

# TOWN OF MARSHALL

Marshall, Oklahoma

## FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

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**TOWN OF MARSHALL  
MARSHALL, OKLAHOMA**

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To the Town Council  
Town of Marshall, Oklahoma

**Independent Auditor's Report**

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Marshall, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Marshall, Oklahoma's, management. My responsibility is to express an opinion on these financial statements based on my audit.

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

As discussed in Note 1.D., management has not recorded fixed assets at historical cost in the proprietary fund and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those fixed assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the business-type activities. The amount by which this departure would affect the assets, net assets, and expenses of the business-type activities is not reasonably determinable.

In my opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the business-type activities of the Town of Marshall, Oklahoma, as of June 30, 2012, or the changes in financial position and, where applicable, cash flows thereof for the year then ended.

In addition, in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Marshall, Oklahoma, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 4, 2012, on my consideration of the Town of Marshall, Oklahoma's, internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, on page 27, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

The Town of Marshall, Oklahoma, has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Marshall, Oklahoma's financial statements as a whole. The individual nonmajor fund financial statements, on pages 31 and 32, and the schedule of grant funds, on page 33, are presented for purposes of additional analysis and are not a required part of the financial statements. The individual nonmajor fund financial statements and the schedule of grant funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Bruce Luttrell, CPA, PC

September 4, 2012

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**TOWN OF MARSHALL  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

**Statement 1**

	Government Activities	Business-Type Activities	Totals
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 53,147.98	\$ 14,480.22	\$ 67,628.20
Restricted cash and cash equivalents	15,493.93	10,724.58	26,218.51
Investments	64,857.49	13,405.03	78,262.52
Accounts receivable	11,392.44	6,343.96	17,736.40
Total current assets	<u>144,891.84</u>	<u>44,953.79</u>	<u>189,845.63</u>
Noncurrent assets			
Capital assets:			
Equipment	17,246.85		17,246.85
Buildings and Improvements	3,455.00		3,455.00
Infrastructure	60,769.61	665,311.72	726,081.33
Less accumulated depreciation	(16,480.94)	(126,146.00)	(142,626.94)
Total noncurrent assets	<u>64,990.52</u>	<u>539,165.72</u>	<u>604,156.24</u>
Total assets	<u>209,882.36</u>	<u>584,119.51</u>	<u>794,001.87</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable	1,651.25	9,411.72	11,062.97
Refundable deposits		10,724.58	10,724.58
Total current liabilities	<u>1,651.25</u>	<u>20,136.30</u>	<u>21,787.55</u>
Total liabilities	<u>1,651.25</u>	<u>20,136.30</u>	<u>21,787.55</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	64,990.52	539,165.72	604,156.24
Restricted for:			
Highways	15,493.93		15,493.93
Assigned to:			
Capital projects	2,205.52		2,205.52
Unassigned	125,541.14	24,817.49	150,358.63
Total net assets	<u>\$ 208,231.11</u>	<u>\$ 563,983.21</u>	<u>\$ 772,214.32</u>

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

**TOWN OF MARSHALL**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2012**

Statement 2

Functions/programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contracts	Primary Government			
				Capital Grants and Contracts	Governmental Activities	Business-type Activities	Totals
Governmental activities							
General Government	\$ 39,804.24	\$ -	\$ -	\$ -	\$ (39,804.24)	\$ -	\$ (39,804.24)
Wastewater	-	-	-	-	-	-	-
Streets	5,657.00	-	-	26,630.60	20,973.60	-	20,973.60
Total government activities	45,461.24	-	-	26,630.60	(18,830.64)	-	(18,830.64)
Business-type activities							
Water	36,454.47	44,009.00	-	-	7,554.53	7,554.53	7,554.53
Wastewater	20,429.00	3,911.91	-	-	(16,517.09)	(16,517.09)	(16,517.09)
Sanitation	18,375.84	17,580.50	-	-	(795.34)	(795.34)	(795.34)
Administrative and general	12,940.56	-	-	-	(12,940.56)	(12,940.56)	(12,940.56)
Total business-type activities	88,199.87	65,501.41	-	-	(22,698.46)	(22,698.46)	(22,698.46)
Totals	\$ 133,661.11	\$ 65,501.41	\$ -	\$ 26,630.60	(18,830.64)	(22,698.46)	(41,529.10)
General revenues							
Sales tax					46,955.92		46,955.92
Tobacco tax					654.69		654.69
Intergovernmental revenue not restricted to specific programs					2,315.16		2,315.16
Intergovernmental revenue restricted for streets & alleys					2,375.06		2,375.06
Franchise fees					7,150.00		7,150.00
Miscellaneous					4,208.23	990.71	5,198.94
Investment earnings					263.80	30.52	294.32
Transfers: In					-	-	-
Transfers: Out					-	-	-
Total general revenues and transfers					63,922.86	1,021.23	64,944.09
Change in net assets					45,092.22	(21,677.23)	23,414.99
Net assets, beginning of year					163,138.89	585,660.44	748,799.33
Net assets, end of year					\$ 208,231.11	\$ 563,983.21	\$ 772,214.32

