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, 2013, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Primary Government					
<i>Governmental Activities</i>					
AT&T Oklahoma	\$ 93,329	\$ -	\$ 24,717	\$ 68,612	\$ 28,000
<i>Business-Type Activities</i>					
BancFirst	\$ -	\$ 450,000	\$ -	\$ 450,000	\$ 450,000
BancFirst 2012 Tax Revenue Note	2,190,000	-	380,000	1,810,000	385,000
Sales Tax Revenue Note Payable 2008	1,470,000	-	150,000	1,320,000	160,000
Total Business-Type Activities	<u>3,660,000</u>	<u>450,000</u>	<u>530,000</u>	<u>3,580,000</u>	<u>995,000</u>
Total Primary Government	<u>\$ 3,753,329</u>	<u>\$ 450,000</u>	<u>\$ 554,717</u>	<u>\$ 3,648,612</u>	<u>\$ 1,023,000</u>

Governmental activities long-term liabilities at June 30, 2013, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2013
<i>Governmental Activities</i>					
AT&T Oklahoma	January , 2016	4.20%	\$ 28,000	\$ 126,698	\$ 68,612
E911 Equipment					

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2013

VII. LONG-TERM LIABILITIES (continued)

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

Machinery and equipment	\$ 228,960
less accumulated depreciation	<u>(98,857)</u>
	<u>\$ 130,103</u>

Principal maturities and the amount representing interest on capital leases at June 30, 2013, is as follows:

	Year Ending June 30		
	2014	\$	28,000
	2015		28,000
	2016		<u>16,333</u>
Present value of future minimum lease payments		\$	72,333
less: Interest			<u>(3,721)</u>
Net Minimum lease payments		\$	68,612
Current portion			<u>(25,724)</u>
Long-term portion		\$	<u>42,888</u>

Business-type activities long-term liabilities at June 30, 2013, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2013
<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	\$ 1,320,000
BancFirst 2012 Sales Tax Revenue Note (Utility system improvements)	June, 2012	1.71%	199,091	2,190,000	1,810,000
BancFirst Promissory Note (Proceeds used for the purchase of a transformer)	September, 2013	3.00%	450,000	450,000	<u>\$ 450,000</u>
					<u>\$ 3,580,000</u>

Interest expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

Public Safety	\$ 3,283
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Business Type Activities:

Water	\$ 93,909
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City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2013

VII. LONG-TERM LIABILITIES (continued)

As of June 30, 2013, annual debt service requirements of the business-type activities to maturity are as follows:

Year Ending June 30	Principal	Interest
2013	\$ 995,000	\$ 89,713
2014	560,000	69,529
2015	575,000	55,735
2016	590,000	41,188
2017	430,000	26,108
2018-2020	430,000	22,756
	<u>\$ 3,580,000</u>	<u>\$ 305,029</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.

Debt Service Coverage Ratio is computed as follows:

<i>Debt Service Coverage Ratio:</i>	
Operating Revenues	\$ 5,661,048
Interest Revenue	<u>52,671</u>
Total Revenue	5,713,719
Operating Expenses	5,210,206
Less: Depreciation Expense	<u>(404,039)</u>
Total Expenses	<u>4,806,167</u>
Net Revenue Available for Debt Service	<u>907,552</u>
 <i>Average Annual Debt Service</i>	
Sales Tax Revenue Note Payable, Series 2008	170,000
BancFirst 2012 Sales Tax Revenue Note	<u>285,000</u>
	455,000
Coverage Ratio	<u>199%</u>
Required Coverage Ratio	<u>125%</u>

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2013

VIII. RESTRICTED ASSETS

Restricted cash as of June 30, 2013 is as follows:

Funds restricted for debt service reserves	\$ 1,589,071
Meter deposits	186,085
Health Savings	85,567
Oklahoma Municipal Assurance Group Escrow	79,873
	<u>\$ 1,940,596</u>

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 2012-2013, City of Marlow and Marlow Municipal Authority's annual pension cost of \$96,371, 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, 2013

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, 2013. 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
2013	287,013	60,852	37,670	23,182	51,088
2012	274,505	57,646	35,719	21,927	48,862
2011	224,295	47,102	29,158	17,944	20,411

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, 2013. Participating members are required to contribute 8%.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2013

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
2013	101,449	21,304	13,713	8,116	24,956
2012	98,551	20,696	12,812	7,884	21,484
2011	107,908	22,661	14,028	8,633	23,524

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, 2013, 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, 2013

XII. RESTATEMENT

The City adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in the current year. As a result, the effect on fiscal year 2012 is as follows:

	<u>As Previously Reported</u>	<u>Restatement</u>	<u>As Restated</u>
<i>Proprietary Fund - Marlow Municipal Authority</i>			
Fund Balance	\$ 26,987,682	\$ (64,500)	\$ 26,923,182
Debt Issue Costs	64,500	(64,500)	-
Net Change in Fund Balance	1,590,508	(64,500)	1,526,008
<i>Business Type Activities</i>			
Fund Balance	26,987,682	(64,500)	26,923,182
Debt Issue Costs	64,500	(64,500)	-
Net Change in Fund Balance	1,590,508	(64,500)	1,526,008

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, 2013

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 958,000	\$ 958,000	\$ 1,044,095	\$ 86,095
Intergovernmental	4,400	4,400	8,428	4,028
License	20,550	20,550	27,491	6,941
Charges for Service	30,600	30,600	31,652	1,052
Fines	54,800	54,800	73,845	19,045
Miscellaneous	472,791	472,791	51,590	(421,201)
Interest	4,000	4,000	6,418	2,418
Royalties	7,000	7,000	4,858	(2,142)
Cemetery	<u>34,500</u>	<u>34,500</u>	<u>39,239</u>	<u>4,739</u>
Total Revenue	<u>1,586,641</u>	<u>1,586,641</u>	<u>1,287,616</u>	<u>(299,025)</u>
EXPENDITURES				
Current				
General Government	469,039	469,039	394,557	74,482
Public Safety	1,097,547	1,099,466	1,053,234	46,232
Highways and Streets	197,630	197,630	192,262	5,368
Culture and Recreation	265,085	268,569	243,768	24,801
Cemetery	102,915	102,205	91,605	10,600
Capital Outlay				
General Government	3,000	3,000	-	3,000
Public Safety	13,350	13,350	-	13,350
Highways and Streets	2,000	2,000	-	2,000
Culture and Recreation	9,075	4,382	-	4,382
Cemetery	<u>2,000</u>	<u>2,000</u>	<u>-</u>	<u>2,000</u>
Total Expenditures	<u>2,161,641</u>	<u>2,161,641</u>	<u>1,975,426</u>	<u>186,215</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(575,000)</u>	<u>(575,000)</u>	<u>(687,810)</u>	<u>(112,810)</u>
Other Financing Sources				
Transfers In	575,000	575,000	575,000	-
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources	<u>575,000</u>	<u>575,000</u>	<u>575,000</u>	<u>-</u>
Net Change in Fund Balance	-	-	(112,810)	(112,810)
Fund Balance - Beginning	<u>-</u>	<u>-</u>	<u>1,004,930</u>	<u>1,004,930</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 892,120</u>	<u>\$ 892,120</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, 2013

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 100,000	\$ 100,000	\$ 92,690	\$ (7,310)
Intergovernmental	400,000	400,000	-	(400,000)
Miscellaneous	1,589,550	1,589,550	287,233	(1,302,317)
Interest	6,250	6,250	11,616	5,366
Royalties	120,000	120,000	78,204	(41,796)
Total Revenue	<u>2,215,800</u>	<u>2,215,800</u>	<u>469,743</u>	<u>(1,746,057)</u>
EXPENDITURES				
Current				
Highways and Streets	-	225,000	220,547	4,453
Capital Outlay				
General Government	1,700,000	1,341,000	375,260	965,740
Culture and Recreation	85,000	85,000	-	85,000
Highways and Streets	1,425,000	1,524,000	372,825	1,151,175
Total Expenditures	<u>3,210,000</u>	<u>3,175,000</u>	<u>968,632</u>	<u>2,206,368</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(994,200)	(959,200)	(498,889)	460,311
Other Financing Sources				
Transfers In	-	-	-	-
Transfers Out	-	(35,000)	(34,190)	810
Total Other Financing Sources	-	(35,000)	(34,190)	810
Net Change in Fund Balance	(994,200)	(994,200)	(533,079)	461,121
Fund Balance - Beginning	994,200	994,200	1,850,264	856,064
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,317,185</u>	<u>\$ 1,317,185</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, 2013

