
Marietta Public Works Authority

Financial Statements

For the Fiscal Year Ended June 30, 2016

Marietta Public Works Authority
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For the Fiscal Year Ended June 30, 2016

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Marietta Public Works Authority
Management's Discussion and Analysis (unaudited)
June 30, 2016

For Marietta Public Works Authority, Marietta, Oklahoma, this is our presentation of Management's Discussion and Analysis (MD&A). This analysis serves as an introduction to the financial statements for users to facilitate whether overall financial health has improved or deteriorated as a result of the past year's operation. A required component of MD&A is to briefly describe the reasons for change in our revenue, liability, asset, and expenditure balances compared to the previous (2015) year.

Contents of Audited Financial Statements:

The Authority's audited financial statements include the following:

- *Statement of Net Assets – Modified Cash Basis* – this statement provides information about the Authority's investments in resources (assets) and its obligations to creditors (liabilities), with the difference between them reported as net assets.
- *Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis* – this statement demonstrates changes in net assets from one fiscal period to another by accounting for revenues and expenditures and measuring the financial results of operations. The information may be used to determine how the Authority has funded its costs.
- *Statement of Cash Flows – Modified Cash Basis* – this statement provides information concerning the Authority's cash receipts and payments, as well as changes in cash resulting from operations, capital and related financing, and investing activities.
- *Notes to Financial Statements* – notes to the audited financial statements contain information essential to understanding them, such as the Authority's accounting methods and policies.

Business Activities:

During the year the Marietta Public Works Authority continued emphasis on maintenance of plant and customer waterlines. The customers of the Authority are business and residential customers within the City of Marietta.

Marietta Public Works Authority
Management's Discussion and Analysis (unaudited)
June 30, 2016

Financial Highlights:

| Summary: | For the Year Ended June 30, | |
|---|------------------------------------|--------------|
| Revenues, expenses and changes in net assets | 2016 | 2015 |
| Operating Revenues | | |
| Water | \$ 514,495 | \$ 483,269 |
| Sewer | 164,107 | 159,092 |
| Garbage | 323,725 | 319,730 |
| Other | 37,122 | 72,987 |
| Total Operating Revenues | 1,039,449 | 1,035,078 |
| Operating Expenses | | |
| Salaries and Benefits | 321,722 | 309,153 |
| Contract Garbage Collection | 307,911 | 307,801 |
| Depreciation | 146,295 | 123,112 |
| Other | 282,995 | 261,500 |
| Total Operating Expenses | 1,058,923 | 1,001,566 |
| Operating Income (Loss) | (19,474) | 33,512 |
| Nonoperating Revenues, net | 799 | 731 |
| Transfer in, from City of Marietta | 50,000 | - |
| | 50,799 | 731 |
| Change in Net Assets | 31,325 | 34,243 |
| Total Net Assets, Beginning | 2,088,069 | 2,053,826 |
| Total Net Assets, Ending | \$ 2,119,394 | \$ 2,088,069 |

The Authority had an increase in net assets for the year. The Authority's total revenue increased by \$4,371 compared to 2015. Operating expenses increased \$57,357 when compared to 2015. The Authority has a decrease in net income of \$52,986. (\$19,474) in 2016 compared to \$33,512 in 2015.)

MPWA received a \$50,000 pass-thru grant from City of Marietta during the 2015-2016 year for infrastructure improvements.

Marietta Public Works Authority
Management's Discussion and Analysis (unaudited)
June 30, 2016

| Summary: | June 30, | |
|---|-----------------|--------------|
| Net Assets | 2016 | 2015 |
| | | |
| Current Assets | \$ 757,659 | \$ 750,806 |
| Noncurrent Assets, net | 1,748,443 | 1,385,450 |
| Total Assets | 2,506,102 | 2,136,256 |
| | | |
| Current Liabilities | \$ 37,505 | \$ 18,467 |
| Noncurrent Liabilities | 349,203 | 29,720 |
| Total Liabilities | 386,708 | 48,187 |
| | | |
| Net Assets | | |
| Invested in Capital Assets, net of related debt | 1,401,643 | 1,385,450 |
| Unrestricted | 717,751 | 702,619 |
| Total Net Assets | 2,119,394 | 2,088,069 |
| | | |
| Total Liabilities and Net Assets | \$ 2,506,102 | \$ 2,136,256 |

The Authority currently has plant and equipment with a net book value of \$1,748,443, an increase of \$362,993 from last year. The increase is due to completion of the northeast lift station and purchase of new digital water meters.

