



City of Marlow, Oklahoma

Financial Statements

Year –End: June 30, 2015

City of Marlow
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 For the Fiscal Year Ended June 30, 2015

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FINANCIAL



INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Marlow, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Marlow, Oklahoma as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marlow, Oklahoma, as of June 30, 2015, and the respective changes in modified cash basis financial position, and , where applicable, cash flows thereof for the year then ended in accordance with the basis of accounting described in Note 1.B.

Basis of Accounting

We draw your attention to Note 1.B. of the financial statements, which describes the basis of accounting. The financial statements are prepared on a modified cash basis of accounting, 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 this matter.

Other Matters

Supplemental Information

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

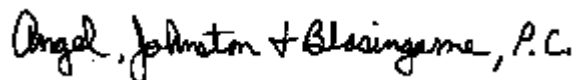
The combining fund financial statements and schedule of grant activity are the responsibility of management, derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures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

Disclaimer of Opinion on Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Walters, Oklahoma's basic financial statements. The budgetary comparison information on pages 30-32 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 the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Chickasha, Oklahoma
March 3, 2016

BASIC FINANCIAL STATEMENTS

City of Marlow
Government-Wide Statement of Net Position – Modified Cash Basis
June 30, 2015

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	MEDA
ASSETS				
Cash and Cash Equivalent	2,437,089	2,179,595	4,616,684	379,560
Restricted Cash and Cash Equivalents	179,641	752,750	932,391	-
Investments	561,394	1,684,184	2,245,578	-
Land and Construction in Progress	284,036	2,660,663	2,944,699	99,939
Other Capital Assets, net of depreciation	5,992,936	5,954,571	11,947,507	15,198
Total Assets	9,455,096	13,231,763	22,686,859	494,697
LIABILITIES				
Current Liabilities				
Bonds Pending Court	1,898	-	1,898	-
Refundable Meter Deposits	-	277,164	277,164	-
Long -term liabilities				
Due within one year	411,118	300,000	711,118	-
Due in more than one year	639,998	2,735,000	3,374,998	-
Total Liabilities	1,053,014	3,312,164	4,365,178	-
NET POSITION				
Invested in Capital Assets	5,225,856	-	5,225,856	-
Restricted for				
Sewer Project and Debt Service	967,643	494,634	1,462,277	-
Street and Alley	203,053	-	203,053	-
Cemetery	54,639	-	54,639	-
EMS	937,564	-	937,564	-
Grants	3	-	3	-
Unrestricted	1,013,324	9,424,965	10,438,289	494,697
Total Net Position	\$ 8,402,082	\$ 9,919,599	\$ 18,321,681	\$ 494,697

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

City of Marlow
Government-Wide Statement of Revenues, Expenses and Changes in Net Position– Modified Cash Basis
For the Year Ended June 30, 2015

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Primary Government			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	MEDA
<i>Functions/Programs</i>								
Primary Government								
Governmental Activities								
General Government	388,086	30,717	\$ -	\$ -	\$ (357,369)	\$ -	\$ (357,369)	
Highways and Streets	483,759	-	-	-	(483,759)	-	(483,759)	
Public Safety	1,413,926	107,187	168,569	38,149	(1,100,021)	-	(1,100,021)	
Culture and Recreation	303,046	-	-	68,974	(234,072)	-	(234,072)	
Cemetery	90,581	41,725	-	-	(48,856)	-	(48,856)	
Total Governmental Activities	<u>2,679,398</u>	<u>179,629</u>	<u>168,569</u>	<u>107,123</u>	<u>(2,224,077)</u>	<u>-</u>	<u>(2,224,077)</u>	
Business-Type Activities								
Electric	3,577,309	4,490,402	-	-	-	913,093	913,093	
Water	596,628	603,279	-	-	-	6,651	6,651	
Sanitation	678,285	729,006	-	-	-	50,721	50,721	
Sewer	91,583	318,859	-	-	-	227,276	227,276	
General Government and Recreation	539,999	254,329	-	-	-	(285,670)	(285,670)	
Total Business Type Activities	<u>5,483,804</u>	<u>6,395,875</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>912,071</u>	<u>912,071</u>	
Total Primary Government	<u>8,163,202</u>	<u>6,575,504</u>	<u>168,569</u>	<u>107,123</u>	<u>(2,224,077)</u>	<u>912,071</u>	<u>(1,312,006)</u>	
Component Unit								
Marlow Economic Development Authority	<u>26,156</u>	<u>11,048</u>	<u>42,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,892</u>
General Revenues								
Taxes					1,865,063	-	1,865,063	-
Investment Return					17,637	34,430	52,067	818
Rent and Royalties					59,172	-	59,172	-
Miscellaneous					83,719	-	83,719	-
Transfers					394,100	(394,100)	-	-
Total General Revenues and Transfers					<u>2,419,691</u>	<u>(359,670)</u>	<u>2,060,021</u>	<u>818</u>
Change in Net Position					195,614	552,401	748,015	27,710
Net Position - Beginning					<u>8,206,468</u>	<u>9,367,198</u>	<u>17,573,666</u>	<u>466,987</u>
Net Position - Ending					<u>\$ 8,402,082</u>	<u>\$ 9,919,599</u>	<u>\$ 18,321,681</u>	<u>\$ 494,697</u>

