

**CITY OF SPENCER, OKLAHOMA  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDING JUNE 30, 2013  
WITH INDEPENDENT AUDITOR'S REPORT**

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# **Casey J. Russell CPA, Inc.**

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## **Independent Auditor's Report**

To the City Council  
City of Spencer, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying modified cash-basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Spencer, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash-basis of accounting described in Note 1. 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 the 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Spencer, as of June 30, 2013, and the respective changes in modified cash-basis financial position, and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

### **Other Matters**

#### **Required Supplementary Information**

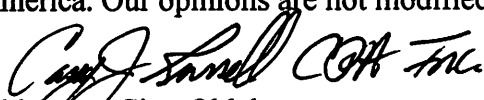
Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated September 8, 2014, on our consideration of the City of Spencer'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 Spencer's internal control over financial reporting and compliance.

#### **Basis of Accounting**

We draw attention to Note 1 of the financial statements that 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 the respect to this matter.

  
Cary J. Sandel, CPA  
Oklahoma City, Oklahoma  
September 8, 2014

**City of Spencer**  
**Statement of Net Position - Modified Cash Basis**  
**June 30, 2013**

|                                                 | Governmental<br>Activities | Business-Type<br>Activities | Totals                 |
|-------------------------------------------------|----------------------------|-----------------------------|------------------------|
| <b>ASSETS</b>                                   |                            |                             |                        |
| <b>Current Assets:</b>                          |                            |                             |                        |
| Cash in Bank - Unrestricted                     | 375,062.83                 | 625,683.67                  | 1,000,746.50           |
| Cash in Bank - Restricted                       | <u>45,385.66</u>           | <u>812,973.50</u>           | <u>858,359.16</u>      |
| <b>Total Current Assets</b>                     | 420,448.49                 | 1,438,657.17                | 1,859,105.66           |
| <b>Noncurrent Assets:</b>                       |                            |                             |                        |
| Capital Assets, net                             | <u>375,353.41</u>          | <u>4,515,348.61</u>         | <u>4,890,702.02</u>    |
| <b>Total Noncurrent Assets</b>                  | 375,353.41                 | 4,515,348.61                | 4,890,702.02           |
| <b>TOTAL ASSETS</b>                             | <u>\$ 795,801.90</u>       | <u>\$ 5,954,005.78</u>      | <u>\$ 6,749,807.68</u> |
| <b>LIABILITIES</b>                              |                            |                             |                        |
| <b>Current Liabilities:</b>                     |                            |                             |                        |
| Payroll Taxes Payable                           | 192,762.99                 | 62,613.01                   | 255,376.00             |
| Customer Deposits                               | <u>-</u>                   | <u>89,862.62</u>            | <u>89,862.62</u>       |
| <b>Total Current Liabilities</b>                | 192,762.99                 | 152,475.63                  | 345,238.62             |
| <b>Noncurrent Liabilities:</b>                  |                            |                             |                        |
| Mortgages and Notes Payable                     | <u>-</u>                   | <u>3,710,750.00</u>         | <u>3,710,750.00</u>    |
| <b>Total Noncurrent Liabilities</b>             | -                          | 3,710,750.00                | 3,710,750.00           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | 192,762.99                 | 3,863,225.63                | 4,055,988.62           |
| <b>NET ASSETS</b>                               |                            |                             |                        |
| Invested in Capital Assets, Net of Related Debt | 375,353.41                 | 1,154,552.55                | 1,529,905.96           |
| Net Assets - Restricted                         | 45,385.66                  | 812,973.50                  | 858,359.16             |
| Net Assets - Unrestricted                       | <u>182,299.84</u>          | <u>123,254.10</u>           | <u>305,553.94</u>      |
| <b>TOTAL NET ASSETS</b>                         | 603,038.91                 | 2,090,780.15                | 2,693,819.06           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | <u>\$ 795,801.90</u>       | <u>\$ 5,954,005.78</u>      | <u>\$ 6,749,807.68</u> |

The accompanying footnotes are an integral part of these financial statements.