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	400,000	400,000	\$ 460,537	\$ 60,537
Interest	16,000	16,000	11,176	(4,824)
Total Revenue	<u>416,000</u>	<u>416,000</u>	<u>471,713</u>	<u>55,713</u>
EXPENDITURES				
Current				
General Government	-	-	5	(5)
Total Expenditures	<u>-</u>	<u>-</u>	<u>5</u>	<u>(5)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	416,000	416,000	471,708	55,708
Other Financing Sources				
Transfers Out	<u>(256,000)</u>	<u>(449,615)</u>	<u>(449,615)</u>	<u>-</u>
Total Other Financing Sources				
Net Change in Fund Balance	160,000	(33,615)	22,093	55,708
Fund Balance - Beginning	<u>-</u>	<u>193,615</u>	<u>863,687</u>	<u>670,072</u>
Fund Balance - Ending	<u>\$ 160,000</u>	<u>\$ 160,000</u>	<u>\$ 885,780</u>	<u>\$ 725,780</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, 2013

	<u>Cemetery Care</u>	<u>EMS Fund</u>	<u>Street & Alley</u>	<u>Total</u>
Assets				
Cash	\$ 43,298	\$ 910,668	\$ 116,045	\$ 1,070,011
Investments	<u>-</u>	<u>105,441</u>	<u>-</u>	<u>105,441</u>
Total Assets	<u>\$ 43,298</u>	<u>\$ 1,016,109</u>	<u>\$ 116,045</u>	<u>1,175,452</u>
Fund Balances				
Restricted	\$ 43,298	\$ 994,647	\$ 94,988	\$ 1,132,933
Assigned	<u>-</u>	<u>21,462</u>	<u>21,057</u>	<u>42,519</u>
Total Fund Balances	<u>43,298</u>	<u>1,016,109</u>	<u>116,045</u>	<u>1,175,452</u>
Total Liabilities and Fund Balances	<u>\$ 43,298</u>	<u>\$ 1,016,109</u>	<u>\$ 116,045</u>	<u>\$ 1,175,452</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, 20133

	<u>Cemetery Care</u>	<u>EMS Fund</u>	<u>Street & Alley</u>	<u>Total</u>
REVENUE				
Taxes	\$ -	\$ 230,269	\$ 41,742	\$ 272,011
Investment Return	89	5,902	645	6,636
Cemetery	<u>6,198</u>	<u>-</u>	<u>-</u>	<u>6,198</u>
Total Revenue	<u>6,287</u>	<u>236,171</u>	<u>42,387</u>	<u>284,845</u>
EXPENDITURES				
Current				
Public Safety	-	173,180	-	173,180
Highways and Streets	-	-	10,347	10,347
Capital Outlay				
Public Safety	<u>-</u>	<u>65,493</u>	<u>-</u>	<u>65,493</u>
Total Expenditures	<u>-</u>	<u>238,673</u>	<u>10,347</u>	<u>249,020</u>
Net Change in Fund Balances	6,287	(2,502)	32,040	35,825
Fund Balances, Beginning	<u>37,011</u>	<u>1,018,611</u>	<u>84,005</u>	<u>1,139,627</u>
Fund Balances, Ending	<u>\$ 43,298</u>	<u>\$ 1,016,109</u>	<u>\$ 116,045</u>	<u>\$ 1,175,452</u>

City of Marlow, Oklahoma
Supplemental Schedule
Combining Statement of Assets, Liabilities and Net Assets – Modified Cash Basis
General Fund
June 30, 2013

	<u>General Fund</u>	<u>Lake Taylor</u>	<u>OHFA Grant</u>	<u>Special Library</u>	<u>Total</u>
Assets					
Cash and Cash Investments	\$ 629,466	\$ 20,347	\$ 3	\$ 18,223	\$ 668,039
Restricted Cash	104,176	-	-	-	104,176
Investments	<u>\$ 168,165</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>168,165</u>
	<u>\$ 901,807</u>	<u>\$ 20,347</u>	<u>\$ 3</u>	<u>\$ 18,223</u>	<u>\$ 940,380</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	\$ -	\$ -	\$ -	\$ -	\$ -
Assigned	-	-	-	18,223	18,223
Unassigned	<u>899,908</u>	<u>20,347</u>	<u>3</u>	<u>-</u>	<u>920,258</u>
Total Fund Balances	<u>899,908</u>	<u>20,347</u>	<u>3</u>	<u>18,223</u>	<u>938,481</u>
Total Liabilities and Fund Balances	<u>\$ 901,807</u>	<u>\$ 20,347</u>	<u>\$ 3</u>	<u>\$ 18,223</u>	<u>\$ 940,380</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, 2013

