



City of Broken Bow, Oklahoma

Annual Financial Report

Year-End June 30, 2019

City of Broken Bow, Oklahoma
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June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Broken Bow, Oklahoma

Report on the Financials

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of City of Broken Bow, Oklahoma, as of and for the year ended June 30, 2019, 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 I.C.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express 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 standards applicable to financial audits contained in *Government 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 from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Broken Bow, Oklahoma, as of June 30, 2019, 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 modified cash basis of accounting as described in Note I.C.

Basis of Accounting

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

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Broken Bow, Oklahoma's basic financial statements. The management's discussion and analysis (, the schedule of funding progress, and the budgetary comparison information, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Broken Bow, Oklahoma's basic financial statements. The combining and individual nonmajor fund financial statements—modified cash basis are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements—modified cash basis are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare 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 and individual nonmajor fund financial statements—modified cash basis are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2020, on our consideration of the City of Broken Bow, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Broken Bow, Oklahoma's internal control over financial reporting and compliance.



January 16, 2020
Oklahoma City, Oklahoma

City of Broken Bow, Oklahoma
Unaudited - Management's Discussion and Analysis
For the Year ended June 30, 2019

Within the management's discussion and analysis of the City of Broken Bow, Oklahoma's annual financial report, management provides narrative discussion and analysis of the financial activities of the City for the fiscal year ended June 30, 2019. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and note disclosures following this section.

FINANCIAL HIGHLIGHTS

With respect to the government-wide financial statements:

- § The assets of the City of Broken Bow exceeded its liabilities at the close of the most recent fiscal year by \$33,390,924 (net position). Of this amount, \$8,874,133 (unrestricted net position) may be used to meet the governments' ongoing obligations to citizens and creditors.

With respect to the fund financial statements:

- § As of the close of the current fiscal year, the City of Broken Bow's governmental funds reported combined ending fund balances of \$3,155,476, an increase of \$322,192 from the prior year.
- § At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,159,932, or 35 percent of the total general fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction of the City of Broken Bow, Oklahoma's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* represents government-wide information on all of the City's assets and liabilities, with the difference between assets and liabilities reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

City of Broken Bow, Oklahoma
Unaudited - Management's Discussion and Analysis
For the Year ended June 30, 2019

The *statement of revenues, expenses and changes in net position* presents government-wide information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported on the modified cash basis when cash is received or paid.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets, culture and recreation, cemetery and parks and health and welfare. Business-type activities include water, wastewater utilities, electricity and solid waste management.

The government-wide financial statements can be found on pages 10-11 in this report.

Fund Financial Statements.

A *fund* is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City uses funds to ensure and demonstrate compliance with finance-related laws and regulations. Within the basic financial statements, fund financial statements focus on the City's most significant funds rather than the City as a whole. Major funds are separately reported while all others are combined into a single, aggregated presentation. Individual fund data for non-major funds is provided in the form of combining statements in a later section of this report.

Governmental funds are reported in the fund financial statements and encompass essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of spendable resources, as well as on balances of spending resources available at the end of the fiscal year. Such information may be useful in evaluating the City's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions.

City of Broken Bow, Oklahoma
Unaudited - Management's Discussion and Analysis
For the Year ended June 30, 2019

Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City internally maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and grant fund, which are considered to be major funds.

The City of Broken Bow adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund and all major funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 12-14 of this report.

Proprietary Funds are reported in the fund financial statements and generally report services for which the City charges customers a fee. There are two types of proprietary funds. *Enterprise funds* essentially encompass the same functions reported as business-type activities in the government-wide statements. Services provided to customers external to the City. The City of Broken Bow uses enterprise funds to account for its water, wastewater, electric and solid waste management. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by the government-wide financial statements but with more detail. *Internal service funds* report services provided within the city organization. Currently the City of Broken Bow uses an internal service fund to allocate self insured health costs.

The basic proprietary fund financial statements can be found on pages 15-18 of this report.

Notes to the financial statements.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-45 of this report.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 52-53 of this report.

City of Broken Bow, Oklahoma
Unaudited - Management's Discussion and Analysis
For the Year ended June 30, 2019

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Broken Bow, assets exceeded liabilities by \$33,390,924 at the close of the most recent fiscal year.

By far the largest portion of the City of Broken Bow's net position reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Broken Bow uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Broken Bow's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Net Position at June 30, 2019

	<i>Governmental Activities</i>		<i>Business-type Activities</i>		<i>Total</i>	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Current and other assets	\$ 3,379,569	\$ 3,093,374	\$ 8,527,511	\$ 10,150,682	\$ 11,907,080	\$ 13,244,056
Capital assets	<u>11,232,247</u>	<u>10,063,944</u>	<u>27,495,101</u>	<u>26,180,263</u>	<u>38,727,348</u>	<u>36,244,207</u>
Total assets	14,611,816	13,157,318	36,022,612	36,330,945	50,634,428	49,488,263
Long-term liabilities	618,966	827,806	14,918,061	16,453,959	15,537,027	17,281,765
Other liabilities	<u>224,408</u>	<u>222,536</u>	<u>1,482,069</u>	<u>1,510,024</u>	<u>1,706,477</u>	<u>1,732,560</u>
Total liabilities	843,374	1,050,342	16,400,130	17,963,983	17,243,504	19,014,325
Net Position						
Net Investment in Capital						
Assets	10,404,439	9,033,538	12,310,590	9,382,293	22,715,029	18,415,831
Restricted	1,801,762	1,657,139	-	-	1,801,762	1,657,139
Unrestricted	<u>1,562,241</u>	<u>1,416,299</u>	<u>7,311,892</u>	<u>8,984,669</u>	<u>8,874,133</u>	<u>10,400,968</u>
Total net position	<u>\$ 13,768,442</u>	<u>\$ 12,106,976</u>	<u>\$ 19,622,482</u>	<u>\$ 18,366,962</u>	<u>\$ 33,390,924</u>	<u>\$ 30,473,938</u>

At the end of the current fiscal year, the City of Broken Bow is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

City of Broken Bow, Oklahoma
Unaudited - Management's Discussion and Analysis
For the Year ended June 30, 2019

Change in Net Position for the Year Ended June 30, 2019

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Revenues						
Charges for Services	\$ 3,503,981	\$ 2,644,961	\$ 6,735,358	6,219,185	\$ 10,239,339	\$ 8,864,146
Operating Grants and Contributions	648	-	-	-	648	-
Capital Grants and Contributions	-	8,743	-	-	-	8,743
Taxes	3,744,882	3,589,449	-	-	3,744,882	3,589,449
Interest	50,914	29,627	142,084	87,892	192,998	117,519
Total Revenues	<u>7,300,425</u>	<u>6,272,780</u>	<u>6,877,442</u>	<u>6,307,077</u>	<u>14,177,867</u>	<u>12,579,857</u>
Expenses						
General Government	1,043,322	829,333	-	-	1,043,322	829,333
Public Safety	2,095,867	1,940,331	-	-	2,095,867	1,940,331
Streets	893,130	1,210,041	-	-	893,130	1,210,041
Culture and Recreation	147,014	224,505	-	-	147,014	224,505
Cemetery and Parks	315,548	280,225	-	-	315,548	280,225
Health and Welfare	1,544,078	1,873,901	-	-	1,544,078	1,873,901
Water	-	-	2,828,136	2,821,629	2,828,136	2,821,629
Sewer	-	-	790,609	698,403	790,609	698,403
Electric	-	-	551,958	508,197	551,958	508,197
Landfill	-	-	1,051,222	968,232	1,051,222	968,232
Total Expenses	<u>6,038,959</u>	<u>6,358,336</u>	<u>5,221,925</u>	<u>4,996,461</u>	<u>11,260,884</u>	<u>11,354,797</u>
Change in net position before transfers	1,261,466	(85,556)	1,655,517	1,310,616	2,916,983	1,225,060
Transfers	<u>400,000</u>	<u>600,000</u>	<u>(400,000)</u>	<u>(600,000)</u>	<u>-</u>	<u>-</u>
Increase in Net Position	<u>1,661,466</u>	<u>514,444</u>	<u>1,255,517</u>	<u>710,616</u>	<u>2,916,983</u>	<u>1,225,060</u>
Loss on Sale of Assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net position, beginning	<u>12,106,976</u>	<u>11,592,532</u>	<u>18,366,965</u>	<u>17,656,346</u>	<u>30,473,941</u>	<u>29,248,878</u>
Net position, ending	<u>\$ 13,768,442</u>	<u>\$ 12,106,976</u>	<u>\$ 19,622,482</u>	<u>\$ 18,366,962</u>	<u>\$ 33,390,924</u>	<u>\$ 30,473,938</u>

Governmental activities. Governmental activities increased the City of Broken Bow's net position by \$1,661,466.