**City of Spencer**  
**Statement of Activities - Modified Cash Basis**  
**For the Year Ending June 30, 2013**

| Functions/Programs               | <u>Expenses</u>       | <u>Program Revenues</u>         |                           | <u>Net (expense) revenue and<br/>Changes in net assets</u> |                                     | <u>Total</u>           |
|----------------------------------|-----------------------|---------------------------------|---------------------------|------------------------------------------------------------|-------------------------------------|------------------------|
|                                  |                       | <u>Charges for<br/>Services</u> | <u>Capital<br/>Grants</u> | <u>Governmental<br/>Activities</u>                         | <u>Business-Type<br/>Activities</u> |                        |
| Primary Government               |                       |                                 |                           |                                                            |                                     |                        |
| Governmental Activities          |                       |                                 |                           |                                                            |                                     |                        |
| General Government               | 412,038.21            | 56,433.16                       | -                         | (355,605.05)                                               | -                                   | (355,605.05)           |
| Police Department                | 466,828.78            | 121,741.78                      | -                         | (345,087.00)                                               | -                                   | (345,087.00)           |
| Fire Department                  | 427,485.37            | -                               | -                         | (427,485.37)                                               | -                                   | (427,485.37)           |
| Street and Alleys                | 43,428.16             | -                               | -                         | (43,428.16)                                                | -                                   | (43,428.16)            |
| Parks                            | 8,536.60              | -                               | -                         | (8,536.60)                                                 | -                                   | (8,536.60)             |
| Total Governmental Activities    | 1,358,317.12          | 178,174.94                      | -                         | (1,180,142.18)                                             | -                                   | (1,180,142.18)         |
| Business-Type Activities         |                       |                                 |                           |                                                            |                                     |                        |
| Water Department                 | 383,583.24            | 501,831.74                      | -                         | -                                                          | 118,248.50                          | 118,248.50             |
| Sanitation Department            | 144,978.20            | 404,343.50                      | -                         | -                                                          | 259,365.30                          | 259,365.30             |
| Sewer Department                 | 188,726.10            | 186,786.18                      | -                         | -                                                          | (1,939.92)                          | (1,939.92)             |
| Total Business-Type Activities   | 717,287.54            | 1,092,961.42                    | -                         | -                                                          | 375,673.88                          | 375,673.88             |
| Total Primary Government         | <u>\$2,075,604.66</u> | <u>\$1,271,136.36</u>           | <u>\$ -</u>               | <u>\$(1,180,142.18)</u>                                    | <u>\$ 375,673.88</u>                | <u>\$ (804,468.30)</u> |
| General Revenues                 |                       |                                 |                           |                                                            |                                     |                        |
| Sales Taxes                      |                       |                                 |                           | 721,441.02                                                 | -                                   | 721,441.02             |
| Other Taxes                      |                       |                                 |                           | 194,643.22                                                 | -                                   | 194,643.22             |
| Total General Government Revenue |                       |                                 |                           | 916,084.24                                                 | -                                   | 916,084.24             |
| Transfer In/Out                  |                       |                                 |                           | 255,000.00                                                 | (255,000.00)                        | -                      |
| Change in Net Assets             |                       |                                 |                           | (9,057.94)                                                 | 120,673.88                          | 111,615.94             |
| Net Assets Beginning             |                       |                                 |                           | 612,096.85                                                 | 1,970,106.27                        | 2,582,203.12           |
| Net Assets Ending                |                       |                                 |                           | <u>\$ 603,038.91</u>                                       | <u>\$2,090,780.15</u>               | <u>\$ 2,693,819.06</u> |

The accompanying footnotes are an integral part of these financial statements.