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

City of Marlow
Statement of Assets, Liabilities and Fund Balance – Modified Cash Basis
Governmental Funds
June 30, 2015

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total
Assets					
Cash and Cash Investments	\$ 410,883	\$ 250,109	\$ 690,314	\$ 1,085,784	\$ 2,437,090
Restricted Cash	179,641	-	-	-	179,641
Investments	174,593	-	277,329	109,472	561,394
Total Assets	\$ 765,117	\$ 250,109	\$ 967,643	\$ 1,195,256	\$ 3,178,125
Liabilities					
Bonds Pending Court	\$ 1,899	\$ -	\$ -	\$ -	\$ 1,899
Total Liabilities	1,899	-	-	-	1,899
Fund Balances					
Restricted	\$ 18,000	\$ -	\$ 908,219	\$ 1,140,495	\$ 2,066,714
Committed	-	-	-	-	-
Assigned	-	250,109	59,424	54,761	364,294
Unreserved	745,218	-	-	-	745,218
Total Fund Balances	\$ 763,218	\$ 250,109	\$ 967,643	\$ 1,195,256	\$ 3,176,226
Total Liabilities and Fund Balances	\$ 765,117	\$ 250,109	\$ 967,643	\$ 1,195,256	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the	6,276,972
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the fund.	<u>(1,051,116)</u>
Net position of governmental activities.	<u>\$ 8,402,082</u>

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

City of Marlow
Statement of Revenues, Expenditures and
Changes in Fund Balance – Modified Cash Basis – Governmental Funds
For the Year Ended June 30, 2015

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total
REVENUE					
Taxes	\$ 1,038,298	\$ 97,268	\$ 459,131	\$ 270,366	1,865,063
Intergovernmental	46,350	10,368	-	150,000	206,718
License and Permits	30,056	-	-	-	30,056
Charges for Service	30,717	-	-	-	30,717
Fines	138,060	-	-	-	138,060
Miscellaneous	82,177	68,974	0	1,540	152,691
Investment Return	6,477	211	6,437	4,512	17,637
Royalties	2,991	56,181	-	-	59,172
Cemetery	36,695	-	-	5,030	41,725
	<u>\$ 1,411,821</u>	<u>233,002</u>	<u>465,568</u>	<u>431,448</u>	<u>2,541,839</u>
EXPENDITURES					
Current					
General Government	\$ 345,775	-	-	-	345,775
Public Safety	1,229,133	-	-	152,190	1,381,323
Highways and Streets	234,113	49,990	-	-	284,103
Culture and Recreation	198,688	-	-	-	198,688
Cemetery	84,247	-	-	-	84,247
Capital Outlay					
General Government	-	243,446	6	-	243,452
Public Safety	42,096	-	-	133,685	175,781
Highways and Streets	-	203,332	-	-	203,332
Culture and Recreation	-	-	-	-	-
Cemetery	-	-	-	-	-
Debt Service	414,200	-	-	-	414,200
	<u>\$ 2,548,252</u>	<u>496,768</u>	<u>6</u>	<u>285,875</u>	<u>3,330,901</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,136,431)</u>	<u>(263,766)</u>	<u>465,562</u>	<u>145,573</u>	<u>(789,062)</u>
Other Financing Sources					
Transfers In	989,200	523,558	-	-	1,512,758
Transfers Out	-	(554,458)	(414,200)	(150,000)	(1,118,658)
Total Other Financing Sources	<u>989,200</u>	<u>(30,900)</u>	<u>(414,200)</u>	<u>(150,000)</u>	<u>394,100</u>
Net Change in Fund Balances	(147,231)	(294,666)	51,362	(4,427)	(394,962)
Fund Balances - Beginning	<u>910,449</u>	<u>544,775</u>	<u>916,281</u>	<u>1,199,683</u>	<u>3,571,188</u>
Fund Balances - Ending	<u>\$ 763,218</u>	<u>\$ 250,109</u>	<u>\$ 967,643</u>	<u>\$ 1,195,256</u>	<u>\$ 3,176,226</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 Fund Balance – Modified Cash Basis – Governmental Funds
to the Statement of Revenue, Expenses and Changes in Net Position – Modified Cash Basis
For the Year Ended June 30, 2015

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

Net change in fund balances - total governmental funds	\$ (394,962)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.	173,804
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The issuance of long-term debt (e.g., leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>416,772</u>
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Change in net position of governmental activities.	<u>\$ 195,614</u>
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The notes to the financial statements are an integral part of this statement

City of Marlow
Statement of Net Position – Modified Cash Basis – Proprietary Fund
June 30, 2015