Business-type activities. Business-type activities increased the City of Broken Bow's net position by \$1,255,517.

City of Broken Bow, Oklahoma
Unaudited - Management's Discussion and Analysis
For the Year ended June 30, 2019

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Broken Bow uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental funds. The focus of the City of Broken Bow's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Broken Bow's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Broken Bow's governmental funds reported combined ending fund balances of \$3,155,476, an increase of \$322,192 in comparison with the prior year.

The general fund is the chief operating fund of the City of Broken Bow. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,159,932.

Proprietary funds. The City of Broken Bow's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As of the end of the current fiscal year, the City of Broken Bow's proprietary funds reported combined ending net position of \$19,622,482, an increase of \$1,255,517 in comparison with the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Revenues exceeded budgeted amounts in the General Fund by \$632,558, and expenditures were \$656,838 less than budgeted amounts for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets. The City of Broken Bow's investment in capital assets for its governmental and business type activities as of June 30, 2019, amounts to \$38,727,348 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads highways, and bridges. The total change in the City of Broken Bow's investment in capital assets for the current fiscal year was a \$1,168,303 increase for governmental activities and a \$1,314,838 increase for business-type activities.

City of Broken Bow, Oklahoma
Unaudited - Management's Discussion and Analysis
For the Year ended June 30, 2019

Capital Assets (net of depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Land and Improvements	\$ 3,024,179	\$ 2,558,069	\$ 1,455,309	\$ 3,358,137	\$ 4,479,488	\$ 5,916,206
Construction in Progress	-	-	-	-	-	-
Buildings and Improvements	2,891,460	2,868,737	781,379	751,722	3,672,839	3,620,459
Property and Equipment	5,222,505	4,935,195	6,520,636	4,496,705	11,743,141	9,431,900
Infrastructure	6,615,647	5,582,744	-	-	6,615,647	5,582,744
Electric System	-	-	1,329,466	1,329,466	1,329,466	1,329,466
Gravity Flow Water System	-	-	25,320,214	24,220,092	25,320,214	24,220,092
Sewer System	-	-	9,979,893	8,670,779	9,979,893	8,670,779
	<u>17,753,791</u>	<u>15,944,745</u>	<u>45,386,897</u>	<u>42,826,901</u>	<u>63,140,688</u>	<u>58,771,646</u>
Accumulated Depreciation	<u>(6,521,544)</u>	<u>(5,880,801)</u>	<u>(17,891,796)</u>	<u>(16,646,638)</u>	<u>(24,413,340)</u>	<u>(22,527,439)</u>
Capital Assets, Net	<u>\$ 11,232,247</u>	<u>\$ 10,063,944</u>	<u>\$ 27,495,101</u>	<u>\$ 26,180,263</u>	<u>\$ 38,727,348</u>	<u>\$ 36,244,207</u>

Additional information on the City of Broken Bow's capital assets can be found in note IV.C on page 31 of this report.

Long-term debt. At the end of the current fiscal year, the City of Broken Bow has total bonded debt outstanding of \$10,881,031. The remainder of the City of Broken Bow's debt represents capital leases and notes payable.

Long-Term Debt

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Capital Leases	\$ 827,808	\$ 1,030,406	\$ -	\$ -	\$ 827,808	\$ 1,030,406
Notes Payable	-	-	4,303,480	4,640,651	4,303,480	4,640,651
Revenue Bonds Payable	-	-	10,881,031	12,157,319	10,881,031	12,157,319
	<u>\$ 827,808</u>	<u>\$ 1,030,406</u>	<u>\$ 15,184,511</u>	<u>\$ 16,797,970</u>	<u>\$ 16,012,319</u>	<u>\$ 17,828,376</u>

The City of Broken Bow's total debt for governmental activities decreased by \$202,598 during the current fiscal year and the debt for business-type activities decreased by \$1,613,459

Additional information on the City of Broken Bow's long-term debt can be found in note IV.E beginning on page 33 of this report.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Broken Bow's finances for all those with an interest in the governments' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Broken Bow, Oklahoma.

City of Broken Bow, Oklahoma
Statement of Net Position – Modified Cash Basis
June 30, 2019

	Governmental Activities	Business Type Activites	Total
ASSETS			
Cash and Cash Equivalent	\$ 3,251,145	\$ 3,734,550	\$ 6,985,695
Restricted Cash and Cash Equivalent	87,330	3,859,720	3,947,050
Restricted Investments	-	728,885	728,885
Inventory	-	55,000	55,000
Interfund Balances	41,094	(41,094)	-
Capital Assets, not being depreciated	1,758,894	456,909	2,215,803
Capital Assets, net of depreciaiton	9,473,353	27,038,192	36,511,545
Water Storage Rights	-	170,189	170,189
Hydro-power Investment	-	20,261	20,261
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 14,611,816</u>	<u>\$ 36,022,612</u>	<u>\$ 50,634,428</u>
LIABILITIES			
Bonds Pending Court	\$ 13,057	\$ -	\$ 13,057
Customer Deposits, Due within a year	2,509	23,509	26,018
Long Term Liabilities, Due within a year	208,842	1,458,560	1,667,402
Customer Deposits	-	88,661	88,661
Long Term Liabilities	618,966	13,725,951	14,344,917
Accrued Landfill Closure and Post-Closure Costs	-	1,103,449	1,103,449
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>843,374</u>	<u>16,400,130</u>	<u>17,243,504</u>
NET POSITION			
Net Investment in Capital Assets	10,404,439	12,310,590	22,715,029
Restricted	1,801,762	-	1,801,762
Unrestricted	1,562,241	7,311,892	8,874,133
	<u> </u>	<u> </u>	<u> </u>
Total Net Position	<u>\$ 13,768,442</u>	<u>\$ 19,622,482</u>	<u>\$ 33,390,924</u>

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

City of Broken Bow, Oklahoma
Statement of Revenues, Expenses and Changes in Net Position – Modified Cash Basis
For the Year Ended June 30, 2019

<i>Functions/Programs</i>	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities							
General Government	\$ 1,043,322	1,738,066	\$ -	\$ -	\$ 694,744	\$ -	\$ 694,744
Public Safety	2,095,867	258,367	-	-	(1,837,500)	-	(1,837,500)
Streets	893,130	-	648	-	(892,482)	-	(892,482)
Culture and Recreation	147,014	5,174	-	-	(141,840)	-	(141,840)
Cemetery and Parks	315,548	487	-	-	(315,061)	-	(315,061)
Health and Welfare	1,544,078	1,501,887	-	-	(42,191)	-	(42,191)
Total Governmental Activities	<u>6,038,959</u>	<u>3,503,981</u>	<u>648</u>	<u>-</u>	<u>(2,534,330)</u>	<u>-</u>	<u>(2,534,330)</u>
Business-Type Activities							
Water	2,828,136	3,559,854	-	-	-	731,718	731,718
Sewer	790,609	756,960	-	-	-	(33,649)	(33,649)
Electric	551,958	1,183,620	-	-	-	631,662	631,662
Landfill	1,051,222	1,234,924	-	-	-	183,702	183,702
Total Business Type Activities	<u>5,221,925</u>	<u>6,735,358</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,513,433</u>	<u>1,513,433</u>
Total Primary Government	<u>\$ 11,260,884</u>	<u>\$ 10,239,339</u>	<u>\$ 648</u>	<u>\$ -</u>	<u>(2,534,330)</u>	<u>1,513,433</u>	<u>(1,020,897)</u>
General Revenues							
Taxes					3,744,882	-	3,744,882
Interest					50,914	142,084	192,998
Transfers					400,000	(400,000)	-
Total General Revenues and Transfers					<u>4,195,796</u>	<u>(257,916)</u>	<u>3,937,880</u>
Change in Net Position					1,661,466	1,255,517	2,916,983
Net Position - Beginning					<u>12,106,976</u>	<u>18,366,965</u>	<u>30,473,941</u>
Net Position - Ending					<u>\$ 13,768,442</u>	<u>\$ 19,622,482</u>	<u>\$ 33,390,924</u>

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

City of Broken Bow, Oklahoma
Statement of Assets, Liabilities and Fund Balance – Modified Cash Basis
Governmental Funds
June 30, 2019