**City of Spencer  
Governmental Funds  
Balance Sheet - Modified Cash Basis  
June 30, 2013**

|                                         | General<br>Fund             | Court<br>Fund               | Special<br>Revenue<br>Fund  | Total<br>Governmental<br>Fund |
|-----------------------------------------|-----------------------------|-----------------------------|-----------------------------|-------------------------------|
| <b>ASSETS</b>                           |                             |                             |                             |                               |
| Cash in Bank - Unrestricted             | 196,573.33                  | 106,006.70                  | 72,482.80                   | 375,062.83                    |
| Cash in Bank - Restricted               | -                           | -                           | 45,385.66                   | 45,385.66                     |
| <b>Total Assets</b>                     | <u><u>\$ 196,573.33</u></u> | <u><u>\$ 106,006.70</u></u> | <u><u>\$ 117,868.46</u></u> | <u><u>\$ 420,448.49</u></u>   |
| <b>LIABILITIES</b>                      |                             |                             |                             |                               |
| Payroll Taxes Payable                   | 192,762.99                  | -                           | -                           | 192,762.99                    |
| <b>Total Liabilities</b>                | <u>192,762.99</u>           | <u>-</u>                    | <u>-</u>                    | <u>192,762.99</u>             |
| <b>NET ASSETS</b>                       |                             |                             |                             |                               |
| Assigned Fund Balance                   | -                           | 106,006.70                  | 117,868.46                  | 223,875.16                    |
| Unassigned Fund Balance                 | 3,810.34                    | -                           | -                           | 3,810.34                      |
| <b>TOTAL NET ASSETS</b>                 | <u>3,810.34</u>             | <u>106,006.70</u>           | <u>117,868.46</u>           | <u>227,685.50</u>             |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <u><u>\$ 196,573.33</u></u> | <u><u>\$ 106,006.70</u></u> | <u><u>\$ 117,868.46</u></u> | <u><u>\$ 420,448.49</u></u>   |

***Reconciliation of Total Governmental Fund to  
Net Assets of Governmental Activities***

|                                                                                                                                      |                             |
|--------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|
| Total Governmental Fund Balances                                                                                                     | 227,685.50                  |
| Amounts reported for governmental activities in the statement<br>net assets are different because:                                   |                             |
| Capital assets used in governmental activities are not financial resources<br>resources and therefore are not reported in the funds. | <u>375,353.41</u>           |
| Net Assets of Governmental Activities                                                                                                | <u><u>\$ 603,038.91</u></u> |

**City of Spencer**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Net Position- Modified Cash Basis**  
**For the Year Ending June 30, 2013**

|                                                          | General<br>Fund     | Court<br>Fund       | Special<br>Revenue<br>Funds | Total<br>Governmental<br>Funds |
|----------------------------------------------------------|---------------------|---------------------|-----------------------------|--------------------------------|
| <b>Revenues</b>                                          |                     |                     |                             |                                |
| Taxes                                                    | 906,021.38          | -                   | 10,062.86                   | 916,084.24                     |
| Charges for Services                                     | 41,490.96           | -                   | 14,942.20                   | 56,433.16                      |
| Court Fines                                              | <u>84,848.00</u>    | <u>36,893.78</u>    |                             | <u>121,741.78</u>              |
| <b>Total Revenues</b>                                    | <u>1,032,360.34</u> | <u>36,893.78</u>    | <u>25,005.06</u>            | <u>1,094,259.18</u>            |
| <b>Expenditures</b>                                      |                     |                     |                             |                                |
| Personal Services                                        | 634,135.53          | -                   | 32,385.54                   | 666,521.07                     |
| Maintenance and Operations                               | 368,625.27          | -                   | 8,991.65                    | 377,616.92                     |
| Other Services and Charges                               | 265,341.27          | -                   | 11,042.62                   | 276,383.89                     |
| Capital Outlay                                           | <u>57,273.06</u>    | <u>-</u>            |                             | <u>57,273.06</u>               |
| <b>Total Expenditures</b>                                | <u>1,325,375.13</u> | <u>-</u>            | <u>52,419.81</u>            | <u>1,377,794.94</u>            |
| Excess revenues over (under) expenditures                | (293,014.79)        | 36,893.78           | (27,414.75)                 | (283,535.76)                   |
| <b>Transfers In/Out</b>                                  | <u>272,614.46</u>   | <u>-</u>            | <u>(17,614.46)</u>          | <u>255,000.00</u>              |
| Excess revenue over (under) expenditures after transfers | (20,400.33)         | 36,893.78           | (45,029.21)                 | (28,535.76)                    |
| Net Assets at beginning of year                          | <u>24,210.67</u>    | <u>69,112.92</u>    | <u>162,897.67</u>           | <u>256,221.26</u>              |
| Net Assets at end of year                                | <u>\$ 3,810.34</u>  | <u>\$106,006.70</u> | <u>\$117,868.46</u>         | <u>\$ 227,685.50</u>           |