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

## **FUND FINANCIAL STATEMENTS**

**TOWN OF MARSHALL  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012**

**Statement 3**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 50,942.46	2,205.52	\$ 53,147.98
Restricted cash and cash equivalents		15,493.93	15,493.93
Investments	64,857.49		64,857.49
Accounts receivable	11,392.44	-	11,392.44
Total assets	\$ 127,192.39	\$ 17,699.45	\$ 144,891.84
<b>Liabilities</b>			
Accounts payable	\$ 1,651.25	\$ -	\$ 1,651.25
Total liabilities	1,651.25	-	1,651.25
<b>Fund Balance</b>			
Restricted for:			
Highways		15,493.93	15,493.93
Assigned to:			
Capital projects		2,205.52	2,205.52
Unassigned:	125,541.14		125,541.14
	125,541.14	17,699.45	143,240.59
Total liabilities and fund balances	\$ 127,192.39	\$ 17,699.45	

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 as assets in governmental funds. The cost of the assets is \$ 81,471.46.

The accumulated depreciation is \$ 16,480.94.

Net effect for reconciliation

64,990.52

Net assets of governmental activities

\$ 208,231.11

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

**TOWN OF MARSHALL  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2012**

Statement 4

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Sales tax	\$ 46,955.92	\$ -	\$ 46,955.92
Tobacco tax	654.69		654.69
Intergovernmental	2,315.16	2,375.06	4,690.22
Franchise fees	7,150.00		7,150.00
Grants	26,630.60		26,630.60
Miscellaneous	4,208.23		4,208.23
Investment income	263.80		263.80
Total revenues	88,178.40	2,375.06	90,553.46
Expenditures:			
General government:			
General government	38,714.24		38,714.24
Streets	37,400.21	3,226.00	40,626.21
Wastewater			-
Total expenditures paid	76,114.45	3,226.00	79,340.45
Excess of revenues collected over (under) expenditures	12,063.95	(850.94)	11,213.01
Other financing sources (uses)			
Operating transfers in	-	-	-
Operating transfer out	-	-	-
Total other financing sources (uses)	-	-	-
Excess (deficiency) of revenues and other resources over expenditures and other uses	12,063.95	(850.94)	11,213.01
Fund balances, beginning of year	113,477.19	18,550.39	132,027.58
Fund balances, end of year	\$ 125,541.14	\$ 17,699.45	\$ 143,240.59

(Continued)

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

**TOWN OF MARSHALL  
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 GOVERNMENT FUNDS  
 YEAR ENDED JUNE 30, 2012**

**Statement 4 (cont.)**

Reconciliation of the change in fund balances: total governmental funds to the change in net assets of governmental activities:

Net change in fund balances: total governmental funds	11,213.01
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized	37,400.21
Depreciation	(3,521.00)

Change in net assets of governmental activities	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black; text-align: right;">\$ 45,092.22</td> </tr> </table>	\$ 45,092.22
\$ 45,092.22		

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

**TOWN OF MARSHALL  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2012**

**Statement 5**

	<u>Enterprise Fund</u>
<b>Assets</b>	
Current assets	
Cash and cash equivalents	\$ 14,480.22
Restricted cash and cash equivalents	10,724.58
Investments	13,405.03
Accounts receivable	6,343.96
Total current assets	<u>44,953.79</u>
Noncurrent assets	
Capital assets:	
Infrastructure	665,311.72
Less accumulated depreciation	<u>(126,146.00)</u>
Total noncurrent assets	<u>539,165.72</u>
 Total assets	 <u>584,119.51</u>
<b>Liabilities</b>	
Current liabilities	
Accounts payable	9,411.72
Refundable deposits	10,724.58
Total current liabilities	<u>20,136.30</u>
 Total liabilities	 <u>20,136.30</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	539,165.72
Unassigned	<u>24,817.49</u>
 Total net assets	 <u>\$ 563,983.21</u>

