
City of Marlow, Oklahoma

Financial Statements

Year -End: June 30, 2011

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City of Marlow
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 For the Fiscal Year Ended June 30, 2011

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INTRODUCTORY

City of Marlow
List of Elected and Appointed Officials
June 30, 2011

Elected Officials

Mayor	L. Don Graham
Vice Mayor	Mickey Hoy
Council Member	Don Ridley
Council Member	Daniel Ross
Council Member	Wesley Walker

Appointed Officials

City Manager	Janice Cain
City Clerk	Betty Mackey
City Treasurer	D.B. Green
Trustee	David Murch
Trustee	Tom Wheat

FINANCIAL



INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Marlow, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Marlow, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on those financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions- modified cash basis of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marlow, Oklahoma, as of June 30, 2011, and the respective changes in financial positions- modified cash basis for the year then ended in conformity with the basis of accounting described in Note I(B).

As discussed in Note XII to the financial statements, the 2010 financial statements have been

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restated to correct a misstatement.

In accordance with *Government Auditing Standards*, we have issued our report dated February 28, 2012, on our consideration of City of Marlow's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marlow, Oklahoma's, financial statements taken as a whole. The accompanying Introductory Section, Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual, combining general fund and combining nonmajor fund financial statements are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual, combining general fund and combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide assurance on it.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
February 28, 2012

BASIC FINANCIAL STATEMENTS

City of Marlow
Government-Wide Statement of Assets, Liabilities and Net Assets – Modified Cash Basis
June 30, 2011

	Primary Government			Component
	Governmental	Business-Type	Total	Unit
	Activities	Activities		MEDA
ASSETS				
Cash and Cash Equivalent	\$ 5,487,297	\$ 2,325,908	\$ 7,813,205	\$ 311,134
Restricted Cash and Cash Equivalents	45,778	646,683	692,461	-
Investments	511,336	1,534,011	2,045,347	-
Land	317,503	1,294,398	1,611,901	99,939
Other Capital Assets, net of depreciation	<u>5,032,933</u>	<u>22,992,634</u>	<u>28,025,567</u>	<u>-</u>
Total Assets	<u>\$ 11,394,847</u>	<u>\$ 28,793,634</u>	<u>\$ 40,188,481</u>	<u>\$ 411,073</u>
LIABILITIES AND EQUITY				
Current Liabilities				
Bonds Pending Court	\$ 1,899	\$ -	\$ 1,899	\$ -
Refundable Meter Deposits	-	217,698	217,698	-
Long -term liabilities	-			-
Due within one year	-	349,190	349,190	-
Due in more than one year	<u>-</u>	<u>2,855,701</u>	<u>2,855,701</u>	<u>-</u>
Total Liabilities	<u>\$ 1,899</u>	<u>\$ 3,422,589</u>	<u>\$ 3,424,488</u>	<u>\$ -</u>
Net Assets				
Invested in Capital Assets	\$ 5,350,435	\$ 21,082,141	\$ 26,432,576	\$ -
Restricted for				
Sewer Project and Debt Service	2,053,443	424,915	2,478,358	-
Street and Alley	220,141	-	220,141	-
Cemetery	32,408	-	32,408	-
EMS	922,568	-	922,568	-
Grants	9,291	-	9,291	-
Unrestricted	<u>2,804,662</u>	<u>3,863,989</u>	<u>6,668,651</u>	<u>411,073</u>
Total Net Assets	<u>\$ 11,392,948</u>	<u>\$ 25,371,045</u>	<u>\$ 36,763,993</u>	<u>\$ 411,073</u>

