



# **City of Marlow, Oklahoma**

Financial Statements

Year –End: June 30, 2018

City of Marlow  
 TABLE OF CONTENTS  
 For the Fiscal Year Ended June 30, 2018

	Page
<b>FINANCIAL SECTION</b>	
Independent Auditor’s Report	1
<b>Basic Financial Statements:</b>	
Government-wide Financial Statements:	
Statement of Net Position – Modified Cash Basis	3
Statement of Activities – Modified Cash Basis	4
Fund Financial Statements:	
Balance Sheet-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 Activities –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
<b>Supplementary Information</b>	
Statement of Revenues, Expenditures, and Changes in Fund Balances – Modified Cash Basis – Budget and Actual:	
General Fund	29
EMS Fund	30
Sewer Project Fund	31
Combining Statement of Assets, Liabilities and Fund Balance – Modified Cash Basis Nonmajor Governmental Special Revenue Funds	32
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – Nonmajor Governmental Special Revenue Funds	33
Combining Statement of Assets, Liabilities and Fund Balance- Modified Cash Basis General Fund	34

City of Marlow  
TABLE OF CONTENTS  
For the Fiscal Year Ended June 30, 2018

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – General Fund	35
Schedule of Grant Activity	36
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>	37
Schedule of Findings and Recommendations	39
Summary of Prior Year Findings	40

**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, 2018, 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, 2018, 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 26, 2019, 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 effectiveness of the City of Marlow's 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.

*Angel, Johnson + Blessingame, P.C.*

Chickasha, Oklahoma  
February 26, 2019

## **BASIC FINANCIAL STATEMENTS**

**City of Marlow**  
**Government-Wide Statement of Net Position – Modified Cash Basis**  
**June 30, 2018**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	MEDA
<b>ASSETS</b>				
Cash and Cash Equivalent	\$ 2,715,318	\$ 1,525,180	\$ 4,240,498	\$ 452,404
Restricted Cash and Cash Equivalents	153,203	501,058	654,261	-
Investments	595,395	1,786,188	2,381,583	-
Land and Construction in Progress	284,036	2,509,766	2,793,802	99,939
Other Capital Assets, net of depreciation	<u>5,703,856</u>	<u>7,226,434</u>	<u>12,930,290</u>	<u>13,085</u>
<b>Total Assets</b>	<u>9,451,808</u>	<u>13,548,626</u>	<u>23,000,434</u>	<u>565,428</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Bonds Pending Court	1,899	-	1,899	-
Refundable Meter Deposits	-	304,679	304,679	-
<b>Long -term liabilities</b>				
Due within one year	-	305,000	305,000	-
Due in more than one year	<u>-</u>	<u>3,190,000</u>	<u>3,190,000</u>	<u>-</u>
<b>Total Liabilities</b>	<u>1,899</u>	<u>3,799,679</u>	<u>3,801,578</u>	<u>-</u>
<b>NET POSITION</b>				
Invested in Capital Assets	5,987,892	6,241,200	12,229,092	-
<b>Restricted for</b>				
Sewer Project and Debt Service	979,548	217,886	1,197,434	-
Street and Alley	93,521	-	93,521	-
Cemetery	71,752	-	71,752	-
Water	432	-	432	-
EMS	858,503	-	858,503	-
Unrestricted	<u>1,458,261</u>	<u>3,289,861</u>	<u>4,748,122</u>	<u>565,428</u>
<b>Total Net Position</b>	<u>\$ 9,449,909</u>	<u>\$ 9,748,947</u>	<u>\$ 19,198,856</u>	<u>\$ 565,428</u>

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



**City of Marlow**  
**Government-Wide Statement of Activities— Modified Cash Basis**  
**For the Year Ended June 30, 2018**