***Reconciliation of Change in Net Assets Governmental Funds to  
Change in Net Assets Governmental Wide***

|                                                                                                                             |                      |
|-----------------------------------------------------------------------------------------------------------------------------|----------------------|
| Change in Net Assets, Fund Financial Statements                                                                             | (28,535.76)          |
| Depreciation recorded in the government wide financial statements<br>not recorded in the fund financial statements          | (37,795.24)          |
| Capital outlay included as an expense on the fund financial<br>but capitalized on the government wide financial statements. | <u>57,273.06</u>     |
| Change in Net Assets per the Governmental Wide Financial Statements                                                         | <u>\$ (9,057.94)</u> |



**City of Spencer  
Proprietary Fund  
Statement of Net Position - Modified Cash Basis  
June 30, 2013**

**ASSETS**

**Current Assets:**

|                             |                     |
|-----------------------------|---------------------|
| Cash in Bank - Unrestricted | 625,683.67          |
| Cash in Bank - Restricted   | <u>812,973.50</u>   |
| <b>Total Current Assets</b> | <b>1,438,657.17</b> |

**Noncurrent Assets:**

|                                |                               |
|--------------------------------|-------------------------------|
| Capital Assets, net            | <u>4,515,348.61</u>           |
| <b>Total Noncurrent Assets</b> | <u>4,515,348.61</u>           |
| <b>TOTAL ASSETS</b>            | <b><u>\$ 5,954,005.78</u></b> |

**LIABILITIES AND NET ASSETS**

**Current Liabilities:**

|                                  |                   |
|----------------------------------|-------------------|
| Payroll Taxes Payable            | 62,613.01         |
| Meter Deposits                   | <u>89,862.62</u>  |
| <b>Total Current Liabilities</b> | <b>152,475.63</b> |

**Noncurrent Liabilities**

|                                     |                     |
|-------------------------------------|---------------------|
| Mortgages and Notes Payable         | <u>3,710,750.00</u> |
| <b>Total Noncurrent Liabilities</b> | <u>3,710,750.00</u> |
| <b>TOTAL LIABILITIES</b>            | <b>3,863,225.63</b> |

**NET ASSETS**

|                                                 |                               |
|-------------------------------------------------|-------------------------------|
| Invested in Capital Assets, Net of Related Debt | 1,154,552.55                  |
| Net Assets - Restricted                         | 812,973.50                    |
| Net Assets - Unrestricted                       | <u>123,254.10</u>             |
| <b>TOTAL NET ASSETS</b>                         | <u>2,090,780.15</u>           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>         | <b><u>\$ 5,954,005.78</u></b> |

The accompanying footnotes are an integral part of these financial statements.

**City of Spencer**  
**Proprietary Fund**  
**Statement of Revenues, Expenditures and Changes in Net Position - Modified Cash Basis**  
**For the Year Ending June 30, 2013**

|                                                               |                               |
|---------------------------------------------------------------|-------------------------------|
| <b>Operating Revenues:</b>                                    |                               |
| Water Sales                                                   | 501,831.74                    |
| Sewer Fees                                                    | 186,786.18                    |
| Sanitation Fees                                               | <u>404,343.50</u>             |
| <b>Total Operating Revenues</b>                               | 1,092,961.42                  |
| <b>Operating Expenditures:</b>                                |                               |
| Personnel Services                                            | 168,940.77                    |
| Maintenance and Operations                                    | 486,667.45                    |
| Other Services and Charges                                    | 18,580.23                     |
| Depreciation                                                  | 41,949.09                     |
| Interest Expense and Amortization Expense                     | <u>1,150.00</u>               |
| <b>Total Operating Expenditures</b>                           | 717,287.54                    |
| <br>Excess Revenues over Expenditures                         | <br>375,673.88                |
| <b>Non-operating Revenues (Expenditures)</b>                  |                               |
| Transfer in (out)                                             | <u>(255,000.00)</u>           |
| <b>Net Non-operating Revenues (Expenditures)</b>              | (255,000.00)                  |
| <br>Excess Revenues over (under) Expenditures after transfers | <br>120,673.88                |
| <br><b>Net Assets at beginning of year</b>                    | <br><u>1,970,106.27</u>       |
| <b>Net Assets at end of year</b>                              | <u><u>\$ 2,090,780.15</u></u> |

The accompanying footnotes are an integral part of these financial statements.