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

**TOWN OF MARSHALL  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2012**

**Statement 6**

	<u>Enterprise Fund</u>
<b>Operating revenue</b>	
Charges for services:	
Water	\$ 44,009.00
Sewer	3,911.91
Sanitation	17,580.50
Total operating revenue	<u>65,501.41</u>
 Operating expenses:	
Water	36,454.47
Sanitation	18,375.84
Administration and general	12,940.56
Depreciation	20,429.00
Total operating expenses	<u>88,199.87</u>
 Net operating income (loss)	 <u>(22,698.46)</u>
 <b>Nonoperating revenue (expense)</b>	
Investment income	30.52
Other income	990.71
Total nonoperating revenue	<u>1,021.23</u>
 Net income (loss) before transfers	 (21,677.23)
Operating transfers: In	-
Operating transfers: Out	-
	<u>-</u>
 Net income (loss)	 (21,677.23)
 Net assets beginning of year	 <u>585,660.44</u>
 Net asset end of year	 <u><u>\$ 563,983.21</u></u>

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

**TOWN OF MARSHALL  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2012**

**Statement 7**

	Enterprise Fund
<b>Cash flows from operating activities</b>	
Receipts from customers	\$ 64,243.88
Payments to suppliers	(48,829.73)
Payments to employees	(16,050.00)
Receipts of customer utility deposits	1,100.00
Refunds of customer utility deposits	(900.00)
Net cash provided (used) by operating activities	(435.85)
<b>Cash flows from noncapital financing activities</b>	
Transfer from other funds	-
Transfer to other funds	-
Other income	990.71
Net cash provided (used) by noncapital financing activities	990.71
<b>Cash flows from capital and related financing activities</b>	
Purchase of capital assets	-
Net cash provided (used) by capital and related financing activities	-
<b>Cash flows from investing activities</b>	
Interest income	30.52
Net increase (decrease) in cash and cash equivalents	585.38
Cash balance beginning of year	38,024.45
Cash balance end of year	\$ 38,609.83
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>	
Operating income (loss)	\$ (22,698.46)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows reported in other categories:	
Depreciation expense	20,429.00
Change in assets and liabilities:	
Accounts receivable	(1,257.53)
Accounts payable	2,880.74
Refundable deposits	210.40
Net cash provided (used) by operating activities	\$ (435.85)

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

## **NOTES TO BASIC FINANCIAL STATEMENTS**

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Town complies with generally accepted accounting principles (GAAP.) GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. For enterprise funds, GASB Statements Nos. 20 and 34 provide the Town the option of electing to apply FASB pronouncements issued after November 30, 1989. The Town has elected not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

**1.A. FINANCIAL REPORTING ENTITY**

The Town's financial reporting entity is composed of the following:

Primary Government:	Town of Marshall
Blended Component Unit:	None

In determining the financial reporting entity, the Town complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, and includes all component units of which the Town appointed a voting majority of the units board; the Town is either able to impose its will on the unit or a financial benefit or burden relationship exists.

BLENDDED COMPONENT UNIT

A blended component unit is a separate legal entity that meets the component unit criteria. In addition, the blended component unit's governing body is the same or substantially the same as the Town Council, or the component unit provides services entirely to the Town. The component unit's funds are blended into those of the Town by appropriate fund type to constitute the primary government presentation. The Town of Marshall has no blended component units.

DISCRETELY PRESENTED COMPONENT UNIT

Discretely presented component units are separate legal entities that meet the component unit criteria but do not meet the criteria for blending. The Town of Marshall does not have any discretely presented component units.

The component units do not issue separately audited component unit financial statements.

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**1.B. BASIS OF PRESENTATION**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

FUND FINANCIAL STATEMENTS

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance.

General Fund

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**1.B. BASIS OF PRESENTATION (continued)**

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purposes or designated to finance particular functions or activities of the Town. The reporting entity includes the following special revenue funds:

<u>Fund</u>	<u>Brief Description</u>
Street & Alley Fund	Accounts for gasoline excise and commercial vehicle taxes legally restricted for street and alley improvements.

Capital Project Funds

Capital project funds are used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes the following capital project fund that is reported as a major fund:

Grant Fund	Accounts for specific revenues and transfers from other Town funds and expenditures for various capital projects.
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**PROPRIETARY FUNDS**

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund:

<u>Fund</u>	<u>Brief Description</u>
Marshall Public Works	Accounts for the activities of providing water, wastewater, and sanitation services to the public.

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

MEASUREMENT FOCUS

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, as defined in item b below.

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (continued)**

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

BASIS OF ACCOUNTING

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, business-like, and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

**1.D. ASSETS, LIABILITIES, AND EQUITY**

CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, “cash and cash equivalents” include all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

INVESTMENTS

Investments classified in the financial statements, consist entirely of interest bearing savings accounts. Investments are carried at cost, which approximates fair value.

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**1.D. ASSETS, LIABILITIES, AND EQUITY (continued)**

INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3.F. for details of interfund transactions.

INVENTORIES

The cost of consumable materials and supplies on hand are immaterial to the financial statements, and the Town has therefore chosen to report these items as expenditures at the time of purchase.