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

City of Marlow
Government-Wide Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Unit
							MEDA	
Primary Government								
Governmental Activities								
General Government	\$ 482,429	\$ 91,506	\$ 423,243	\$ -	\$ 32,320	\$ -	\$ 32,320	
Highways and Streets	351,201	-	-	-	(351,201)	-	(351,201)	
Public Safety	1,005,362	99,810	43,365	-	(862,187)	-	(862,187)	
Culture and Recreation	228,285	1,518	-	-	(226,767)	-	(226,767)	
Cemetery	110,867	47,383	-	-	(63,484)	-	(63,484)	
Total Governmental Activities	<u>2,178,144</u>	<u>240,217</u>	<u>466,608</u>	<u>-</u>	<u>(1,471,319)</u>	<u>-</u>	<u>(1,471,319)</u>	
Business-Type Activities								
Electric	\$ 3,120,096	\$ 3,873,298	-	-	-	753,202	753,202	
Water	562,109	493,886	-	-	-	(68,223)	(68,223)	
Sanitation	505,792	584,434	-	-	-	78,642	78,642	
Sewer	321,253	209,149	-	-	-	(112,104)	(112,104)	
General Government and Recreation	936,498	903,356	-	-	-	(33,142)	(33,142)	
Total Business Type Activities	<u>5,445,748</u>	<u>6,064,123</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>618,375</u>	<u>618,375</u>	
Total Primary Government	<u>\$ 7,623,892</u>	<u>\$ 6,304,340</u>	<u>\$ 466,608</u>	<u>\$ -</u>	<u>\$ (1,471,319)</u>	<u>618,375</u>	<u>(852,944)</u>	
Component Unit								
Marlow Economic Development Authority	<u>\$ 27,120</u>	<u>\$ 1,313</u>	<u>\$ 46,237</u>	<u>\$ -</u>			\$ 20,430	
General Revenues								
Taxes					1,841,899	-	1,841,899	-
Investment Return					48,686	37,409	86,095	2,236
Rent and Royalties					138,939	-	138,939	-
Miscellaneous					(853)	-	(853)	-
Transfers					297,071	(297,071)	-	-
Total General Revenues and Transfers					<u>2,325,742</u>	<u>(259,662)</u>	<u>2,066,080</u>	<u>2,236</u>
Change in Net Assets					854,423	358,713	1,213,136	22,666
Net Assets - Beginning, as restated					<u>10,538,525</u>	<u>25,012,332</u>	<u>35,550,857</u>	<u>388,407</u>
Net Assets - Ending					<u>\$ 11,392,948</u>	<u>\$ 25,371,045</u>	<u>\$ 36,763,993</u>	<u>\$ 411,073</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, 2011

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total
Assets					
Cash and Cash Investments	\$ 851,246	\$ 1,714,669	\$ 1,816,062	\$ 1,095,036	\$ 5,477,013
Restricted Cash	56,062	-	-	-	56,062
Investments	159,025	-	252,600	99,711	511,336
Total Assets	\$ 1,066,333	\$ 1,714,669	\$ 2,068,662	\$ 1,194,747	\$ 6,044,411
Liabilities					
Bonds Pending Court	\$ 1,899	-	-	-	\$ 1,899
Total Liabilities	1,899	-	-	-	1,899
Fund Balances					
Restricted	\$ 9,291	-	\$ 2,053,442	\$ 1,175,118	\$ 3,237,851
Committed	-	61,973	-	-	61,973
Assigned	17,391	1,652,696	15,220	19,629	1,704,936
Unreserved	1,037,752	-	-	-	1,037,752
Total Fund Balances	\$ 1,064,434	\$ 1,714,669	\$ 2,068,662	\$ 1,194,747	\$ 6,042,512
Total Liabilities and Fund Balances	\$ 1,066,333	\$ 1,714,669	\$ 2,068,662	\$ 1,194,747	
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>					
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.					5,350,436
Net assets of governmental activities.					\$ 11,392,948

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, 2011

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total
REVENUE					
Taxes	\$ 959,157	\$ 221,721	\$ 413,182	\$ 247,840	1,841,900
Intergovernmental	17,291	417,792	-	11,341	446,424
License and Permits	24,250	-	-	-	24,250
Charges for Service	27,011	-	-	-	27,011
Fines	65,185	-	-	-	65,185
Miscellaneous	83,995	30,390	-	960	115,345
Investment Return	11,053	11,938	15,221	10,474	48,686
Royalties	7,684	127,705	-	-	135,389
Cemetery	40,191	-	-	7,191	47,382
	<u>\$ 1,235,817</u>	<u>809,546</u>	<u>428,403</u>	<u>277,806</u>	<u>2,751,572</u>
EXPENDITURES					
Current					
General Government	\$ 422,563	-	-	1	422,564
Public Safety	908,546	80,683	-	110,000	1,099,229
Highways and Streets	152,404	737	-	3,513	156,654
Culture and Recreation	121,027	-	-	-	121,027
Cemetery	164,556	-	-	-	164,556
Capital Outlay					
General Government	4,381	30,963	1	-	35,345
Public Safety	6,751	-	-	66,247	72,998
Highways and Streets	725	59,277	-	-	60,002
Culture and Recreation	3,832	-	-	-	3,832
	<u>\$ 1,784,785</u>	<u>171,660</u>	<u>1</u>	<u>179,761</u>	<u>2,136,207</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(548,968)</u>	<u>637,886</u>	<u>428,402</u>	<u>98,045</u>	<u>615,365</u>
Other Financing Sources					
Transfers In	841,521	-	-	3,659	845,180
Transfers Out	(36,468)	(258,352)	(253,289)	-	(548,109)
Total Other Financing Sources	<u>805,053</u>	<u>(258,352)</u>	<u>(253,289)</u>	<u>3,659</u>	<u>297,071</u>
Net Change in Fund Balances	256,085	379,534	175,113	101,704	912,436
Fund Balances - Beginning as restated	<u>808,349</u>	<u>1,335,135</u>	<u>1,893,549</u>	<u>1,093,043</u>	<u>5,130,076</u>
Fund Balances - Ending	<u>\$ 1,064,434</u>	<u>\$ 1,714,669</u>	<u>\$ 2,068,662</u>	<u>\$ 1,194,747</u>	<u>\$ 6,042,512</u>