**City of Spencer  
Proprietary Fund  
Statement of Cash Flows - Modified Cash Basis  
For the Year Ending June 30, 2013**

|                                                                     |                               |
|---------------------------------------------------------------------|-------------------------------|
| <b>Cash flows from operating activities</b>                         |                               |
| Receipts from customers                                             | 1,092,961.42                  |
| Transfers to other funds                                            | (255,000.00)                  |
| Net Change in Customer Deposits                                     | (7,635.00)                    |
| Payments to employees                                               | (150,902.39)                  |
| Payments to supplies                                                | <u>(505,247.68)</u>           |
| <b>Net cash provided by operating activities</b>                    | 174,176.35                    |
| <br><b>Cash flows from capital and related financing activities</b> |                               |
| Purchases of Capital Assets                                         | (620,390.79)                  |
| Principal Paid on Long Term Debt                                    | <u>(40,000.00)</u>            |
| <b>Net cash flows from capital and related financing activities</b> | (660,390.79)                  |
| <br><b>Net increase (decrease) in cash</b>                          | (486,214.44)                  |
| <br><b>Cash, Beginning of the Year</b>                              | <u>1,924,871.61</u>           |
| <b>Cash, End of the Year</b>                                        | <u><u>\$ 1,438,657.17</u></u> |

***Reconciliation of operating income (loss) to net cash provided (used) by operating activities:***

|                                                                    |                             |
|--------------------------------------------------------------------|-----------------------------|
| Change in Net Assets                                               | 120,673.88                  |
| Adjustments to reconcile change in net assets to net cash provided |                             |
| Depreciation                                                       | 43,099.09                   |
| Increase (decrease) in payroll taxes payable                       | 18,038.38                   |
| Increase (decrease) in customer deposits                           | <u>(7,635.00)</u>           |
| <b>Net cash provided by operating activities</b>                   | <u><u>\$ 174,176.35</u></u> |

**City of Spencer, Oklahoma  
Notes to the Basic Financial Statements  
For the Year Ended June 30, 2013**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

**1.A. FINANCIAL REPORTING ENTITY**

The City of Spencer, Oklahoma is a statutory Town Government under Oklahoma Statutes. The Town provides the following services: public safety, streets and highways, sanitation, public improvements, utilities and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the Town's operations include how the budget is adopted, whether debt is secured by general obligation of the Town, the Town's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the Town's reporting entity. As of June 30, 2013, the Town has one component unit, the Valliant Public Works Authority.

**1.B. BASIS OF PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or part, by fees charged to external parties for goods or services.

**FUND FINANCIAL STATEMENTS**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, deferred outflows, liabilities, deferred inflows, net position or fund balance, revenues, and expenditures or expenses. The Town's funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type.
- b. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures or expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described subsequently:

### **Governmental Funds**

#### **General Fund**

The General Fund is the primary operating fund of the Town and always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

#### **Special Revenue Funds**

Special Revenue Funds are used to account for and report the proceeds of the specific revenue sources that are either restricted or committed to expenditures for specified purposes other than debt service or capital projects. The reporting entity includes the following special revenue funds, all of which are reported as major funds: Court Fund and nonmajor funds: Street and Alley, Special EMT, CDS, Rural Fire, Capital Improvement, CDBG, Spencer Park, HOR Grant, Sinking, Unity Day, Court, Bidders, 911, Juvenile and HOR OHA Grant Funds.

### **Proprietary Funds**

#### **Enterprise Fund**

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund: Spencer Utility Authority.

