



City of Marlow, Oklahoma

Financial Statements

Year –End: June 30, 2014

City of Marlow
 TABLE OF CONTENTS
 For the Fiscal Year Ended June 30, 2014

	Page
FINANCIAL SECTION	
Independent Auditor’s Report	1
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position – Modified Cash Basis	3
Statement of Revenues, Expenses and Changes in Net Position – Modified Cash Basis	4
Fund Financial Statements:	
Statement of Assets, Liabilities and Fund Balance-Modified Cash Basis Governmental Funds	5
Statement of Revenues, Expenditures, and Changes in Fund Balances-Modified Cash Basis- Governmental Funds	6
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis- of Governmental Funds to the Statement of Revenues, Expenses and Changes in Net Position –Modified Cash Basis	7
Statement of Net Position – Modified Cash Basis – Proprietary Fund	8
Statement of Revenues, Expenditures, and Changes in Fund Net Position- Modified Cash Basis- Proprietary Fund	9
Statement of Cash Flows – Modified Cash Basis – Proprietary Fund	10
Notes to the Financial Statements	11
Supplementary Information	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis – Budget and Actual:	
General Fund	30
Capital Improvement Fund	31
Sewer Project Fund	32
Combining Statement of Assets, Liabilities and Fund Balance – Modified Cash Basis Nonmajor Governmental Special Revenue Funds	33
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – Nonmajor Governmental Special Revenue Funds	34
Combining Statement of Assets, Liabilities and Fund Balance- Modified Cash Basis General Fund	35

City of Marlow
TABLE OF CONTENTS
For the Fiscal Year Ended June 30, 2014

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – General Fund	36
Schedule of Grant Activity	37
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38
Schedule of Findings and Responses	40
Summary of Prior Year Findings	41

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, 2014, 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, 2014, 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

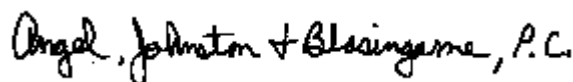
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marlow, Oklahoma basic financial statements. The Supplemental Information as listed in the table of contents, are presented for additional analysis and are not a required part of the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

The budgetary comparison information on pages 30 to 32, which are the responsibility of management, are presented for purposes of additional analysis and are not part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2015, 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
September 10, 2015

BASIC FINANCIAL STATEMENTS

City of Marlow
Government-Wide Statement of Net Position – Modified Cash Basis
June 30, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	MEDA
ASSETS				
Cash and Cash Equivalent	2,871,501	1,993,295	4,864,796	351,146
Restricted Cash and Cash Equivalents	150,574	1,546,079	1,696,653	-
Investments	551,013	1,653,041	2,204,054	-
Land and Construction in Progress	2,070,849	2,065,230	4,136,079	99,939
Other Capital Assets, net of depreciation	4,032,319	5,702,398	9,734,717	15,902
Total Assets	9,676,256	12,960,043	22,636,299	466,987
LIABILITIES				
Current Liabilities				
Bonds Pending Court	1,900	-	1,900	-
Refundable Meter Deposits	-	267,846	267,846	-
Long -term liabilities				
Due within one year	416,772	290,000	706,772	-
Due in more than one year	1,051,116	3,035,000	4,086,116	-
Total Liabilities	1,469,788	3,592,846	5,062,634	-
NET POSITION				
Invested in Capital Assets	4,635,280	(18,550,308)	(13,915,028)	-
Restricted for				
Sewer Project and Debt Service	916,282	1,296,000	2,212,282	-
Street and Alley	160,245	-	160,245	-
Cemetery	49,491	-	49,491	-
EMS	989,947	-	989,947	-
Grants	3	-	3	-
Unrestricted	1,455,220	26,621,505	28,076,725	466,987
Total Net Position	\$ 8,206,468	\$ 9,367,197	\$ 17,573,665	\$ 466,987

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, 2014

	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	422,696	30,457	\$ -	\$ -	\$ (392,239)	\$ -	\$ (392,239)	
Highways and Streets	321,556	-	-	-	(321,556)	-	(321,556)	
Public Safety	1,346,833	99,451	420,283	-	(827,099)	-	(827,099)	
Culture and Recreation	262,726	-	-	86,323	(176,403)	-	(176,403)	
Cemetery	96,016	48,990	-	-	(47,026)	-	(47,026)	
Total Governmental Activities	<u>2,449,827</u>	<u>178,898</u>	<u>420,283</u>	<u>86,323</u>	<u>(1,764,323)</u>	<u>-</u>	<u>(1,764,323)</u>	
Business-Type Activities								
Electric	3,576,399	4,352,324	-	-	-	775,925	775,925	
Water	503,664	599,109	-	-	-	95,445	95,445	
Sanitation	733,633	706,634	-	-	-	(26,999)	(26,999)	
Sewer	196,838	265,084	-	-	-	68,246	68,246	
General Government and Recreation	693,427	199,574	-	-	-	(493,853)	(493,853)	
Total Business Type Activities	<u>5,703,961</u>	<u>6,122,725</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>418,764</u>	<u>418,764</u>	
Total Primary Government	<u>8,153,788</u>	<u>6,301,623</u>	<u>420,283</u>	<u>86,323</u>	<u>(1,764,323)</u>	<u>418,764</u>	<u>(1,345,559)</u>	
Component Unit								
Marlow Economic Development Authority	<u>26,207</u>	<u>4,729</u>	<u>42,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,522</u>
General Revenues								
Taxes					1,796,492	-	1,796,492	-
Investment Return					24,430	42,102	66,532	971
Rent and Royalties					73,757	-	73,757	-
Miscellaneous					82,851	-	82,851	-
Transfers					371,641	(371,641)	-	-
Total General Revenues and Transfers					<u>2,349,171</u>	<u>(329,539)</u>	<u>2,019,632</u>	<u>971</u>
Change in Net Position					584,848	89,225	674,073	21,493
Net Position - Beginning, as restated					<u>7,621,620</u>	<u>9,277,972</u>	<u>16,899,592</u>	<u>445,494</u>
Net Position - Ending					<u>\$ 8,206,468</u>	<u>\$ 9,367,197</u>	<u>\$ 17,573,665</u>	<u>\$ 466,987</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, 2014

