



City of Marlow, Oklahoma

Financial Statements

Year –End: June 30, 2017

City of Marlow
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 For the Fiscal Year Ended June 30, 2017

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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, the discretely presented component unit, each major fund, and aggregate remaining fund information of the City of Marlow, Oklahoma as of and for the year ended June 30, 2017, 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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting 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 audit 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marlow, Oklahoma, as of June 30, 2017, 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

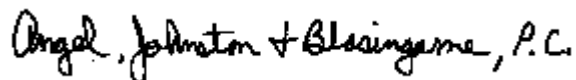
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marlow, Oklahoma basic financial statements. The Supplemental Information as listed in the table of contents, are presented for additional analysis and are not a required part of the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

The combining statements of the general fund and the non-major fund financial statements, and the grant activity schedule information are the responsibility of management and 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 the combining statements of the general fund and the non-major fund financial statements, and the grant activity schedule information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The budgetary comparison information on pages 29, 30 and 31, 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 it.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2018, 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
February 21, 2018

BASIC FINANCIAL STATEMENTS

City of Marlow
Government-Wide Statement of Net Position – Modified Cash Basis
June 30, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	MEDA
ASSETS				
Cash and Cash Equivalent	\$ 2,298,671	\$ 1,407,088	\$ 3,705,759	\$ 432,022
Restricted Cash and Cash Equivalents	165,869	322,664	488,533	-
Investments	582,787	1,748,365	2,331,152	-
Land and Construction in Progress	284,036	1,390,873	1,674,909	99,939
Other Capital Assets, net of depreciation	<u>6,096,570</u>	<u>7,528,749</u>	<u>13,625,319</u>	<u>13,789</u>
Total Assets	<u>9,427,933</u>	<u>12,397,739</u>	<u>21,825,672</u>	<u>545,750</u>
LIABILITIES				
Current Liabilities				
Bonds Pending Court	1,899	-	1,899	-
Refundable Meter Deposits	-	294,934	294,934	-
Long -term liabilities				
Due within one year	235,000	325,000	560,000	-
Due in more than one year	<u>-</u>	<u>2,100,000</u>	<u>2,100,000</u>	<u>-</u>
Total Liabilities	<u>236,899</u>	<u>2,719,934</u>	<u>2,956,833</u>	<u>-</u>
NET POSITION				
Invested in Capital Assets	6,145,606	6,494,622	12,640,228	-
Restricted for				
Sewer Project and Debt Service	741,410	64,594	806,004	-
Street and Alley	53,173	-	53,173	-
Cemetery	64,809	-	64,809	-
EMS	901,318	-	901,318	-
Unrestricted	<u>1,284,718</u>	<u>3,118,589</u>	<u>4,403,307</u>	<u>545,750</u>
Total Net Position	<u>\$ 9,191,034</u>	<u>\$ 9,677,805</u>	<u>\$ 18,868,839</u>	<u>\$ 545,750</u>

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

City of Marlow
Government-Wide Statement of Revenues, Expenses and Changes in Net Position– Modified Cash Basis
For the Year Ended June 30, 2017

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Primary Government Total	MEDA
<i>Functions/Programs</i>								
Primary Government								
Governmental Activities								
General Government	\$ 377,215	\$ 35,639	\$ -	\$ -	\$ (341,576)	\$ -	\$ (341,576)	
Highways and Streets	426,079	-	-	-	(426,079)	-	(426,079)	
Public Safety	1,490,675	111,934	4,328	-	(1,374,413)	-	(1,374,413)	
Culture and Recreation	278,741	-	3,231	2,001	(273,509)	-	(273,509)	
Cemetery	128,662	42,391	-	-	(86,271)	-	(86,271)	
Total Governmental Activities	<u>2,701,372</u>	<u>189,964</u>	<u>7,559</u>	<u>2,001</u>	<u>(2,501,848)</u>	<u>-</u>	<u>(2,501,848)</u>	
Business-Type Activities								
Electric	3,424,003	4,130,236	-	-	-	706,233	706,233	
Water	549,644	535,293	-	-	-	(14,351)	(14,351)	
Sanitation	689,389	719,141	-	-	-	29,752	29,752	
Sewer	94,603	279,366	-	-	-	184,763	184,763	
General Government and Recreation	624,858	202,085	26,158	-	-	(396,615)	(396,615)	
Total Business Type Activities	<u>5,382,497</u>	<u>5,866,121</u>	<u>26,158</u>	<u>-</u>	<u>-</u>	<u>509,782</u>	<u>509,782</u>	
Total Primary Government	<u>8,083,869</u>	<u>6,056,085</u>	<u>33,717</u>	<u>2,001</u>	<u>(2,501,848)</u>	<u>509,782</u>	<u>(1,992,066)</u>	
Component Unit								
Marlow Economic Development Authority	<u>21,005</u>	<u>4,600</u>	<u>42,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,595</u>
General Revenues								
Taxes					1,599,915	-	1,599,915	-
Investment Return					20,144	36,047	56,191	1,030
Rent and Royalties					22,606	-	22,606	-
Miscellaneous					83,324	-	83,324	-
Transfers					664,435	(664,435)	-	-
Total General Revenues and Transfers					<u>2,390,424</u>	<u>(628,388)</u>	<u>1,762,036</u>	<u>1,030</u>
Change in Net Position					(111,424)	(118,606)	(230,030)	26,625
Net Position - Beginning					<u>9,302,458</u>	<u>9,796,411</u>	<u>19,098,869</u>	<u>519,125</u>
Net Position - Ending					<u>\$ 9,191,034</u>	<u>\$ 9,677,805</u>	<u>\$ 18,868,839</u>	<u>\$ 545,750</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, 2017