## **1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

### **MEASUREMENT FOCUS**

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

## **BASIS OF ACCOUNTING**

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, interfund receivables and payables, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the Town utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

## **1.D. FINANCIAL POSITION**

### **CASH AND CASH EQUIVALENTS**

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less. Trust account investments in open-ended mutual fund shares are also considered cash equivalents.

## **INVESTMENTS**

Investments classified in the financial statements consist entirely of certificates of deposit acquired with cash whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

## **CAPITAL ASSETS**

The Town's modified cash basis of accounting reports capital assets resulting from cash transactions or events and reports depreciation, when appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

### **Government-Wide Statements**

In the government-wide financial statements, capital assets arising from cash transactions or events are accounted for as assets in the Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual is unavailable.

Depreciation of all exhaustible capital assets arising from cash transactions or events is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. A capitalization threshold of \$500 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

|                                     |             |
|-------------------------------------|-------------|
| Buildings                           | 40-50 years |
| Improvements other than buildings   | 10-25 years |
| Machinery, furniture, and equipment | 3-20 years  |
| Utility property and improvements   | 10-50 years |
| Infrastructure                      | 25-50 years |

### **Fund Financial Statements**

In the fund financial statements, capital assets arising from cash transactions or events acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

## **LONG-TERM DEBT**

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt arising from cash transactions or events of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest is reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

## NET POSITION/FUND BALANCE CLASSIFICATIONS

### Government-Wide Statements

Net Position is classified and displayed in three components:

1. *Net investment in capital assets.* Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. *Restricted.* Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. *Unrestricted.* Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

### Fund Financial Statements

#### **Governmental Funds**

The difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as nonspendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. These constraints are defined as follows:

**Nonspendable.** Amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact.

**Restricted.** Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.

**Committed.** Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the Town's highest level of decision-making authority. (In the case of the Town of Example, commitments are evidenced by adoption of an ordinance by the Town Council.)

**Assigned.** Amounts constrained by the Town's intent to be used for specific purposes but that are neither restricted nor committed. (In the case of the Town of Example, assignments are evidenced either by resolution of the Town Council or by the Town Manager in written form as approved by vote of the Town Council pursuant to Town policy.)

**Unassigned.** The residual classification of the General Fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.



It is the Town's policy to first use restricted fund balances prior to the use of unrestricted fund balances when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also Town policy to use committed fund balances before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classifications are available to be used.

The Town has no formal minimum fund balance policies or any formal stabilization arrangements in place.

### **Proprietary Funds**

The difference among assets, deferred outflows, liabilities, and deferred inflows of proprietary funds is reported as net position and classified in the same manner as the government-wide financial statements, as previously described.

## **1.E. REVENUES, EXPENDITURES, AND EXPENSES**

### **PROGRAM REVENUES**

In the Statement of Activities, modified cash-basis revenues that are derived directly from each activity or from parties outside the Town's taxpayers are reported as program revenues. The Town has the following program revenues in each activity: General Government, Police, Fire, Cemetery, Nutrition, Parks, Municipal Court, Community Center, Streets & Alley, and Public Works.

All other governmental revenues are reported as general revenues. All taxes are classified as general revenue even if restricted for a specific purpose.

### **OPERATING REVENUE AND EXPENSES**

Operating revenues and expenses for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

### **GASB 34 IMPLEMENTATION**

The Town has implemented the new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as of June 30, 2004.

## **1.G. USE OF ESTIMATES**

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

## **NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

By its nature as a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations. The following instances of noncompliance are considered material to the financial statements.

### NOTE 3. DEPOSITS WITH FINANCIAL INSTITUTIONS

The accounts of the Town are required by state law to be secured by collateral pledged by the financial institution and/or FDIC insurance. The City of Spencer is considered a separate entity from the Valliant Municipal Authority for FDIC deposit insurance.

In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

All of the City of Spencer's government and enterprise fund cash and investment accounts would be considered as category 1 up to its FDIC limits of \$250,000 for the governmental funds and \$250,000 for the Spencer Utility Authority. The remaining funds would be category 3.