For the year ended June 30, 2016, total assets exceeded liabilities by \$2,119,394. The Authority has debt outstanding of \$346,800 at June 30, 2016.

Overall Outlook:

We continue working to improve the distribution system. The Authority remains financially strong as we make improvements system-wide, meeting the EPA and DEQ standards, and paying our bills.

The economy still affects our efforts; the cost of chemicals, pipe, fuel, etc. continues to fluctuate. This is all out of our control; however, it has not stopped our progress.

BASIC FINANCIAL STATEMENTS

SMITH, CARNEY & Co., P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Marietta Public Works Authority
Marietta, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Marietta Public Works Authority (a component unit of the city of Marietta, Oklahoma), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Audit 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 from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position--modified cash basis of Marietta Public Works Authority (a component unit of the City of Marietta, Oklahoma), as of June 30, 2016, and the respective changes in financial position--modified cash basis and cash flows--modified cash basis thereof for the year then ended in accordance with the basis of accounting as described in Note I(B).

Basis of Accounting

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

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marietta Public Works Authority's basic financial statements. The Management's Discussion and Analysis and the Oklahoma Municipal Retirement Fund Schedule of Funding Progress on pages 1-3 and 17, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Smil, Casey - Co., p.c.

Oklahoma City, Oklahoma
October 19, 2016

Marietta Public Works Authority
Statement of Net Assets – Modified Cash Basis
June 30, 2016

ASSETS

Current Assets

| | |
|-------------------------------------|----------------|
| Cash and Cash Equivalents | \$ 534,092 |
| Certificates of Deposit | 66,309 |
| Restricted Cash | 20,757 |
| Certificate of Deposit - Restricted | 14,084 |
| Accounts Receivable | 14,152 |
| Inventory | <u>108,265</u> |
| Total Current Assets | <u>757,659</u> |

Noncurrent Assets

| | |
|---------------------------------------|------------------|
| Capital Assets, not being depreciated | 12,854 |
| Capital Assets, being depreciated | <u>1,735,589</u> |
| Total Noncurrent Assets | <u>1,748,443</u> |

| | |
|--------------|--------------------|
| Total Assets | <u>\$2,506,102</u> |
|--------------|--------------------|

LIABILITIES AND EQUITY

Current Liabilities

| | |
|-------------------------------------|---------------|
| Payroll Withholdings Payable | \$ 5,067 |
| Refundable Meter Deposits - Current | 8,350 |
| Notes Payable - Current | <u>24,088</u> |
| Total Current Liabilities | <u>37,505</u> |

Noncurrent Term Liabilities

| | |
|------------------------------|----------------|
| Refundable Meter Deposits | 26,491 |
| Notes Payable | <u>322,712</u> |
| Total Noncurrent Liabilities | <u>349,203</u> |

| | |
|-------------------|----------------|
| Total Liabilities | <u>386,708</u> |
|-------------------|----------------|

Net Assets

| | |
|---|----------------|
| Invested in Capital Assets, net of related debt | 1,401,643 |
| Unrestricted | <u>717,751</u> |

| | |
|------------------|--------------------|
| Total Net Assets | <u>\$2,119,394</u> |
|------------------|--------------------|

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

Marietta Public Works Authority
Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis
For the Year Ended June 30, 2016