	General Fund	EMS Fund	Sewer Project Fund	Other Governmental Funds	Total
Assets					
Cash and Cash Investments	\$ 256,989	844,593	526,060	\$ 671,029	\$ 2,298,671
Restricted Cash	165,869	-	-	-	165,869
Investments	181,246	113,644	287,897	-	582,787
Total Assets	\$ 604,104	\$ 958,237	\$ 813,957	\$ 671,029	\$ 3,047,327
Liabilities					
Bonds Pending Court	\$ 1,899	\$ -	\$ -	\$ -	\$ 1,899
Total Liabilities	1,899	-	-	-	1,899
Fund Balances					
Restricted	\$ -	\$ 901,318	\$ 741,410	\$ 117,982	\$ 1,760,710
Assigned	17,891	56,919	72,547	553,047	700,404
Unassigned	584,314	-	-	-	584,314
Total Fund Balances	\$ 602,205	\$ 958,237	\$ 813,957	\$ 671,029	\$ 3,045,428
Total Liabilities and Fund Balances	\$ 604,104	\$ 958,237	\$ 813,957	\$ 671,029	

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 6,380,606

Long-term liabilities, are not due and payable in the current period and, therefore, are not reported in the fund. (235,000)

Net position of governmental activities. \$ 9,191,034

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, 2017

	General Fund	EMS Fund	Sewer Project Fund	Other Governmental Funds	Total
REVENUE					
Taxes	\$ 862,821	\$ 189,788	\$ 379,576	\$ 167,730	\$ 1,599,915
Intergovernmental	7,559	-	-	-	7,559
License and Permits	25,650	-	-	-	25,650
Charges for Service	35,639	-	-	-	35,639
Fines	86,284	-	-	-	86,284
Miscellaneous	83,324	1	-	2,000	85,325
Investment Return	4,822	8,079	6,505	738	20,144
Royalties	1,829	-	-	20,777	22,606
Cemetery	37,225	-	-	5,166	42,391
	<u>1,145,153</u>	<u>197,868</u>	<u>386,081</u>	<u>196,411</u>	<u>1,925,513</u>
EXPENDITURES					
Current					
General Government	332,910	-	7	127	333,044
Public Safety	1,194,741	179,359	-	-	1,374,100
Highways and Streets	225,329	-	-	2,314	227,643
Culture and Recreation	158,062	-	-	-	158,062
Cemetery	123,530	-	-	-	123,530
Capital Outlay					
Public Safety	-	65,267	-	-	65,267
Highways and Streets	-	-	-	303,588	303,588
Culture and Recreation	1,500	-	-	-	1,500
Debt Service	414,234	-	-	-	414,234
	<u>2,450,306</u>	<u>244,626</u>	<u>7</u>	<u>306,029</u>	<u>3,000,968</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,305,153)</u>	<u>(46,758)</u>	<u>386,074</u>	<u>(109,618)</u>	<u>(1,075,455)</u>
Other Financing Sources					
Transfers In	1,090,734	-	-	37,125	1,127,859
Transfers Out	-	-	(415,734)	(47,690)	(463,424)
Total Other Financing Sources	<u>1,090,734</u>	<u>-</u>	<u>(415,734)</u>	<u>(10,565)</u>	<u>664,435</u>
Net Change in Fund Balances	(214,419)	(46,758)	(29,660)	(120,183)	(411,020)
Fund Balances - Beginning	816,624	1,004,995	843,617	791,212	3,456,448
Fund Balances - Ending	<u>\$ 602,205</u>	<u>\$ 958,237</u>	<u>\$ 813,957</u>	<u>\$ 671,029</u>	<u>\$ 3,045,428</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, 2017