	<u>Marlow Municipal Authority</u>
<i>ASSETS</i>	
Current Assets	
Cash and Cash Equivalent	\$ 2,179,595
Restricted Cash and Cash Equivalents	258,116
Investments	<u>1,684,184</u>
Total Current Assets	<u>4,121,895</u>
Noncurrent Assets	
Restricted Cash and Cash Equivalents	494,634
Capital Assets	
Land and Construction in Progress	2,660,663
Other Capital Assets	43,659,379
Less Accumulated Depreciation	<u>(37,704,808)</u>
Total Noncurrent Assets	<u>9,109,868</u>
Total Assets	<u>13,231,763</u>
<i>LIABILITIES</i>	
Current Liabilities	
Refundable Meter Deposits	277,164
Notes Payable, Current Portion	<u>300,000</u>
Total Current Liabilities	577,164
Noncurrent Liabilities	
Notes Payable	<u>2,735,000</u>
Total Noncurrent Liabilities	<u>2,735,000</u>
Total Liabilities	<u>3,312,164</u>
<i>NET POSITION</i>	
Invested in Capital Assets, net of related debt	5,580,234
Restricted for Debt Service	494,634
Unrestricted	<u>3,844,731</u>
Total Net Position	<u>\$ 9,919,599</u>

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

City of Marlow
Statement of Revenue, Expenses and Changes in Net Position – Modified Cash Basis
Proprietary Fund
For the Year Ended June 30, 2015

	Marlow Municipal Authority
Operating Revenues:	
Electric	\$ 4,490,402
Water	603,279
Sanitation	729,006
Sewer	318,859
Pool	12,560
Miscellaneous	241,769
Total Operating Revenue	6,395,875
Operating Expenses:	
Electric	3,577,309
Water	483,508
Sanitation	678,285
Sewer	91,583
Pool	27,242
General Government	512,757
Total Operating Expenses	5,370,684
Operating Income (Loss)	1,025,191
Nonoperating Revenues (Expenses):	
Interest Revenue	34,430
Interest Expense	(113,120)
Total Nonoperating Revenues (Expenses)	(78,690)
Income (Loss) before Transfers	946,501
Other Financing Sources (Uses):	
Transfers In	704,458
Transfers Out	(1,098,558)
Total Other Financing Sources	(394,100)
Net Change in Net Position	552,401
Total Net Position - Beginning	9,367,198
Total Net Position - Ending	\$ 9,919,599

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

City of Marlow
Statement of Cash Flows – Modified Cash Basis – Proprietary Fund
For the Year Ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Revenues Received	\$ 6,395,875
Vendors and Others Paid	<u>(5,079,666)</u>
Net Cash Provided by Operating Activities	1,316,209

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfer, Net	<u>(394,100)</u>
Net Cash Used by Noncapital Financing Activities	(394,100)

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Payment of Debt	(290,000)
Purchase of Property, Plant and Equipment	(1,129,305)
Decrease in Restricted Cash - Capital Financing	<u>801,366</u>
Net Cash Used by Capital Financing Activities	(617,939)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	34,430
Interest Expense	(113,120)
Increase in Restricted Cash and Investments	<u>(39,180)</u>
Net Cash Used by Investing Activities	<u>(117,870)</u>

Net Increase in Cash and Cash Equivalents 186,300

Cash and Cash Equivalents, July 1, 2014 1,993,295

Cash and Cash Equivalents, June 30, 2015 \$ 2,179,595

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

Operating Income \$ 1,025,191

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

Depreciation and Amortization Expense 281,699

Increase in Meter Deposits Payable 9,319

Net Cash Provided by Operating Activities \$ 1,316,209

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

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

Blended Component Unit

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

Discretely presented Component Unit

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

B. Government-wide and fund financial statements

Government-Wide Financial Statements

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements – (continued)

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

The City reports the following major government funds:

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

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

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

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

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

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

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

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

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

C. Assets, liabilities, and net position or equity

1. Deposits and investments

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

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

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

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

2. Interfund transactions

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

3. Restricted assets

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

4. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

5. Fund equity

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

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Town did not have any nonspendable resources as of June 30, 2015.

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, 2015.

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

Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the council delegating this responsibility to the clerk through the budgetary process. The Town has assigned resources of interest earnings in special revenue funds as of June 30, 2015.

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

5. Fund equity - continued

As of June 30, 2015, fund balances are composed of the following:

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total Governmental Funds
Restricted					
Cemetery	\$ -	\$ -	\$ -	\$ 54,639	\$ 54,639
Grants	18,000	-	-	-	18,000
EMS	-	-	-	906,273	906,273
Street and Alley	-	-	-	179,583	179,583
Sewer Construction and Debt Service	-	-	908,219	-	908,219
Committed					
Assigned					
Capital Improvements	-	250,109	-	-	250,109
EMS	-	-	-	31,291	31,291
Street and Alley	-	-	-	23,470	23,470
Sewer Construction and Debt Service	-	-	59,424	-	59,424
Unassigned	745,218	-	-	-	745,218
	<u>\$ 763,218</u>	<u>\$ 250,109</u>	<u>\$ 967,643</u>	<u>\$ 1,195,256</u>	<u>\$ 3,176,226</u>

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation of the \$5,225,856 difference between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net assets.

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

Capital assets, not being depreciated	\$ 284,036
Capital assets, being depreciated	17,156,399
Less Accumulated Depreciation	<u>(11,163,463)</u>
	<u>\$ 6,276,972</u>

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

Capital Leases	<u>\$ 1,051,116</u>
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B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the \$590,576 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	\$ 622,559
Depreciation Expense	<u>(448,755)</u>
	<u>\$ 173,804</u>

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

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

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

The final element of the reconciliation explains that the repayment of the principal of long-term debt consumes current financial resources, but has no effect on net assets.