CAPITAL ASSETS

The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable. Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. And, under GASB No. 34, small towns are not required to retroactively report infrastructure assets, and the Town of Marshall has elected not to retroactively report. Infrastructure assets in governmental funds acquired since July 1, 2003, are recorded at cost.

Detail fixed asset records at historical cost have not been maintained of such assets which are still in service for the proprietary fund (Marshall Public Works). Generally accepted accounting principles require that these assets be capitalized, and the related depreciation be recorded, which would increase the assets and expenses of the activities.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$ 500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

Building Improvements	25 years
Infrastructure	25 years

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**1.D. ASSETS, LIABILITIES, AND EQUITY (continued)**

**Fund Financial Statements**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

LONG-TERM DEBT

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

COMPENSATED ABSENCES

The Town does not have a formal policy for vacation or sick leave. Due to the limited staff of the Town, employees schedule their vacations, or other time off, so that the Town does not have to hire additional employees. Thus, any vacation time (or sick leave) taken is compensated at the employees regular wage rates.

EQUITY CLASSIFICATION

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Town applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Balance

Fund Balance is divided into five classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**1.D. ASSETS, LIABILITIES, AND EQUITY (continued)**

Nonspendable – The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans.

Restricted – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (Town ordinances).

Enabling legislation authorizes the Town to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the Town can be compelled by an external party – such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by formal action (ordinance or resolution) of the Town Council. Those committed amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by the Town Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints are not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned – Amounts in the assigned fund balance classification are intended to be used by the Town for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the Town Council or a Town official delegated that authority by Town Charter or ordinance.

Unassigned – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The Town applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**1.E. REVENUES, EXPENDITURES, AND EXPENSES**

SALES TAX

The Town presently levies a four-cent sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors.

PROGRAM REVENUES

In the Statement of Activities, revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues.

All other governmental revenues are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose, except for the commercial vehicle tax and the gasoline excise tax, both of which are restricted for street and alley purposes.

OPERATING REVENUE AND EXPENSES

Operating revenues and expenses for the proprietary fund result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

**1.F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES**

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

FUND FINANCIAL STATEMENTS

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund loans – Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
2. Interfund services – Sales or purchases of goods and services between funds are reported as revenues and expenditures/expenses.
3. Interfund reimbursements – Repayments from funds responsible for certain expenditures/expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditure/expenses in the respective funds.
4. Interfund transfers – Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**1.F. INTERNAL AND INTERFUND BALANCES AND ACTIVITIES (continued)**

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows”

1. Internal balances – Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the governmental and business-type activities columns of the Statement of Net Assets, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
2. Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.
3. Primary government and component unit activity and balances – Resource flows between the primary government (the Town and Enterprise Fund) are reported as if they were external transactions and are classified separately from internal balances and activities within the primary government.

**1.G. USE OF ESTIMATES**

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

**NOTE 2. STEWARDSHIP, COMPLINACE, AND ACCOUNTABILITY**

By its nature as a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the Town’s compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows.

**2.A. UNINSURED AND UNCOLLATERALIZED DEPOSITS**

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State or political subdivision debt obligations, surety bonds, or certain letters of credit. As reflected in Note 3.A., all the Town’s deposits were fully insured or collateralized at June 30, 2012.

**NOTE 3. DETAIL NOTES – TRANSACTION CLASSES / ACCOUNTS**

**3.A. DEPOSITS AND INVESTMENTS**

DEPOSITS

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**NOTE 3. DETAIL NOTES – TRANSACTION CLASSES / ACCOUNTS**

All the deposits of the Town are either insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by the Town or by its agent in its name.

At June 30, 2012, the Town's deposits had a carrying amount of \$ 172,109.23 and a bank balance of \$ 172,109.23. All the bank balance was covered by federal depository insurance.

INVESTMENTS

Investments of the Town are limited by State law to the following:

- a. Direct obligations of the U.S. Government, its agencies, and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper, and repurchase agreements with certain limitations.
- d. County, municipal, or school district tax-supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the Securities and Exchange Commission and in which investments consist of the investments mentioned in the previous paragraphs a,b,c, and d.

For the year ended June 30, 2012, the Town complied, in all material respects, with these investment provisions.

During the year ended June 30, 2012, the Town's investments consisted of interest bearing savings accounts, and a certificate of deposit.

*Interest Rate Risk:* The Town does not have a formal investment policy.

*Credit Risk:* The Town has no policy regarding credit risk.

*Concentration of Credit Risk:* The Town places no limit on the amount that the Town may invest in any one issuer.

RESERVE

In April, 1999, the Town approved, by resolution, to reserve \$ 150.00 per month, from the water and sewer revenue, for emergencies. The balance in this reserve at June 30, 2012 and 2011, was \$ 6,982.28 and \$ 5,319.94, respectively, and is included in Investments on the balance sheet.