	General	Community Improvement	Grant	Other Governmental	Total
<i>Assets</i>					
Cash	\$ 1,249,397	\$ 831,616	\$ 76,933	\$ 972,001	\$ 3,129,947
Due From Other Funds	54,278	-	53	36,318	90,649
Total Assets	\$ 1,303,675	\$ 831,616	\$ 76,986	\$ 1,008,319	\$ 3,220,596
<i>Liabilities</i>					
Deposits	\$ 2,509	\$ -	\$ -	\$ 7,960	\$ 10,469
Bonds Pending Court	13,056	-	-	-	13,056
Due To Other Funds	41,595	-	-	-	41,595
Total Liabilities	57,160	-	-	7,960	65,120
<i>Fund Balances</i>					
Restricted	-	831,616	-	970,146	1,801,762
Committed	-	-	-	-	-
Assigned	86,583	-	-	-	86,583
Unassigned	1,159,932	-	76,986	30,213	1,267,131
Total Fund Balances	1,246,515	831,616	76,986	1,000,359	3,155,476
Total Liabilities and Fund Balances	\$ 1,303,675	\$ 831,616	\$ 76,986	\$ 1,008,319	

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. 11,232,247

Internal service funds are used by management to charge the costs of self insured health costs to individual funds. The assets and liabilities of the internal service fund are included in the governmental statement of net assets. 208,527

Long-term liabilities, including bonds payable and applicable interest, are not due and payable in the current period and, therefore, are not reported in the fund. (827,808)

\$ 13,768,442

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

City of Broken Bow, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds- Modified Cash Basis
For the Year Ended June 30, 2019

	General	Community Improvement	Grant	Other Governmental	Total
REVENUE					
Taxes	\$2,279,525	\$ 815,075	\$ -	\$ 260,824	\$ 3,355,424
Intergovernmental	389,458	-	-	-	389,458
Grants	-	-	1,375,646	57,208	1,432,854
License and Permits	133,739	-	-	-	133,739
Charges for Service	51,259	-	-	-	51,259
Fines and Forfeitures	258,367	-	-	-	258,367
Rent	18,300	-	-	-	18,300
Miscellaneous	108,435	160	648	50,240	159,483
Interest	42,983	-	-	7,931	50,914
Total Revenue	<u>3,282,066</u>	<u>815,235</u>	<u>1,376,294</u>	<u>376,203</u>	<u>5,849,798</u>
EXPENDITURES					
<i>Current</i>					
General Government	507,927	44,975	-	310,588	863,490
Public Safety	1,821,769	57,468	-	-	1,879,237
Streets	687,187	44,874	-	-	732,061
Culture and Recreation	15,072	-	-	83,979	99,051
Cemetery and Parks	246,115	-	-	-	246,115
Health and Welfare	-	-	-	61,824	61,824
<i>Capital Outlay</i>					
General Government	-	38,378	-	29,200	67,578
Public Safety	-	133,142	-	-	133,142
Streets	15,194	205,600	1,361,816	-	1,582,610
Culture and Recreation	25,716	-	-	-	25,716
Cemetery and Parks	-	-	5,380	-	5,380
Debt Service	-	155,950	-	75,452	231,402
Total Expenditures	<u>3,318,980</u>	<u>680,387</u>	<u>1,367,196</u>	<u>561,043</u>	<u>5,927,606</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(36,914)	134,848	9,098	(184,840)	(77,808)
Other Financing Sources					
Transfers In	250,000	-	12,000	200,000	462,000
Transfers Out	(62,000)	-	-	-	(62,000)
Total Other Financing Sources	<u>188,000</u>	<u>-</u>	<u>12,000</u>	<u>200,000</u>	<u>400,000</u>
Net Change in Fund Balances	151,086	134,848	21,098	15,160	322,192
Fund Balances - Beginning	<u>1,095,429</u>	<u>696,768</u>	<u>55,888</u>	<u>985,199</u>	<u>2,833,284</u>
Fund Balances - Ending	<u>\$ 1,246,515</u>	<u>\$ 831,616</u>	<u>\$ 76,986</u>	<u>\$ 1,000,359</u>	<u>\$ 3,155,476</u>

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

City of Broken Bow, Oklahoma
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Revenues, Expenses
and Changes in Net Position - Governmental Funds – Modified Cash Basis
For the Year Ended June 30, 2019

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

Net change in fund balance - total governmental funds	\$ 322,192
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,168,303
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The issuance of long-term debt (e.g. bonds, 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.	202,597
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Internal service funds are used by management to charge the costs of self insured health costs to individual funds. The net gain or loss of certain activities of internal service funds is reported with governmental activities.	<u>(31,626)</u>
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Change in Net Position - total governmental funds	<u><u>\$ 1,661,466</u></u>
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The notes to the financial statements are an integral part of these financial statements.

City of Broken Bow, Oklahoma
Statement of Net Position – Modified Cash Basis
Proprietary Funds
June 30, 2019

	Kulli Chito		Total	
	Public Works Authority	Environmental Authority	Proprietary Funds	Internal Service Fund
ASSETS				
<i>Current Assets</i>				
Cash	\$ 2,955,193	\$ 779,357	\$ 3,734,550	\$ 208,527
Restricted Cash	2,624,175	1,235,545	3,859,720	-
Restricted Investments	728,885	-	728,885	-
Inventory	55,000	-	55,000	-
Due from Other Funds	650	80,468	81,118	-
Total Current Assets	<u>6,363,903</u>	<u>2,095,370</u>	<u>8,459,273</u>	<u>208,527</u>
<i>Noncurrent Assets</i>				
Land and Construction in Progress	378,909	78,000	456,909	-
Land Improvements	27,779	970,621	998,400	-
Buildings and Improvements	744,733	36,646	781,379	-
Property and Equipment	1,458,729	5,061,907	6,520,636	-
Electric System	1,329,466	-	1,329,466	-
Gravity Flow Water System	25,320,214	-	25,320,214	-
Sewer System	9,979,893	-	9,979,893	-
Accumulated Depreciation	<u>(15,117,750)</u>	<u>(2,774,046)</u>	<u>(17,891,796)</u>	<u>-</u>
Total Noncurrent Assets	<u>24,121,973</u>	<u>3,373,128</u>	<u>27,495,101</u>	<u>-</u>
<i>Other Assets</i>				
Water Storage Rights	170,189	-	170,189	-
Hydro-power Investment	<u>20,261</u>	<u>-</u>	<u>20,261</u>	<u>-</u>
	<u>190,450</u>	<u>-</u>	<u>190,450</u>	<u>-</u>
Total Assets	<u>\$ 30,676,326</u>	<u>\$ 5,468,498</u>	<u>\$ 36,144,824</u>	<u>\$ 208,527</u>

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

City of Broken Bow, Oklahoma
Statement of Net Position – Modified Cash Basis
Proprietary Funds
June 30, 2019

		Kulli Chito	Total	
	Public Works	Environmental	Proprietary	Internal Service
	<u>Authority</u>	<u>Authority</u>	<u>Funds</u>	<u>Fund</u>
<i>LIABILITIES</i>				
<i>Current Liabilities</i>				
Customer Deposits, Current	\$ 23,509	\$ -	\$ 23,509	\$ -
Notes Payable, Current	643,827	-	643,827	-
Bonds Payable, Current	720,000	94,733	814,733	-
Due to Other Funds	111,542	10,670	122,212	-
Accrued Landfill Closure and Post-Closure Costs	-	1,103,449	1,103,449	-
Total Current Liabilities	<u>1,498,878</u>	<u>1,208,852</u>	<u>2,707,730</u>	<u>-</u>
<i>Noncurrent Liabilities</i>				
Notes Payable, non-current	3,532,818	126,835	3,659,653	-
Customer Deposits, Non-current	88,661	-	88,661	-
Bonds payable, non-current	10,066,298	-	10,066,298	-
Total Noncurrent Liabilities	<u>13,687,777</u>	<u>126,835</u>	<u>13,814,612</u>	<u>-</u>
Total Liabilities	<u>15,186,655</u>	<u>1,335,687</u>	<u>16,522,342</u>	<u>-</u>
<i>NET POSITION</i>				
Net Investment in Capital Assets	9,070,369	3,151,560	12,221,929	-
Restricted for Debt Service	459,123	-	-	-
Unrestricted	<u>5,960,179</u>	<u>981,251</u>	<u>7,400,553</u>	<u>208,527</u>
Total Net Position	<u>\$ 15,489,671</u>	<u>\$ 4,132,811</u>	<u>\$ 19,622,482</u>	<u>\$ 208,527</u>

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

City of Broken Bow, Oklahoma
Revenues, Expenses and Changes in Net Position – Modified Cash Basis
Proprietary Funds
For the Year Ended June 30, 2019