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

City of Marlow
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Net Assets – Modified Cash Basis – Governmental Funds
to the Statement of Revenue, Expenses and Changes in Net Assets – Modified Cash Basis
For the Year Ended June 30, 2011

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

Net change in fund balances - total governmental funds	\$ 912,436
 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 depreciation expense exceeded capital outlays in the current period.	 <u>(58,013)</u>
Change in net assets of governmental activities.	<u>\$ 854,423</u>

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

City of Marlow
Statement of Assets, Liabilities, Net Assets – Modified Cash Basis – Proprietary Fund
June 30, 2011

	<u>Marlow Municipal Authority</u>
<i>ASSETS</i>	
Current Assets	
Cash and Cash Equivalent	\$ 2,326,268
Restricted Cash and Cash Equivalents	221,768
Investments	<u>1,534,011</u>
Total Current Assets	<u>\$ 4,082,047</u>
Noncurrent Assets	
Restricted Cash and Cash Equivalents	\$ 424,915
Capital Assets	
Land and Construction in Progress	1,294,398
Other Capital Assets	40,795,895
Less Accumulated Depreciation	<u>(17,803,261)</u>
Total Noncurrent Assets	<u>\$ 24,711,947</u>
Total Assets	<u>\$ 28,793,994</u>
<i>LIABILITIES AND EQUITY</i>	
Current Liabilities	
Refundable Meter Deposits	\$ 218,058
Notes Payable, Current Portion	<u>349,190</u>
Total Current Liabilities	\$ 567,248
Noncurrent Liabilities	
Notes Payable	<u>2,855,701</u>
Total Liabilities	<u>\$ 3,422,949</u>
Net Assets	
Invested in Capital Assets, net of related debt	\$ 21,082,141
Restricted for Debt Service	424,915
Unrestricted	<u>3,863,989</u>
Total Net Assets	<u><u>\$ 25,371,045</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 Assets – Modified Cash Basis – Proprietary Fund
For the Year Ended June 30, 2011

	Marlow Municipal Authority
Operating Revenues:	
Electric	\$ 3,873,298
Water	493,886
Sanitation	584,434
Sewer	209,149
Pool	12,192
Miscellaneous	891,164
Total Operating Revenue	\$ 6,064,123
Operating Expenses:	
Electric	\$ 3,120,096
Water	443,543
Sanitation	505,792
Sewer	321,253
Pool	24,503
General Government	911,995
Total Operating Expenses	\$ 5,327,182
Operating Income (Loss)	\$ 736,941
Nonoperating Revenues (Expenses):	
Interest Revenue	\$ 37,409
Interest Expense	(118,566)
Total Nonoperating Revenues (Expenses)	\$ (81,157)
Income (Loss) before Transfers	\$ 655,784
Other Financing Sources (Uses):	
Transfers In	\$ 288,096
Transfers Out	(585,167)
Total Other Financing Sources	\$ (297,071)
Net Change in Net Assets	\$ 358,713
Total Net Assets - Beginning	25,012,332
Total Net Assets - Ending	\$ 25,371,045

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

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

Blended Component Unit

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

Discretely presented Component Unit

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

B. Government-wide and fund financial statements

Government-Wide Financial Statements

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- 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.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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.

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, JAG Grant, EMS, Lake Taylor, Street and Alley and Special Library 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.
- 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, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

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

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

C. Assets, liabilities, and net assets or equity

1. *Deposits and investments*

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

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

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

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

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.

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.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

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

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, 2011.

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, 2011.

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.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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, 2011.

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.