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**3.B. RESTRICTED ASSETS**

The amounts reported as restricted assets are composed of amounts held by the Marshall Enterprise Fund for utility deposits (refunded upon termination of service or applied to final bill) of \$ 10,724.58, the balance of the Street and Alley Fund of \$ 15,493.93, and the balance in the Capital Improvement Fund of \$ 2,205.52.

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

Revenue Source	Legal Restrictions of Use
Gasoline Excise & Commercial Vehicle Tax	Street & Alley purposes
Water, Sewer, and Trash revenue	Utility operations
Grant proceeds	Grant expenditures

**3.C. ACCOUNTS RECEIVABLE**

Accounts receivable of the business-type activities consist of utilities receivable. Accounts receivable of the governmental activities consist of sales tax (44.9 %), franchise tax (52.6 %), alcoholic beverage tax (1.9 %), and other (0.6 %). Receivables detail at June 30, 2012, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 11,392.44	6,343.96	17,736.40

**3.D. CAPITAL ASSETS**

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

	Balance at July 1, 2011	Additions	Deductions	Balance at June 30, 2012
<i>Governmental activities:</i>				
Other capital assets:				
Equipment	17,246.85			17,246.85
Building Improvements	3,455.00			3,455.00
Infrastructure	23,369.40	37,400.21		60,769.61
Total other capital assets at historical cost	44,071.25	37,400.21		81,471.46
Less accumulated depreciation for:				
Equipment	8,260.94	138.00		8,398.94
Building Improvements	4,232.00	952.00		5,184.00
Infrastructure	467.00	2,431.00		2,898.00
Total accumulated depreciation	12,959.94	3,521.00		16,480.94
Government activities capital assets, net	31,111.31	33,879.21		64,990.52

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**3.D. CAPITAL ASSETS (continued)**

	<u>Balance at July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2012</u>
<i>Business-type activities:</i>				
Other capital assets:				
Infrastructure	665,311.72			665,311.72
Total other capital assets at historical cost	665,311.72			665,311.72
Less accumulated depreciation for:				
Infrastructure	105,717.00	20,429.00		126,146.00
Total accumulated depreciation	105,717.00	20,429.00		126,146.00
Business-type activities capital assets, net	559,594.72	<20,429.00>		539,165.72

Depreciation expense was charged to functions as follows in the Statement of Activities:

Governmental Activities:		
General Government		\$ 1,090.00
Streets		2,431.00
Total depreciation expense for governmental activities		\$ 3,521.00
Business-Type Activities:		
Wastewater		\$ 20,429.00
Total depreciation expense for business-type activities		\$ 20,429.00

**3.E. LONG-TERM DEBT**

The reporting entity's long-term debt arising from cash transactions is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

BUSINESS-TYPE ACTIVITIES

Refundable Deposits:

- Refundable deposits reported as a liability within the Statement of Net Assets are composed of the following:

Utility Deposits – Refundable	\$ 10,724.58
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CHANGES IN LONG-TERM DEBT

The following is a summary of changes in long-term debt for the year ended June 30, 2012.

Type of Debt	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012	Amount Due Within One Year
<i>Business-Type Activities:</i>					
Refundable deposits	10,514.18	1,100.00	889.60	10,724.58	10,724.58
Total Business-Type Activities	10,514.18	1,100.00	889.60	10,724.58	10,724.58

TOWN OF MARSHALL  
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NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**3.F. INTERFUND TRANSFERS**

Transfers are used to move restricted resources collected by the General Fund and the Capital Improvement Fund to the funds authorized to spend the resources.

There were no transfers between funds of the primary government for the year ended June 30, 2012.

**3.G. ACCOUNTS PAYABLE**

Payables in the General Fund and nonmajor governmental funds are composed entirely of payables to vendors. Payables of Utilities Enterprise Fund are also composed entirely of payables to vendors.

**NOTE 4: OTHER NOTES**

**4.A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS**

FIREFIGHTER'S PENSION AND RETIREMENT SYSTEMS

The Town of Marshall, as the employer, participates in the statewide cost-sharing multi-employer defined benefit plan on behalf of the volunteer firefighters. The system is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

Eligibility Factors, Contribution Methods, and Benefit Provisions

	<u>Firefighter's Pension and Retirement System</u>
Obtaining separately issued financial Statements	Firefighters Pension and Retirement 4545 N. Lincoln Blvd., Suite 265 Oklahoma City, Oklahoma 73105-3414
Eligibility to participate	All full-time or voluntary firefighters of a Participating municipality and hired before age 45.
Authority establishing contribution obligations and benefits	State Statute
Employee's contribution rate	N/A
Town's contribution rate	\$ 60 per volunteer
State obligation	State appropriation to fund the unfunded actuarial accrued liability
Period required to vest	10 years