### NOTE 4. CAPITAL ASSETS AND DEPRECIATION

Capital Asset activity for the year ended June 30, 2013 was as follows:

| <u>General Government</u> | Beginning         |           |           | Ending            |
|---------------------------|-------------------|-----------|-----------|-------------------|
|                           | Balance           | Increases | Decreases | Balance           |
| Buildings                 | \$ 259,624        | \$ -      | \$ -      | \$ 259,624        |
| Equipment                 | 808,346           | 57,273    | -         | 865,619           |
|                           | 1,067,970         | 57,273    | -         | 1,125,243         |
| Accumulated Depreciation  | (712,095)         | (37,795)  | -         | (749,890)         |
| Net Assets                | <u>\$ 355,875</u> |           |           | <u>\$ 375,353</u> |

As of June 30, 2013, the governmental funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available. Depreciation of \$37,795 for the governmental funds was recorded as follows: office - \$5,000; animal control - \$755; code enforcement - \$633; fire department - \$16,930; parks department - \$1,790 and police department - \$12,687.

| <u>Public Works Authority</u> | Beginning<br>Balance | Increases | Decreases | Ending<br>Balance |
|-------------------------------|----------------------|-----------|-----------|-------------------|
| Land                          | \$ 525,000           | \$ -      | \$ -      | \$ 525,000        |
| Equipment                     | 826,972              |           |           | 826,972           |
| Construction in Process       | 3,227,289            | 620,391   | -         | 3,847,680         |
|                               | 4,579,261            | 620,391   | -         | 5,199,652         |
| Accumulated Depreciation      | (642,354)            | (41,949)  | -         | (684,303)         |
| Net Assets                    | \$ 3,936,907         |           |           | \$ 4,515,349      |

As of June 30, 2013, the Public Works Authority funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded were not available. Depreciation was recorded in the amount of \$41,949 for the Public Works Authority funds. Depreciation of \$24,148 was charged to water operations and \$17,801 to sewer operations.

#### **NOTE 5. NOTES PAYABLE**

##### Public Works Authority

##### *Utility System Refunding and Capital Improvement Revenue Bonds, Series 2007*

During the year ending June 30, 2008 the Spencer Utility Authority issued revenue bonds for the upgrade and construction of water treatment facilities and repay the previously outstanding revenue bonds. The revenue bonds total \$4,000,000 and carry interest rates from 4.450% to 5.376%. Collateral for the bonds is the net revenues of the utility system. The Spencer Utility Authority is required to make monthly deposits into a Bond Account of ½ of the annual principal and interest. The principal and interest due for the fiscal year ending June 30 2013 is estimated to be \$237,768. Interest is due semi-annually on December 1 and July 1 with the principal due annually on July 1. During the year ending June 30, 2013 the Authority paid \$197,768 in interest on the revenue bonds and principal of \$40,000. This interest was capitalized into work in process. The bonds were sold at a discount of \$120,000. The bond issue discount will be amortized over the life of the bond issue. During the year ending June 30, 2013 the SUA recorded \$1,150 of discount. Discount amortization is recorded as interest expense in the financial statements. Principal and interest due till maturity is as follows:

|           |                     |                     |                   |              |
|-----------|---------------------|---------------------|-------------------|--------------|
| 2014/2015 | 60,000              | 194,430             | Principal Paid    | (40,000)     |
| 2015/2016 | 60,000              | 191,760             | Ending Balance    | 3,820,000    |
| 2016/2017 | 60,000              | 189,090             |                   |              |
| 2017/2018 | 65,000              | 186,420             | Bond Discount     |              |
| 2018/2022 | 490,000             | 871,775             | Beginning Balance | 110,400      |
| 2022/2027 | 690,000             | 733,478             | Principal Paid    | (1,150)      |
| 2027/2032 | 875,000             | 540,200             | Ending Balance    | 109,250      |
| 2032/2037 | 1,465,000           | 274,662             | Net Balance       | \$ 3,710,750 |
|           | <u>\$ 3,820,000</u> | <u>\$ 3,378,693</u> |                   |              |

The Spencer Utility Authority is required to at all times maintain a schedule of rates and charges for services rendered through the system which will provide annually a sum equal to not less than one and one-fourth (1.25) times the average amount required to be paid in cash into the bond account. For the year ending June 30, 2013 the Spencer Utility Authority was in compliance with this requirement.