	Public Works Authority	Kulli Chito Environmental Authority	Total Proprietary Funds	Internal Service Fund
<i>Operating Revenues:</i>				
Water	\$ 3,482,788	\$ -	\$ 3,482,788	\$ -
Sewer	756,960	-	756,960	-
Electric	1,183,620	-	1,183,620	-
Landfill	-	1,234,926	1,234,926	-
Penalties/Reconnect Fees	49,974	-	49,974	-
Other Operating Revenue	27,090	-	27,090	1,450,628
Total Operating Revenue	<u>5,500,432</u>	<u>1,234,926</u>	<u>6,735,358</u>	<u>1,450,628</u>
<i>Operating Expenses:</i>				
Water	1,957,423	-	1,957,423	-
Sewer	497,373	-	497,373	-
Electric	197,694	-	197,694	-
Landfill	-	807,884	807,884	-
Insurance Premiums and Claims	-	-	-	1,482,254
Depreciation	1,012,319	232,839	1,245,158	-
Total Operating Expenses	<u>3,664,809</u>	<u>1,040,723</u>	<u>4,705,532</u>	<u>1,482,254</u>
Operating Income (Loss)	1,835,623	194,203	2,029,826	(31,626)
<i>Nonoperating Revenues (Expenses):</i>				
Interest Revenue	107,655	34,429	142,084	-
Interest Expense	(505,894)	(10,499)	(516,393)	-
Total Nonoperating Revenues (Expenses)	<u>(398,239)</u>	<u>23,930</u>	<u>(374,309)</u>	<u>-</u>
Income (Loss) before Transfers	1,437,384	218,133	1,655,517	(31,626)
<i>Other Financing Sources (Uses):</i>				
Transfers In	343,912	1,591,306	1,935,218	-
Transfers Out	(2,161,306)	(173,912)	(2,335,218)	-
Total Other Financing Sources	<u>(1,817,394)</u>	<u>1,417,394</u>	<u>(400,000)</u>	<u>-</u>
Net Change in Net Position	(380,010)	1,635,527	1,255,517	(31,626)
Total Net Position - Beginning	<u>15,869,681</u>	<u>2,497,284</u>	<u>18,366,965</u>	<u>240,153</u>
Total Net Position - Ending	<u>\$ 15,489,671</u>	<u>\$ 4,132,811</u>	<u>\$ 19,622,482</u>	<u>\$ 208,527</u>

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

City of Broken Bow, Oklahoma
Statement of Cash Flows – Modified Cash Basis
Proprietary Funds
For the Year Ended June 30, 2019

	Public Works Authority	Kulli Chito Environmental Authority
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>		
Cash Received from Customers	\$ 5,502,835	\$ 1,234,926
Cash Payments to suppliers and employees	<u>(2,652,490)</u>	<u>(760,678)</u>
Net Cash Provided by Operating Activities	<u>2,850,345</u>	<u>474,248</u>
<i>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</i>		
Transfers from Other Funds	343,912	1,591,306
Transfers to Other Funds	<u>(2,161,306)</u>	<u>(173,912)</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,817,394)</u>	<u>1,417,394</u>
<i>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</i>		
Payment of Debt	(1,300,196)	(313,263)
Purchase of Property, Plant and Equipment	<u>(713,044)</u>	<u>(1,846,952)</u>
Net Cash Used by Capital Financing Activities	<u>(2,013,240)</u>	<u>(2,160,215)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>		
Change in Investments	2,126,820	-
Interest Expense	(505,894)	(10,499)
Interest Income	<u>107,655</u>	<u>34,429</u>
Net Cash Provided by Investing Activities	<u>1,728,581</u>	<u>23,930</u>
Net Increase (Decrease) in Cash and Cash Equivalents	748,292	(244,643)
Cash and Cash Equivalents, July 1, 2018	<u>4,831,076</u>	<u>2,259,545</u>
Cash and Cash Equivalents, June 30, 2019	<u>\$ 5,579,368</u>	<u>\$ 2,014,902</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	<u>\$ 1,835,623</u>	<u>\$ 194,203</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation and Amortization	1,012,319	232,839
Changes in Assets and Liabilities:		
Increase (Decrease) in Customer Deposits	2,403	-
Increase (Decrease) in Ladfill Closure and Post-closure costs	<u>-</u>	<u>47,206</u>
	<u>1,014,722</u>	<u>280,045</u>
Net Cash Provided by Operating Activities	<u>\$ 2,850,345</u>	<u>\$ 474,248</u>

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

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City of Broken Bow is an incorporated city created under Title 11, Chapter 17 of the Oklahoma Statutes, operating under the Council-Manager form of government. The governing body of the City is the City Council. The appointed City Manager is the executive officer of the City.

For financial reporting purposes the financial statements included all funds and account groups over which the City Council exercises oversight responsibility. The criteria used to determine whether or not to include other entities in the financial statements were (1) the selection of governing authority, (2) designation of management, (3) ability to significantly influence operations, and (4) accountability for fiscal matters. Based on these criteria, the Broken Bow Public Works Authority and Kulli Chito Environmental Authority are included.

Broken Bow Public Works Authority

The Broken Bow Public Works Authority is a Title 60.O.S. public trust created April 21, 1959, for the use and benefit of the City of Broken Bow, Oklahoma. The current City Council serves as the governing body. The Broken Bow Public Work Authority is reported as a blended component unit.

Kulli Chito Environmental Authority

The Kulli Chito Environmental Authority is a Title 60.O.S. public trust created April 14, 1993, for the use and benefit of the City of Broken Bow, Oklahoma. The current City Council serves as the governing body. The Kulli Chito Environmental Authority is reported as a blended component unit.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the primary government. 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 Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

B. Government-Wide and Fund Financial Statements – continued

The statement of activities 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*.

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 the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level. The proprietary fund also uses the economic resources measurement focus.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

The statement of net position and activities and the fund financial statements are reported on a modified basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- Capital assets and the depreciation of those assets, where applicable
- Debt issue cost and the amortization of those costs, where applicable
- Long-term debt
- Cash-based interfund receivables and payables
- Other cash-based receivable and payables

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

The government reports the following major government funds:

General Fund - is the government's primary operating fund. It accounts for all financial resources.

Grant Fund – is a special revenue fund used to account for grant revenues received, and the expenditure of those funds.

Community Improvement Fund – is a special revenue fund used to account for dedicated sales tax revenues to fund community improvement projects.

The government reports the following major proprietary funds:

The *Broken Bow Public Works Authority*, which accounts for all the operating revenues and expenses related to providing water, sewer and electric services, and the *Kulli Chito Environmental Authority* which accounts for all the operating revenues and expenses related to sanitation services.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

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

Additionally, the government reports the following fund types:

Special revenue funds: Senior Citizens, Airport, Cemetery Care, Library, Police Donation, Go Fund Me Donation Account and Nutrition.

Internal service funds account for self-insured health costs provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. These funds are reported with governmental activities in the government-wide statements.

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.

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.

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 funds and of the government's internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service 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.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Position or Equity

Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City does not have a written investment policy that limits its investment choices other than the limitations stated in the *Oklahoma Statutes*. *Oklahoma Statutes* allow the City to invest in bonds of cities, school districts, or counties within the State of Oklahoma; public trust bonds whose beneficiary is a county, municipality or school district, except industrial development bonds; direct obligations of the United States; and certificates of deposit. Public trusts created under O.S. Title 60, are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

Investments for the government, as well as for its component units, are reported at cost, which approximates fair value.

Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either due to/from other funds (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as due to/from other funds.

Inventories

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

Restricted assets

Certain proceeds of revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Position or Equity – continued

Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, 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 government 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 including interest are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	10 - 50
Building Improvements	10 - 20
Public Domain Infrastructure	50
System Infrastructure	10 - 30
Machinery and Equipment	5 - 10

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Position or Equity – continued

Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net Position.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Fund equity

Government-wide Statements

Equity is classified as net position and displayed in three components:

1. *Net Investment in capital assets* – consists of capital assets net of accumulated depreciation and related debt.
2. *Restricted net position* – consists of net position with constraints on the use either by: (1) external groups or (2) law through constitutional provisions or enabling legislation.
3. *Unrestricted net position* – All other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

D. Assets, Liabilities, and Net Position or Equity – continued

Fund Statements

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 City is bound to honor constraints on 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.
- *Restricted*: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed*: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action 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 (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 Council or through the Council delegating this responsibility to the City Manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The City has assigned interest earnings to the funds where earned for the purposes defined by the fund.
- *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.

The City would typically use Restricted fund balances first, followed by Committed resources, and then 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 Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

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 \$10,612,966 difference between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position.

The first element of that reconciliation explains that capital assets used in governmental activities that are not financial resources and therefore, are not reported in the funds.