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**4.A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS (continued)**

	<u>Firefighter's Pension and Retirement System</u>
Eligibility and benefits for distribution (full-time)	20 years credited service, 2.5 % of final average salary multiplied by the years of credited service with a maximum of 30 years considered; if vested, at or after age 50, or after 10 but before 20 years of credited service, with reduced benefits.
Eligibility and benefits for distribution (volunteer)	20 years credited service equal to \$ 6.69 per month per year of service, with a maximum of 30 years considered. If vested, same as full-time.
Deferred retirement option	Yes, 20 years credited with continued service for a maximum of 30 or more years.
Provision for:	
Cost of living adjustments (normal retirement)	Yes, if vested by 5/05
Death (duty, nonduty, post retirement)	Yes
Disability (duty, nonduty)	Yes
Cost of living allowances	Yes

Trend information showing the progress of the Systems in accumulating sufficient assets to pay benefits when due is presented in their respective separate annual financial reports.

**Related Party Investments**

As of June 30, 2012, the System held no related-party investments of the Town or of its component unit.

**4.B. RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employees' health and life; and natural disasters.

The Town manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
a. Torts, errors, and omissions	Purchased insurance with Oklahoma Municipal Assurance Group.	(1)
b. Physical property loss and natural disasters	Purchased commercial insurance, with a deductible of \$ 250.	Deductible amount

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**4.B. RISK MANAGEMENT (continued)**

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
c. Workers compensation, health and life	Workers comp is insured through State Insurance Fund with no deductible.	None

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

**Risk Entity Pools**

The Town participates in the Oklahoma Municipal Assurance Group Liability Protection Plan.

*(1) Liability Protection Plan*

The basic insurance agreements cover claims against municipalities for all government functions, utilities, and services covered in the Plan. These include bodily injury, property damage, wrongful acts, personal injury, and related torts under the State tort claims law and federal civil rights laws.

All public officials, employees, services, and municipal functions are covered unless they are specifically listed as exclusions in the Plan.

The title to all assets acquired by the Plan are vested in the Group. In the event of termination of the Group, such property shall belong to the then members of the Group in equal shares. Each participating City pays all costs, premiums, or other fees attributable to its respective participation in the Plan, and is responsible for its obligation under any contract entered into with the Plan.

Reserves for claim losses include provisions for reported claims on a case basis and an estimate of claims incurred but not reported limited by aggregate and individual loss levels as specified by the Plan's reinsurance contracts. These credits, if any, represent contingent liabilities of the Plan if the reinsurer was unable to meet its obligations under the reinsurance agreement.

The Plan's insurance agreements are reinsured for excess losses based upon the contract year. The significant components of each reinsurance contract can be obtained from the Plan's annual financial report.

**4.C. COMMITMENTS AND CONTINGENCIES**

**COMMITMENTS**

The Town was previously approved for a \$ 50,000 Rural Economic Action Plan (REAP) grant from the State of Oklahoma, administered through the Association of Central Oklahoma Governments (ACOG) to be used to repair Town streets. During the previous year, \$ 23,369.40 was drawn, and expended, under the grant. During the current year, the final \$ 26,630.60 was drawn, and expended, under the grant, and, \$ 10,769.61 in matching funds were provided. See the Schedule of Grant Funds for further details.

TOWN OF MARSHALL  
Marshall, Oklahoma

NOTES TO THE FINANCIAL STATEMENTS  
For the year ended June 30, 2012

**4.C. COMMITMENTS AND CONTINGENCIES (continued)**

The Town has been approved for a \$ 99,000 Rural Economic Action Plan (REAP) grant from the State of Oklahoma, administered through the Association of Central Oklahoma Governments (ACOG) to be used to repair Town streets. This grant was made in conjunction with the CDBG grant discussed below. At June 30, 2012, no funds had been drawn under the grant. See the Schedule of Grant Funds for further details.

The Town has been approved for a \$ 92,108 Community Development Block Grant (CDBG) through the Oklahoma Department of Commerce / Division of Community Affairs and Development, funded by the U.S. Department of Housing and Urban Development, to repair Town streets. The grant calls for matching funds on the City's behalf which will be provided by the REAP grant discussed above. The funding period runs from June 25, 2012, through June 25, 2014. At June 30, 2012, no funds had been drawn under the grant. See the Schedule of Grant Funds for further details.

CONTINGENCIES

**Grant Program Involvement**

In the normal course of operations, the Town participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability for reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

**Litigation**

The Town is a party to various legal proceedings that normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a 3-year period by a Town "Sinking Fund" for the payment of any court assessed judgment rendered against the Town. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the Town and the State statute relating to judgments, the Town feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Town.