As of June 30, 2011, fund balances are composed of the following:

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total Governmental Funds
Restricted					
Cemetery	\$ -	\$ -	\$ -	\$ 32,408	\$ 32,408
Grants	9,291	-	-	-	9,291
EMS	-	-	-	922,569	922,569
Street and Alley	-	-	-	220,141	220,141
Sewer Construction and Debt Service	-	-	2,053,442	-	2,053,442
Committed					
Sidewalk Project	-	61,973	-	-	61,973
Assigned					
Capital Improvements	-	1,652,696	-	-	1,652,696
EMS	-	-	-	8,611	8,611
Street and Alley	-	-	-	11,018	11,018
Sewer Construction and Debt Service	-	-	15,220	-	15,220
Library	17,391	-	-	-	17,391
Unassigned	1,037,752	-	-	-	1,037,752
	<u>\$ 1,064,434</u>	<u>\$ 1,714,669</u>	<u>\$ 2,068,662</u>	<u>\$ 1,194,747</u>	<u>\$ 6,042,512</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.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

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

The governmental fund balance sheet includes a reconciliation of the \$5,350,436 difference between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets.

One element of that reconciliation is capital assets used in governmental activities that are not financial resources.

Capital assets, not being depreciated	\$ 317,503
Capital assets, being depreciated	12,657,833
Less Accumulated Depreciation	<u>(7,624,900)</u>
	<u><u>\$ 5,350,436</u></u>

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

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the \$58,013 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	\$ 338,995
Disposals	(43,435)
Depreciation Expense	<u>(353,573)</u>
	<u><u>\$ (58,013)</u></u>

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.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

III. BUDGETARY INFORMATION (continued)

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

IV. DEPOSITS AND INVESTMENTS

Deposit Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City follows state statutes regarding custodial credit risk which requires collateral for all deposits in excess of Federal Deposit Insurance. At June 30, 2011, the bank balance was \$8,525,768. This amount, was insured and collateralized.

As of June 30, 2011, the City had the following investments:

	Maturity	Cost	Fair Value
Federal National Mortgage Association	May, 2017	\$ 1,994,005	\$ 1,959,160
Federated Prime Cash Money Market Mutual Fund	NA	<u>86,187</u>	<u>86,187</u>
		<u>\$ 2,080,192</u>	<u>\$ 2,045,347</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 96% of investments.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

V. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance	Increases	Decreases	Balance
Government Activities:				
Capital assets, not being depreciated				
Land and Construction in Progress	\$ 289,036	\$ 28,467	\$ -	\$ 317,503
Total capital assets, not being depreciated	<u>289,036</u>	<u>28,467</u>	<u>-</u>	<u>317,503</u>
Capital assets, being depreciated				
Land Improvements	4,520,215	-	-	4,520,215
Buildings	1,391,800	3,225	5,400	1,389,625
Building Improvements	39,808	-	7,042	32,766
Computers	83,402	2,139	34,878	50,663
Artwork	6,200	-	-	6,200
Vehicles	1,080,782	120,902	12,178	1,189,506
Machinery and Equipment	1,218,160	184,262	189,338	1,213,084
Infrastructure	4,255,774	-	-	4,255,774
Total capital assets, being depreciated	<u>12,596,141</u>	<u>310,528</u>	<u>248,836</u>	<u>12,657,833</u>
Less Accumulated Depreciation	<u>7,388,575</u>	<u>353,573</u>	<u>117,248</u>	<u>7,624,900</u>
Total capital assets, being depreciated, net	<u>5,207,566</u>	<u>(43,045)</u>	<u>131,588</u>	<u>5,032,933</u>
Governmental activities capital assets, net	<u>5,496,602</u>	<u>(14,578)</u>	<u>131,588</u>	<u>5,350,436</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated				
Land and Easements	\$ 1,320,146	\$ 5,400	\$ 31,148	\$ 1,294,398
Total capital assets, not being depreciated	<u>1,320,146</u>	<u>5,400</u>	<u>31,148</u>	<u>1,294,398</u>
Capital assets, being depreciated				
Land Improvements	1,927,839	-	2,797	1,925,042
Buildings	1,406,942	567,202	-	1,974,144
Vehicles	461,868	61,499	45,320	478,047
Machinery and Equipment	737,321	27,500	148,251	616,570
Water Rights	196,459	-	6,306	190,153
Infrastructure	36,133,155	-	542,130	35,591,025
Total capital assets, being depreciated	<u>40,863,584</u>	<u>656,201</u>	<u>744,804</u>	<u>40,774,981</u>
Less Accumulated Depreciation	<u>17,624,109</u>	<u>397,448</u>	<u>218,296</u>	<u>17,803,261</u>
Total capital assets, being depreciated, net	<u>23,239,475</u>	<u>258,753</u>	<u>526,508</u>	<u>22,971,720</u>
Business activities capital assets, net	<u>24,559,621</u>	<u>264,153</u>	<u>557,656</u>	<u>24,266,118</u>
Total Primary Government	<u><u>\$ 30,056,223</u></u>	<u><u>\$ 249,575</u></u>	<u><u>\$ 689,244</u></u>	<u><u>\$ 29,616,554</u></u>