	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	
<i>Functions/Programs</i>								
<b>Primary Government</b>								
<b>Governmental Activities</b>								
General Government	\$ 235,743	\$ 22,549	\$ -	\$ -	\$ (213,194)	\$ -	\$ (213,194)	
Highways and Streets	432,724	-	-	-	(432,724)	-	(432,724)	
Public Safety	1,547,700	110,694	3,744	-	(1,433,262)	-	(1,433,262)	
Culture and Recreation	269,359	-	3,943	1,158	(264,258)	-	(264,258)	
Cemetery	138,225	42,135	-	-	(96,090)	-	(96,090)	
Public Health and Welfare	-	-	101,518	-	101,518	-	101,518	
Total Governmental Activities	<u>2,623,751</u>	<u>175,378</u>	<u>109,205</u>	<u>1,158</u>	<u>(2,338,010)</u>	<u>-</u>	<u>(2,338,010)</u>	
<b>Business-Type Activities</b>								
Electric	3,680,947	4,487,380	-	-	-	806,433	806,433	
Water	553,885	540,236	-	-	-	(13,649)	(13,649)	
Sanitation	632,788	715,988	-	-	-	83,200	83,200	
Sewer	96,610	302,988	-	-	-	206,378	206,378	
General Government and Recreation	618,160	230,034	-	-	-	(388,126)	(388,126)	
Total Business Type Activities	<u>5,582,390</u>	<u>6,276,626</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>694,236</u>	<u>694,236</u>	
Total Primary Government	<u>8,206,141</u>	<u>6,452,004</u>	<u>109,205</u>	<u>1,158</u>	<u>(2,338,010)</u>	<u>694,236</u>	<u>(1,643,774)</u>	
<b>Component Unit</b>								
Marlow Economic Development Authority	<u>26,590</u>	<u>2,250</u>	<u>42,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,660</u>	
<b>General Revenues</b>								
Taxes					1,791,944	-	1,791,944	-
Investment Return					22,532	50,849	73,381	2,018
Rent and Royalties					26,862	-	26,862	-
Miscellaneous					81,605	-	81,605	-
Transfers					673,943	(673,943)	-	-
Total General Revenues and Transfers					<u>2,596,886</u>	<u>(623,094)</u>	<u>1,973,792</u>	<u>2,018</u>
Change in Net Position					258,876	71,142	330,018	19,678
Net Position - Beginning					<u>9,191,033</u>	<u>9,677,805</u>	<u>18,868,838</u>	<u>545,750</u>
Net Position - Ending					<u>\$ 9,449,909</u>	<u>\$ 9,748,947</u>	<u>\$ 19,198,856</u>	<u>\$ 565,428</u>

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

**City of Marlow**  
**Balance Sheet – Modified Cash Basis**  
**Governmental Funds**  
**June 30, 2018**

	General Fund	EMS Fund	Sewer Project Fund	Other Governmental Funds	Total
<b>Assets</b>					
Cash and Cash Investments	\$ 371,247	804,032	766,250	\$ 773,789	\$ 2,715,318
Restricted Cash	153,203	-	-	-	153,203
Investments	185,167	116,102	294,126	-	595,395
Total Assets	\$ 709,617	\$ 920,134	\$ 1,060,376	\$ 773,789	\$ 3,463,916
<b>Liabilities</b>					
Bonds Pending Court	\$ 1,899	\$ -	\$ -	\$ -	\$ 1,899
Total Liabilities	1,899	-	-	-	1,899
<b>Fund Balances</b>					
Restricted	\$ 432	\$ 858,503	\$ 979,548	\$ 165,273	\$ 2,003,756
Assigned	20,172	61,631	80,828	608,516	771,147
Unassigned	687,114	-	-	-	687,114
Total Fund Balances	\$ 707,718	\$ 920,134	\$ 1,060,376	\$ 773,789	\$ 3,462,017
Total Liabilities and Fund Balances	\$ 709,617	\$ 920,134	\$ 1,060,376	\$ 773,789	

*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 fund. 5,987,892

Net position of governmental activities. \$ 9,449,909

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, 2018**

	General Fund	EMS Fund	Sewer Project Fund	Other Governmental Funds	Total
<b>REVENUE</b>					
Taxes	\$ 970,146	\$ 214,861	\$ 429,723	\$ 177,214	\$ 1,791,944
Intergovernmental	33,725	-	75,048	-	108,773
License and Permits	25,131	-	-	-	25,131
Charges for Service	22,549	-	-	-	22,549
Fines	85,563	-	-	-	85,563
Miscellaneous	82,035	1	1	1,158	83,195
Investment Return	8,765	4,712	8,281	774	22,532
Royalties	617	-	-	26,245	26,862
Cemetery	35,495	-	-	6,640	42,135
	<u>1,264,026</u>	<u>219,574</u>	<u>513,053</u>	<u>212,031</u>	<u>2,208,684</u>
Total Revenue					
<b>EXPENDITURES</b>					
Current					
General Government	191,433	-	64,154	-	255,587
Public Safety	1,197,788	233,474	-	4,300	1,435,562
Highways and Streets	231,581	-	-	30	231,611
Culture and Recreation	148,973	-	-	-	148,973
Cemetery	133,093	-	-	-	133,093
Capital Outlay					
Public Safety	-	24,202	-	-	24,202
Debt Service	237,009	-	-	-	237,009
	<u>2,139,877</u>	<u>257,676</u>	<u>64,154</u>	<u>4,330</u>	<u>2,466,037</u>
Total Expenditures					
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(875,851)</u>	<u>(38,102)</u>	<u>448,899</u>	<u>207,701</u>	<u>(257,353)</u>
Other Financing Sources					
Transfers In	1,050,503	-	130	-	1,050,633
Transfers Out	(69,139)	-	(202,610)	(104,941)	(376,690)
Total Other Financing Sources	<u>981,364</u>	<u>-</u>	<u>(202,480)</u>	<u>(104,941)</u>	<u>673,943</u>
Net Change in Fund Balances	105,513	(38,102)	246,419	102,760	416,590
Fund Balances - Beginning	<u>602,205</u>	<u>958,236</u>	<u>813,957</u>	<u>671,029</u>	<u>3,045,427</u>
Fund Balances - Ending	<u>\$ 707,718</u>	<u>\$ 920,134</u>	<u>\$ 1,060,376</u>	<u>\$ 773,789</u>	<u>\$ 3,462,017</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 Activities – Modified Cash Basis**  
**For the Year Ended June 30, 2018**