Land and Improvements	\$ 3,024,179
Buildings and Improvements	2,891,460
Property and Equipment	5,222,505
Infrastructure	<u>6,615,647</u>
	17,753,791
Accumulated Depreciation	<u>(6,521,544)</u>
Capital Assets, Net	<u><u>\$ 11,232,247</u></u>

Another element of that reconciliation is the assets and liabilities of the internal service funds included in governmental activities in the statement of net assets. Following are the details of the net adjustment to increase *fund balance - total governmental funds* to arrive at *net position - governmental activities*:

Assets	
Cash and equivalents	\$ 208,527
Total Assets	<u>208,527</u>
Net Position	<u><u>\$ 208,527</u></u>

The last element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.”

Capital Leases	<u>\$ 827,808</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u><u>\$ (827,808)</u></u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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 \$1,339,274 difference between *net changes in fund balances - total governmental funds* and *changes in net position 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	\$ 1,809,046
Depreciation Expense	<u>(640,743)</u>
Net adjustment to increase net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net position - governmental activities</i>	<u>\$ 1,168,303</u>

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, 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 position.

Capital Lease Principal Payments	\$ <u>202,597</u>
Net adjustment to decrease net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net position - governmental activities</i>	<u>\$ 202,597</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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 last element of the reconciliation states “the net gain of certain activities of internal service funds is reported with governmental activities.

Change in Net Position - Internal Service Funds	\$ <u>(31,626)</u>
Net adjustment to increase net change in <i>fund balance - total governmental funds</i> to arrive at changes in <i>net position - governmental activities</i>	\$ <u>(31,626)</u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. 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 Commission 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.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City’s deposits may not be returned to it. The City does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* required collateral for all uninsured deposits of municipal funds in financial institutions. As of June 30, 2019, the City’s bank balances of \$11,022,504 were not exposed to custodial credit risk.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

A. Deposits and Investments – *continued*

Investment 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

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U.S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trust. The City's investments at June 30, 2019 consisted of \$568,948 in Goldman Sachs Financial Square Treasury Obligation money market mutual funds with a Moody's credit rating of Aaa; and \$83,498 of funds held in escrow by the Oklahoma Municipal Assurance Group.

Concentration of Credit Risk

The City places no limit on the amount it may invest in any one issuer.

Restricted Cash and Investments

Restricted cash and investments in the enterprise funds at June 30, 2019 consist of the Debt Service Fund in the amount of \$2,824,791, refundable meter deposits of \$93,970, OMAG Reserve \$41,749; landfill post-closure \$1,229,481; and capital projects \$398,614.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

C. Capital Assets

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning			
	Balance	Additions	Transfers	Ending Balance
Governmental Activities:				
Capital Assets, not being depreciated:				
Land	\$ 1,729,694	\$ 29,200	\$ -	\$ 1,758,894
Total Capital Assets, not being depreciated	<u>1,729,694</u>	<u>29,200</u>	<u>-</u>	<u>1,758,894</u>
Capital Assets, being depreciated:				
Land Improvements	828,375	436,910	-	1,265,285
Building and Improvements	2,868,737	22,723	-	2,891,460
Property and Equipment	4,935,195	287,310	-	5,222,505
Infrastructure	5,582,744	1,032,903	-	6,615,647
Total Capital Assets, being depreciated	<u>14,215,051</u>	<u>1,779,846</u>	<u>-</u>	<u>15,994,897</u>
Less Accumulated Depreciation	<u>5,880,801</u>	<u>640,743</u>	<u>-</u>	<u>6,521,544</u>
Total Capital Assets, being depreciated, net	<u>8,334,250</u>	<u>1,139,103</u>	<u>-</u>	<u>9,473,353</u>
Governmental Activities Capital Assets, net	<u>\$ 10,063,944</u>	<u>\$ 1,168,303</u>	<u>\$ -</u>	<u>\$ 11,232,247</u>
Business Type Activities:				
Capital Assets, not being depreciated:				
Land	\$ 389,527	\$ -	\$ -	\$ 389,527
Construction in Progress	2,003,210	2,234,714	(4,170,542)	67,382
Total Capital Assets, not being depreciated	<u>2,392,737</u>	<u>2,234,714</u>	<u>(4,170,542)</u>	<u>456,909</u>
Capital Assets, being depreciated:				
Land Improvements	965,400	33,000	-	998,400
Building and Improvements	751,722	29,657	-	781,379
Property and Equipment	4,496,705	262,625	1,761,306	6,520,636
Electric System	1,329,466	-	-	1,329,466
Gravity Flow Water System	24,220,092	-	1,100,122	25,320,214
Sewer System	8,670,779	-	1,309,114	9,979,893
Total Capital Assets, being depreciated	<u>40,434,164</u>	<u>325,282</u>	<u>4,170,542</u>	<u>44,929,988</u>
Less Accumulated Depreciation	<u>16,646,638</u>	<u>1,245,158</u>	<u>-</u>	<u>17,891,796</u>
Total Capital Assets, being depreciated, net	<u>23,787,526</u>	<u>(919,876)</u>	<u>4,170,542</u>	<u>27,038,192</u>
Business Type Activities Capital Assets, net	<u>\$ 26,180,263</u>	<u>\$ 1,314,838</u>	<u>\$ -</u>	<u>\$ 27,495,101</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

C. Capital Assets

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

Governmental Activities:	
General Government	\$ 171,255
Public Safety	209,052
Streets	148,420
Culture and Recreation	42,583
Cemetery and Parks	<u>69,433</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 640,743</u>
Business Type Activities:	
Water	\$ 669,017
Sewer	293,237
Electric	50,065
Landfill	<u>232,839</u>
Total Depreciation Expense - Business Type Activities	<u>\$ 1,245,158</u>

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2019 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Public Works Authority	General Fund	\$ 650	Operating Transfer
Kulli Chito	Public Works Authority	76,057	Operating Transfer
General Fund	Public Works Authority	35,485	Operating Transfer
General Fund	Kulli Chito	6,260	Operating Transfer

Interfund Transfers

	<u>Transfers Out:</u>			
	<u>General</u>	<u>Enterprise</u>	<u>Other Governmental</u>	<u>Total</u>
Transfers In:				
General Fund	\$ -	\$ 250,000	\$ -	\$ 250,000
Other Governmental	62,000	150,000	-	212,000
Enterprise	-	<u>1,935,218</u>	-	<u>1,935,218</u>
	<u>\$ 62,000</u>	<u>\$ 2,335,218</u>	<u>\$ -</u>	<u>\$ 2,397,218</u>

All transfers are operating transfers.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt

Capital Leases

The government has entered into lease agreements as lessee for financing the acquisition of equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Interest rates range from 2.00 % to 4.00%.

The assets acquired through capital leases are as follows:

<u>Assets</u>	
Furniture and Equipment	\$ 1,425,480
	1,425,480
Less Acc. Depreciation	(232,391)
	<u>\$ 1,193,089</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2019 were as follows:

<i>Year Ending June 30,</i>	<i>Governmental Activities</i>			
2020	\$ 40,549	\$ 69,370	\$ 46,030	\$ 75,452
2021	40,549	69,370	46,030	75,452
2022	40,549	69,370	46,030	75,452
20223	40,549	23,123	3,812	37,715
2024	40,549	-	-	-
2025-2028	42,789	-	-	-
Total minimum lease payments	245,534	231,233	141,902	264,071
Less amount representing interest	(23,376)	(11,409)	(6,504)	(13,644)
Present value of minimum lease	\$ 222,158	\$ 219,824	\$ 135,398	\$ 250,427

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Broken Bow Public Works Authority – Long Term Debt

Utility System and Sales Tax Revenue Note, Series 2006

In May 2006, the Broken Bow Public Works Authority issued \$7,890,000 Utility System and Sales Tax Revenue Note, Series 2006. Proceeds of the note were used to defease \$7,950,000 of outstanding 2002 Refunding Bonds. The note bears interest of 4.52%. Proceeds of the 2006 note were placed in an escrow account for the purpose of generating resources for all future debt service payments to pay off the 2002 Refunding Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the City’s statement of net position. This advance refunding will reduce the debt service payments by \$1,591,118 over the term of the bonds and resulted in an economic gain of \$589,214.

Principal and interest due on the Utility System and Sales Tax Revenue Note, Series 2006, are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2020	\$ 420,000	\$ 181,026
2021	420,000	162,042
2022	430,000	143,058
2023	480,000	123,622
2024	480,000	101,926
2025-2028	1,775,000	179,896
	<u>\$ 4,005,000</u>	<u>\$ 891,570</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Provisions of the Revenue Note which are pertinent to the financial statements are as follows:

Pledged Revenues - Net water and sewer revenues generated from the Authority will be used first to meet debt service; second to pay operation and maintenance expenses of the system; and third to replenish the minimum required balance of the reserve fund requirement.