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total
Assets					
Cash and Cash Investments	\$ 590,410	\$ 544,775	\$ 644,081	\$ 1,092,235	\$ 2,871,501
Restricted Cash	150,573	-	-	-	150,573
Investments	171,364	-	272,201	107,448	551,013
Total Assets	\$ 912,347	\$ 544,775	\$ 916,282	\$ 1,199,683	\$ 3,573,087
Liabilities					
Bonds Pending Court	\$ 1,899	\$ -	\$ -	\$ -	\$ 1,899
Total Liabilities	1,899	-	-	-	1,899
Fund Balances					
Restricted	\$ 56,253	\$ -	\$ 857,205	\$ 1,150,856	\$ 2,064,314
Committed	-	-	-	-	-
Assigned	-	544,775	59,077	48,827	652,679
Unreserved	854,195	-	-	-	854,195
Total Fund Balances	\$ 910,448	\$ 544,775	\$ 916,282	\$ 1,199,683	\$ 3,571,188
Total Liabilities and Fund Balances	\$ 912,347	\$ 544,775	\$ 916,282	\$ 1,199,683	

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	6,103,168
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the fund.	<u>(1,467,888)</u>
Net position of governmental activities.	<u>\$ 8,206,468</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, 2014

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total
REVENUE					
Taxes	\$ 1,001,673	\$ 91,238	\$ 439,858	\$ 263,724	1,796,493
Intergovernmental	8,870	411,413	-	-	420,283
License and Permits	31,021	-	-	-	31,021
Charges for Service	30,458	-	-	-	30,458
Fines	68,430	-	-	-	68,430
Miscellaneous	90,541	86,323	1	-	176,865
Investment Return	5,756	5,740	6,506	6,428	24,430
Royalties	2,892	70,865	-	-	73,757
Cemetery	43,017	-	-	5,973	48,990
	<u>\$ 1,282,658</u>	<u>665,579</u>	<u>446,365</u>	<u>276,125</u>	<u>2,670,727</u>
EXPENDITURES					
Current					
General Government	\$ 375,257	-	-	-	375,257
Public Safety	1,065,326	-	-	180,648	1,245,974
Highways and Streets	172,526	23,270	-	-	195,796
Culture and Recreation	223,789	-	-	-	223,789
Cemetery	84,735	-	-	-	84,735
Capital Outlay					
General Government	414,327	1,282,532	6	-	1,696,865
Public Safety	-	-	-	71,347	71,347
Highways and Streets	-	1,117,628	-	-	1,117,628
	<u>\$ 2,335,960</u>	<u>2,423,430</u>	<u>6</u>	<u>251,995</u>	<u>5,011,391</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,053,302)</u>	<u>(1,757,851)</u>	<u>446,359</u>	<u>24,130</u>	<u>(2,340,664)</u>
Other Financing Sources					
Transfers In	990,858	1,735,632	-	100	2,726,590
Transfers Out	<u>(1,188,899)</u>	<u>(750,192)</u>	<u>(415,858)</u>	<u>-</u>	<u>(2,354,949)</u>
Total Other Financing Sources	<u>(198,041)</u>	<u>985,440</u>	<u>(415,858)</u>	<u>100</u>	<u>371,641</u>
Net Change in Fund Balances	(1,251,343)	(772,411)	30,501	24,230	(1,969,023)
Fund Balances - Beginning as restated	<u>2,161,791</u>	<u>1,317,186</u>	<u>885,781</u>	<u>1,175,453</u>	<u>5,540,211</u>
Fund Balances - Ending	<u>\$ 910,448</u>	<u>\$ 544,775</u>	<u>\$ 916,282</u>	<u>\$ 1,199,683</u>	<u>\$ 3,571,188</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, 2014

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

Net change in fund balances - total governmental funds	\$ (1,969,023)
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.	2,150,840
The net effect of various miscellaneous transactions involving capital assets (I.e., sales, trade-ins, and donations) is to increase net assets.	(7,693)
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>410,724</u>
Change in net position of governmental activities.	<u>\$ 584,848</u>