| | |
|---|--------------|
| Operating Revenues: | |
| Charges For Services | |
| Water | \$ 514,495 |
| Sewer | 164,107 |
| Garbage | 323,725 |
| Penalties | 11,546 |
| Rental | 11,979 |
| Miscellaneous | 13,597 |
| Total Operating Revenues | 1,039,449 |
| | |
| Operating Expenses: | |
| Salaries and Benefits | 321,722 |
| Contract Garbage Collection | 307,911 |
| Contract Labor | 8,400 |
| Utilities | 59,656 |
| Repairs and Maintenance | 51,949 |
| Miscellaneous | 8,947 |
| Office Expense | 2,964 |
| Postage | 6,284 |
| Vehicle Operations | 6,914 |
| Supplies and Parts | 55,298 |
| License | 5,374 |
| Professional Fees | 32,434 |
| Lab Fees | 8,029 |
| Insurance | 36,746 |
| Depreciation and Amortization | 146,295 |
| Total Operating Expenses | 1,058,923 |
| | |
| Operating Income (Loss) | (19,474) |
| | |
| Nonoperating Revenues (Expenses): | |
| Interest Revenue | 799 |
| Net Nonoperating Revenues | 799 |
| | |
| Transfer from City of Marietta (REAP Grant) | 50,000 |
| | |
| Change in Net Assets | 31,325 |
| | |
| Total Net Assets - Beginning | 2,088,069 |
| Total Net Assets - Ending | \$ 2,119,394 |

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

Marietta Public Works Authority
Statement of Cash Flows – Modified Cash Basis
For the Year Ended June 30, 2016

| | |
|---|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from Customers | \$ 1,021,218 |
| Payments to Employees for Services | (325,922) |
| Payments to Vendors and Customers for Goods and Services | <u>(603,762)</u> |
| Net Cash Provided by Operating Activities | <u>91,534</u> |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | |
| Purchase of Fixed Assets | (509,288) |
| Proceeds from Debt Issue | 346,800 |
| Decrease in Restricted Cash | 4,106 |
| Transfer from City of Marietta for Capital Expenditures | <u>50,000</u> |
| Net Cash Used in Capital Financing Activities | <u>(108,382)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest Income | 799 |
| Investment in Certificates of Deposits | <u>(136)</u> |
| Net Cash Provided by Investing Activities | <u>663</u> |
| Net Decrease in Cash and Cash Equivalents | (16,185) |
| Cash and Cash Equivalents, July 1, 2015 | <u>550,277</u> |
| Cash and Cash Equivalents, June 30, 2016 | <u>\$ 534,092</u> |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities | |
| Operating Income | <u>\$ (19,474)</u> |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities | |
| Depreciation | 146,295 |
| Increase in Accounts Receivable | (14,152) |
| Increase in Inventory | (12,856) |
| Decrease in Accrued Expenses | (4,200) |
| Decrease in Customer Deposits | <u>(4,079)</u> |
| Total Adjustments | <u>111,008</u> |
| Net Cash Provided by Operating Activities | <u>\$ 91,534</u> |

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

Marietta Public Works Authority
Notes to the Financial Statements
June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *The Reporting Entity*

The Marietta Public Works Authority is a public trust created July 15, 1959, under and pursuant to the laws of the State of Oklahoma now in force and effect (generally, but not exclusively, Sections 176 and 180, inclusive, of Title 60, Oklahoma Statutes 1951, as amended, and the Oklahoma Trust Act.) The Authority is a component unit of its Beneficiary, the City of Marietta.

B. *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

Marietta Public Works Authority (MPWA), is a proprietary fund that accounts for 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 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 and retirement contributions not remitted are recorded as liabilities.

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 enterprise funds 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.

Marietta Public Works Authority
Notes to the Financial Statements
June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - continued

The Authority is not legally required to adopt a budget for the general fund. Therefore, budget comparison information is not included in the Authority's financial statements.

C. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

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

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

Inventories

All inventories are valued at cost using the first-in / first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

Restricted Assets

Amounts held for customer utility deposits are reported as restricted assets.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., water and sewer systems), are defined by the Authority as assets with an initial individual cost of more than \$1,000 (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.

Marietta Public Works Authority
Notes to the Financial Statements
June 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

C. Assets, Liabilities and Net Assets or Equity – (continued)

Capital Assets – (continued)

Property, plant, and equipment of the Authority, are depreciated using the straight line method over the following estimated useful lives:

| <i>Assets</i> | <i>Years</i> |
|---------------------------|--------------|
| Water System | 40 |
| Sewer System | 40 |
| Equipment | 10 |
| Computers and Electronics | 5 |
| Automobiles | 5 |

Long-term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Net Assets

Net assets are divided into three components:

- *Invested in Capital Assets, net of related debt* – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- *Restricted Net Asset* – consist of net assets that are restricted by creditors through debt covenants.
- *Unrestricted Net Assets* – all other net assets are reported in this category.