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

Net change in fund balances - total governmental funds	\$ 416,590
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.	(392,714)
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>235,000</u>
Change in net position of governmental activities.	<u><u>\$ 258,876</u></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, 2018**

	<u>Marlow Municipal Authority</u>
<i>ASSETS</i>	
Current Assets	
Cash and Cash Equivalent	\$ 1,525,180
Restricted Cash and Cash Equivalents	283,172
Investments	<u>1,786,188</u>
Total Current Assets	<u>3,594,540</u>
Noncurrent Assets	
Restricted Cash and Cash Equivalents	217,886
Capital Assets	
Land and Construction in Progress	2,509,766
Other Capital Assets	45,774,411
Less Accumulated Depreciation	<u>(38,547,977)</u>
Total Noncurrent Assets	<u>9,954,086</u>
Total Assets	<u>13,548,626</u>
<i>LIABILITIES</i>	
Current Liabilities	
Refundable Meter Deposits	304,679
Notes Payable, Current Portion	<u>305,000</u>
Total Current Liabilities	609,679
Noncurrent Liabilities	
Notes Payable	<u>3,190,000</u>
Total Noncurrent Liabilities	<u>3,190,000</u>
Total Liabilities	<u>3,799,679</u>
<i>NET POSITION</i>	
Invested in Capital Assets, net of related debt	6,241,200
Restricted for Debt Service	217,886
Unrestricted	<u>3,289,861</u>
Total Net Position	<u>\$ 9,748,947</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, 2018**

	<u>Marlow Municipal Authority</u>
Operating Revenues:	
Electric	\$ 4,487,380
Water	540,236
Sanitation	715,988
Sewer	302,988
Pool	12,503
Miscellaneous	217,531
Total Operating Revenue	<u>6,276,626</u>
Operating Expenses:	
Electric	3,680,947
Water	456,166
Sanitation	632,788
Sewer	96,610
Pool	23,514
General Government	594,646
Total Operating Expenses	<u>5,484,671</u>
Operating Income (Loss)	791,955
Nonoperating Revenues (Expenses):	
Interest Revenue	50,849
Interest Expense	<u>(97,719)</u>
Total Nonoperating Revenues (Expenses)	<u>(46,870)</u>
Income (Loss) before Transfers	<u>745,085</u>
Other Financing Sources (Uses):	
Transfers In	1,057
Transfers Out	<u>(675,000)</u>
Total Other Financing Sources	<u>(673,943)</u>
Net Change in Net Position	71,142
Total Net Position - Beginning	<u>9,677,805</u>
Total Net Position - Ending	<u><u>\$ 9,748,947</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, 2018**

*CASH FLOWS FROM OPERATING ACTIVITIES*

Operating Revenues Received	\$ 6,276,626
Vendors and Others Paid	<u>(5,118,864)</u>
Net Cash Provided by Operating Activities	1,157,762

*CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES*

Transfer, Net	<u>(673,943)</u>
Net Cash Used by Noncapital Financing Activities	(673,943)

*CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES*

Payment of Debt	(865,000)
Purchase of Property, Plant and Equipment	(1,172,640)
Decrease in Restricted Cash - Capital Financing	(153,292)
Debt Proceeds - Capital Financing	<u>1,935,000</u>
Net Cash Used by Capital Financing Activities	(255,932)

*CASH FLOWS FROM INVESTING ACTIVITIES*

Interest Income	50,849
Interest Expense	(97,719)
Increase in Restricted Cash and Investments	<u>(62,925)</u>
Net Cash Used by Investing Activities	<u>(109,795)</u>

Net Increase in Cash and Cash Equivalents 118,092

Cash and Cash Equivalents, July 1, 2017 1,407,088

Cash and Cash Equivalents, June 30, 2018 \$ 1,525,180

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

Operating Income \$ 791,955

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

Depreciation and Amortization Expense 356,063

Increase in Meter Deposits Payable 9,744

Net Cash Provided by Operating Activities \$ 1,157,762

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

**City of Marlow, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2018**

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, 2018**

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, 2018**

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, CINCH 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, Capital Improvement, 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, 2018**

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, 2018**

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, 2018**

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, 2018.