**4.D. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through September 4, 2012, which is the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**TOWN OF MARSHALL  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
YEAR ENDED JUNE 30, 2012**

**UNAUDITED**

**Exhibit 1**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Beginning Budgetary Fund Balance</b>	\$ 104,642.21	\$ 104,642.21	\$ 104,642.21	\$ -
<b>Resources (Inflows):</b>				
Alcohol beverage tax	2,006.00	2,006.00	2,315.16	309.16
Franchise fees	5,973.00	5,973.00	7,150.00	1,177.00
Interest income	212.00	212.00	263.80	51.80
Miscellaneous	1,625.00	1,625.00	4,208.23	2,583.23
Sales tax	35,609.00	35,609.00	46,955.92	11,346.92
Cigarette tax	502.00	502.00	654.69	152.69
Grants	-	-	26,630.60	26,630.60
Amounts available for appropriation	150,569.21	150,569.21	192,820.61	42,251.40
<b>Charges to Appropriations (Outflows):</b>				
General Government:				
Personal services	5,000.00	5,000.00	5,047.16	(47.16)
Maintenance and operations	64,000.00	64,000.00	33,667.08	30,332.92
Capital outlay	50,000.00	50,000.00	37,400.21	12,599.79
Total General Government	119,000.00	119,000.00		42,885.55
<b>Total Charges to Appropriations</b>	119,000.00	119,000.00		\$ 42,885.55
<b>Ending Budgetary Fund Balance</b>	\$ 31,569.21	\$ 31,569.21		
<b>General Fund Expenditures (Statement of Revenues, Expenditures, and Changes in Fund Balance)</b>			\$ 76,114.45	

**TOWN OF MARSHALL  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
JUNE 30, 2012**

**UNAUDITED**

Budget Law

The Town prepares its annual operating budget under the provisions of the Title 62 and 68 of the Oklahoma statutes (Estimate of Needs Law). In accordance with those provisions, the following process is used to adopt the annual budget:

- a. In the first week of August, a financial statement is prepared on State prescribed forms for use in determining cash surplus of the General Fund and other "cash" funds of the Town.
- b. Using the State prescribed forms, an estimate of appropriation needs of the General Fund is prepared which is limited in total to no more than 90 % of prior year actual recurring revenue plus cash surplus.
- c. The estimate of needs forms are approved by the Town Council and submitted to the County Excise Board by no later than August 27.
- d. The budget for the General Fund becomes final upon County Excise Board approval.

The General Fund and certain "cash" funds as defined by State law are required to have annual budgets, except funds of public trusts or authorities. The legal level of control at which expenditures may not legally exceed appropriations is the department level within a fund.

All transfers of appropriations between departments and object categories and all supplemental appropriations require Town Council approval. Supplemental appropriations must also be filed with the Office of State Auditor and Inspector.

The Town prepared and adopted a legal annual budget for only the General Fund. All other governmental funds did not have a legal annual budget prepared.

Basis of Accounting

The budget is prepared on the cash basis of accounting. Revenues and expenditures are reported when they result from cash transactions.

The Town does not fully utilize encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation. Encumbrances are not the equivalent of expenditures. The Town considers all appropriations to lapse at year-end; any open purchase orders to be honored in the subsequent budget year are re-appropriated in the new year's budget.

## OTHER SUPPLEMENTARY INFORMATION

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

Town Council  
Town of Marshall, Oklahoma

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Marshall, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town of Marshall, Oklahoma's, basic financial statements and have issued my report thereon dated September 4, 2012. My report included an explanatory paragraph that stated management had not presented the Management's Discussion and Analysis to supplement the financial statements. My report on the business-type activities was qualified due to the omission of fixed assets and related depreciation. I conducted my audit in accordance with auditing standards generally accepted in the United States of American 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

In planning and performing my audit, I considered the Town of Marshall's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Marshall's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Marshall's internal control over financial reporting.

My 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 over financial reporting 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 described in the accompanying schedule of findings and responses, I identified certain deficiencies in internal control over financial reporting that I consider to be material weaknesses and other deficiencies that I 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and responses (# 2012-1 and # 2012-2) to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompany schedule of findings and responses (# 2012-3 through # 2012-5) to be significant deficiencies.

Compliance and Other Matters

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

The Town of Marshall's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. I did not audit the Town of Marshall's response and, accordingly, I express no opinion on it.