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

Net change in fund balances - total governmental funds	\$ (411,020)
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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.	(105,404)
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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>405,000</u>
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Change in net position of governmental activities.	<u><u>\$ (111,424)</u></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, 2017

	Marlow Municipal Authority
<i>ASSETS</i>	
Current Assets	
Cash and Cash Equivalent	\$ 1,407,088
Restricted Cash and Cash Equivalents	258,070
Investments	1,748,365
Total Current Assets	3,413,523
Noncurrent Assets	
Restricted Cash and Cash Equivalents	64,594
Capital Assets	
Land and Construction in Progress	1,390,873
Other Capital Assets	45,720,664
Less Accumulated Depreciation	(38,191,915)
Total Noncurrent Assets	8,984,216
Total Assets	12,397,739
<i>LIABILITIES</i>	
Current Liabilities	
Refundable Meter Deposits	294,934
Notes Payable, Current Portion	325,000
Total Current Liabilities	619,934
Noncurrent Liabilities	
Notes Payable	2,100,000
Total Noncurrent Liabilities	2,100,000
Total Liabilities	2,719,934
<i>NET POSITION</i>	
Invested in Capital Assets, net of related debt	6,494,622
Restricted for Debt Service	64,594
Unrestricted	3,118,589
Total Net Position	\$ 9,677,805

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, 2017

	<u>Marlow Municipal Authority</u>
Operating Revenues:	
Electric	\$ 4,130,236
Water	535,293
Sanitation	719,141
Sewer	279,366
Pool	11,892
Miscellaneous	216,351
Total Operating Revenue	<u>5,892,279</u>
Operating Expenses:	
Electric	3,424,003
Water	458,874
Sanitation	689,389
Sewer	94,603
Pool	25,053
General Government	599,805
Total Operating Expenses	<u>5,291,727</u>
Operating Income (Loss)	600,552
Nonoperating Revenues (Expenses):	
Interest Revenue	36,047
Interest Expense	<u>(90,770)</u>
Total Nonoperating Revenues (Expenses)	<u>(54,723)</u>
Income (Loss) before Transfers	<u>545,829</u>
Other Financing Sources (Uses):	
Transfers In	47,689
Transfers Out	<u>(712,124)</u>
Total Other Financing Sources	<u>(664,435)</u>
Net Change in Net Position	(118,606)
Total Net Position - Beginning	<u>9,796,411</u>
Total Net Position - Ending	<u><u>\$ 9,677,805</u></u>

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, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Operating Revenues Received	\$ 5,892,279
Vendors and Others Paid	<u>(4,933,400)</u>
Net Cash Provided by Operating Activities	958,879

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfer, Net	<u>(664,435)</u>
Net Cash Used by Noncapital Financing Activities	(664,435)

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Payment of Debt	(310,000)
Purchase of Property, Plant and Equipment	(490,044)
Decrease in Restricted Cash - Capital Financing	<u>73,423</u>
Net Cash Used by Capital Financing Activities	(726,621)

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Income	36,047
Interest Expense	(90,770)
Increase in Restricted Cash and Investments	<u>(22,785)</u>
Net Cash Used by Investing Activities	<u>(77,508)</u>

Net Decrease in Cash and Cash Equivalents (509,685)

Cash and Cash Equivalents, July 1, 2016 1,916,773

Cash and Cash Equivalents, June 30, 2017 \$ 1,407,088

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

Operating Income \$ 600,552

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

Depreciation and Amortization Expense	353,330
Increase in Meter Deposits Payable	<u>4,997</u>

Net Cash Provided by Operating Activities \$ 958,879

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

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2017

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, 2017

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, 2017

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.

EMS Fund - is a special revenue fund which accounts for dedicated sales tax to be used for operations of the City's EMS Department.

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, Grant, 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, 2017

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, 2017

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, 2017

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, 2017.

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, 2017.

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, 2017.

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 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, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

5. Fund equity - continued

As of June 30, 2017, fund balances are composed of the following:

	General Fund	EMS Fund	Sewer Project Fund	Other Governmental Funds	Total Governmental Funds
Restricted					
Cemetery	\$ -	\$ -	\$ -	\$ 64,809	\$ 64,809
EMS	-	901,318	-	-	901,318
Street and Alley	-	-	-	53,173	53,173
Sewer Construction and Debt Service	-	-	741,410	-	741,410
Committed					
Assigned					
Capital Improvements	-	-	-	528,712	528,712
EMS	-	56,919	-	-	56,919
Library	17,891	-	-	-	17,891
Street and Alley	-	-	-	24,335	24,335
Sewer Construction and Debt Service	-	-	72,547	-	72,547
Unassigned	584,314	-	-	-	584,314
	<u>\$ 602,205</u>	<u>\$ 958,237</u>	<u>\$ 813,957</u>	<u>\$ 671,029</u>	<u>\$ 3,045,428</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, 2017