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

V. CAPITAL ASSETS (continued)

Government activities:	
General Government	\$ 16,220
Highways and Streets	164,584
Public Safety	122,020
Culture and Recreation	38,443
Cemetery	<u>12,306</u>
Total depreciation expense - governmental activities	<u>\$ 353,573</u>
Business-type activities	
Electric	\$ 71,317
Water	116,414
General Government	7,599
Pool	8,691
Sewer	<u>193,427</u>
Total depreciation expense - business-type activities	<u>\$ 397,448</u>

VI. INTERFUND TRANSFERS

Interfund transfers as of June 30, 2011 were as follows:

		Transfer From					
		<u>Capital</u>			<u>Marlow Municipal Authority</u>	<u>All Others</u>	<u>Total</u>
		<u>General Fund</u>	<u>Improvements</u>	<u>Sewer Project</u>	<u>Authority</u>		
T r a n s f e r T o	General Fund	\$ -	\$ 3,065	\$ 253,289	\$ 585,167	\$ -	\$ 841,521
	Capital Improvements	-	-	-	-	-	-
	Sewer Project	-	-	-	-	-	-
	Marlow Municipal Authority	36,468	251,628	-	-	-	288,096
	All Others	<u>-</u>	<u>3,659</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,659</u>
Total		<u>\$ 36,468</u>	<u>\$ 258,352</u>	<u>\$ 253,289</u>	<u>\$ 585,167</u>	<u>\$ -</u>	<u>\$ 1,133,276</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.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

VII. LONG-TERM LIABILITIES

A summary of long-term liability activity for the year ended June 30, 2011, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Primary Government					
Business-Type Activities					
Oklahoma Water Resources Board	\$ 1,787,111	\$ -	\$ 197,221	\$ 1,589,890	\$ 204,190
Sales Tax Revenue Note Payable 2008	<u>1,750,000</u>	<u>-</u>	<u>135,000</u>	<u>1,615,000</u>	<u>145,000</u>
	<u>\$ 3,537,111</u>	<u>\$ -</u>	<u>\$ 332,221</u>	<u>\$ 3,204,890</u>	<u>\$ 349,190</u>

Business-type activities long-term liabilities at June 30, 2011, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2009
<u>Business-Type Activities</u>					
Oklahoma Water Resources Board Note Payable (financed costs of sewer construction and improvements)	February, 2018	Variable (2.955% at June 30, 2010)	\$ 197,222	\$ 3,925,000	\$ 1,589,890
Sales Tax Revenue Note Payable, Series 2008 (refinanced Oklahoma Water Resources Board 2004 note)	April, 2020	4.20%	135,000	2,300,000	1,615,000
					<u>\$ 3,204,890</u>

As of June 30, 2011, annual debt service requirements of the business-type activities to maturity are as follows:

Year Ending June 30	Principial	Interest
2012	\$ 349,190	\$ 112,461
2013	361,270	110,211
2014	378,871	87,305
2015	396,605	73,866
2016	414,613	59,772
2017-2020	<u>1,304,341</u>	<u>97,644</u>
	<u>\$ 3,204,890</u>	<u>\$ 541,259</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.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

VII. LONG-TERM LIABILITIES (continued)

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

VIII. RESTRICTED ASSETS

Restricted cash as of June 30, 2011 is as follows:

Funds restricted for debt service reserves	\$ 424,915
Meter deposits	186,085
Health Savings	6,414
Oklahoma Municipal Assurance Group Escrow	75,047
	<u>\$ 692,461</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 2010-2011, City of Marlow and Marlow Municipal Authority's annual pension cost of \$105,771, 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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

IX. PENSION PLANS (continued)

(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.

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, 2011. 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
2011	\$ 224,295	\$ 47,102	\$ 29,158	\$ 17,944	\$ 20,411
2010	229,185	48,129	29,794	18,335	20,168
2009	262,433	55,295	34,116	21,179	29,392

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.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

IX. PENSION PLANS (continued)

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, 2011. 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
2011	\$ 107,908	\$ 22,661	\$ 14,028	\$ 8,633	\$ 23,524
2010	107,069	22,485	13,919	8,566	23,341
2009	114,354	37,067	14,866	9,148	25,044

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, 2011, 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.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2011

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.