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



Bruce G. Luttrell, CPA, PC

September 4, 2012

**TOWN OF MARSHALL  
BALANCE SHEETS  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2012**

Exhibit 2

	SPECIAL REVENUE FUND	CAPITAL IMPROVEMENT FUND	Total Nonmajor Governmental Funds
	Street and Alley Fund	Grant Fund	
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 2,205.52	\$ 2,205.52
Restricted cash and cash equivalents	15,493.93		15,493.93
Investments			-
Accounts receivable	-	-	-
Total assets	\$ 15,493.93	\$ 2,205.52	\$ 17,699.45
 <b>LIABILITIES</b>			
Due to other funds	\$ -	\$ -	\$ -
Total liabilities	-	-	-
 <b>FUND BALANCE</b>			
Restricted for:			
Highways	15,493.93		15,493.93
Assigned to:			
Capital projects		2,205.52	2,205.52
Total Fund Balance	15,493.93	2,205.52	17,699.45
 Total Liabilities and Fund Balance	\$ 15,493.93	\$ 2,205.52	\$ 17,699.45

TOWN OF MARSHALL  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012

Exhibit 3

	SPECIAL REVENUE FUND Street and Alley Fund	CAPITAL IMPROVEMENT FUND Grant Fund	Total Nonmajor Governmental Funds
Revenues:			
Intergovernmental Grants	\$ 2,375.06	\$ -	\$ 2,375.06
Investment income			-
Total Revenues	<u>2,375.06</u>	<u>-</u>	<u>2,375.06</u>
Expenditures:			
Wastewater			-
Streets	3,226.00		3,226.00
Total Expenditures	<u>3,226.00</u>	<u>-</u>	<u>3,226.00</u>
Excess (deficiency) of revenues over expenditures	<u>(850.94)</u>	<u>-</u>	<u>(850.94)</u>
Other financing sources (uses):			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(850.94)	-	(850.94)
Fund Balances - beginning	<u>16,344.87</u>	<u>2,205.52</u>	<u>18,550.39</u>
Fund Balances - ending	<u>\$ 15,493.93</u>	<u>\$ 2,205.52</u>	<u>\$ 17,699.45</u>

**TOWN OF MARSHALL  
SCHEDULE OF GRANT FUNDS  
FOR THE YEAR ENDED JUNE 30, 2012**

Exhibit 4										
Federal/State Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Program or Award Amount	Cash Accrued or Deferred Revenue at July 1, 2011	Contract Receipts Revenue Recognized	Contract Disbursements Expenditures	Interest Earned Federal Funds	Match Receipts or Revenue Recognized	Match Disbursements Expenditures	Cash Accrued or Deferred Revenue at June 30, 2012
<u>U.S. Department of Housing and Urban Development</u>										
Passed through the Oklahoma Department of Commerce:										
CDBG - 11	14.228	15091	92,108.00	-	-	-	-	-	-	-
<u>Rural Economic Action Plan Grant</u>										
Passed through the Association of Central Oklahoma Governments										
2010 REAP Fund		T-2010-56	50,000.00	-	26,630.60	26,630.60	-	10,769.61	10,769.61	-
2012 REAP Fund		4-2012-47	99,000.00	-	-	-	-	-	-	-
			<u>149,000.00</u>	<u>-</u>	<u>26,630.60</u>	<u>26,630.60</u>	<u>-</u>	<u>10,769.61</u>	<u>10,769.61</u>	<u>-</u>

TOWN OF MARSHALL  
Marshall, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES  
For the year ended June 30, 2012

Exhibit 5

Number

# 2012-1	<p><b><u>Finding:</u></b> Personnel lack the accounting expertise to prevent, detect, or correct material misstatements in the financial statements.</p> <p><b><u>Management's Response:</u></b> The Town will strive to provide continuing education to train employees attempt to correct this deficiency.</p>
# 2012-2	<p><b><u>Finding:</u></b> Inadequate design of internal control over preparation of the financial statements which would prevent or detect a misstatement in the financial statements.</p> <p><b><u>Management's Response:</u></b> The Town will strive to provide continuing education to train employees to attempt to correct this deficiency.</p>
# 2012-3	<p><b><u>Finding:</u></b> Lack of segregation of duties: personnel with access to customers' account information (including the billing function) also have access to cash receipts.</p> <p><b><u>Management's Response:</u></b> Due to the small number of employees, it is not feasible to segregate the duties necessary to alleviate this deficiency.</p>
# 2012-4	<p><b><u>Finding:</u></b> Lack of segregation of duties: bank accounts are not reconciled by personnel independent of the cash receipts and disbursements functions.</p> <p><b><u>Management's Response:</u></b> Due to the small number of employees, it is not feasible to segregate the duties necessary to alleviate this deficiency.</p>
# 2012-5	<p><b><u>Finding:</u></b> Lack of segregation of duties: bank statements are not received by personnel independent of the cash receipts and disbursements functions.</p> <p><b><u>Management's Response:</u></b> Due to the small number of employees, it is not feasible to segregate the duties necessary to alleviate this deficiency.</p>