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, 2014

	<u>Marlow Municipal Authority</u>
<i>ASSETS</i>	
Current Assets	
Cash and Cash Equivalent	\$ 1,993,295
Restricted Cash and Cash Equivalents	250,079
Investments	<u>1,653,041</u>
Total Current Assets	<u>3,896,415</u>
Noncurrent Assets	
Restricted Cash and Cash Equivalents	1,296,000
Capital Assets	
Land and Construction in Progress	2,065,230
Other Capital Assets	43,125,507
Less Accumulated Depreciation	<u>(37,423,109)</u>
Total Noncurrent Assets	<u>9,063,628</u>
Total Assets	<u>12,960,043</u>
<i>LIABILITIES</i>	
Current Liabilities	
Refundable Meter Deposits	267,846
Notes Payable, Current Portion	<u>290,000</u>
Total Current Liabilities	557,846
Noncurrent Liabilities	
Notes Payable	<u>3,035,000</u>
Total Noncurrent Liabilities	<u>3,035,000</u>
Total Liabilities	<u>3,592,846</u>
<i>NET POSITION</i>	
Invested in Capital Assets, net of related debt	4,442,628
Restricted for Debt Service	1,296,000
Unrestricted	<u>3,628,569</u>
Total Net Position	<u>\$ 9,367,197</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, 2014

	Marlow Municipal Authority
Operating Revenues:	
Electric	\$ 4,352,324
Water	599,109
Sanitation	706,634
Sewer	265,084
Pool	12,931
Miscellaneous	186,643
Total Operating Revenue	6,122,725
Operating Expenses:	
Electric	3,576,399
Water	413,363
Sanitation	733,633
Sewer	196,838
Pool	19,140
General Government	674,287
Total Operating Expenses	5,613,660
Operating Income (Loss)	509,065
Nonoperating Revenues (Expenses):	
Interest Revenue	42,102
Interest Expense	(90,301)
Total Nonoperating Revenues (Expenses)	(48,199)
Income (Loss) before Transfers	460,866
Other Financing Sources (Uses):	
Transfers In	1,626,062
Transfers Out	(1,997,703)
Total Other Financing Sources	(371,641)
Net Change in Net Position	89,225
Total Net Position - Beginning	9,277,972
Total Net Position - Ending	\$ 9,367,197

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Revenues Received	\$ 6,122,725
Vendors and Others Paid	<u>(5,328,652)</u>
Net Cash Provided by Operating Activities	794,073

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfer, Net	<u>(371,641)</u>
Net Cash Used by Noncapital Financing Activities	(371,641)

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Payment of Debt	1,555,000
Purchase of Property, Plant and Equipment	(1,100,927)
Decrease in Restricted Cash - Capital Financing	<u>293,071</u>
Net Cash Provided by Capital Financing Activities	747,144

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	42,102
Interest Expense	(90,301)
Increase in Restricted Cash and Investments	<u>(1,256,905)</u>
Net Cash Used by Investing Activities	<u>(1,305,104)</u>

Net Decrease in Cash and Cash Equivalents (135,528)

Cash and Cash Equivalents, July 1, 2013 2,128,823

Cash and Cash Equivalents, June 30, 2014 \$ 1,993,295

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

Operating Income \$ 509,065

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

Depreciation and Amortization Expense 271,736

Increase in Meter Deposits Payable 13,272

Net Cash Provided by Operating Activities \$ 794,073

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2014

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, 2014

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, 2014

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, 2014

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, 2014

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, 2014

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, 2014.

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, 2014.

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, 2014.

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, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

5. Fund equity - continued

As of June 30, 2014, fund balances are composed of the following:

	General Fund	Capital Improvement Fund	Sewer Project Fund	Other Governmental Funds	Total Governmental Funds
Restricted					
Cemetery	\$ -	\$ -	\$ -	\$ 49,491	\$ 49,491
Grants	56,253	-	-	-	56,253
EMS	-	-	-	962,582	962,582
Street and Alley	-	-	-	138,783	138,783
Sewer Construction and Debt Service	-	-	857,205	-	857,205
Committed					
Assigned					
Capital Improvements	-	544,775	-	-	544,775
EMS	-	-	-	27,365	27,365
Street and Alley	-	-	-	21,462	21,462
Sewer Construction and Debt Service	-	-	59,077	-	59,077
Unassigned	854,195	-	-	-	854,195
	<u>\$ 910,448</u>	<u>\$ 544,775</u>	<u>\$ 916,282</u>	<u>\$ 1,199,683</u>	<u>\$ 3,571,188</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, 2014

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 \$4,635,280 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	\$ 2,070,849
Capital assets, being depreciated	14,747,027
Less Accumulated Depreciation	<u>(10,714,708)</u>
	<u>\$ 6,103,168</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>\$ 1,467,888</u>
----------------	---------------------

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

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the \$2,551,509 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	\$ 2,471,507
Depreciation Expense	<u>(320,667)</u>
	<u>\$ 2,150,840</u>

The next element of the reconciliation explains that the gain or loss on sale of assets either increases or decreases net assets.

Gain on sale of assets	<u>\$ 7,693</u>
------------------------	-----------------

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2014

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	\$ 25,724	\$ 385,000

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.

The following major funds had an excess of expenditures over appropriations as of June 30, 2014:

General Fund – General Government – Capital Outlay – (\$411,327)

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2014

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, 2014, the bank balance was \$6,561,449. This amount was insured and collateralized.