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, 2018.

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, 2018.

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, 2018**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

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

**5. Fund equity - continued**

As of June 30, 2018, fund balances are composed of the following:

	General Fund	EMS Fund	Sewer Project Fund	Other Governmental Funds	Total Governmental Funds
Restricted					
Cemetery	\$ -	\$ -	\$ -	\$ 71,752	\$ 71,752
Water	432	-	-	-	432
EMS	-	858,503	-	-	858,503
Street and Alley	-	-	-	93,521	93,521
Sewer Construction and Debt Service	-	-	979,548	-	979,548
Committed					
Assigned					
Capital Improvements	-	-	-	583,710	583,710
EMS	-	61,631	-	-	61,631
Library	20,172	-	-	-	20,172
Street and Alley	-	-	-	24,806	24,806
Sewer Construction and Debt Service	-	-	80,828	-	80,828
Unassigned	687,114	-	-	-	687,114
	<u>\$ 707,718</u>	<u>\$ 920,134</u>	<u>\$ 1,060,376</u>	<u>\$ 773,789</u>	<u>\$ 3,462,017</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, 2018**

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation of the \$5,987,892 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	17,822,555
Less Accumulated Depreciation	<u>(12,118,699)</u>
	<u><u>\$ 5,987,892</u></u>

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

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the \$157,714 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	\$ 89,757
Depreciation Expense	<u>(482,471)</u>
	<u><u>\$ (392,714)</u></u>

**City of Marlow, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2018**

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>\$ 235,000</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, 2018**

**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, 2018, the bank balance was \$5,659,610. This amount was insured and collateralized.

At June 30, 2018, the primary government reporting entity had the following deposits:

<u>Type of Deposits and Investments</u>	<u>Credit Rating</u>	<u>Carrying Value</u>	
		<u>Primary Government</u>	<u>Component Unit</u>
<b>Deposits:</b>			
Demand Deposits		\$ 3,364,530	\$ 232,404
Time Deposits		1,242,304	220,000
OMAG Escrow		70,039	-
Money Market Mutual Funds			
Federated Government Obligation		217,886	-
<b>Total Deposits</b>		<u>\$ 4,894,759</u>	<u>\$ 452,404</u>
<b>Reconciliation to Statements of Net Position:</b>			
Cash and cash equivalents		<u>\$ 4,894,759</u>	<u>\$ 452,404</u>

As of June 30, 2018, the City had the following investments:

	Maturity	Cost	Fair Value
Federal National Mortgage Association	May, 2017	\$ 1,999,247	\$ 1,906,815
Certificate of Deposit	August, 2016	381,000	380,941
Federated Prime Cash Money Market Mutual Fund	NA	1,336	1,336
		<u>\$ 2,381,583</u>	<u>\$ 2,289,092</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.

*Investment 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, 2018**

V. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 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	6,301,434	65,555	-	6,366,989
Buildings	3,214,612	-	-	3,214,612
Building Improvements	583,280	-	-	583,280
Computers	155,075	21,573	-	176,648
Artwork	6,200	-	-	6,200
Vehicles	1,587,210	-	-	1,587,210
Machinery and Equipment	1,386,592	2,629	-	1,389,221
Infrastructure	4,498,395	-	-	4,498,395
Total capital assets, being depreciated	<u>17,732,798</u>	<u>89,757</u>	<u>-</u>	<u>17,822,555</u>
Less Accumulated Depreciation	<u>11,636,228</u>	<u>482,471</u>	<u>-</u>	<u>12,118,699</u>
Total capital assets, being depreciated, net	<u>6,096,570</u>	<u>(392,714)</u>	<u>-</u>	<u>5,703,856</u>
Governmental activities capital assets, net	<u>6,380,606</u>	<u>(392,714)</u>	<u>-</u>	<u>5,987,892</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	-	1,118,893	-	1,118,893
Total capital assets, not being depreciated	<u>1,390,873</u>	<u>1,118,893</u>	<u>-</u>	<u>2,509,766</u>
<i>Capital assets, being depreciated</i>				
Land Improvements	2,005,586	-	-	2,005,586
Buildings	3,655,336	-	-	3,655,336
Vehicles	650,333	-	-	650,333
Machinery and Equipment	1,278,924	11,915	-	1,290,839
Water Rights	190,157	-	-	190,157
Infrastructure	37,940,328	41,832	-	37,982,160
Total capital assets, being depreciated	<u>45,720,664</u>	<u>53,747</u>	<u>-</u>	<u>45,774,411</u>
Less Accumulated Depreciation	<u>38,191,914</u>	<u>356,063</u>	<u>-</u>	<u>38,547,977</u>
Total capital assets, being depreciated, net	<u>7,528,750</u>	<u>(302,316)</u>	<u>-</u>	<u>7,226,434</u>
Business activities capital assets, net	<u>8,919,623</u>	<u>816,577</u>	<u>-</u>	<u>9,736,200</u>
<b>Total Primary Government</b>	<b><u>\$ 15,300,229</u></b>	<b><u>\$ 423,863</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 15,724,092</u></b>