XII. PRIOR PERIOD CORRECTION

The City noted a difference in capital asset detail reconciliations with the general ledger amounts. This difference resulted in a decrease in current net change in fund balance in the amount of \$17,581. The following shows the effect of this correction on June 30, 2010 amounts:

	As Previously <u>Reported</u>	<u>Restatement</u>	<u>As Restated</u>
Governmental Funds			
General Fund			
Fund Balance	754,261	17,581	771,842
Capital Outlay	16,325	(17,581)	(1,256)
Net Change in Fund Balance	(110,126)	17,581	(92,545)
Governmental Activities			
Other Capital Assets, Net	5,207,567	(70,573)	5,136,994
Net Assets	10,609,098	(70,573)	10,538,525

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, 2011

	Budgeted Amounts		Actual Amounts	With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 957,400	\$ 957,400	\$ 959,157	\$ 1,757
Intergovernmental	4,900	4,900	17,291	12,391
License	19,100	19,100	24,250	5,150
Charges for Service	24,000	24,000	27,011	3,011
Fines	71,700	71,700	56,729	(14,971)
Miscellaneous	343,236	343,236	76,877	(266,359)
Interest	45,500	45,500	10,324	(35,176)
Royalties	9,000	9,000	7,684	(1,316)
Cemetery	38,000	38,000	40,191	2,191
Total Revenue	<u>\$ 1,512,836</u>	<u>\$ 1,512,836</u>	<u>\$ 1,219,514</u>	<u>\$ (293,322)</u>
EXPENDITURES				
Current				
General Government	\$ 482,875	\$ 482,875	\$ 422,563	\$ 60,312
Public Safety	967,315	967,315	900,638	66,677
Highways and Streets	203,050	203,050	152,404	50,646
Culture and Recreation	145,926	145,926	186,728	(40,802)
Cemetery	207,745	207,745	98,561	109,184
Capital Outlay				
General Government	18,000	18,000	4,381	13,619
Public Safety	7,100	7,100	6,751	349
Highways and Streets	4,000	4,000	-	4,000
Culture and Recreation	3,500	3,500	725	2,775
Cemetery	6,065	6,065	3,832	2,233
Total Expenditures	<u>2,045,576</u>	<u>2,045,576</u>	<u>1,776,583</u>	<u>268,993</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(532,740)</u>	<u>(532,740)</u>	<u>(557,069)</u>	<u>(24,329)</u>
Other Financing Sources				
Transfers In	\$ 551,640	551,640	841,521	289,881
Transfers Out	(18,900)	(18,900)	(36,468)	(17,568)
Total Other Financing Sources	<u>532,740</u>	<u>532,740</u>	<u>805,053</u>	<u>272,313</u>
Net Change in Fund Balance	-	-	247,984	247,984
Fund Balance - Beginning	<u>754,261</u>	<u>754,251</u>	<u>778,094</u>	<u>23,843</u>
Fund Balance - Ending	<u>\$ 754,261</u>	<u>\$ 754,251</u>	<u>\$ 1,026,078</u>	<u>\$ 271,827</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, 2011

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 60,000	\$ 60,000	\$ 221,721	\$ 161,721
Intergovernmental	320,000	320,000	417,792	97,792
Miscellaneous	30,000	30,000	30,390	390
Interest	16,000	16,000	11,938	(4,062)
Royalties	160,000	160,000	127,705	(32,295)
Total Revenue	<u>586,000</u>	<u>586,000</u>	<u>809,546</u>	<u>223,546</u>
EXPENDITURES				
Current				
General Government	\$ -	\$ -	\$ -	\$ -
Public Safety	81,000	81,000	80,683	317
Highways and Streets	1,000	1,000	737	263
Capital Outlay				
General Government	149,600	149,600	30,963	118,637
Highways and Streets	242,400	242,400	59,277	183,123
Total Expenditures	<u>474,000</u>	<u>474,000</u>	<u>171,660</u>	<u>302,340</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	112,000	112,000	637,886	525,886
Other Financing Sources				
Transfers Out	<u>(2,000)</u>	<u>(2,000)</u>	<u>(258,352)</u>	<u>(256,352)</u>
Net Change in Fund Balance	110,000	110,000	379,534	269,534
Fund Balance - Beginning	<u>1,335,136</u>	<u>1,335,136</u>	<u>1,335,136</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,445,136</u>	<u>\$ 1,445,136</u>	<u>\$ 1,714,670</u>	<u>\$ 269,534</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, 2011