	General Fund	Lake Taylor	OHFA Grant	Special Library	Total
REVENUE					
Taxes	\$ 1,044,095	\$ -	\$ -	\$ -	\$ 1,044,095
Intergovernmental	8,428	-	0	1,500	9,928
License and Permits	27,491	-	-	-	27,491
Charges for Service	31,652	-	-	-	31,652
Fines	152,680	-	-	-	152,680
Miscellaneous	51,593	-	-	497	52,090
Interest	6,434	609	-	42	7,085
Royalties	4,858	-	-	-	4,858
Cemetery	39,239	-	-	-	39,239
	<u>1,366,470</u>	<u>609</u>	<u>-</u>	<u>2,039</u>	<u>1,369,118</u>
Total Revenue					
EXPENDITURES					
Current					
General Government	394,557	-	-	-	394,557
Public Safety	1,132,535	-	-	-	1,132,535
Highways and Streets	192,262	-	-	-	192,262
Culture and Recreation	243,768	-	-	1,738	245,506
Cemetery	91,605	-	-	-	91,605
	<u>2,054,727</u>	<u>-</u>	<u>-</u>	<u>1,738</u>	<u>2,056,465</u>
Total Expenditures					
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(688,257)</u>	<u>609</u>	<u>-</u>	<u>301</u>	<u>(687,347)</u>
Other Financing Sources					
Transfers In	575,000	-	-	-	575,000
Total Other Financing Sources	<u>575,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>575,000</u>
Net Change in Fund Balances	(113,257)	609	-	301	(112,347)
Fund Balances, Beginning	<u>1,013,165</u>	<u>19,738</u>	<u>3</u>	<u>17,922</u>	<u>1,050,828</u>
Fund Balances, Ending	<u>\$ 899,908</u>	<u>\$ 20,347</u>	<u>\$ 3</u>	<u>\$ 18,223</u>	<u>\$ 938,481</u>

**City of Marlow, Oklahoma
Supplemental Schedule
Schedule of Grant Activity
Modified Cash Basis
For the Year Ended June 30, 2013**

Granting Agency	Purpose	Award Amount	Expenditures 2012-2013	Revenue Received 2012- 2013	Award Balance 6/30/13	Grant Receivable 6/30/2013
Department of Agriculture	Fire Operations Grant	\$ 4,484	\$ 4,484	\$ 4,484	\$ -	\$ -
Department of Transportation	Sidewalk Improvement STP-169E- (171)EH	\$ 402,233	\$ 44,608	\$ -	\$ 402,233	\$ 44,608
Department of Libraries	Operations Grant	\$ 3,944	\$ 3,944	\$ 3,944	\$ -	\$ -
Department of Libraries	Operations Grant	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ -</u>	<u>\$ -</u>
Total		<u><u>\$ 412,161</u></u>	<u><u>\$ 54,536</u></u>	<u><u>\$ 9,928</u></u>	<u><u>\$ 402,233</u></u>	<u><u>\$ 44,608</u></u>



CERTIFIED PUBLIC ACCOUNTANTS

**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 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, the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marlow, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 16, 2014. Our report included an emphasis of matter paragraph on the City's use of the modified cash basis of accounting.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine auditing procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies. 13-1, 13-2, 13-3, 13-4, 13-5, 13-6 and 13-7.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as items 13-1, 13-2, 13-5, 13-6 and 13-7.

City of Marlow's Responses to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Angel, Johnston & Blasingame, P.C.

Chickasha, Oklahoma
January 16, 2014

CITY OF MARLOW, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

Deficiencies of Internal Control, Compliance and Other Matters:

13-1. Criteria – Federal and state programs require proper administration and tracking.

Condition – The yearend schedule of federal and state programs did not include a library grant of \$1,500, streetscape grant expenditures of \$44,608 and FEMA income of \$73,103.

Cause – Federal funds are not always separately coded to allow for easy identification.

Effect – Federal and state grant activity had to be added to the schedule. This could cause funds to avoid proper audit examination.

Recommendation – Separately code all grant activity and review the yearend schedule of federal and state programs.

Management response – Staff will work to provide a schedule of federal and state programs during the audit process to expedite this information in a clear manner.

13-2. Criteria – Employee discounts can be considered to be taxable wages if Internal Revenue Service exceptions are not met. The IRS guidelines set a maximum of a 20% discount rate.

Condition – The employees receive a discount percentage on their electrical service in excess of the non-taxable allowable rate.

Cause – The City was not aware that the discount procedure may be considered to be taxable income to employees in some situations.

Effect – Employees and the City could be responsible for payroll taxes if the IRS construe some of these discounts to be taxable.

Recommendation – Review procedures on discounts to make sure discounts are non-taxable or they are added to employees' earnings.

Management response – Management will review procedures on discounts for employees, including how many employees that this would actually affect based on the number of employees that live inside the city limits, and the number of employees that regularly have a bill small enough to warrant such a policy.