**City of Marlow, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2018**

V. CAPITAL ASSETS

Capital asset activity for MEDA for the year ended June 30, 2018 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>3,826</u>	<u>704</u>	<u>-</u>	<u>4,530</u>
-------------------------------	--------------	------------	----------	--------------

Total capital assets, being depreciated, net	<u>13,789</u>	<u>(704)</u>	<u>-</u>	<u>13,085</u>
--	---------------	--------------	----------	---------------

<b>Component Unit capital assets, net</b>	<b><u>\$ 113,728</u></b>	<b><u>\$ (704)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 113,024</u></b>
---	--------------------------	------------------------	--------------------	--------------------------

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

Government activities:

General Government	\$ 39,403
Highways and Streets	201,113
Public Safety	116,438
Culture and Recreation	120,386
Cemetery	<u>5,131</u>
Total depreciation expense - governmental activities	<u>\$ 482,471</u>

Business-type activities

Electric	\$ 130,580
Water	82,046
General Government	45,682
Pool	1,145
Sewer	<u>96,610</u>
Total depreciation expense - business-type activities	<u>\$ 356,063</u>

**City of Marlow, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2018**

VI. INTERFUND TRANSFERS

Interfund transfers as of June 30, 2018 were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>	<u>Net</u>
Governmental Funds	\$ 1,050,633	\$ (376,690)	\$ 673,943
Proprietary Funds	1,057	(675,000)	(673,943)
Government Wide	-	-	-
	<u>\$ 1,051,690</u>	<u>\$ (1,051,690)</u>	<u>\$ -</u>

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General Fund	Marlow Municipal Authority	\$ 675,000
General Fund	Sewer Project	202,740
Municipal Court	General Fund	67,952
Municipal Court	Marlow Municipal Authority	1,057
General Fund	Capital Improvement	<u>104,941</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, 2018, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Primary Government</b>					
<i>Governmental Activities</i>					
BancFirst 2012 Tax Revenue Note	\$ 235,000	\$ -	\$ 235,000	\$ -	\$ -
	<u>\$ 235,000</u>	<u>\$ -</u>	<u>\$ 235,000</u>	<u>\$ -</u>	<u>\$ -</u>
<i>Business-Type Activities</i>					
BancFirst 2013 Tax Revenue Note	\$ 1,800,000	\$ -	\$ 130,000	\$ 1,670,000	\$ 135,000
Sales Tax Revenue Note Payable 2005	625,000	-	625,000	-	-
Sales Tax Revenue Note Payable 2017	-	1,935,000	110,000	1,825,000	170,000
Total Business-Type Activities	<u>2,425,000</u>	<u>1,935,000</u>	<u>865,000</u>	<u>3,495,000</u>	<u>305,000</u>
Total Primary Government	<u>\$ 2,660,000</u>	<u>\$ 1,935,000</u>	<u>\$ 1,100,000</u>	<u>\$ 3,495,000</u>	<u>\$ 305,000</u>

**City of Marlow, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2018**

VII. LONG-TERM LIABILITIES (continued)

Governmental activities long-term liabilities at June 30, 2018, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2018
<i>Governmental Activities</i>					
BancFirst 2012 Revenue Tax Note	December, 2017	1.71%	390,000	2,190,000	\$ -

Business-type activities long-term liabilities at June 30, 2018, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2018
<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	\$ -
BancFirst 2017 Sales Tax Revenue Note (Utility system improvements)	December, 2027	2.33%	170,000	1,935,000	\$ 1,825,000
BancFirst 2013 Sales Tax Revenue Note (Utility system improvements)	December, 2028	3.10%	120,000	2,220,000	<u>\$ 1,670,000</u>
					<u>\$ 3,495,000</u>

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

*Governmental Activities:*

Public Safety \$ 2,009

*Business Type Activities:*

Water \$ 97,719

As of June 30, 2018, annual debt service requirements of the business-type activities to maturity are as follows:

Year Ending June 30	Prinicipal	Interest
2019	\$ 305,000	\$ 92,298
2020	310,000	84,252
2021	325,000	73,715
2022	335,000	66,949
2023	345,000	57,852
2024-2028	1,780,000	144,203
2029-2030	95,000	1,473
	<u>\$ 3,495,000</u>	<u>\$ 520,742</u>