As of June 30, 2014, the City had the following investments:

	Maturity	Cost	Fair Value
Federal National Mortgage Association	May, 2017	\$ 1,994,005	\$ 2,065,440
Federated Prime Cash Money Market Mutual Fund	NA	<u>210,049</u>	<u>210,049</u>
		<u>\$ 2,204,054</u>	<u>\$ 2,275,489</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, 2014

IV. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Government Activities:					
Capital assets, not being depreciated					
Land and Easements	\$ 289,036	\$ -	\$ 5,000	\$ -	\$ 284,036
Construction in progress	885,785	1,293,458	-	(392,430)	1,786,813
Total capital assets, not being depreciated	<u>1,174,821</u>	<u>1,293,458</u>	<u>5,000</u>	<u>(392,430)</u>	<u>2,070,849</u>
Capital assets, being depreciated					
Land Improvements	4,520,216	1,108,448	-	392,430	6,021,094
Buildings	1,828,926	-	16,000	-	1,812,926
Building Improvements	39,428	-	-	-	39,428
Computers	50,663	9,180	-	-	59,843
Artwork	6,200	-	-	-	6,200
Vehicles	1,329,005	-	39,933	-	1,289,072
Machinery and Equipment	1,264,269	60,421	62,000	-	1,262,690
Infrastructure	4,255,774	-	-	-	4,255,774
Total capital assets, being depreciated	<u>13,294,481</u>	<u>1,178,049</u>	<u>117,933</u>	<u>392,430</u>	<u>14,747,027</u>
Less Accumulated Depreciation	<u>10,509,282</u>	<u>320,667</u>	<u>115,241</u>	<u>-</u>	<u>10,714,708</u>
Total capital assets, being depreciated, net	<u>2,785,199</u>	<u>857,382</u>	<u>2,692</u>	<u>392,430</u>	<u>4,032,319</u>
Governmental activities capital assets, net	<u>3,960,020</u>	<u>2,150,840</u>	<u>7,692</u>	<u>-</u>	<u>6,103,168</u>
Business-type Activities:					
Capital assets, not being depreciated					
Land and Easements	\$ 1,295,998	\$ -	\$ -	\$ -	\$ 1,295,998
Construction in progress	32,163	769,232	-	(32,163)	769,232
Total capital assets, not being depreciated	<u>1,328,161</u>	<u>769,232</u>	<u>-</u>	<u>(32,163)</u>	<u>2,065,230</u>
Capital assets, being depreciated					
Land Improvements	1,930,272	-	-	-	1,930,272
Buildings	3,305,599	267,074	-	32,163	3,604,836
Vehicles	677,806	-	-	-	677,806
Machinery and Equipment	992,840	35,505	-	-	1,028,345
Water Rights	190,157	-	-	-	190,157
Infrastructure	35,664,975	29,116	-	-	35,694,091
Total capital assets, being depreciated	<u>42,761,649</u>	<u>331,695</u>	<u>-</u>	<u>32,163</u>	<u>43,125,507</u>
Less Accumulated Depreciation	<u>37,151,373</u>	<u>271,736</u>	<u>-</u>	<u>-</u>	<u>37,423,109</u>
Total capital assets, being depreciated, net	<u>5,610,276</u>	<u>59,959</u>	<u>-</u>	<u>32,163</u>	<u>5,702,398</u>
Business activities capital assets, net	<u>6,938,437</u>	<u>829,191</u>	<u>-</u>	<u>-</u>	<u>7,767,628</u>
Total Primary Government	<u>\$ 10,898,457</u>	<u>\$ 2,980,031</u>	<u>\$ 7,692</u>	<u>\$ -</u>	<u>\$ 13,870,796</u>

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2014

V. CAPITAL ASSETS

Capital asset activity for MEDA for the year ended June 30, 2014 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>1,008</u>	<u>705</u>	<u>-</u>	<u>-</u>	<u>1,713</u>
-------------------------------	--------------	------------	----------	----------	--------------

Total capital assets, being depreciated, net	<u>16,607</u>	<u>(705)</u>	<u>-</u>	<u>-</u>	<u>15,902</u>
--	---------------	--------------	----------	----------	---------------

Component Unit capital assets, net	<u>\$ 116,546</u>	<u>\$ (705)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,841</u>
---	--------------------------	------------------------	--------------------	--------------------	--------------------------

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

Government activities:

General Government	\$ 18,104
Highways and Streets	125,759
Public Safety	125,433
Culture and Recreation	40,090
Cemetery	<u>11,281</u>

Total depreciation expense - governmental activities	<u><u>\$ 320,667</u></u>
--	--------------------------

Business-type activities

Electric	\$ 72,030
Water	72,082
General Government	41,533
Pool	1,200
Sewer	<u>84,891</u>

Total depreciation expense - business-type activities	<u><u>\$ 271,736</u></u>
---	--------------------------

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2014

V. INTERFUND TRANSFERS

Interfund transfers as of June 30, 2014 were as follows:

	Transfer From					Total
	General Fund	Capital Improvements	Sewer Project	Marlow Municipal Authority	All Others	
General Fund	\$ -	\$ -	\$ 415,858	\$ 575,000	\$ -	\$ 990,858
Capital Improvements	1,188,799	-	-	546,833	-	1,735,632
Sewer Project	-	-	-	-	-	-
Marlow Municipal Authority	-	750,192	-	875,870	-	1,626,062
All Others	100	-	-	-	-	100
Total	<u>\$ 1,188,899</u>	<u>\$ 750,192</u>	<u>\$ 415,858</u>	<u>\$ 1,997,703</u>	<u>\$ -</u>	<u>\$ 4,352,652</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, 2014, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Primary Government					
<i>Governmental Activities</i>					
AT&T Oklahoma	\$ 68,612	\$ -	\$ 25,724	\$ 42,888	\$ 26,772
BancFirst 2012 Tax Revenue Note	<u>1,810,000</u>	<u>-</u>	<u>385,000</u>	<u>1,425,000</u>	<u>390,000</u>
	<u>\$ 1,878,612</u>	<u>\$ -</u>	<u>\$ 410,724</u>	<u>\$ 1,467,888</u>	<u>\$ 416,772</u>
<i>Business-Type Activities</i>					
BancFirst	\$ 450,000	\$ -	\$ 450,000	\$ -	\$ -
BancFirst 2013 Tax Revenue Note	-	2,220,000	55,000	2,165,000	120,000
Sales Tax Revenue Note Payable 2005	<u>1,320,000</u>	<u>-</u>	<u>160,000</u>	<u>1,160,000</u>	<u>170,000</u>
Total Business-Type Activities	<u>1,770,000</u>	<u>2,220,000</u>	<u>665,000</u>	<u>3,325,000</u>	<u>290,000</u>