13-3. Criteria – Capital assets are required to be depreciated over the estimated useful life of the assets.

Condition – Several assets are setup for depreciation over timeframes longer than the reason life of the assets. Also the depreciable lives are in several instances beyond the timeframe established by the City depreciation policy.

Cause – The depreciation schedule is maintained through a computer program. Somehow the depreciable lives, on several of the assets, were incorrectly setup. Also the schedule was not properly reviewed.

CITY OF MARLOW, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

Effect – The depreciation expense is understated and the net book value of the capital assets in overstated.

Recommendation – Review depreciable lives on all capitalized assets and change to a depreciable life consistent with City policy.

Management response – Since this problem is caused by older assets that were owned by the City/MMA prior to the introduction of INCODE, city staff will conduct an audit of the fixed assets list and correct any apparent discrepancies.

- 13-4. **Criteria** – Old outstanding checks and deposits should be investigated on a timely basis and for appropriate disposition.

Condition – The primary funds of the City have several old outstanding items. In the Municipal Authority account there was one outstanding deposit from May 28, 2008 that is still outstanding.

Cause – Appropriate procedures for disposition of outstanding bank reconciliation items has not been established.

Effect – Outstanding items are being carried in bank reconciliation that may no longer be valid items.

Recommendation – Review current old outstanding reconciling items and appropriately handle the items. Establish procedures to handle these items on a timely basis.

Management response – At the center of this issue is aging refund checks from utility deposits that are never collected by customers, and state law does not allow for checks to be voided. Management will develop a plan to review outstanding checks on a regular basis.

- 13-5. **Criteria** – State statute requires competitive bid contract change orders in excess of 10% of original contract or \$40,000, whichever is less, to be approved by the City Council. Change orders below this threshold can be approved by the City Manager if authorized by the City Council.

Condition – There were several change orders below the threshold approved by the City Manager, but not the City Council. Approval authority by the City Manager would validate these approvals. We noted one contract that had cumulative change orders exceeding 10% that did not have Council approval.

Cause – The general procedure of the City appears to be to bring all change orders to the Council for approval. This was not done on six change orders that we tested.

Effect – Competitive bidding procedures may not have been appropriately followed.

Recommendation – Clarify the change order procedure to be followed by the City and monitor the change orders for compliance.

Management response – The City Administrator will closely monitor any change orders for proper handling in the future.

CITY OF MARLOW, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2013

- 13-6. **Criteria** – Consistency in coding expenditures is necessary for proper financial statement information and budgeting.

Condition – One of our expenditure selections was a \$1,300 payment for the final cleaning related to the new City Hall construction. However, it was coded to “travel and training”.

Cause – The budget code appropriate for this expense did not have funds available so it was coded to an account that had funds available.

Effect – The reported expenditures line items were misstated in the financial statements. Budgeting controls were not followed.

Recommendation – Proper purchase order procedures should identify expenses that would cause a budget shortage. Expense should always be recorded in the appropriate line item.

Management response – The single occurrence was a \$1,300 expenditure for the final construction cleaning of the new city hall. It happened as the fiscal year was closing, and was improperly coded by city staff. Management believes that staff does an impeccable job of handling the financial coding of the immense daily business that the city transacts. Staff will continue to diligently, and properly, conduct business so that rare occurrences like this are avoided in the future.

- 13-7. **Criteria** – Proper controls and procedures should be in place to monitor the accuracy and completeness of utility revenue.

Condition – We selected some manually calculated sanitation bills that are incorrectly calculated. The utility billing adjustments for August of 2012 could not be located.

Cause – When rates changed the manually calculated bills had some errors. There was not proper monitoring of these billing calculations. The utility billing adjustments were probably misplaced during the move to the new City Hall.

Effect – Some sanitation customers were billed incorrect amounts. None were significant and some were higher and some were lower than the appropriate amount. It is not anticipated that these errors are cumulatively significant.

Recommendation – Recalculate manual sanitation bills and adjust to appropriate amounts. Establish a review process for the future.

Management response – Proper controls and procedures should be in place to monitor the accuracy and completeness of utility revenue.

**CITY OF MARLOW, OKLAHOMA
DISPOSITION OF PRIOR YEAR FINDINGS
Year Ended June 30, 2013**

Deficiencies of Internal Control, Compliance and Other Matters:

12-1. Condition – The debt related to the latest E-911 acquisition was not reflected in the financial statements and related note disclosures.

Management response – This was not noted as a finding in 2012-13.

12-2. 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.

Disposition – This was not noted as a finding in 2012-13.