**City of Marlow, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2018**

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	\$ 6,276,626
Interest Revenue	50,849
Total Revenue	<u>6,327,475</u>
Operating Expenses	5,484,671
Less: Depreciation Expense	<u>(356,063)</u>
Total Expenses	<u>5,128,608</u>
Net Revenue Available for Debt Service	<u>1,198,867</u>
 <i>Average Annual Debt Service</i>	
Sales Tax Revenue Note Payable, Series 2005	208,333
BancFirst 2013 Sales Tax Revenue Note	150,000
Sales Tax Revenue Note Payable, Series 2017	<u>175,909</u>
	534,242
Coverage Ratio	<u>224%</u>
Required Coverage Ratio	<u>125%</u>

VIII. RESTRICTED ASSETS

Restricted cash as of June 30, 2018 is as follows:

Funds restricted for debt service reserves	\$ 217,886
Meter deposits	186,085
Health Savings	180,251
Oklahoma Municipal Assurance Group Escrow	<u>70,039</u>
	<u>\$ 654,261</u>

**City of Marlow, Oklahoma**  
**Notes to Financial Statements**  
**June 30, 2018**

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 2017-2018, City of Marlow and Marlow Municipal Authority's annual pension cost of \$91,391, 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, 2018. 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, 2018**

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
2018	345,626	72,581	44,931	27,650	37,673
2017	336,613	70,689	43,760	26,929	36,691
2016	335,685	70,494	43,639	26,855	41,289

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, 2018. 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, 2018**

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
2018	177,910	40,919	24,907	16,012	55,864
2017	157,442	36,212	22,042	14,170	49,437
2016	160,682	36,957	22,495	14,461	55,275

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, 2018, 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, 2018 is \$52,492.

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, 2018**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 865,400	\$ 865,400	\$ 970,146	\$ 104,746
Intergovernmental	7,200	7,200	33,725	26,525
License	36,100	36,100	25,131	(10,969)
Charges for Service	35,000	35,000	22,549	(12,451)
Fines	84,600	84,600	6,697	(77,903)
Miscellaneous	49,360	49,360	79,403	30,043
Interest	750	750	8,071	7,321
Royalties	1,500	1,500	617	(883)
Cemetery	31,500	31,500	35,495	3,995
Total Revenue	<u>1,111,410</u>	<u>1,111,410</u>	<u>1,181,834</u>	<u>70,424</u>
<b>EXPENDITURES</b>				
Current				
General Government	291,495	292,001	190,553	101,448
Public Safety	1,218,065	1,227,045	1,188,769	38,276
Highways and Streets	252,700	252,700	231,581	21,119
Culture and Recreation	163,800	163,892	148,973	14,919
Cemetery	133,940	136,241	133,093	3,148
Capital Outlay				
General Government	15,000	3,121	-	3,121
Culture and Recreation	2,500	2,500	-	2,500
Total Expenditures	<u>2,077,500</u>	<u>2,077,500</u>	<u>1,892,969</u>	<u>184,531</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(966,090)</u>	<u>(966,090)</u>	<u>(711,135)</u>	<u>254,955</u>
Other Financing Sources				
Transfers In	765,000	765,000	847,893	82,893
Transfers Out	-	-	(69,139)	(69,139)
Total Other Financing Sources	<u>765,000</u>	<u>765,000</u>	<u>778,754</u>	<u>13,754</u>
Net Change in Fund Balance	(201,090)	(201,090)	67,619	268,709
Fund Balance - Beginning	<u>201,090</u>	<u>201,090</u>	<u>584,311</u>	<u>383,221</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>651,930</u>	<u>\$ 651,930</u>
Change in Fund Balance of Municipal Court Fund, combined with General fund for presentation, and not for budget purposes			69,869	
Change in Fund Balance of Revenue Bond Fund, combined with General fund for presentation, and not for budget purposes			<u>(34,688)</u>	
Fund Balance - Ending			<u>\$ 687,111</u>	

**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, 2018**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 197,500	\$ 197,500	\$ 214,861	\$ 17,361
Interest	<u>1,500</u>	<u>1,500</u>	<u>4,712</u>	<u>3,212</u>
Total Revenue	<u>199,000</u>	<u>199,000</u>	<u>219,574</u>	<u>20,574</u>
<b>EXPENDITURES</b>				
Current				
Public Safety	216,000	233,474	233,474	-
Capital Outlay				
Public Safety	<u>42,000</u>	<u>24,526</u>	<u>24,202</u>	<u>324</u>
Total Expenditures	<u>258,000</u>	<u>258,000</u>	<u>257,676</u>	<u>324</u>
Net Change in Fund Balance	(59,000)	(59,000)	(38,102)	20,898
Fund Balance - Beginning	<u>59,000</u>	<u>59,000</u>	<u>958,236</u>	<u>899,236</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 920,134</u>	<u>\$ 920,134</u>