Governmental activities long-term liabilities at June 30, 2014, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2014
<i>Governmental Activities</i>					
AT&T Oklahoma	January , 2016	4.20%	\$ 28,000	\$ 126,698	\$ 42,888
E911 Equipment					
BancFirst 2012 Revenue Tax Note	December, 2017	1.71%	195,000	2,190,000	1,425,000

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2014

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>(145,008)</u>
	<u>\$ 83,952</u>

Principal maturities and the amount representing interest on capital leases at June 30, 2014, is as follows:

	Year Ending June 30			
	2015	\$	28,000	
	2016		16,333	
Present value of future minimum lease payments		\$	<u>44,333</u>	
less: Interest			<u>(1,445)</u>	
Net Minimum lease payments		\$	42,888	
Current portion			<u>(26,772)</u>	
Long-term portion		\$	<u>16,116</u>	

Business-type activities long-term liabilities at June 30, 2014, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2014
<i>Business-Type Activities</i>					
Sales Tax Revenue Note Payable, Series 2005 (refinanced Oklahoma Water Resources Board 2004 note)	April, 2020	4.20%	\$ 135,000	\$ 2,300,000	\$ 1,160,000
BancFirst 2013 Sales Tax Revenue Note (Utility system improvements)	December, 2028	3.10%	150,000	2,220,000	<u>\$ 2,165,000</u> <u>\$ 3,325,000</u>

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

<i>Governmental Activities:</i>	
Public Safety	\$ 29,327
 <i>Business Type Activities:</i>	
Water	\$ 90,300

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2014

VII. LONG-TERM LIABILITIES (continued)

As of June 30, 2014, 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>
2015	\$ 290,000	\$ 113,014
2016	300,000	102,169
2017	310,000	90,699
2018	325,000	78,892
2019	345,000	66,586
2020-2024	970,000	194,173
2025-2029	785,000	62,115
	<u>\$ 3,325,000</u>	<u>\$ 707,648</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:

Debt Service Coverage Ratio:

Operating Revenues	\$ 6,122,725
Interest Revenue	<u>42,102</u>
Total Revenue	6,164,827
Operating Expenses	5,613,660
Less: Depreciation Expense	<u>(271,736)</u>
Total Expenses	<u>5,341,924</u>
Net Revenue Available for Debt Service	<u>822,903</u>
<i>Average Annual Debt Service</i>	
Sales Tax Revenue Note Payable, Series 2005	188,571
BancFirst 2013 Sales Tax Revenue Note	<u>138,750</u>
	327,321
Coverage Ratio	<u>251%</u>
Required Coverage Ratio	<u>125%</u>

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2014

VIII. RESTRICTED ASSETS

Restricted cash as of June 30, 2014 is as follows:

Funds restricted for debt service reserves	\$ 1,330,675
Meter deposits	186,085
Health Savings	101,462
Oklahoma Municipal Assurance Group Escrow	78,431
	<u>\$ 1,696,653</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 2013-2014, City of Marlow and Marlow Municipal Authority's annual pension cost of \$97,876, 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, 2014

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, 2014. 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
2014	276,255	58,014	36,106	22,219	53,593
2013	287,013	60,852	37,670	23,182	51,088
2012	274,505	57,646	35,719	21,927	48,862

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, 2014. Participating members are required to contribute 8%.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2014

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
2014	101,302	21,273	14,483	8,104	30,391
2013	101,449	21,304	13,713	8,116	24,956
2012	98,551	20,696	12,812	7,884	21,484

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, 2014, 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.

At June 30, 2014, the City had pending construction contracts in progress. The commitments related to the remaining contract balances are summarized as follows:

<u>Project</u>	<u>Amount</u>	<u>Vendor</u>
Sub-Station	\$ 767,671	KC Electric
Library	216,084	MEGA

XI. RISK MANAGEMENT

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2014

XII. RESTATEMENT

The City restate beginning fund balance for corrections in the accumulated depreciation account, and the transfer of debt from the proprietary fund to the governmental funds. As a result, the effect on fiscal year 2013 is as follows:

	<u>As Previously Reported</u>	<u>Restatement</u>	<u>As Restated</u>
<i>Governmental Funds</i>			
Fund Balance	\$ 4,316,898	\$ 1,223,313	\$ 5,540,211
Restricted Cash	-	1,223,313	1,223,313
<i>Governmental Type Activities</i>			
Fund Balance	10,388,601	(2,766,981)	7,621,620
Accumulated Depreciation	8,303,986	2,205,296	10,509,282
Restricted Cash	-	1,223,313	1,223,313
Long-term Liabilities	68,612	1,810,000	1,878,612
Other Capital Assets	13,269,481	25,000	13,294,481
Net Change in Net Assets	(104,104)	(2,766,981)	(2,871,085)
<i>Proprietary Fund - Marlow Municipal Authority</i>			
Fund Balance	\$ 27,241,590	\$ (17,963,618)	\$ 9,277,972
Accumulated Depreciation	18,601,065	18,550,308	37,151,373
Restricted Cash - debt service	1,589,071	(1,223,310)	365,761
Long-term Liabilities	3,580,000	(1,810,000)	1,770,000
Net Change in Fund Balance	318,408	(17,963,618)	(17,645,210)
<i>Business Type Activities</i>			
Fund Balance	\$ 27,241,590	\$ (17,963,618)	9,277,972
Accumulated Depreciation	18,601,065	18,550,308	37,151,373
Restricted Cash - debt service	1,589,071	(1,223,310)	365,761
Long-term Liabilities	3,580,000	(1,810,000)	1,770,000
Net Change in Fund Balance	318,408	(17,963,618)	(17,645,210)

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, 2014

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		With Final Budget
REVENUE				
Taxes	\$ 975,800	\$ 975,800	\$ 1,001,673	\$ 25,873
Intergovernmental	8,800	8,800	8,374	(426)
License	20,250	20,250	31,021	10,771
Charges for Service	30,600	30,600	30,458	(142)
Fines	63,000	63,000	62,214	(786)
Miscellaneous	26,700	26,700	49,641	22,941
Interest	2,600	2,600	5,671	3,071
Royalties	7,000	7,000	2,892	(4,108)
Cemetery	33,900	33,900	43,017	9,117
Total Revenue	<u>1,168,650</u>	<u>1,168,650</u>	<u>1,234,961</u>	<u>66,311</u>
EXPENDITURES				
Current				
General Government	490,000	489,400	375,257	114,143
Public Safety	1,147,512	1,147,512	1,057,163	90,349
Highways and Streets	198,775	200,775	172,526	28,249
Culture and Recreation	289,280	290,113	220,354	69,759
Cemetery	99,340	99,340	84,735	14,605
Capital Outlay				
General Government	3,000	3,000	414,327	(411,327)
Public Safety	13,500	13,500	-	13,500
Highways and Streets	2,000	-	-	-
Culture and Recreation	12,000	11,167	-	11,167
Cemetery	2,000	2,000	-	2,000
Total Expenditures	<u>2,257,407</u>	<u>2,256,807</u>	<u>2,324,362</u>	<u>(67,555)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,088,757)</u>	<u>(1,088,157)</u>	<u>(1,089,401)</u>	<u>(1,244)</u>
Other Financing Sources				
Transfers In	575,000	575,000	990,858	415,858
Transfers Out	-	(100)	(1,188,899)	(1,188,799)
Total Other Financing Sources	<u>575,000</u>	<u>574,900</u>	<u>(198,041)</u>	<u>(772,941)</u>
Net Change in Fund Balance	(513,757)	(513,257)	(1,287,442)	(774,185)
Fund Balance - Beginning	<u>513,757</u>	<u>513,757</u>	<u>2,115,432</u>	<u>1,601,675</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ 500</u>	<u>827,990</u>	<u>\$ 827,490</u>
Change in Fund Balance of Municipal Court Fund, combined with General fund for presentation, and not for budget purposes			<u>5,855</u>	
Fund Balance - Ending			<u>\$ 833,845</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, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 95,000	\$ 95,000	\$ 91,238	\$ (3,762)
Intergovernmental	-	-	411,413	411,413
Miscellaneous	1,425,000	1,425,000	86,323	(1,338,677)
Interest	1,200	1,200	5,740	4,540
Royalties	85,000	85,000	70,865	(14,135)
Total Revenue	1,606,200	1,606,200	665,579	(940,621)
EXPENDITURES				
Current				
Highways and Streets	-	23,714	23,270	444
Capital Outlay				
General Government	1,752,000	1,730,108	1,282,532	447,576
Culture and Recreation	10,000	10,000	-	10,000
Public Safety	-	3,106	-	3,106
Highways and Streets	1,500,000	1,504,180	1,117,628	386,552
Total Expenditures	3,262,000	3,271,108	2,423,430	847,678
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,655,800)	(1,664,908)	(1,757,851)	(92,943)
Other Financing Sources				
Transfers In	-	-	1,735,632	-
Transfers Out	-	(750,193)	(750,192)	1
Total Other Financing Sources	-	(750,193)	985,440	1
Net Change in Fund Balance	(1,655,800)	(2,415,101)	(772,411)	(92,942)
Fund Balance - Beginning	1,255,800	1,255,800	1,317,186	61,386
Fund Balance - Ending	\$ (400,000)	\$ (1,159,301)	\$ 544,775	\$ (31,556)

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, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	454,000	454,000	\$ 439,858	\$ (14,142)
Interest	1,700	1,700	6,507	4,807
Total Revenue	<u>455,700</u>	<u>455,700</u>	<u>446,365</u>	<u>(9,335)</u>
EXPENDITURES				
Current				
General Government	6	6	6	-
Total Expenditures	<u>6</u>	<u>6</u>	<u>6</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	455,694	455,694	446,359	(9,335)
Other Financing Sources				
Transfers Out	(256,000)	(453,999)	(415,858)	38,141
Total Other Financing Sources				
Net Change in Fund Balance	199,694	1,695	30,501	28,806
Fund Balance - Beginning	-	-	885,781	885,781
Fund Balance - Ending	<u>\$ 199,694</u>	<u>\$ 1,695</u>	<u>\$ 916,282</u>	<u>\$ 914,587</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, 2014