	<u>Budgeted Amounts</u>		Actual Amounts	Variance With Final Budget
	<u>Original</u>	<u>Final</u>		
REVENUE				
Taxes	\$ 400,000	\$ 400,000	\$ 413,182	\$ 13,182
Interest	<u>48,000</u>	<u>48,000</u>	<u>15,221</u>	<u>(32,779)</u>
Total Revenue	<u>\$ 448,000</u>	<u>\$ 448,000</u>	<u>\$ 428,403</u>	<u>\$ (19,597)</u>
EXPENDITURES				
Current				
General Government	<u>-</u>	<u>-</u>	<u>1</u>	<u>(1)</u>
Total Expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ (1)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures				
	\$ 448,000	\$ 448,000	\$ 428,402	\$ (19,598)
Other Financing Sources				
Transfers Out	<u>(256,000)</u>	<u>(256,000)</u>	<u>(253,289)</u>	<u>2,711</u>
Net Change in Fund Balance	\$ 192,000	\$ 192,000	\$ 175,113	\$ (16,887)
Fund Balance - Beginning	<u>1,893,551</u>	<u>1,893,551</u>	<u>1,893,551</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 2,085,551</u>	<u>\$ 2,085,551</u>	<u>\$ 2,068,664</u>	<u>\$ (16,887)</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, 2011

	Cemetery Care	EMS Fund	Street & Alley	Total
Assets				
Cash	\$ 32,408	\$ 831,468	\$ 231,160	\$ 1,095,036
Investments	-	99,711	-	99,711
Total Assets	<u>\$ 32,408</u>	<u>\$ 931,179</u>	<u>\$ 231,160</u>	<u>1,194,747</u>
Fund Balances				
Restricted	\$ 32,408	\$ 922,569	\$ 220,141	\$ 1,175,118
Assigned	-	8,610	11,019	19,629
Unassigned	-	-	-	-
Total Fund Balances	<u>32,408</u>	<u>931,179</u>	<u>231,160</u>	<u>1,194,747</u>
Total Liabilities and Fund Balances	<u>\$ 32,408</u>	<u>\$ 931,179</u>	<u>\$ 231,160</u>	<u>\$ 1,194,747</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, 2011

	Cemetery Care	JAG Grant	EMS Fund	Street & Alley	Total
REVENUE					
Taxes	\$ -	\$ -	\$ 206,591	\$ 41,249	\$ 247,840
Intergovernmental	-	11,341	-	-	11,341
Miscellaneous	-	-	-	960	960
Investment Return	203	-	8,611	1,660	10,474
Cemetery	<u>7,191</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,191</u>
Total Revenue	<u>7,394</u>	<u>11,341</u>	<u>215,202</u>	<u>43,869</u>	<u>277,806</u>
EXPENDITURES					
Current					
General Government	-	-	-	1	1
Public Safety	-	15,000	95,000	-	110,000
Highways and Streets	-	-	-	3,513	3,513
Capital Outlay					
Public Safety	-	-	66,247	-	66,247
Cemetery	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>-</u>	<u>15,000</u>	<u>161,247</u>	<u>3,514</u>	<u>179,761</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>7,394</u>	<u>(3,659)</u>	<u>53,955</u>	<u>40,355</u>	<u>98,045</u>
Other Financing Sources					
Transfers In	<u>-</u>	<u>3,659</u>	<u>-</u>	<u>-</u>	<u>3,659</u>
Total Other Financing Sources	<u>-</u>	<u>3,659</u>	<u>-</u>	<u>-</u>	<u>3,659</u>
Net Change in Fund Balances	7,394	-	53,955	40,355	101,704
Fund Balances, Beginning	<u>25,014</u>	<u>-</u>	<u>877,224</u>	<u>190,805</u>	<u>1,093,043</u>
Fund Balances, Ending	<u>\$ 32,408</u>	<u>\$ -</u>	<u>\$ 931,179</u>	<u>\$ 231,160</u>	<u>\$ 1,194,747</u>

City of Marlow, Oklahoma
Supplemental Schedule
Combining Statement of Assets, Liabilities and Net Assets – Modified Cash Basis
General Fund
June 30, 2011

	<u>General Fund</u>	<u>Lake Taylor</u>	<u>OHFA Grant</u>	<u>Special Library</u>	<u>Total</u>
Assets					
Cash and Cash Investments	\$ 813,955	\$ 19,897	\$ 3	\$ 17,391	\$ 851,246
Restricted Cash	56,062	-	-	-	56,062
Investments	<u>\$ 159,025</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>159,025</u>
	<u>\$ 1,029,042</u>	<u>\$ 19,897</u>	<u>\$ 3</u>	<u>\$ 17,391</u>	<u>\$ 1,066,333</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	\$ 9,291	\$ -	\$ -	\$ -	\$ 9,291
Assigned	-	-	-	17,391	17,391
Unassigned	<u>1,017,852</u>	<u>19,897</u>	<u>3</u>	<u>-</u>	<u>1,037,752</u>
Total Fund Balances	<u>1,027,143</u>	<u>19,897</u>	<u>3</u>	<u>17,391</u>	<u>1,064,434</u>
Total Liabilities and Fund Balances	<u>\$ 1,029,042</u>	<u>\$ 19,897</u>	<u>\$ 3</u>	<u>\$ 17,391</u>	<u>\$ 1,066,333</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, 2011