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 \$6,145,606 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	17,732,798
Less Accumulated Depreciation	<u>(11,636,228)</u>
	<u><u>\$ 6,380,606</u></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>\$ 235,000</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 \$105,404 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	\$ 370,355
Depreciation Expense	<u>(475,759)</u>
	<u><u>\$ (105,404)</u></u>

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2017

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>Revenue Note</i>
Principal repayment	<u>\$ 405,000</u>

III. BUDGETARY INFORMATION

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

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, 2017

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, 2017, the bank balance was \$5,809,764. This amount was insured and collateralized.

As of June 30, 2017, the City had the following investments:

	Maturity	Cost	Fair Value
Federal National Mortgage Association	May, 2017	\$ 1,994,005	\$ 1,966,660
Certificate of Deposit	August, 2016	337,000	337,099
Federated Prime Cash Money Market Mutual Fund	NA	148	148
		<u>\$ 2,331,153</u>	<u>\$ 2,303,907</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 87% of investments.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2017

V. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Government Activities:</i>				
<i>Capital assets, not being depreciated</i>				
Land and Easements	\$ 284,036	\$ -	\$ -	\$ 284,036
Total capital assets, not being depreciated	<u>284,036</u>	<u>-</u>	<u>-</u>	<u>284,036</u>
<i>Capital assets, being depreciated</i>				
Land Improvements	6,238,967	62,467	-	6,301,434
Buildings	3,214,612	-	-	3,214,612
Building Improvements	583,280	-	-	583,280
Computers	155,075	-	-	155,075
Artwork	6,200	-	-	6,200
Vehicles	1,559,206	54,937	26,933	1,587,210
Machinery and Equipment	1,429,575	10,330	53,313	1,386,592
Infrastructure	4,255,774	242,621	-	4,498,395
Total capital assets, being depreciated	<u>17,442,689</u>	<u>370,355</u>	<u>80,246</u>	<u>17,732,798</u>
Less Accumulated Depreciation	<u>11,240,715</u>	<u>475,759</u>	<u>80,246</u>	<u>11,636,228</u>
Total capital assets, being depreciated, net	<u>6,201,974</u>	<u>(105,404)</u>	<u>-</u>	<u>6,096,570</u>
Governmental activities capital assets, net	<u>6,486,010</u>	<u>(105,404)</u>	<u>-</u>	<u>6,380,606</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-type Activities:</i>				
<i>Capital assets, not being depreciated</i>				
Land and Easements	\$ 1,390,873	\$ -	\$ -	\$ 1,390,873
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>1,390,873</u>	<u>-</u>	<u>-</u>	<u>1,390,873</u>
<i>Capital assets, being depreciated</i>				
Land Improvements	1,942,972	62,614	-	2,005,586
Buildings	3,655,336	-	-	3,655,336
Vehicles	618,332	32,000	-	650,332
Machinery and Equipment	1,181,646	97,277	-	1,278,923
Water Rights	190,157	-	-	190,157
Infrastructure	37,642,175	298,153	-	37,940,328
Total capital assets, being depreciated	<u>45,230,618</u>	<u>490,044</u>	<u>-</u>	<u>45,720,662</u>
Less Accumulated Depreciation	<u>37,838,583</u>	<u>353,330</u>	<u>-</u>	<u>38,191,913</u>
Total capital assets, being depreciated, net	<u>7,392,035</u>	<u>136,714</u>	<u>-</u>	<u>7,528,749</u>
Business activities capital assets, net	<u>8,782,908</u>	<u>136,714</u>	<u>-</u>	<u>8,919,622</u>
Total Primary Government	<u>\$ 15,268,918</u>	<u>\$ 31,310</u>	<u>\$ -</u>	<u>\$ 15,300,228</u>

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2017

V. CAPITAL ASSETS

Capital asset activity for MEDA for the year ended June 30, 2017 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>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>17,615</u>

Less Accumulated Depreciation	<u>3,122</u>	<u>704</u>	<u>-</u>	<u>3,826</u>
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Total capital assets, being depreciated, net	<u>14,493</u>	<u>(704)</u>	<u>-</u>	<u>13,789</u>
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Component Unit capital assets, net	<u>\$ 114,432</u>	<u>\$ (704)</u>	<u>\$ -</u>	<u>\$ 113,728</u>
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Depreciation expense was charged to functions/programs of the primary government as follows:

Government activities:

General Government	\$ 34,938
Highways and Streets	198,436
Public Safety	116,575
Culture and Recreation	120,679
Cemetery	<u>5,131</u>
Total depreciation expense - governmental activities	<u>\$ 475,759</u>

Business-type activities

Electric	\$ 134,944
Water	76,950
General Government	45,681
Pool	1,145
Sewer	<u>94,610</u>
Total depreciation expense - business-type activities	<u>\$ 353,330</u>

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2017

VI. INTERFUND TRANSFERS

Interfund transfers as of June 30, 2017 were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Net</u>
Governmental Funds	\$ 1,127,859	\$ (463,424)	\$ 664,435
Proprietary Funds	47,689	(712,124)	(664,435)
Government Wide	-	-	-
	<u>\$ 1,175,548</u>	<u>\$ (1,175,548)</u>	<u>\$ -</u>

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General Fund	Marlow Municipal Authority	\$ 675,000
Tax Revenue Note - 2015	Sewer Project	415,734
Marlow Municipal Authority	Capital Improvement	47,689
Capital Improvement	Utility System Revenue Note	<u>37,125</u>
		<u>\$ 1,175,548</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.

VII. LONG-TERM LIABILITIES

A summary of long-term liability activity for the year ended June 30, 2017, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Primary Government					
<i>Governmental Activities</i>					
BancFirst 2012 Tax Revenue Note	\$ 640,000	\$ -	\$ 405,000	\$ 235,000	\$ 235,000
	<u>\$ 640,000</u>	<u>\$ -</u>	<u>\$ 405,000</u>	<u>\$ 235,000</u>	<u>\$ 235,000</u>
<i>Business-Type Activities</i>					
BancFirst 2013 Tax Revenue Note	\$ 1,925,000	\$ -	\$ 125,000	\$ 1,800,000	\$ 130,000
Sales Tax Revenue Note Payable 2005	810,000	-	185,000	625,000	195,000
Total Business-Type Activities	<u>2,735,000</u>	<u>-</u>	<u>310,000</u>	<u>2,425,000</u>	<u>325,000</u>
Total Primary Government	<u>\$ 3,375,000</u>	<u>\$ -</u>	<u>\$ 715,000</u>	<u>\$ 2,660,000</u>	<u>\$ 560,000</u>

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2017

VII. LONG-TERM LIABILITIES (continued)

Governmental activities long-term liabilities at June 30, 2017, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2017
<i>Governmental Activities</i>					
BancFirst 2012 Revenue Tax Note	December, 2017	1.71%	390,000	2,190,000	\$ 235,000

Business-type activities long-term liabilities at June 30, 2017, consisted of the following:

<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	\$ 625,000
BancFirst 2013 Sales Tax Revenue Note (Utility system improvements)		December, 2028	3.10%	120,000	2,220,000	<u>\$ 1,800,000</u> <u>\$ 2,425,000</u>

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

Governmental Activities:

Public Safety \$ 9,234

Business Type Activities:

Water \$ 90,699

As of June 30, 2017, annual debt service requirements of the business-type activities to maturity are as follows:

Year Ending June 30	Principal	Interest
2018	\$ 325,000	\$ 78,892
2019	345,000	66,586
2020	360,000	53,511
2021	145,000	42,160
2022	150,000	37,588
2023-2024	825,000	114,468
2028-2032	275,000	8,603
	<u>\$ 2,425,000</u>	<u>\$ 401,808</u>

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2017

VII. LONG-TERM LIABILITIES (continued)

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	\$ 5,892,279
Interest Revenue	36,047
Total Revenue	<u>5,928,326</u>
Operating Expenses	5,291,727
Less: Depreciation Expense	<u>(353,330)</u>
Total Expenses	<u>4,938,397</u>
Net Revenue Available for Debt Service	<u>989,929</u>
 <i>Average Annual Debt Service</i>	
Sales Tax Revenue Note Payable, Series 2005	150,000
BancFirst 2013 Sales Tax Revenue Note	<u>208,333</u>
	358,333
Coverage Ratio	<u>276%</u>
Required Coverage Ratio	<u><u>125%</u></u>

VIII. RESTRICTED ASSETS

Restricted cash as of June 30, 2017 is as follows:

Funds restricted for debt service reserves	\$ 99,449
Meter deposits	186,085
Health Savings	177,155
Oklahoma Municipal Assurance Group Escrow	<u>25,844</u>
	<u>\$ 488,533</u>

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2017

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 2016-2017, City of Marlow and Marlow Municipal Authority's annual pension cost of \$97,698, 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.