	<i>Capital Lease</i>	<i>Revenue Note</i>
Capital Lease, principal repayment	\$ 26,772	\$ 390,000

III. BUDGETARY INFORMATION

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

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

The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements. For budgetary comparison purposes, the City considers all encumbrances to lapse at year end; therefore, encumbrances are not considered expenditures for budgetary comparison purposes. However, the City will re-appropriate these lapsed encumbrances in the subsequent year budget.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

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, 2015, the bank balance was \$5,181,579. This amount was insured and collateralized.

As of June 30, 2015, the City had the following investments:

	Maturity	Cost	Fair Value
Federal National Mortgage Association	May, 2017	\$ 1,994,005	\$ 2,050,580
Bank of Hapoalim. Certificate of Deposit	August, 2015	\$ 231,000	\$ 231,000
Federated Prime Cash Money Market Mutual Fund	NA	<u>20,573</u>	<u>20,573</u>
		<u>\$ 2,245,578</u>	<u>\$ 2,302,153</u>

Interest Rate Risk: The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk : Credit risk is the risk that an issuer of a debt-type investment will not fulfill its obligation to the holder of the investment. The City does not have a formal investment policy limiting the types of investments measured by assignment of a credit rating by a nationally recognized rating organization. The investment in the Federal National Mortgage Association were rated Aaa by Moody's Investors and AA+ by Standard and Poors. The money market mutual fund is unrated.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The City does not have a formal policy limiting the amount that may be invested with one issuer. The investment in Federal National Mortgage Association totals 92% of investments.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

IV. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Government Activities:					
Capital assets, not being depreciated					
Land and Easements	\$ 284,036	\$ -	\$ -	\$ -	\$ 284,036
Construction in progress	1,786,813	-	-	(1,786,813)	-
Total capital assets, not being depreciated	<u>2,070,849</u>	<u>-</u>	<u>-</u>	<u>(1,786,813)</u>	<u>284,036</u>
Capital assets, being depreciated					
Land Improvements	6,021,094	190,464	-	12,920	6,224,478
Buildings	1,812,926	230,071	-	1,171,615	3,214,612
Building Improvements	39,428	26,934	-	375,260	441,622
Computers	59,843	23,156	-	58,326	141,325
Artwork	6,200	-	-	-	6,200
Vehicles	1,289,072	108,111	-	-	1,397,183
Machinery and Equipment	1,262,690	43,823	-	168,692	1,475,205
Infrastructure	4,255,774	-	-	-	4,255,774
Total capital assets, being depreciated	<u>14,747,027</u>	<u>622,559</u>	<u>-</u>	<u>1,786,813</u>	<u>17,156,399</u>
Less Accumulated Depreciation	<u>10,714,708</u>	<u>448,755</u>	<u>-</u>	<u>-</u>	<u>11,163,463</u>
Total capital assets, being depreciated, net	<u>4,032,319</u>	<u>173,804</u>	<u>-</u>	<u>1,786,813</u>	<u>5,992,936</u>
Governmental activities capital assets, net	<u>6,103,168</u>	<u>173,804</u>	<u>-</u>	<u>-</u>	<u>6,276,972</u>
Business-type Activities:					
Capital assets, not being depreciated					
Land and Easements	\$ 1,295,998	\$ 91,475	\$ -	\$ -	\$ 1,387,473
Construction in progress	769,232	503,958	-	-	1,273,190
Total capital assets, not being depreciated	<u>2,065,230</u>	<u>595,433</u>	<u>-</u>	<u>-</u>	<u>2,660,663</u>
Capital assets, being depreciated					
Land Improvements	1,930,272	-	-	-	1,930,272
Buildings	3,604,836	50,500	-	-	3,655,336
Vehicles	677,806	-	-	-	677,806
Machinery and Equipment	1,028,345	164,741	-	-	1,193,086
Water Rights	190,157	-	-	-	190,157
Infrastructure	35,694,091	318,631	-	-	36,012,722
Total capital assets, being depreciated	<u>43,125,507</u>	<u>533,872</u>	<u>-</u>	<u>-</u>	<u>43,659,379</u>
Less Accumulated Depreciation	<u>37,423,109</u>	<u>281,699</u>	<u>-</u>	<u>-</u>	<u>37,704,808</u>
Total capital assets, being depreciated, net	<u>5,702,398</u>	<u>252,173</u>	<u>-</u>	<u>-</u>	<u>5,954,571</u>
Business activities capital assets, net	<u>7,767,628</u>	<u>847,606</u>	<u>-</u>	<u>-</u>	<u>8,615,234</u>
Total Primary Government	<u>\$ 13,870,796</u>	<u>\$ 1,021,410</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,892,206</u>

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

V. CAPITAL ASSETS

Capital asset activity for MEDA for the year ended June 30, 2015 was as follows:

Component Unit Activities:

Capital assets, not being depreciated

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

Capital assets, being depreciated

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

Less Accumulated Depreciation	<u>1,713</u>	<u>704</u>	<u>-</u>	<u>-</u>	<u>2,417</u>
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Total capital assets, being depreciated, net	<u>15,902</u>	<u>(704)</u>	<u>-</u>	<u>-</u>	<u>15,198</u>
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Component Unit capital assets, net	<u>\$ 115,841</u>	<u>\$ (704)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,137</u>
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Depreciation expense was charged to functions/programs of the primary government as follows:

Government activities:

General Government	\$ 18,104
Highways and Streets	199,655
Public Safety	120,308
Culture and Recreation	104,357
Cemetery	<u>6,331</u>

Total depreciation expense - governmental activities	<u><u>\$ 448,755</u></u>
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Business-type activities

Electric	\$ 76,354
Water	67,946
General Government	45,701
Pool	1,200
Sewer	<u>90,498</u>

Total depreciation expense - business-type activities	<u><u>\$ 281,699</u></u>
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City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

V. INTERFUND TRANSFERS

Interfund transfers as of June 30, 2015 were as follows:

T r a n s f e r T o	Transfer From					
	General Fund	Capital		Marlow Municipal		Total
		Improvements	Sewer Project	Authority	All Others	
General Fund	\$ -	\$ -	\$ 414,200	\$ 575,000	\$ -	\$ 989,200
Capital Improvements	-	-	-	523,558	-	523,558
Sewer Project	-	-	-	-	-	-
Marlow Municipal Authority	-	554,458	-	-	150,000	704,458
All Others	-	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 554,458</u>	<u>\$ 414,200</u>	<u>\$ 1,098,558</u>	<u>\$ 150,000</u>	<u>\$ 2,217,216</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.

VI. LONG-TERM LIABILITIES

A summary of long-term liability activity for the year ended June 30, 2015, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Primary Government					
<i>Governmental Activities</i>					
AT&T Oklahoma	\$ 42,888	\$ -	\$ 26,772	\$ 16,116	\$ 16,116
BancFirst 2012 Tax Revenue Note	1,425,000	-	390,000	1,035,000	395,000
	<u>\$ 1,467,888</u>	<u>\$ -</u>	<u>\$ 416,772</u>	<u>\$ 1,051,116</u>	<u>\$ 411,116</u>
<i>Business-Type Activities</i>					
BancFirst 2013 Tax Revenue Note	\$ 2,165,000	\$ -	\$ 120,000	\$ 2,045,000	\$ 120,000
Sales Tax Revenue Note Payable 2005	1,160,000	-	170,000	990,000	180,000
Total Business-Type Activities	<u>3,325,000</u>	<u>-</u>	<u>290,000</u>	<u>3,035,000</u>	<u>300,000</u>
Total Primary Government	<u>\$ 4,792,888</u>	<u>\$ -</u>	<u>\$ 706,772</u>	<u>\$ 4,086,116</u>	<u>\$ 711,116</u>

Governmental activities long-term liabilities at June 30, 2015, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2015
<i>Governmental Activities</i>					
AT&T Oklahoma E911 Equipment	January , 2016	4.20%	\$ 28,000	\$ 126,698	\$ 16,116
BancFirst 2012 Revenue Tax Note	December, 2017	1.71%	390,000	2,190,000	1,035,000

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

VII. LONG-TERM LIABILITIES (continued)

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

Machinery and equipment	\$ 228,960
less accumulated depreciation	<u>(190,800)</u>
	<u>\$ 38,160</u>

Principal maturities and the amount representing interest on capital leases at June 30, 2015, is as follows:

	Year Ending June 30
	2016
Present value of future minimum lease payments	\$ 16,332
less: Interest	<u>(216)</u>
Net Minimum lease payments	\$ 16,116
Current portion	<u>(16,116)</u>
Long-term portion	<u>\$ -</u>

Business-type activities long-term liabilities at June 30, 2015, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2015
<i>Business-Type Activities</i>					
Sales Tax Revenue Note Payable, Series 2005 (refinanced Oklahoma Water Resources Board 2004 note)	April, 2020	4.20%	\$ 170,000	\$ 2,300,000	\$ 990,000
BancFirst 2013 Sales Tax Revenue Note (Utility system improvements)	December, 2028	3.10%	120,000	2,220,000	\$ 2,045,000 <u>\$ 3,035,000</u>

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

<i>Governmental Activities:</i>	
Public Safety	\$ 22,700
 <i>Business Type Activities:</i>	
Water	\$ 113,120

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

VII. LONG-TERM LIABILITIES (continued)

As of June 30, 2015, annual debt service requirements of the business-type activities to maturity are as follows:

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 300,000	\$ 102,169
2017	310,000	90,699
2018	325,000	78,892
2019	345,000	66,586
2020	360,000	53,511
2021-2025	775,000	163,680
2026-2029	<u>620,000</u>	<u>39,138</u>
	<u>\$ 3,035,000</u>	<u>\$ 594,675</u>

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

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

Debt Service Coverage Ratio is computed as follows:

<i>Debt Service Coverage Ratio:</i>	
Operating Revenues	\$ 6,395,875
Interest Revenue	<u>34,430</u>
Total Revenue	6,430,305
Operating Expenses	5,370,684
Less: Depreciation Expense	<u>(281,699)</u>
Total Expenses	<u>5,088,985</u>
Net Revenue Available for Debt Service	<u>1,341,320</u>
 <i>Average Annual Debt Service</i>	
Sales Tax Revenue Note Payable, Series 2005	193,333
BancFirst 2013 Sales Tax Revenue Note	<u>144,333</u>
	337,666
Coverage Ratio	<u>397%</u>
Required Coverage Ratio	<u>125%</u>