Subsequent Events

Management has evaluated subsequent events through October 19, 2016, the date which the financial statements were available to be issued.

Marietta Public Works Authority
Notes to the Financial Statements
June 30, 2016

II. DETAILED NOTES ON ALL FUNDS

A. Deposits

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 Authority policy regarding custodial credit risk requires collateral for all deposits in excess of Federal Deposit Insurance. At June 30, 2016, the unreconciled bank balance was \$644,349. This entire amount was insured and collateralized.

B. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

| | <i>Beginning Balance</i> | <i>Increases</i> | <i>Decreases</i> | <i>Ending Balance</i> |
|---|--------------------------|-------------------|------------------|-----------------------|
| <i>Capital Assets, not being depreciated:</i> | | | | |
| Land and Construction in Progress | \$ 54,829 | \$ - | \$ 41,975 | \$ 12,854 |
| <i>Total Capital Assets, not being depreciated</i> | <u>54,829</u> | <u>-</u> | <u>41,975</u> | <u>12,854</u> |
| <i>Capital Assets, being depreciated:</i> | | | | |
| Buildings | 304,965 | 24,363 | - | 329,328 |
| Equipment | 255,429 | - | - | 255,429 |
| Furniture and Fixtures | 48,683 | - | - | 48,683 |
| Computers and Electronics | 17,145 | - | - | 17,145 |
| Automobiles | 128,943 | - | - | 128,943 |
| Water System | 1,749,287 | 346,800 | - | 2,096,087 |
| Plant | <u>2,166,206</u> | <u>180,100</u> | <u>-</u> | <u>2,346,306</u> |
| <i>Total Capital Assets, being depreciated</i> | 4,670,658 | 551,263 | - | 5,221,921 |
| Less: Accumulated Depreciation | <u>3,340,037</u> | <u>146,295</u> | <u>-</u> | <u>3,486,332</u> |
| <i>Total Capital Assets, being depreciated, net</i> | <u>1,330,621</u> | <u>404,968</u> | <u>-</u> | <u>1,735,589</u> |
| <i>Total Capital Assets, net</i> | <u>\$ 1,385,450</u> | <u>\$ 404,968</u> | <u>\$ 41,975</u> | <u>\$ 1,748,443</u> |

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

| | |
|----------------------------|-------------------|
| Water | \$ 65,722 |
| Sewer | 59,692 |
| Administration | <u>20,881</u> |
| Total Depreciation Expense | <u>\$ 146,295</u> |

Marietta Public Works Authority
Notes to the Financial Statements
June 30, 2016

II. DETAILED NOTES ON ALL FUNDS – (continued)

C. Long-Term Liabilities

Government Capital Corporation Capital Lease

The Authority entered into a \$346,800, 12 year, 3.315% interest rate capital lease with the Government Capital Corporation dated October 20, 2015. Principal and interest are payable annually on October 28th.

Assets acquired through the capital lease and included in capital assets, being depreciated are as follows:

| | | | |
|--------------------------------|--|----|------------|
| Digital Water Meters | | \$ | 346,800 |
| Less: Accumulated Depreciation | | | (20,230) |
| | | | \$ 326,570 |

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016 were as follows:

| <i>Year Ended</i> | | | |
|-----------------------------------|----|--|----------|
| 2017 | \$ | | 35,489 |
| 2018 | | | 35,489 |
| 2019 | | | 35,489 |
| 2020 | | | 35,489 |
| 2021 | | | 35,489 |
| 2022-2026 | | | 177,445 |
| 2027-2028 | | | 70,980 |
| Total minimum lease payments | | | 425,870 |
| Less amount representing interest | | | (79,070) |
| Present value of minimum lease | \$ | | 346,800 |

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2016, is as follows:

| | Beginning Balance | <i>Additions</i> | <i>Reduction</i> | <i>Ending Balance</i> | <i>Due Within One Year</i> |
|--------------------------------|----------------------|------------------|------------------|---------------------------|--------------------------------|
| Government Capital Corporation | \$ - | \$ 346,800 | \$ - | \$ 346,800 | \$ 24,088 |
| | \$ - | \$ 346,800 | \$ - | \$ 346,800 | \$ 24,088 |