The Broken Bow Public Works Authority at all times will maintain schedules of rates and charges for services sufficient to provide funds which together with other revenues pledged will provide Net Revenues Available for Debt Service equal to at least 125% of the annual principal and interest requirements on the bonds for that year.

Army Corp of Engineers – Water Rights

Water rights, for 4,241 acre feet in Broken Bow Lake, are financed at a rate of 2.742% by a note with the United States Army Corp of Engineers. The contract requires the purchase price of \$170,189 to be retired over a 27 year period with yearly payments of \$8,764. The debt was paid in full at June 30, 2019.

The Authority is obligated for the future use of additional water rights amounting to 4,054 acre feet in Broken Bow Lake. These rights are to be financed at an interest rate of 2.742% through a note with the United States Corp of Engineers. The contract purchase price is \$154,165 and the amounts outstanding at June 30, 2019, is \$141,174. This amount is to be retired over a 27 year period with annual interest only payments of \$4,227 until the Authority's acre feet usage exceeds the first 4,241 acre feet, which has not yet been exceeded, therefore no amortization schedule is available at this time.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt - continued

Oklahoma Water Resources Board Promissory Note

In May 2013, the Broken Bow Public Works Authority refinanced an existing USDA Rural Development Promissory Note with Oklahoma Water Resources Board Drinking Water SRF Promissory Note, Series 2013. At June 30, 2019, the note had a balance of \$3,571,839, at an interest rate of 2.25%, maturing September 2035. Principal and interest maturities are as follows:

2020	\$ 180,195	\$ 63,117	\$ 17,931
2021	184,566	59,713	16,964
2022	188,820	56,400	16,023
2023	193,171	53,012	15,060
2024	197,451	49,678	14,113
2025-2029	1,058,420	192,973	54,822
2030-2034	1,186,186	93,474	26,555
2035-2038	383,030	6,880	1,955
	<u>\$ 3,571,839</u>	<u>\$ 575,247</u>	<u>\$ 163,423</u>

In February 2014, the Broken Bow Public Works Authority refinanced existing Oklahoma Water Resource Board Promissory Notes, Series 2006A and 2006B with Utility System and Sales Tax Revenue Note, Series 2014 through Branch Banking and Trust Company. At June 30, 2019, the note had a balance of \$3,490,000, at an interest rate of 2.91%, maturing April 2027. Principal and interest maturities are as follows:

<i>Year Ending June 30,</i>	<i>Principal</i>	<i>Interest</i>
2020	\$ 395,000	\$ 109,998
2021	405,000	87,155
2022	415,000	75,296
2023	430,000	63,074
2024	440,000	50,489
2025-2028	1,405,000	75,532
	<u>\$ 3,490,000</u>	<u>\$ 461,544</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt – continued

Utility System and Sales Tax Revenue Note, Series 2016 and 2017

During 2016-2017, the Broken Bow Public Works Authority issued \$1,345,000 and \$3,355,000 Utility System and Sales Tax Revenue Note, Series 2016 and 2017. Proceeds of the note were used to for wastewater and water utility system improvements. The notes bear interest of 1.88% and 2.54%, respectively.

Principal and interest due on the Utility System and Sales Tax Revenue Note, Series 2006, are as follows:

<i>Year Ending June 30,</i>	<i>2016 Revenue Note</i>			<i>2017 Revenue Note</i>		
	<i>Principal</i>	<i>Interest</i>	<i>Discount</i>	<i>Principal</i>	<i>Interest</i>	<i>Discount</i>
2020	\$ 131,000	\$ 17,719	5,850	\$ 255,000	\$ 71,133	11,518
2021	134,000	15,237	4,950	262,000	64,618	10,632
2022	137,000	12,709	4,050	268,000	57,925	8,860
2023	139,000	10,124	3,150	275,000	51,067	7,976
2024	142,000	7,492	2,250	282,000	44,044	7,088
2025-2029	292,000	6,890	1,800	1,522,000	108,306	15,946
	<u>\$ 975,000</u>	<u>\$ 70,171</u>	<u>\$ 22,050</u>	<u>\$ 2,864,000</u>	<u>\$ 397,093</u>	<u>\$ 62,020</u>

Kulli Chito Environmental Authority – Long Term Debt

Other long-term debt obligations of the Kulli Chito Environmental Authority are as follows:

Bear State Bank - 2.50% interest, monthly payments of \$2,968 due January 2021. Proceeds used for the purchase of a trash truck.	\$ 55,075
First Bank and Trust - 2.99% interest, monthly payments of \$2,905 due August 2022. Proceeds used for the purchase of a Roll Off Truck.	\$ 105,202
First Bank and Trust - 2.09% interest, monthly payments of \$2,413 due August 2021. Proceeds used for the purchase of a Kenworth Truck.	<u>\$ 61,290</u>
	<u>\$ 221,567</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt – continued

Principal maturities are as follows:

<i>Year</i>						
<i>Ending</i>						
<i>June 30,</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
2020	\$ 34,632	\$ 982	\$ 32,156	\$ 2,707	\$ 27,945	\$ 1,014
2021	20,443	170	33,131	1,733	28,534	425
2022	-	-	34,135	728	4,811	13
2023	-	-	5,780	30	-	-
	<u>\$ 55,075</u>	<u>\$ 1,152</u>	<u>\$ 105,202</u>	<u>\$ 5,198</u>	<u>\$ 61,290</u>	<u>\$ 1,452</u>

Changes in long-term liabilities

Long term liability activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital Leases	\$ 1,030,406	\$ -	\$ 202,597	\$ 827,809	\$ 208,842
Total Long Term Liabilities	<u>\$ 1,030,406</u>	<u>\$ -</u>	<u>\$ 202,597</u>	<u>\$ 827,809</u>	<u>\$ 208,842</u>
Business Type Activities:					
Notes Payable	\$ 8,299,194	\$ -	\$ 874,614	\$ 7,424,580	\$ 669,928
Revenue Bonds Payable	8,498,776	-	738,846	7,759,930	788,632
Total Long Term Liabilities	<u>\$ 16,797,970</u>	<u>\$ -</u>	<u>\$ 1,613,460</u>	<u>\$ 15,184,510</u>	<u>\$ 1,458,560</u>

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

Governmental Activities

Streets	\$ 12,649
Public Safety	7,578
General Government	8,576
	<u>\$ 28,803</u>

Business Type Activities

Water	\$ 505,894
Landfill	10,499
	<u>\$ 516,393</u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

E. Long Term Debt – continued

Debt Service Coverage Requirement

The Revenue Bonds and OWRB Promissory Notes require that Net Revenue Available for Debt Service must equal 125% of the maximum annual debt service. Actual coverage was as follows:

Net Revenue Available for Debt Service

Operating Revenue	\$	5,500,432
Operating Expenses		3,664,809
Less: Depreciation Expense		<u>(1,012,319)</u>
Total Operating Expense		2,652,490
Interest Revenue		<u>107,655</u>
Net Revenue Available for Debt Service	\$	<u><u>2,955,597</u></u>

Maximum Annual Debt Service Requirements:

Utility System Sales Tax Revenue Note	\$	<u>601,258</u>
Total Debt Service Requirement	\$	<u><u>601,258</u></u>

Coverage		<u><u>492%</u></u>
Coverage Requirement		<u><u>125%</u></u>

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

F. Fund Equity

Net Position Restricted by Enabling Legislation

The government-wide statement of net position reports \$1,801,762 of restricted net position, of which \$843,046 is restricted by enabling legislation.

Enabling Legislation:

Cemetery Fund	\$	5,557
Senior Citizens Fund		43,550
Library Fund		793,939
		\$ 843,046

Governmental Fund Balance Classifications

As of June 30, 2019, fund balances of the Governmental Funds were classified as follows:

Restricted	General	Community Improvement	Grant	Other Governmental	Total
Grant Fund Expenditures	\$ -	\$ -	\$ -	\$ 43,550	\$ 43,550
Community Improvement	-	831,616	-	-	831,616
Cemetery Care Capital Expenditures	-	-	-	21,459	21,459
Debt Service	-	-	-	5,557	5,557
Police Expenditures	-	-	-	793,939	793,939
Assigned	-	-	-	16,253	16,253
Special Assessment	86,583	-	-	-	86,583
Unassigned	1,159,932	-	76,986	30,213	1,267,131
	\$ 1,246,515	\$ 831,616	\$ 76,986	\$ 1,000,359	\$ 3,155,476

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

G. Pension Plans

Firefighters' Retirement Plan

The City contributes to pension plans on behalf of all full time employees including the fire departments. Following is a discussion of each plan, and the summary financial data:

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, 2019. Participating members are required to contribute 8%.