	General Fund	Lake Taylor	OHFA Grant	Special Library	Total
REVENUE					
Taxes	959,157	\$ -	\$ -	\$ -	\$ 959,157
Intergovernmental	17,291	-	-	-	17,291
License and Permits	24,250	-	-	-	24,250
Charges for Service	27,011	-	-	-	27,011
Fines	65,185	-	-	-	65,185
Miscellaneous	83,604	-	-	391	83,995
Interest	10,367	565	-	121	11,053
Royalties	7,684	-	-	-	7,684
Cemetery	40,191	-	-	-	40,191
	<u>\$ 1,234,740</u>	<u>\$ 565</u>	<u>\$ -</u>	<u>\$ 512</u>	<u>\$ 1,235,817</u>
EXPENDITURES					
Current					
General Government	\$ 422,563	\$ -	\$ -	\$ -	\$ 422,563
Public Safety	908,546	-	-	-	908,546
Highways and Streets	152,404	-	-	-	152,404
Culture and Recreation	120,734	-	-	293	121,027
Cemetery	164,556	-	-	-	164,556
Capital Outlay					
General Government	4,381	-	-	-	4,381
Public Safety	6,751	-	-	-	6,751
Culture and Recreation	725	-	-	-	725
Cemetery	3,832	-	-	-	3,832
	<u>\$ 1,784,492</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 293</u>	<u>\$ 1,784,785</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(549,752)</u>	<u>565</u>	<u>-</u>	<u>219</u>	<u>(548,968)</u>
Other Financing Sources					
Transfers In	841,521	-	-	-	841,521
Transfers Out	(36,468)	-	-	-	(36,468)
Total Other Financing Sources	<u>805,053</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>805,053</u>
Net Change in Fund Balances	255,301	565	-	219	256,085
Fund Balances, Beginning	771,842	19,332	3	17,172	808,349
Fund Balances, Ending	<u>\$ 1,027,143</u>	<u>\$ 19,897</u>	<u>\$ 3</u>	<u>\$ 17,391</u>	<u>\$ 1,064,434</u>



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*

City Council
City of Marlow
Marlow, Oklahoma 73446

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Marlow as of and for the year ended June 30, 2011, and have issued our report thereon dated February 28, 2012. Our report was modified because the City prepared its financial statements on the modified cash basis. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Marlow's internal control over financial reporting as a basis for our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Marlow's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Marlow's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses, that we consider to be a material weakness.

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

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combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiency 2011-1 described in the accompanying schedule of findings and responses to be a material weakness.

Compliance and Other Matters

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

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

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

Rakhal Henderson Johnson, PLLC

Ardmore, Oklahoma
February 28, 2012

City of Marlow, Oklahoma
Schedule of Findings and Responses
June 30, 2011

2011-1 Financial Reporting

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

Criteria – Effective internal control over financial reporting includes the identification and analysis of the risk of material misstatements in the financial statements. The responsibility for the financial statements remains with management even when the preparation of the financial statements is transferred to a service provider. An individual with sufficient awareness of or experience in accounting principles and disclosure requirements should be designated to oversee the preparation of the financial statements.

Context – There was unrecorded activity for trust accounts and adjustments were necessary to properly record debt, capital asset purchases, and transfers.

Effect – Material year-end adjustments were necessary that were identified as part of the audit process.

Cause – The internal control structure of the City focuses primarily on daily operations. The City does not currently have a control system in place to determine appropriate financial statement disclosures or for determining that the trial balances used in the financial statement preparation process are final.

Recommendation – We recommend that the City evaluate the cost of engaging a third party or designating and training an employee with sufficient awareness of or experience in accounting principles related to municipalities to ensure that all journal entries are recorded and that supporting financial records to agree with the general ledger for all accounts. In addition, this person would be responsible for determining year-end financial disclosures are adequate.

Management Response – I will continue to promote training in the areas that have been identified. However, it is difficult to always be aware of new required GASB regulations that are imposed as has been done in this audit. A consultant may be obtained when certain financial conditions warrant and staff feels we need outside guidance for accounting principles.