	Cemetery Care	EMS Fund	Street & Alley	Total
Assets				
Cash	\$ 49,491	\$ 882,499	\$ 160,245	\$ 1,092,235
Investments	-	107,448	-	107,448
 Total Assets	 \$ 49,491	 \$ 989,947	 \$ 160,245	 1,199,683
Fund Balances				
Restricted	\$ 49,491	\$ 962,582	\$ 138,783	\$ 1,150,856
Assigned	-	27,365	21,462	48,827
 Total Fund Balances	 49,491	 989,947	 160,245	 1,199,683
 Total Liabilities and Fund Balances	 \$ 49,491	 \$ 989,947	 \$ 160,245	 \$ 1,199,683

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, 2014

	<u>Cemetery Care</u>	<u>EMS Fund</u>	<u>Street & Alley</u>	<u>Total</u>
REVENUE				
Taxes	\$ -	\$ 219,929	\$ 43,795	\$ 263,724
Investment Return	120	5,903	405	6,428
Cemetery	<u>5,973</u>	<u>-</u>	<u>-</u>	<u>5,973</u>
Total Revenue	<u>6,093</u>	<u>225,832</u>	<u>44,200</u>	<u>276,125</u>
EXPENDITURES				
Current				
Public Safety	-	180,648	-	180,648
Public Safety	<u>-</u>	<u>71,347</u>	<u>-</u>	<u>71,347</u>
Total Expenditures	<u>-</u>	<u>251,995</u>	<u>-</u>	<u>251,995</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>6,093</u>	<u>(26,163)</u>	<u>44,200</u>	<u>24,130</u>
Other Financing Sources				
Transfers In	<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>
Total Other Financing Sources	<u>100</u>	<u>-</u>	<u>-</u>	<u>100</u>
Net Change in Fund Balances	6,193	(26,163)	44,200	24,230
Fund Balances, Beginning	<u>43,298</u>	<u>1,016,110</u>	<u>116,045</u>	<u>1,175,453</u>
Fund Balances, Ending	<u>\$ 49,491</u>	<u>\$ 989,947</u>	<u>\$ 160,245</u>	<u>\$ 1,199,683</u>

City of Marlow, Oklahoma
Supplemental Schedule
Combining Statement of Assets, Liabilities and Fund Balance – Modified Cash Basis
General Fund
June 30, 2014

	<u>General Fund</u>	<u>Lake Taylor</u>	<u>OHFA Grant</u>	<u>Special Library</u>	<u>Total</u>
Assets					
Cash and Cash Investments	\$ 513,807	\$ 20,347	\$ 3	\$ 56,253	\$ 590,410
Restricted Cash	150,573	-	-	-	150,573
Investments	<u>\$ 171,364</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>171,364</u>
	<u>\$ 835,744</u>	<u>\$ 20,347</u>	<u>\$ 3</u>	<u>\$ 56,253</u>	<u>\$ 912,347</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	\$ -	\$ -	\$ -	\$ 56,253	\$ 56,253
Committed	-	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	<u>833,845</u>	<u>20,347</u>	<u>3</u>	<u>-</u>	<u>854,195</u>
Total Fund Balances	<u>833,845</u>	<u>20,347</u>	<u>3</u>	<u>56,253</u>	<u>910,448</u>
Total Liabilities and Fund Balances	<u>\$ 835,744</u>	<u>\$ 20,347</u>	<u>\$ 3</u>	<u>\$ 56,253</u>	<u>\$ 912,347</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, 2014

	<u>General Fund</u>	<u>Lake Taylor</u>	<u>OHFA Grant</u>	<u>Special Library</u>	<u>Total</u>
REVENUE					
Taxes	\$ 1,001,673	\$ -	\$ -	\$ -	\$ 1,001,673
Intergovernmental	8,374	-	-	496	8,870
License and Permits	31,021	-	-	-	31,021
Charges for Service	30,458	-	-	-	30,458
Fines	68,430	-	-	-	68,430
Miscellaneous	49,639	-	-	40,902	90,541
Interest	5,689	-	-	67	5,756
Royalties	2,892	-	-	-	2,892
Cemetery	<u>43,017</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,017</u>
 Total Revenue	 <u>1,241,193</u>	 <u>-</u>	 <u>-</u>	 <u>41,465</u>	 <u>1,282,658</u>
EXPENDITURES					
Current					
General Government	375,257	-	-	-	375,257
Public Safety	1,065,326	-	-	-	1,065,326
Highways and Streets	172,526	-	-	-	172,526
Culture and Recreation	220,354	-	-	3,435	223,789
Cemetery	<u>84,735</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>84,735</u>
 Total Expenditures	 <u>2,332,525</u>	 <u>-</u>	 <u>-</u>	 <u>3,435</u>	 <u>2,335,960</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	 <u>(1,091,332)</u>	 <u>-</u>	 <u>-</u>	 <u>38,030</u>	 <u>(1,053,302)</u>
Other Financing Sources					
Transfers In	990,858	-	-	-	990,858
Transfers Out	<u>(1,188,899)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,188,899)</u>
Total Other Financing Sources	<u>(198,041)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(198,041)</u>
 Net Change in Fund Balances	 <u>(1,289,373)</u>	 <u>-</u>	 <u>-</u>	 <u>38,030</u>	 <u>(1,251,343)</u>
 Fund Balances, Beginning	 <u>2,123,218</u>	 <u>20,347</u>	 <u>3</u>	 <u>18,223</u>	 <u>2,161,791</u>
Fund Balances, Ending	<u>\$ 833,845</u>	<u>\$ 20,347</u>	<u>\$ 3</u>	<u>\$ 56,253</u>	<u>\$ 910,448</u>