Three Year Trend Information:

Year Ending June 30,	Covered Payroll	Total Pension Cost	City Share	Employee Share	On Behalf Payments
2019	\$ 287,844	\$ 63,326	\$ 45,540	\$ 17,786	\$ -
2018	311,005	72,152	43,919	28,233	-
2017	268,210	59,006	37,862	21,144	-

As of July 1, 2017, the latest available actuarial valuation, the actuarial present value of credited projected benefits was \$3,892,047,000, and net assets available for benefits were \$2,756,362,000. Unfunded liabilities, which are an obligation of the state of Oklahoma, totaled \$1,135,684,000.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

G. Pension Plans - continued

Firefighters' Retirement Plan – continued

Additional information can be obtained by writing Oklahoma Firefighters Pension and Retirement Board, 4545 N. Lincoln Blvd., Suite 165, Oklahoma City, OK, 73105.

Municipal Retirement Plan

The Oklahoma Municipal Retirement Fund (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 of City of Broken Bow and employees are established and may be amended by the OMRF board. Employees are required to contribute 5.25 percent of their annual covered salary. City of Broken Bow is required to contribute at an actuarially determined rate; the rate at June 30, 2019 is 6.7% of covered payroll.

Annual Pension Cost: For 2018-2019, City of Broken Bow's annual pension cost of \$291,896 was equal to the required and actual contributions. The required contribution was determined as part of the January 1, 2018 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (I) 7.25 percent investment rate of return, (II) projected salary increases due to inflation of 3 percent, compounded annually, and (III) projected salary increases due to age/seniority, compounded annually.

Trend Information:

Year Ending June 30,	Contribution Rate	Total Cost (APC)	Contributed	Net Pension Obligation
2019	13.50%	\$ 291,896	100%	\$ -
2018	13.50%	263,550	100%	-
2017	13.50%	226,330	100%	-

Funding Status and Funding Progress: As of March 2018, the most recent actuarial valuation date, the plan was 92.5 percent funded. The actuarial accrued liability for benefits was \$6,169,693, and the actuarial value of assets was \$5,148,317, resulting in an unfunded actuarial accrued liability (UAAL) of \$461,196. The covered payroll (total annualized rate of pay as of the valuation date based on actual pay for the preceding year) was \$2,007,481, and the ratio of the UAAL to the covered payroll was 23.0 percent.

City of Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

G. Pension Plans - continued

Municipal Retirement Plan – continued

The City's unfunded actuarial accrued liability is being amortized as a level dollar amount on an open basis.

The schedule of funding progress, presented as OSI following the notes to the financial statements, present trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

H. Landfill Closure and Post-Closure Care Costs

State laws and regulations require the Kulli Chito Environmental Authority, a blended enterprise fund, to perform certain closure activities for its Broken Bow landfill and to provide certain maintenance and monitoring functions at the site for thirty years after it ceases operations. Although closure and post-closure care costs will be paid only near or after the date the facility stops accepting waste, the Authority reports a portion of the closure and post-closure costs as operating expense in each period based on landfill capacity used as of each balance sheet date. The total closure and post-closure costs are \$1,537,662, as stated by the engineering firm and approved by the Oklahoma Department of Environmental Quality. Of this amount, \$1,103,448 has been accrued through June 30, 2019. This amount represents the cumulative amount to date based on the use of 91% of the current estimated capacity of the landfill. There are approximately 2.55 landfill life years remaining. The Authority will recognize the remaining estimated cost of closure and post-closure care of \$434,214, as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care at the site in 2017. However, the Authority expects to operate the landfill until at least year 2019. Therefore, actual costs may be higher due to inflation, changes in technology, or changes in laws and regulations. The Authority sets aside a portion of its net proceeds for financial assurance. As of June 30, 2019, \$1,235,544 has been restricted for payment of future closure and post closure care costs.

I. 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 Broken Bow, Oklahoma
Notes to the Financial Statements
June 30, 2019

IV. DETAILED NOTES ON ALL FUNDS - continued

J. Commitments and 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, 2019, 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.

K. Economic Dependence

The enterprise fund (Broken Bow Public Works Authority) is economically dependent upon major water and electric utility users to produce revenue sufficient to make its debt service payments and fund its operations.

City of Broken Bow, Oklahoma
Unaudited – Oklahoma Municipal Retirement Fund
Schedule of Funding Progress
For the Year Ended June 30, 2019

Actuarial Valuation Date	Actuarial	Actuarial	Unfunded	Funded	Covered	UAAL as
	Value of Assets	Liability (AAL) - Entry Age	AAL (UAAL)	Ratio		Percentage of Covered Payroll
	a	b	b-a	a/b	c	(b-a)/c
1/1/2009	\$ 1,918,393	\$ 2,643,857	\$ 725,464	72.6%	\$ 1,358,560	53.4%
1/1/2010	2,141,125	2,858,553	717,428	74.9%	1,458,669	49.2%
1/1/2011	2,443,255	3,251,926	808,671	75.1%	1,658,433	48.8%
1/1/2012	2,679,628	3,432,409	752,781	78.1%	1,626,437	46.3%
1/1/2013	3,033,497	3,687,246	653,749	82.3%	1,692,101	38.6%
1/1/2014	3,431,377	3,900,719	469,342	88.0%	1,733,797	27.1%
1/1/2015	3,689,142	4,025,711	336,569	91.6%	1,637,283	20.6%
7/1/2015	4,120,046	4,257,536	137,490	96.8%	1,745,502	7.9%
7/1/2016	4,575,777	4,701,872	126,095	97.3%	1,911,938	6.6%
7/1/2017	5,148,317	5,801,802	653,485	88.7%	2,081,618	31.4%
7/1/2018	5,708,497	6,169,693	461,196	92.5%	2,007,481	23.0%

The schedule of funding progress presented above presents information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Broken Bow, Oklahoma
Unaudited Budgetary Information
June 30, 2019

The city manager submits an annual budget to the City Council in accordance with the City Incorporation 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 Broken Bow, Oklahoma
Unaudited Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – General Fund – Modified Cash Basis
For the Year Ended June 30, 2019

	Budget Amounts		Actual Amounts	Variance
	Original	Final		With Final Budget
REVENUE				
Taxes	\$ 1,881,084	\$ 1,881,084	\$ 2,279,525	\$ 398,441
Intergovernmental	211,071	211,071	389,458	178,387
License	98,322	98,322	133,739	35,417
Charges for Service	48,104	48,104	51,259	3,155
Fines	299,740	299,740	258,367	(41,373)
Rent	-	-	300	300
Miscellaneous	78,893	78,893	108,435	29,542
Interest	14,294	14,294	42,983	28,689
Total Revenue	<u>2,631,508</u>	<u>2,631,508</u>	<u>3,264,066</u>	<u>632,558</u>
EXPENDITURES				
Current				
General Government	584,190	584,190	507,734	76,456
Public Safety	2,177,905	2,177,905	1,821,769	356,136
Streets	818,415	818,415	702,381	116,034
Culture and Recreation	51,100	51,100	40,788	10,312
Cemetery and Parks	344,015	344,015	246,115	97,900
Total Expenditures	<u>3,975,625</u>	<u>3,975,625</u>	<u>3,318,787</u>	<u>656,838</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,344,117)</u>	<u>(1,344,117)</u>	<u>(54,721)</u>	<u>1,289,396</u>
Other Financing Sources				
Transfers In	600,000	600,000	250,000	(350,000)
Transfers Out	(79,150)	(79,150)	(62,000)	17,150
Total Other Financing Sources	<u>520,850</u>	<u>520,850</u>	<u>188,000</u>	<u>(332,850)</u>
Net Change in Fund Balances	(823,267)	(823,267)	133,279	
Fund Balances - Beginning	<u>840,000</u>	<u>840,000</u>	<u>1,026,653</u>	
Fund Balances - Ending	<u>\$ 16,733</u>	<u>\$ 16,733</u>	<u>\$ 1,159,932</u>	

City of Broken Bow, Oklahoma
Unaudited Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Grant Fund – Modified Cash Basis
For the Year Ended June 30, 2019