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

VIII. RESTRICTED ASSETS

Restricted cash as of June 30, 2015 is as follows:

Funds restricted for debt service reserves	\$ 529,322
Meter deposits	186,085
Health Savings	133,259
Oklahoma Municipal Assurance Group Escrow	83,725
	<u>\$ 932,391</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 2014-2015, City of Marlow and Marlow Municipal Authority's annual pension cost of \$94,967, were equal to the required contributions

Policemen's Retirement Plan

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

IX. PENSION PLANS (continued)

Policemen's Retirement Plan – (continued)

The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% for the year ended June 30, 2015. 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
2015	293,797	61,697	38,194	23,503	36,137
2014	276,255	58,014	36,106	22,219	53,593
2013	287,013	60,852	37,670	23,182	51,088

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

Firefighters' Retirement Plan

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

A participant with twenty years of service may retire with a normal retirement allowance. The normal retirement allowance paid monthly for life and then to beneficiaries equal to 2.5% of the average compensation of the highest 30 months of the last 60 months of contributory service multiplied by the number of years of credited service up to the maximum of 30 years. The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% per the year June 30, 2015. Participating members are required to contribute 8%.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2015

IX. PENSION PLANS (continued)

Firefighters' Retirement Plan – (continued)

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

Trend Information:

Year Ending June 30	Covered Payroll	Pension Cost	City Share	Employee Share	On-Behalf Payments
2015	128,567	26,999	16,714	10,285	44,227
2014	101,302	21,273	14,483	8,104	30,391
2013	101,449	21,304	13,713	8,116	24,956

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, 2015, has not been given. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, the City expects such amounts, if any, to be immaterial.

XI. RISK MANAGEMENT

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

City of Marlow, Oklahoma
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, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 968,500	\$ 968,500	\$ 1,038,298	\$ 69,798
Intergovernmental	8,800	8,800	8,201	(599)
License	20,250	20,250	30,056	9,806
Charges for Service	23,000	23,000	30,717	7,717
Fines	62,100	62,100	66,496	4,396
Miscellaneous	26,700	26,700	81,242	54,542
Interest	2,600	2,600	6,323	3,723
Royalties	2,500	2,500	2,991	491
Cemetery	33,900	33,900	36,695	2,795
Total Revenue	<u>1,148,350</u>	<u>1,148,350</u>	<u>1,301,019</u>	<u>152,669</u>
EXPENDITURES				
Current				
General Government	451,300	435,293	345,775	89,518
Public Safety	1,187,000	1,212,472	1,158,715	53,757
Highways and Streets	192,050	276,604	234,113	42,491
Culture and Recreation	258,588	172,529	159,379	13,150
Cemetery	94,650	107,650	84,247	23,403
Capital Outlay				
General Government	2,500	414,200	414,200	-
Public Safety	18,000	10,040	3,947	6,093
Highways and Streets	2,500	5,500	-	5,500
Culture and Recreation	11,000	-	-	-
Cemetery	2,500	-	-	-
Total Expenditures	<u>2,220,088</u>	<u>2,634,288</u>	<u>2,400,376</u>	<u>233,912</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,071,738)</u>	<u>(1,485,938)</u>	<u>(1,099,357)</u>	<u>386,581</u>
Other Financing Sources				
Transfers In	575,000	989,200	989,200	-
Transfers Out	-	-	-	-
Total Other Financing Sources	<u>575,000</u>	<u>989,200</u>	<u>989,200</u>	<u>-</u>
Net Change in Fund Balance	(496,738)	(496,738)	(110,157)	386,581
Fund Balance - Beginning	<u>496,738</u>	<u>496,738</u>	<u>827,987</u>	<u>331,249</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>717,830</u>	<u>\$ 717,830</u>
Change in Fund Balance of Municipal Court Fund, combined with General fund for presentation, and not for budget purposes			<u>7,018</u>	
Fund Balance - Ending			<u>\$ 724,848</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, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 85,000	\$ 91,438	\$ 97,268	\$ 5,830
Intergovernmental	95,000	105,368	10,368	(95,000)
Miscellaneous	-	64,971	68,974	4,003
Interest	300	300	211	(89)
Royalties	75,000	75,000	56,181	(18,819)
Total Revenue	255,300	337,077	233,002	(104,075)
EXPENDITURES				
Current				
Highways and Streets	-	53,628	49,990	3,638
Capital Outlay				
General Government	-	250,105	243,446	6,659
Culture and Recreation	10,000	5,908	-	5,908
Public Safety	-	9,594	-	9,594
Highways and Streets	245,300	258,632	203,332	55,300
Total Expenditures	255,300	577,867	496,768	81,099
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(240,790)	(263,766)	(22,976)
Other Financing Sources				
Transfers In	900,000	900,000	523,558	-
Transfers Out	(900,000)	(780,000)	(554,458)	225,542
Total Other Financing Sources	-	120,000	(30,900)	225,542
Net Change in Fund Balance	-	(120,790)	(294,666)	202,566
Fund Balance - Beginning	-	120,790	544,775	423,985
Fund Balance - Ending	\$ -	\$ -	\$ 250,109	\$ 626,551