**City of Marlow, Oklahoma**  
**Supplemental Schedule**  
**Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis**  
**Budget to Actual**  
**Sewer Project Fund**  
**For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 395,000	\$ 395,000	\$ 429,723	\$ 34,723
Intergovernmental	-	-	\$ 75,048	75,048
Investment Return	500	500	8,282	7,782
 Total Revenue	 395,500	 395,500	 513,053	 117,553
<b>EXPENDITURES</b>				
Current				
General Government	125,010	125,010	64,154	60,856
 Total Expenditures	 125,010	 125,010	 64,154	 60,856
 Excess (Deficiency) of Revenues Over (Under) Expenditures	 270,490	 270,490	 448,899	 178,409
Other Financing Sources				
Transfers In	-	-	130	130
Transfers Out	(238,000)	(238,000)	(202,610)	35,390
Total Other Financing Sources	(238,000)	(238,000)	(202,480)	35,520
 Net Change in Fund Balances	 32,490	 32,490	 246,419	 213,929
 Fund Balances - Beginning	 -	 -	 813,957	 813,957
Fund Balances - Ending	32,490	32,490	1,060,376	1,027,886

**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, 2018**

	<u>Cemetery Care</u>	<u>Improvement Fund</u>	<u>Street &amp; Alley</u>	<u>Total</u>
Assets				
Cash	\$ 71,752	\$ 583,710	\$ 118,327	\$ 773,789
Total Assets	<u>\$ 71,752</u>	<u>\$ 583,710</u>	<u>\$ 118,327</u>	<u>773,789</u>
Fund Balances				
Restricted	\$ 71,752	\$ -	\$ 93,521	\$ 165,273
Committed	-	-	-	-
Assigned	-	583,710	24,806	608,516
Total Fund Balances	<u>71,752</u>	<u>583,710</u>	<u>118,327</u>	<u>773,789</u>
Total Liabilities and Fund Balances	<u>\$ 71,752</u>	<u>\$ 583,710</u>	<u>\$ 118,327</u>	<u>\$ 773,789</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, 2018**

	<u>Cemetery Care</u>	<u>Improvement Fund</u>	<u>Street &amp; Alley</u>	<u>Total</u>
<b>REVENUE</b>				
Taxes	\$ -	136,866	\$ 40,348	\$ 177,214
Royalties	-	26,245	-	26,245
Miscellaneous	-	1,158	-	1,158
Investment Return	303	-	471	774
Cemetery	<u>6,640</u>	<u>-</u>	<u>-</u>	<u>6,640</u>
Total Revenue	<u>6,943</u>	<u>164,269</u>	<u>40,819</u>	<u>212,031</u>
<b>EXPENDITURES</b>				
Current				
Public Safety	-	4,300	-	4,300
Highways and Streets	<u>-</u>	<u>30</u>	<u>-</u>	<u>30</u>
Total Expenditures	<u>-</u>	<u>4,330</u>	<u>-</u>	<u>4,330</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>6,943</u>	<u>159,939</u>	<u>40,819</u>	<u>207,701</u>
Other Financing Sources				
Transfers In	-	-	-	-
Transfers Out	<u>-</u>	<u>(104,941)</u>	<u>-</u>	<u>(104,941)</u>
Total Other Financing Sources	<u>-</u>	<u>(104,941)</u>	<u>-</u>	<u>(104,941)</u>
Net Change in Fund Balances	6,943	54,998	40,819	102,760
Fund Balances, Beginning	<u>64,809</u>	<u>528,712</u>	<u>77,508</u>	<u>671,029</u>
Fund Balances, Ending	<u>\$ 71,752</u>	<u>\$ 583,710</u>	<u>\$ 118,327</u>	<u>\$ 773,789</u>

**City of Marlow, Oklahoma**  
**Supplemental Schedule**  
**Combining Statement of Assets, Liabilities and Fund Balance – Modified Cash Basis**  
**General Fund**  
**June 30, 2018**