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance
	<u>Original</u>	<u>Final</u>		With Final Budget
REVENUE				
Grants	\$ 1,412,038	\$ 1,412,038	\$ 1,375,646	\$ (36,392)
Miscellaneous	<u>11,000</u>	<u>11,000</u>	<u>648</u>	<u>(10,352)</u>
Total Revenue	1,423,038	1,423,038	1,376,294	(46,744)
EXPENDITURES				
Current				
Streets	22,038	22,038	1,361,816	(1,339,778)
Cemetery and Parks	76,000	76,000	-	76,000
General Government	<u>-</u>	<u>-</u>	<u>5,380</u>	<u>(5,380)</u>
Total Expenditures	98,038	98,038	1,367,196	(1,269,158)
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>1,325,000</u>	<u>1,325,000</u>	<u>9,098</u>	<u>(1,315,902)</u>
Other Financing Sources				
Transfers In	127,480	127,480	12,000	(115,480)
Transfers Out	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>	<u>10,000</u>
Total Other Financing Sources	<u>117,480</u>	<u>117,480</u>	<u>12,000</u>	<u>(105,480)</u>
Net Change in Fund Balances	1,442,480	1,442,480	21,098	(1,421,382)
Fund Balances - Beginning	<u>40,000</u>	<u>40,000</u>	<u>55,888</u>	<u>15,888</u>
Fund Balances - Ending	<u>\$ 1,482,480</u>	<u>\$ 1,482,480</u>	<u>\$ 76,986</u>	<u>\$ (1,405,494)</u>

City of Broken Bow, Oklahoma
Combining Statement of Assets, Liabilities and Fund Balance
General Fund – Modified Cash Basis
June 30, 2019

	General	Travel	Craig Industrial	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<i>Assets</i>				
Cash and Cash Equivalent	\$ 1,160,305	\$ 2,509	\$ 86,583	\$ 1,249,397
Due From Other Funds	54,278	-	-	54,278
Total Assets	<u>\$ 1,214,583</u>	<u>\$ 2,509</u>	<u>\$ 86,583</u>	<u>\$ 1,303,675</u>
<i>Liabilities</i>				
Deposits	\$ -	\$ 2,509	\$ -	\$ 2,509
Bonds Pending Court	13,056	-	-	13,056
Due To Other Funds	41,595	-	-	41,595
Total Liabilities	<u>54,651</u>	<u>2,509</u>	<u>-</u>	<u>57,160</u>
<i>Fund Balances</i>				
Restricted	-	-	-	-
Assigned	-	-	86,583	86,583
Unassigned	1,159,932	-	-	1,159,932
Total Fund Balances	<u>1,159,932</u>	<u>-</u>	<u>86,583</u>	<u>1,246,515</u>
 Total Liabilities and Fund Balances	 <u>\$ 1,214,583</u>	 <u>\$ 2,509</u>	 <u>\$ 86,583</u>	 <u>\$ 1,303,675</u>

City of Broken Bow, Oklahoma
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund – Modified Cash Basis
For the Year End June 30, 2019

	General	Travel	Craig Industrial	Total
REVENUE				
Taxes	\$ 2,279,525	\$ -	\$ -	\$ 2,279,525
Intergovernmental	389,458	-	-	389,458
License and Permits	133,739	-	-	133,739
Charges for Service	51,259	-	-	51,259
Fines and Forfeitures	258,367	-	-	258,367
Rent	300	-	18,000	18,300
Miscellaneous	108,435	-	-	108,435
Interest	<u>42,983</u>	-	-	<u>42,983</u>
Total Revenue	3,264,066	-	18,000	3,282,066
EXPENDITURES				
<i>Current</i>				
General Government	507,734	-	193	507,927
Public Safety	1,821,769	-	-	1,821,769
Streets	687,187	-	-	687,187
Culture and Recreation	15,072	-	-	15,072
Cemetery and Parks	246,115	-	-	246,115
<i>Capital Outlay</i>				
Streets	15,194	-	-	15,194
Culture and Recreation	<u>25,716</u>	-	-	<u>25,716</u>
Total Expenditures	3,318,787	-	193	3,318,980
Excess (Deficiency) of Revenues Over (Under) Expenditures	(54,721)	-	17,807	(36,914)
Other Financing Sources				
Transfers In	250,000	-	-	250,000
Transfers Out	<u>(62,000)</u>	-	-	<u>(62,000)</u>
Total Other Financing Sources	188,000	-	-	188,000
Net Change in Fund Balances	133,279	-	17,807	151,086
Fund Balances - Beginning	<u>1,026,653</u>	-	<u>68,776</u>	<u>1,095,429</u>
Fund Balances - Ending	<u>\$ 1,159,932</u>	<u>\$ -</u>	<u>\$ 86,583</u>	<u>\$ 1,246,515</u>

City of Broken Bow, Oklahoma
Combining Statement of Assets, Liabilities and Fund Balance – Modified Cash Basis
Nonmajor Governmental Funds
June 30, 2019

	Senior Citizens	Airport	Cemetery Care	Library	Police Donation	Economic Development	Nutrition	Total
Assets								
Cash	\$ 35,342	\$ -	\$ 5,557	\$ 793,939	\$ 9,602	\$ 89,388	\$ 38,173	\$ 972,001
Due From Other Funds	8,208	21,459	-	-	6,651	-	-	36,318
Total Assets	<u>\$ 43,550</u>	<u>\$ 21,459</u>	<u>\$ 5,557</u>	<u>\$ 793,939</u>	<u>\$ 16,253</u>	<u>\$ 89,388</u>	<u>\$ 38,173</u>	<u>\$ 1,008,319</u>
Liabilities								
Due to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,960	\$ 7,960
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,960</u>	<u>7,960</u>
Fund Balances								
Restricted	43,550	21,459	5,557	793,939	16,253	89,388	-	970,146
Committed	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	30,213	30,213
Total Fund Balances	<u>43,550</u>	<u>21,459</u>	<u>5,557</u>	<u>793,939</u>	<u>16,253</u>	<u>89,388</u>	<u>30,213</u>	<u>1,000,359</u>
Total Liabilities and Fund Balances	<u>\$ 43,550</u>	<u>\$ 21,459</u>	<u>\$ 5,557</u>	<u>\$ 793,939</u>	<u>\$ 16,253</u>	<u>\$ 89,388</u>	<u>\$ 38,173</u>	<u>\$ 1,008,319</u>

City of Broken Bow, Oklahoma
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds – Modified Cash Basis
For the Year Ended June 30, 2019

	Senior Citizens	Airport	Cemetery Care	Library	Police Donation	Economic Development	Nutrition	Total
REVENUE								
Taxes	\$ 130,412	\$ -	\$ -	\$ 130,412	\$ -	\$ -	\$ -	\$ 260,824
Grant	-	-	-	-	-	-	57,208	57,208
Miscellaneous	4,842	-	487	332	-	44,579	-	50,240
Interest	-	-	-	7,931	-	-	-	7,931
Total Revenue	<u>135,254</u>	<u>-</u>	<u>487</u>	<u>138,675</u>	<u>-</u>	<u>44,579</u>	<u>57,208</u>	<u>376,203</u>
EXPENDITURES								
<i>Current</i>								
Culture and Recreation	-	-	-	83,979	-	-	-	83,979
General Government	180,621	-	-	-	-	129,967	-	310,588
Health and Welfare	-	-	-	-	-	-	61,824	61,824
<i>Capital Outlay</i>								
Culture and Recreation	-	-	-	-	-	29,200	-	29,200
Debt Service	-	-	-	-	-	75,452	-	75,452
Total Expenditures	<u>180,621</u>	<u>-</u>	<u>-</u>	<u>83,979</u>	<u>-</u>	<u>234,619</u>	<u>61,824</u>	<u>561,043</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(45,367)	-	487	54,696	-	(190,040)	(4,616)	(184,840)
Other Financing Sources								
Transfers In	40,000	-	-	-	-	150,000	10,000	200,000
Transfers Out	-	-	-	-	-	-	-	-
Total Other Financing Sources	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,000</u>	<u>10,000</u>	<u>200,000</u>
Net Change in Fund Balances	(5,367)	-	487	54,696	-	(40,040)	5,384	15,160
Fund Balances - Beginning	48,917	21,459	5,070	739,243	16,253	129,428	24,829	985,199
Fund Balances - Ending	<u>\$ 43,550</u>	<u>\$ 21,459</u>	<u>\$ 5,557</u>	<u>\$ 793,939</u>	<u>\$ 16,253</u>	<u>\$ 89,388</u>	<u>\$ 30,213</u>	<u>\$ 1,000,359</u>



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

To the City Council
City of Broken Bow, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Broken Bow, Oklahoma, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise City of Broken Bow, Oklahoma's basic modified cash basis financial statements, and have issued our report thereon dated January 16, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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 City of Broken Bow, Oklahoma's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

HBC CPAs & Advisors

January 16, 2020
Oklahoma City, Oklahoma