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, 2017. 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.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2017

IX. PENSION PLANS (continued)

Policemen's Retirement Plan – (continued)

Trend Information:

Year Ending June 30	Covered Payroll	Pension Cost	City Share	Employee Share	On-Behalf Payments
2017	336,613	70,689	43,760	26,929	36,691
2016	335,685	70,494	43,639	26,855	41,289
2015	293,797	61,697	38,194	23,503	36,137

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 14% per the year June 30, 2017. Participating members are required to contribute 9%.

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.

City of Marlow, Oklahoma
Notes to Financial Statements
June 30, 2017

IX. PENSION PLANS (continued)

Firefighters' Retirement Plan – (continued)

Trend Information:

Year Ending June 30	Covered Payroll	Pension Cost	City Share	Employee Share	On-Behalf Payments
2017	157,442	36,212	22,042	14,170	49,437
2016	160,682	36,957	22,495	14,461	55,275
2015	128,567	26,999	16,714	10,285	44,227

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, 2017, 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.

Donated Assets

The County has donated to the City of Marlow, a Pierce Pumper valued at \$491,000. The County acquired the equipment through a lease with Welch State Bank. The Payments are being made from the county sales tax to support county fire services. However, it is likely the currently approved sales tax will run out prior to the lease being fully paid. It is anticipated that the county citizens will be asked to renew this sales tax. If the citizens do not extend the tax, then it is anticipated that the City will have to obtain its own financing for the equipment to retain possession.

Compensated Absences

City employees are allowed to accrue a maximum of 240 hours of vacation time. Any accrued vacation remaining at the time an employee leaves employment of the city is payable to the employee. Vacation leave accrual as of June 30 2017 is \$26,715.

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, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 936,200	\$ 936,200	\$ 862,820	\$ (73,380)
Intergovernmental	7,200	7,200	7,559	359
License	36,100	36,100	25,650	(10,450)
Charges for Service	42,500	42,500	35,639	(6,861)
Fines	67,550	67,550	78,442	10,892
Miscellaneous	62,860	62,860	79,554	16,694
Interest	750	750	1,070	320
Royalties	1,500	1,500	1,829	329
Cemetery	31,500	31,500	37,224	5,724
Total Revenue	1,186,160	1,186,160	1,129,787	(56,373)
EXPENDITURES				
Current				
General Government	345,600	347,255	287,082	60,173
Public Safety	1,230,510	1,246,620	1,183,822	62,798
Highways and Streets	279,850	279,850	223,557	56,293
Culture and Recreation	178,250	179,265	158,218	21,047
Cemetery	132,575	133,986	123,586	10,400
Capital Outlay				
Public Safety	13,000	10,000	682	9,318
Highways and Streets	5,000	5,000	2,296	2,704
Culture and Recreation	25,500	9,577	1,500	8,077
Cemetery	2,500	1,232	-	1,232
Total Expenditures	2,212,785	2,212,785	1,980,743	232,042
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,026,625)	(1,026,625)	(850,956)	175,669
Other Financing Sources				
Transfers In	675,000	675,000	675,000	-
Transfers Out	-	-	-	-
Total Other Financing Sources	675,000	675,000	675,000	-
Net Change in Fund Balance	(351,625)	(351,625)	(175,956)	175,669
Fund Balance - Beginning	351,625	351,625	798,780	447,155
Fund Balance - Ending	\$ -	\$ -	622,824	\$ 622,824
Change in Fund Balance of Municipal Court Fund, combined with General fund for presentation, and not for budget purposes			(2,298)	
Reversal of accounts payable accounts			(36,215)	
Fund Balance - Ending			\$ 584,311	

City of Marlow, Oklahoma
Supplemental Schedule
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis
Budget to Actual
EMS Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 207,500	\$ 207,500	\$ 189,788	\$ (17,712)
Miscellaneous	28,000	28,000	1	(27,999)
Interest	1,500	1,500	8,079	6,579
Total Revenue	237,000	237,000	197,868	(39,132)
EXPENDITURES				
Current				
Public Safety	175,000	183,587	179,359	4,228
Capital Outlay				
Public Safety	102,000	93,413	65,267	28,146
Total Expenditures	277,000	277,000	244,626	32,374
Net Change in Fund Balance	(40,000)	(40,000)	(46,758)	(6,758)
Fund Balance - Beginning	40,000	40,000	1,004,995	964,995
Fund Balance - Ending	\$ -	\$ -	\$ 958,237	\$ 958,237