	General Fund	CINCH	OHFA Grant	Special Library	Total
<b>Assets</b>					
Cash and Cash Investments	\$ 350,640	\$ 432	\$ 3	20,172	\$ 371,247
Restricted Cash	153,203	-	-	-	153,203
Investments	185,167	-	-	-	185,167
	<u>\$ 689,010</u>	<u>\$ 432</u>	<u>\$ 3</u>	<u>\$ 20,172</u>	<u>\$ 709,617</u>
Total Assets					
<b>Liabilities</b>					
Bonds Pending Court	\$ 1,899	\$ -	\$ -	\$ -	\$ 1,899
Total Liabilities	<u>1,899</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,899</u>
<b>Fund Balances</b>					
Restricted	\$ -	\$ 432	\$ -	\$ -	\$ 432
Committed	-	-	-	-	-
Assigned	-	-	-	20,172	20,172
Unassigned	687,111	-	3	-	687,114
Total Fund Balances	<u>687,111</u>	<u>432</u>	<u>3</u>	<u>20,172</u>	<u>707,718</u>
Total Liabilities and Fund Balances	<u>\$ 689,010</u>	<u>\$ 432</u>	<u>\$ 3</u>	<u>\$ 20,172</u>	<u>\$ 709,617</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, 2018**

	General Fund	CINCH	OHFA Grant	Special Library	Total
<b>REVENUE</b>					
Taxes	\$ 970,146	\$ -	\$ -	\$ -	\$ 970,146
Intergovernmental	33,725	-	-	-	33,725
License and Permits	25,131	-	-	-	25,131
Charges for Service	22,549	-	-	-	22,549
Fines	85,563	-	-	-	85,563
Miscellaneous	79,403	432	-	2,200	82,035
Interest	8,684	-	-	81	8,765
Royalties	617	-	-	-	617
Cemetery	35,495	-	-	-	35,495
	<u>1,261,313</u>	<u>432</u>	<u>-</u>	<u>2,281</u>	<u>1,264,026</u>
<b>EXPENDITURES</b>					
Current					
General Government	191,433	-	-	-	191,433
Public Safety	1,197,788	-	-	-	1,197,788
Highways and Streets	231,581	-	-	-	231,581
Culture and Recreation	148,973	-	-	-	148,973
Cemetery	133,093	-	-	-	133,093
Debt Service	<u>237,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>237,009</u>
	<u>2,139,877</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,139,877</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(878,564)</u>	<u>432</u>	<u>-</u>	<u>2,281</u>	<u>(875,851)</u>
Other Financing Sources					
Transfers In	1,050,503	-	-	-	1,050,503
Transfers Out	<u>(69,139)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(69,139)</u>
Total Other Financing Sources	<u>981,364</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>981,364</u>
Net Change in Fund Balances	102,800	432	-	2,281	105,513
Fund Balances, Beginning	<u>584,311</u>	<u>-</u>	<u>3</u>	<u>17,891</u>	<u>602,205</u>
Fund Balances, Ending	<u>\$ 687,111</u>	<u>\$ 432</u>	<u>\$ 3</u>	<u>\$ 20,172</u>	<u>\$ 707,718</u>



**City of Marlow, Oklahoma  
Supplemental Schedule  
Schedule of Grant Activity  
Modified Cash Basis  
For the Year Ended June 30, 2018**

<b>Granting Agency</b>	<b>Purpose</b>	<b>Award Amount</b>	<b>Expenditures 2017-2018</b>	<b>Revenue Received 2017- 2018</b>	<b>Award Balance 6/30/18</b>	<b>Grant Receivable 6/30/2018</b>
Department of Agriculture	Fire Operations Grant	\$ 3,744	\$ 3,744	\$ -	\$ 3,744	\$ 3,744
Department of Libraries	Operations Grant	\$ 3,943	\$ 3,943	\$ -	\$ 3,943	\$ 3,943
Federal Emergency Management	DR-4222 DR-4274-PW5-	\$ 75,048	\$ 75,048	\$ -	\$ 75,048	\$ 75,048
Federal Emergency Management	OEM	<u>\$ 26,038</u>	<u>\$ 26,038</u>	<u>\$ -</u>	<u>\$ 26,038</u>	<u>\$ 26,038</u>
<b>Total</b>		<u>\$ 108,773</u>	<u>\$ 108,773</u>	<u>\$ -</u>	<u>\$ 108,773</u>	<u>\$ 108,773</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, 2018, 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 26, 2019. 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.

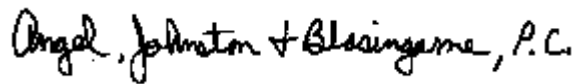
Our consideration of internal control for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist 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 26, 2019

**CITY OF MARLOW, OKLAHOMA  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
Year Ended June 30, 2018**

**Deficiencies of Internal Control, Compliance and Other Matters:**

**No findings were noted for the 2018 fiscal year.**

**CITY OF MARLOW, OKLAHOMA  
DISPOSITION OF PRIOR YEAR FINDINGS  
Year Ended June 30, 2018**

**Deficiencies of Internal Control, Compliance and Other Matters:**

**No findings were noted for the 2017-18 fiscal year.**