**City of Marlow, Oklahoma
Supplemental Schedule
Schedule of Grant Activity
Modified Cash Basis
For the Year Ended June 30, 2014**

Granting Agency	Purpose	Award Amount	Expenditures 2013-2014	Revenue Received 2013- 2014	Award Balance 6/30/14	Grant Receivable 6/30/2014
Department of Agriculture	Fire Operations Grant	\$ 4,474	\$ 4,474	\$ 4,474	\$ -	\$ -
Department of Transportation	Sidewalk Improvement STP-169E- (171)EH	\$ 402,233	\$ 402,233	\$ 402,233	\$ -	\$ -
District Attorney's Council	JAG	\$ 9,180	\$ 9,180	\$ 9,180	\$ -	\$ -
Department of Libraries	Operations Grant	\$ 3,900	\$ 3,900	\$ 3,900	\$ -	\$ -
Department of Libraries	Operations Grant - LEGO	<u>\$ 496</u>	<u>\$ 496</u>	<u>\$ 496</u>	<u>\$ -</u>	<u>\$ -</u>
Total		<u><u>\$ 420,283</u></u>	<u><u>\$ 420,283</u></u>	<u><u>\$ 420,283</u></u>	<u><u>\$ -</u></u>	<u><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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 10, 2015. Our report included an emphasis of matter paragraph on the City's use of the modified cash basis of accounting.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 14-1 and 14-2.

Compliance and Other Matters

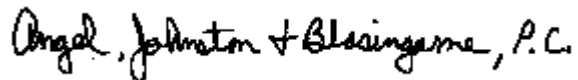
As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect 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*.

City of Marlow's Responses to Findings

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

Purpose of This Report

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



Chickasha, Oklahoma
September 10, 2015

**CITY OF MARLOW, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2014**

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.

Cause – Cash collection receipting system was not set up for the Capital Improvement Fund.

Effect – Ineffective internal controls over capital improvement fund cash received, which is not receipted in the same manner as other funds, create the potential for fraud.

Recommendation – Add the Capital Improvement Fund to the automated cash collections system.

Management response – Management agrees and will add the Capital Improvement to the cash collection system.

- 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.

Cause – Staff did not understand the importance of printing and maintaining all pages of the report.

Effect – Ineffective internal control over cash collections create the potential for fraud.

Recommendation – Print and maintain all pages of the summary of daily cash collections.

Management response – The City Clerk discovered this before year end and had staff begin printing and maintaining all pages of the report.

**CITY OF MARLOW, OKLAHOMA
DISPOSITION OF PRIOR YEAR FINDINGS
Year Ended June 30, 2014**

Deficiencies of Internal Control, Compliance and Other Matters:

- 13-1. **Criteria** – Federal and state programs require proper administration and tracking.
- Condition** – The yearend schedule of federal and state programs did not include a library grant of \$1,500, streetscape grant expenditures of \$44,608 and FEMA income of \$73,103.
- Disposition** – This was not noted as a finding in 2013-14.
- 13-2. **Criteria** – Employee discounts can be considered to be taxable wages if Internal Revenue Service exceptions are not met. The IRS guidelines set a maximum of a 20% discount rate.
- Condition** – The employees receive a discount percentage on their electrical service in excess of the non-taxable allowable rate.
- Disposition** – This was not noted as a finding in 2013-14.
- 13-3. **Criteria** – Capital assets are required to be depreciated over the estimated useful life of the assets.
- Condition** – Several assets are setup for depreciation over timeframes longer than the reason life of the assets. Also the depreciable lives are in several instances beyond the timeframe established by the City depreciation policy.
- Disposition** – This was not noted as a finding in 2013-14.
- 13-4. **Criteria** – Old outstanding checks and deposits should be investigated on a timely basis and for appropriate disposition.
- Condition** – The primary funds of the City have several old outstanding items. In the Municipal Authority account there was one outstanding deposit from May 28, 2008 that is still outstanding.
- Disposition** – This was not noted as a finding in 2013-14.
- 13-5. **Criteria** – State statute requires competitive bid contract change orders in excess of 10% of original contract or \$40,000, whichever is less, to be approved by the City Council. Change orders below this threshold can be approved by the City Manager if authorized by the City Council.
- Condition** – There were several change orders below the threshold approved by the City Manager, but not the City Council. Approval authority by the City Manager would validate these approvals. We noted one contract that had cumulative change orders exceeding 10% that did not have Council approval.
- Disposition** – This was not noted as a finding in 2013-14.

**CITY OF MARLOW, OKLAHOMA
DISPOSITION OF PRIOR YEAR FINDINGS
Year Ended June 30, 2014**

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

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

Disposition – This was not noted as a finding in 2013-14.

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

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

Disposition – This was not noted as a finding in 2013-14.