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, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	412,910	413,461	\$ 459,131	\$ 45,670
Interest	750	750	6,437	5,687
Total Revenue	<u>413,660</u>	<u>414,211</u>	<u>465,568</u>	<u>51,357</u>
EXPENDITURES				
Current				
General Government	10	10	6	4
Total Expenditures	<u>10</u>	<u>10</u>	<u>6</u>	<u>4</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	413,650	414,201	465,562	51,361
Other Financing Sources				
Transfers Out	(413,650)	(414,201)	(414,200)	1
Total Other Financing Sources				
Net Change in Fund Balance	-	-	51,362	51,362
Fund Balance - Beginning	-	-	916,281	916,281
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 967,643</u>	<u>\$ 967,643</u>

City of Marlow, Oklahoma
Supplemental Schedule
Combining Statement of Assets, Liabilities and Fund Balance – Modified Cash Basis
Nonmajor Governmental Special Revenue Funds
June 30, 2015

	<u>Cemetery Care</u>	<u>CDBG Grant</u>	<u>EMS Fund</u>	<u>Street & Alley</u>	<u>Total</u>
Assets					
Cash	\$ 54,639	\$ -	\$ 828,092	\$ 203,053	\$ 1,085,784
Investments	<u>-</u>	<u>-</u>	<u>109,472</u>	<u>-</u>	<u>109,472</u>
Total Assets	<u>\$ 54,639</u>	<u>\$ -</u>	<u>\$ 937,564</u>	<u>\$ 203,053</u>	<u>1,195,256</u>
Fund Balances					
Restricted	\$ 54,639	\$ -	\$ 906,273	\$ 179,583	\$ 1,140,495
Committed	-	-	-	-	-
Assigned	-	-	31,291	23,470	54,761
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>54,639</u>	<u>-</u>	<u>937,564</u>	<u>203,053</u>	<u>1,195,256</u>
Total Liabilities and Fund Balances	<u>\$ 54,639</u>	<u>\$ -</u>	<u>\$ 937,564</u>	<u>\$ 203,053</u>	<u>\$ 1,195,256</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, 2015

	Cemetery Care	CDBG Grant	EMS Fund	Street & Alley	Total
REVENUE					
Taxes	\$ -	\$ -	\$ 229,566	\$ 40,800	\$ 270,366
Intergovernmental	-	150,000	-	-	150,000
Miscellaneous	-	-	-	1,540	1,540
Investment Return	118	-	3,926	468	4,512
Cemetery	<u>5,030</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,030</u>
Total Revenue	<u>5,148</u>	<u>150,000</u>	<u>233,492</u>	<u>42,808</u>	<u>431,448</u>
EXPENDITURES					
Current					
Public Safety	-	-	152,190	-	152,190
Capital Outlay					
Public Safety	<u>-</u>	<u>-</u>	<u>133,685</u>	<u>-</u>	<u>133,685</u>
Total Expenditures	<u>-</u>	<u>-</u>	<u>285,875</u>	<u>-</u>	<u>285,875</u>
Excess (Deficiency) of					
Revenues Over (Under) Expenditures	<u>5,148</u>	<u>150,000</u>	<u>(52,383)</u>	<u>42,808</u>	<u>145,573</u>
Other Financing Sources					
Transfers In	-	-	-	-	-
Transfers Out	<u>-</u>	<u>(150,000)</u>	<u>-</u>	<u>-</u>	<u>(150,000)</u>
Total Other Financing Sources	<u>-</u>	<u>(150,000)</u>	<u>-</u>	<u>-</u>	<u>(150,000)</u>
Net Change in Fund Balances	5,148	-	(52,383)	42,808	(4,427)
Fund Balances, Beginning	<u>49,491</u>	<u>-</u>	<u>989,947</u>	<u>160,245</u>	<u>1,199,683</u>
Fund Balances, Ending	<u>\$ 54,639</u>	<u>\$ -</u>	<u>\$ 937,564</u>	<u>\$ 203,053</u>	<u>\$ 1,195,256</u>

City of Marlow, Oklahoma
Supplemental Schedule
Combining Statement of Assets, Liabilities and Fund Balance – Modified Cash Basis
General Fund
June 30, 2015

	<u>General Fund</u>	<u>Lake Taylor</u>	<u>OHFA Grant</u>	<u>Special Library</u>	<u>Total</u>
Assets					
Cash and Cash Investments	\$ 372,513	\$ 20,367	\$ 3	\$ 18,000	\$ 410,883
Restricted Cash	179,641	-	-	-	179,641
Investments	<u>\$ 174,593</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>174,593</u>
	<u>\$ 726,747</u>	<u>\$ 20,367</u>	<u>\$ 3</u>	<u>\$ 18,000</u>	<u>\$ 765,117</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	\$ -	\$ -	\$ -	\$ 18,000	\$ 18,000
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	<u>724,848</u>	<u>20,367</u>	<u>3</u>	<u>-</u>	<u>745,218</u>
Total Fund Balances	<u>724,848</u>	<u>20,367</u>	<u>3</u>	<u>18,000</u>	<u>763,218</u>
Total Liabilities and Fund Balances	<u>\$ 726,747</u>	<u>\$ 20,367</u>	<u>\$ 3</u>	<u>\$ 18,000</u>	<u>\$ 765,117</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, 2015