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, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 415,000	\$ 415,000	\$ 379,576	\$ (35,424)
Investment Return	500	500	6,505	6,005
Total Revenue	415,500	415,500	386,081	(29,419)
EXPENDITURES				
Current				
General Government	10	10	7	3
Total Expenditures	10	10	7	3
Excess (Deficiency) of Revenues Over (Under) Expenditures	415,490	415,490	386,074	(29,416)
Other Financing Sources				
Transfers In	-	-	-	-
Transfers Out	(415,750)	(415,750)	(415,734)	16
Total Other Financing Sources	(415,750)	(415,750)	(415,734)	16
Net Change in Fund Balances	(260)	(260)	(29,660)	(29,400)
Fund Balances - Beginning	260	260	843,617	843,357
Fund Balances - Ending	-	-	813,957	813,957

City of Marlow, Oklahoma
Supplemental Schedule
Combining Statement of Assets, Liabilities and Fund Balance - Modified Cash Basis
Nonmajor Governmental Special Revenue Funds
For the Year Ended June 30, 2017

	<u>Cemetery Care</u>	<u>Improvement Fund</u>	<u>Street & Alley</u>	<u>Total</u>
Assets				
Cash	\$ 64,809	\$ 528,712	\$ 77,508	\$ 671,029
Total Assets	<u>\$ 64,809</u>	<u>\$ 528,712</u>	<u>\$ 77,508</u>	<u>671,029</u>
Liabilities				
Accounts Payable	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Restricted	\$ 64,809	\$ -	\$ 53,173	\$ 117,982
Assigned	-	528,712	24,335	553,047
Total Fund Balances	<u>64,809</u>	<u>528,712</u>	<u>77,508</u>	<u>671,029</u>
Total Liabilities and Fund Balances	<u>\$ 64,809</u>	<u>\$ 528,712</u>	<u>\$ 77,508</u>	<u>\$ 671,029</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, 2017

	<u>Cemetery Care</u>	<u>Improvement Fund</u>	<u>Street & Alley</u>	<u>Total</u>
REVENUE				
Taxes	\$ -	128,138	\$ 39,592	\$ 167,730
Royalties	-	20,777	-	20,777
Miscellaneous	(1)	2,001	-	2,000
Investment Return	182	268	288	738
Cemetery	5,166	-	-	5,166
Total Revenue	<u>5,347</u>	<u>151,184</u>	<u>39,880</u>	<u>196,411</u>
EXPENDITURES				
Current				
General Government	-	125	2	127
Highways and Streets	-	2,314	-	2,314
Capital Outlay				
Highways and Streets	-	95,134	208,454	303,588
Total Expenditures	<u>-</u>	<u>97,573</u>	<u>208,456</u>	<u>306,029</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>5,347</u>	<u>53,611</u>	<u>(168,576)</u>	<u>(109,618)</u>
Other Financing Sources				
Transfers In	-	37,125	-	37,125
Transfers Out	<u>-</u>	<u>(47,690)</u>	<u>-</u>	<u>(47,690)</u>
Total Other Financing Sources	<u>-</u>	<u>(10,565)</u>	<u>-</u>	<u>(10,565)</u>
Net Change in Fund Balances	5,347	43,046	(168,576)	(120,183)
Fund Balances, Beginning	<u>59,462</u>	<u>485,666</u>	<u>246,084</u>	<u>791,212</u>
Fund Balances, Ending	<u>\$ 64,809</u>	<u>\$ 528,712</u>	<u>\$ 77,508</u>	<u>\$ 671,029</u>

City of Marlow, Oklahoma
Supplemental Schedule
Combining Statement of Assets, Liabilities and Fund Balance – Modified Cash Basis
General Fund
June 30, 2017

	General Fund	OHFA Grant	Special Library	Total
Assets				
Cash and Cash Investments	\$ 239,095	\$ 3	17,891	\$ 256,989
Restricted Cash	165,869	-	-	165,869
Investments	<u>\$ 181,246</u>	<u>-</u>	<u>-</u>	<u>181,246</u>
	<u>\$ 586,210</u>	<u>\$ 3</u>	<u>\$ 17,891</u>	<u>\$ 604,104</u>
Total Assets				
Liabilities				
Due to Other Funds				
Bonds Pending Court	<u>\$ 1,899</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,899</u>
Total Liabilities	<u>1,899</u>	<u>-</u>	<u>-</u>	<u>1,899</u>
Fund Balances				
Assigned	\$ -	\$ -	\$ 17,891	\$ 17,891
Unassigned	<u>584,311</u>	<u>3</u>	<u>-</u>	<u>584,314</u>
Total Fund Balances	<u>584,311</u>	<u>3</u>	<u>17,891</u>	<u>602,205</u>
Total Liabilities and Fund Balances	<u>\$ 586,210</u>	<u>\$ 3</u>	<u>\$ 17,891</u>	<u>\$ 604,104</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, 2017