Marietta Public Works Authority
Notes to the Financial Statements
June 30, 2016

II. DETAILED NOTES ON ALL FUNDS – (continued)

D. Restricted Assets

Balances of restricted assets at June 30, 2016 are as follows:

| | |
|-------------------------|------------------|
| Customer Deposits | \$ 34,841 |
| Total Restricted Assets | <u>\$ 34,841</u> |

E. Pension Plan

Municipal Retirement Plan - Defined Benefit Plan

Plan Description: The Authority participates in a cost sharing, multiple employer defined benefit pension plan administered by the Oklahoma Municipal Retirement Fund (OMRF). OMRF provides retirement, disability and death benefits to plan members and their beneficiaries. OMRF is authorized to establish and amend all plan provisions. Participation in the plan is mandatory for all full time employees, and each employee is required to contribute a percentage of his or her salary. Employees are vested at 10 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 OMRF, 100 N. Broadway, Oklahoma City, OK 73102.

Employee membership data related to the Plan, as of June 30, 2016 was as follows:

| | |
|--|----------|
| Retired, survivors and deferred vested | 5 |
| Active Employees | <u>5</u> |
| | 10 |

Any participant at least 65 years old with 10 or more years of vesting service, may retire without reduction in their monthly benefit.

The amount of retirement income is established by OMRF and is equal to 2.625% of final average compensation multiplied by the number of years of credited service. Final average compensation is the average of the 5 highest consecutive years of salaries out of the last 10 years of service.

Marietta Public Works Authority
Notes to the Financial Statements
June 30, 2016

II. DETAILED NOTES ON ALL FUNDS – (continued)

E. Pension Plan – (continued)

Funding Policy: The contribution requirements of Marietta Public Works Authority and its employees are established and may be amended by the OMRF board. Employees are required to contribute 5.0 percent of their annual covered salary after tax. The Authority is required to contribute at an actuarially determined rate of 20.42 percent; the rate at June 30, 2016 determined by resolution was 20.42 percent of covered payroll.

Annual Pension Cost: For 2015-2016, Marietta Public Works Authority’s annual pension cost was \$39,772, the required contribution amount. The required contribution was determined as part of the March, 2016 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (I) 7.5 percent investment rate of return, (II) projected salary increases due to inflation of 3 percent, compounded annually, and (III) projected salary increases due to age/seniority, compounded annually.

The funded status of the plan as of January 1, 2016, the most recent valuation date, is as follows:

| <i>Actuarial Valuation Date</i> | <i>Actuarial Value of Assets (a)</i> | <i>Actuarial Accrued Liability (AAL) Entry Age (b)</i> | <i>Unfunded AAL (UAAL) (b-a)</i> | <i>Funded Ratio (a/b)</i> | <i>Covered Payroll (c)</i> | <i>UAAL as a Percentage of Covered Payroll (b-a)/c</i> |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 1/1/2016 | 385,972 | 695,526 | 309,554 | 55.5% | 177,745 | 174.2% |

The schedule of funding progress presented as supplementary information immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

| <i>Year Ended June 30,</i> | <i>Contribution Rate</i> | <i>Cost (ARC)</i> | <i>Contributed</i> | <i>Net Pension Obligation</i> |
|------------------------------------|------------------------------|-------------------|--------------------|---------------------------------------|
| 2016 | 20.42% | \$ 39,772 | 100% | \$ - |
| 2015 | 21.05% | \$ 35,725 | 100% | \$ - |
| 2014 | 20.02% | \$ 35,500 | 100% | \$ - |

Marietta Public Works Authority
Notes to the Financial Statements
June 30, 2016

II. DETAILED NOTES ON ALL FUNDS – (continued)

F. Risk Management

The Authority 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.

General Liability, Physical Property and Automobile Liability/Physical Damage

General liability, physical property and automobile liability/physical damage are insured through the Oklahoma Rural Water Assurance Group risk entity pool. Deductibles range from \$0 to \$1,000. Risk of loss retained is limited to the excess of insurance liability coverage limits set by ORWA.