	<u>General Fund</u>	<u>Lake Taylor</u>	<u>OHFA Grant</u>	<u>Special Library</u>	<u>Total</u>
REVENUE					
Taxes	\$ 1,038,298	\$ -	\$ -	\$ -	\$ 1,038,298
Intergovernmental	46,350	-	-	-	46,350
License and Permits	30,056	-	-	-	30,056
Charges for Service	30,717	-	-	-	30,717
Fines	138,060	-	-	-	138,060
Miscellaneous	81,240	-	-	937	82,177
Interest	6,338	20	-	119	6,477
Royalties	2,991	-	-	-	2,991
Cemetery	36,695	-	-	-	36,695
	<u>1,410,745</u>	<u>20</u>	<u>-</u>	<u>1,056</u>	<u>1,411,821</u>
Total Revenue					
EXPENDITURES					
Current					
General Government	345,775	-	-	-	345,775
Public Safety	1,229,133	-	-	-	1,229,133
Highways and Streets	234,113	-	-	-	234,113
Culture and Recreation	159,379	-	-	39,309	198,688
Cemetery	84,247	-	-	-	84,247
Capital Outlay					
Public Safety	42,096	-	-	-	42,096
Debt Service	414,200	-	-	-	414,200
	<u>2,508,943</u>	<u>-</u>	<u>-</u>	<u>39,309</u>	<u>2,548,252</u>
Total Expenditures					
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,098,198)</u>	<u>20</u>	<u>-</u>	<u>(38,253)</u>	<u>(1,136,431)</u>
Other Financing Sources					
Transfers In	989,200	-	-	-	989,200
Transfers Out	-	-	-	-	-
Total Other Financing Sources	<u>989,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>989,200</u>
Net Change in Fund Balances	(108,998)	20	-	(38,253)	(147,231)
Fund Balances, Beginning	<u>833,846</u>	<u>20,347</u>	<u>3</u>	<u>56,253</u>	<u>910,449</u>
Fund Balances, Ending	<u>\$ 724,848</u>	<u>\$ 20,367</u>	<u>\$ 3</u>	<u>\$ 18,000</u>	<u>\$ 763,218</u>

**City of Marlow, Oklahoma
Supplemental Schedule
Schedule of Grant Activity
Modified Cash Basis
For the Year Ended June 30, 2015**

Granting Agency	Purpose	Award Amount	Expenditures 2014-2015	Revenue Received 2014- 2015	Award Balance 6/30/15	Grant Receivable 6/30/2015
Department of Agriculture	Fire Operations Grant	\$ 4,484	\$ 4,484	\$ 4,484	\$ -	\$ -
Department of Commerce	14792 CDBG 11	\$ 150,000	\$ 150,000	\$ 150,000	\$ -	\$ -
ASCOG	REAP Grant	\$ 16,500	\$ 10,368	\$ 10,368	\$ 6,132	\$ -
Department of Libraries	Operations Grant	<u>\$ 3,717</u>	<u>\$ 3,717</u>	<u>\$ 3,717</u>	<u>\$ -</u>	<u>\$ -</u>
Total		<u>\$ 174,701</u>	<u>\$ 168,569</u>	<u>\$ 168,569</u>	<u>\$ 6,132</u>	<u>\$ -</u>

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

Members of the City Council
City of Marlow, Oklahoma

We have audited audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Marlow, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 3, 2016. Our report included an emphasis of matter paragraph on the City's use of the modified cash basis of accounting.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

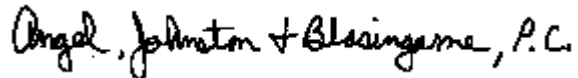
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies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

Compliance and Other Matters

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

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.



Chickasha, Oklahoma
March 3, 2016

**CITY OF MARLOW, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2015**

Deficiencies of Internal Control, Compliance and Other Matters:

No findings were noted for the 2014-15 fiscal year.

**CITY OF MARLOW, OKLAHOMA
DISPOSITION OF PRIOR YEAR FINDINGS
Year Ended June 30, 2015**

Deficiencies of Internal Control, Compliance and Other Matters:

14-1. **Criteria** – In order to maintain good internal controls, all moneys received should be receipted and recorded through the accounting systems receipting program.

Condition – Money received for the Capital Improvement Fund were not receipted through the cash receipting software system. Instead the staff made a journal entry in the books to record the transaction.

Disposition – This continued to be an issue in the 2014-15 fiscal year until March of 2015 when, after our audit of the prior year, the condition was discovered. Since that time the recommendation all funds be recorded in the accounting systems receipting system has been implemented.

14-2. **Criteria** – In order to maintain good internal controls all pages of the daily cash report summary should be printed and maintained.

Condition – Page three of the daily cash collection report, which summarizes the total cash, checks and credit card payments received for the day, was not printed for approximately two months of the year. In addition, on eight out of twenty-eight days we selected for testing, page 3 was not available in the archived records.

Disposition – This was not noted as a finding in 2014-15.