	General Fund	OHFA Grant	Special Library	Total
REVENUE				
Taxes	\$ 862,821	\$ -	\$ -	\$ 862,821
Intergovernmental	7,559	-	-	7,559
License and Permits	25,650	-	-	25,650
Charges for Service	35,639	-	-	35,639
Fines	86,284	-	-	86,284
Miscellaneous	83,324	-	-	83,324
Interest	4,772	-	50	4,822
Royalties	1,829	-	-	1,829
Cemetery	37,225	-	-	37,225
	<u>1,145,103</u>	<u>-</u>	<u>50</u>	<u>1,145,153</u>
Total Revenue				
EXPENDITURES				
Current				
General Government	332,910	-	-	332,910
Public Safety	1,194,741	-	-	1,194,741
Highways and Streets	225,329	-	-	225,329
Culture and Recreation	158,062	-	-	158,062
Cemetery	123,530	-	-	123,530
Capital Outlay				
Culture and Recreation	1,500	-	-	1,500
Debt Service	414,234	-	-	414,234
	<u>2,450,306</u>	<u>-</u>	<u>-</u>	<u>2,450,306</u>
Total Expenditures				
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,305,203)</u>	<u>-</u>	<u>50</u>	<u>(1,305,153)</u>
Other Financing Sources				
Transfers In	1,090,734	-	-	1,090,734
Transfers Out	-	-	-	-
Total Other Financing Sources	<u>1,090,734</u>	<u>-</u>	<u>-</u>	<u>1,090,734</u>
Net Change in Fund Balances	(214,469)	-	50	(214,419)
Fund Balances, Beginning	<u>798,780</u>	<u>3</u>	<u>17,841</u>	<u>816,624</u>
Fund Balances, Ending	<u>\$ 584,311</u>	<u>\$ 3</u>	<u>\$ 17,891</u>	<u>\$ 602,205</u>

**City of Marlow, Oklahoma
Supplemental Schedule
Schedule of Grant Activity
Modified Cash Basis
For the Year Ended June 30, 2017**

Granting Agency	Purpose	Award Amount	Expenditures 2016-2017	Revenue Received 2016- 2017	Award Balance 6/30/17	Grant Receivable 6/30/2017
Department of Agriculture	Fire Operations Grant	\$ 3,817	\$ 3,817	\$ 3,817	\$ -	\$ -
Department of Libraries	Operations Grant	\$ 3,231	\$ 3,231	\$ 3,231	\$ -	\$ -
Federal Emergency Management	DR-4222 DR-4274-PW5-	\$ 3,943	\$ 3,943	\$ 3,943	\$ -	\$ -
Federal Emergency Management	OEM	<u>\$ 22,215</u>	<u>\$ 22,215</u>	<u>\$ 22,215</u>	<u>\$ -</u>	<u>\$ -</u>
Total		<u>\$ 33,206</u>	<u>\$ 33,206</u>	<u>\$ 33,206</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, discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marlow, Oklahoma, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 21, 2018. 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.

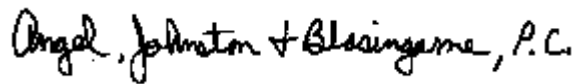
Our consideration of internal control for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist 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 Standard*.

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
February 21, 2018

**CITY OF MARLOW, OKLAHOMA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017**

Deficiencies of Internal Control, Compliance and Other Matters:

No findings were noted for the 2016-17 fiscal year.

**CITY OF MARLOW, OKLAHOMA
DISPOSITION OF PRIOR YEAR FINDINGS
Year Ended June 30, 2017**

Deficiencies of Internal Control, Compliance and Other Matters:

16-1. Criteria – Purchase orders are to be used to initiate the purchasing process and an original invoice should be included with the purchase order. The purchase order should be signed by the encumbrance clerk to verify budgeted funds are available; original invoices should be signed and dated verifying the receipt of goods or services.

Condition – In our expenditure testing we noted of thirty-six purchase orders tested, five purchase orders were prepared after date of invoice, one original invoice was paid for \$112 more than the purchase order, three invoices were not signed indicating that the goods or services were received, and one purchase order did not have an invoice attached, but the amount paid approved by the board.

Disposition – This was not a finding in the 2016-2017 fiscal year.

16-2. Criteria – Employee pay raises should be verified in the computerized payroll system to confirm increases are appropriate and calculating correctly.

Condition – During our payroll testing, we noted one employee did not receive their raise as listed on the Employee Status Update. The City Clerk entered the pay raise into the payroll system but the input was not complete, therefore the pay rate increase did not take effect in the system. This was not discovered until another change to their pay rate was made.

Disposition – This was not a finding in the 2016-2017 fiscal year.