Worker's Compensation

Workers' compensation is insured through CompSource Oklahoma. Risk of loss retained is limited to the excess of insurance liability coverage limits set by CompSource Oklahoma.

G. Related Party Transactions

The Authority performs billing and collection for the City of Marietta's garbage collection services. Amounts for trash service are included on monthly utility bills. The Authority collects payments, and remits the amounts received, less a 3% administration fee, to the City of Marietta each month.

Total amounts collected and paid to City of Marietta are as follows:

| | |
|--------------------------------------|------------------|
| Garbage Collections | \$ 323,725 |
| Amounts Sent to City of Marietta | <u>(307,911)</u> |
| Administration Fee, retained by MPWA | <u>\$ 15,814</u> |

***SUPPLEMENTARY
INFORMATION***

Marietta Public Works Authority
Oklahoma Municipal Retirement Fund
Schedule of Funding Progress
June 30, 2016

| <i>Actuarial Valuation Date</i> | <i>Actuarial Value of Assets (a)</i> | <i>Actuarial Accrued Liability (AAL) Entry Age (b)</i> | <i>Unfunded AAL (UAAL) (b-a)</i> | <i>Funded Ratio (a/b)</i> | <i>Covered Payroll (c)</i> | <i>UAAL as a Percentage of Covered Payroll (b-a)/c</i> |
|---|--|--|--|-----------------------------------|------------------------------------|--|
| 1/1/2012 | 364,359 | 640,794 | 276,435 | 56.9% | 166,963 | 165.6% |
| 1/1/2013 | 359,340 | 655,069 | 295,729 | 54.9% | 165,937 | 178.2% |
| 1/1/2014 | 369,588 | 683,022 | 313,434 | 54.1% | 176,499 | 177.6% |
| 1/1/2015 | 380,850 | 694,055 | 313,205 | 54.9% | 177,325 | 176.6% |
| 1/1/2016 | 385,972 | 695,526 | 309,554 | 55.5% | 177,745 | 174.2% |

***REPORT
ON INTERNAL CONTROL
AND COMPLIANCE***

SMITH, CARNEY & Co., P.C.

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

To the Board of Trustees
Marietta Public Works Authority
Marietta, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Marietta Public Works Authority (the Authority) as of and for the year ended June 30, 2016 and the related notes to the financial statements, and have issued our report thereon dated October 19, 2016. Our report was modified because the Authority prepared its financial statements on the modified cash basis of accounting.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. 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.

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

findings and management responses that we consider to be significant deficiencies. We consider deficiencies 2016-1 and 2013-1 described in the accompanying schedule of findings and responses to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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.

Marietta Public Works Authority' Response to Findings

Marietta Public Works Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Smil, Casey - Co, p.c.

Oklahoma City, Oklahoma
October 19, 2016

*Marietta Public Works Authority
Schedule of Findings and Responses
June 30, 2016*

Current Year Findings

2016-1 Inventory Control

Criteria – Inventory should be stored in a secure area.

Condition – We noted inventory stored in open areas.

Cause – The Authority has inventory in open areas.

Effect – Inventory assets may be misplaced, stolen and valued incorrectly.

Recommendation – Inventory should be maintained in a secure area to prevent theft, misplacement and to be properly accounted for.

Management's Response – Inventory is going to be moved to a fenced area.

Deficiencies Communicated in Prior Year Also applicable to Current Year

2013-1 Segregation of Duties

Criteria – The Authority is responsible for the effective design and implementation of internal controls. Segregation of duties is necessary to ensure internal control over the accounting process.

Condition – We noted a lack of segregation of duties among Authority personnel.

Cause – The Authority does not have enough employees to provide adequate segregation of accounting duties.

Effect – The lack of segregation provides opportunity for fraudulent activities and increases the risk of misappropriation of assets.

Recommendation – The Authority should consider ways to segregate accounting functions in order to establish adequate internal controls. The Board of Trustees should provide some of these controls due to lack of personnel.

Management's Response – Management will look at ways to establish adequate internal controls, but due to the small size of the organization, it would not be cost-effective to hire additional employees.