## **NOTE 6. PENSION PLANS**

### **Defined Contribution Pension Plans**

Eligible city employees participate in the City of Spencer defined contribution pension plan in the form of the Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF), administered by Bank One of Oklahoma City. Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. assigns the authority to establish and amend the benefit provisions of the plans that participate in the OMRF to the respective employer entities. All full-time regular employees of the city, other than the city manager, who are not covered by another plan, are eligible to participate in the OMRF and are fully vested after 10 years. Covered employees are required to contribute 5% of their gross payroll which the city pays for them. City contributions are variable and were 14% for the current year. Required employee contributions are 4%, with contributions over 4% optional. The payroll for city employees for the year was \$415,972. The payroll for city employees covered by the OMRF for the year was \$414,737. Actual city and employee contributions for the year were \$21,624 and \$53,191 respectively.

### **Oklahoma Firefighters Pension and Retirement System (OFFPRS)**

**Plan Description.** The city contributes to the Oklahoma Firefighters Pension and Retirement System (OFFPRS), a cost-sharing multiple-employer defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The OFFPRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The OFFPRS is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. The OFFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan and may be obtained from their offices at 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105, or by calling 1-800-525-7461.

**Funding Policy.** Paid firefighters are required to contribute 8% of eligible salary, while the city is required to contribute 13%. The contribution requirement of the OFFPRS is an established rate determined by Oklahoma Statute and is not based on actuarial calculations. The city's contribution to the OFFPRS for the year was \$29,877, equal to the required contribution for the year. Employees contributed \$16,419. Total fire payroll and covered payroll for the year was \$212,054 and \$212,054, respectively.

### **Oklahoma Police Pension and Retirement System (OPPRS)**

**Plan Description.** The city contributes to the Oklahoma Police Pension and Retirement System (OPPRS), a cost-sharing multiple-employer defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The OPPRS provides retirement and disability benefits, annual cost-of-living

adjustments, and death benefits to plan members and beneficiaries. The OPPRS is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 50-103.1 et. seq. The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan and may be obtained from their offices at 1001 NW 63<sup>rd</sup> St., Suite 305, Oklahoma City, OK 73116, or by calling 1-800-347-6552.

Funding Policy. Police are required to contribute 8% of eligible salary, while the city is required to contribute 13%. The contribution requirement of the OPPRS is an established rate determined by Oklahoma Statute and is not based on actuarial calculations. The city's contribution to the OPPRS for the year was \$29,877, equal to the required contribution for the year. Employees contributed \$16,419. Total police payroll and covered payroll for the year was \$207,435 and \$205,232, respectively.

#### **NOTE 7. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through August 8, 2014, which is the date the financial statements were issued.

## **Casey J. Russell CPA, Inc.**

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### **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 Board of Trustees  
City of Spencer

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 accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Spencer, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Spencer's basic financial statements, and have issued our report thereon dated September 8, 2014.

The report was a special report on the Town's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Spencer'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 Spencer's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Spencer'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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2013-1 to 2013-6

### **Compliance and Other Matters**

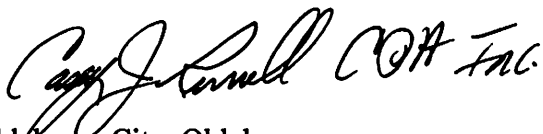
As part of obtaining reasonable assurance about whether City of Spencer's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and response as item 2013-5.

### **City of Spencer, Oklahoma's Response to Findings**

The City of Spencer, Oklahoma's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Spencer, Oklahoma's response to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion it.

### **Purpose of this Report**

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

Handwritten signature of Cary J. Russell in black ink, followed by the text "COA Inc." in a similar handwritten style.

Oklahoma City, Oklahoma  
September 8, 2014

## **Schedule of Findings and Responses**

### **2013-1 (Repeat Finding) – Trust Accounts**

**CONDITION:** There are significant transactions that are occurring in trust accounts that are not being recorded into the City's general ledger system.

**CRITERIA:** In order for the accounting records to be accurate all transactions should be recorded.

**CAUSE OF CONDITION:** The City has trust accounts that are used to hold debt money that is being used for utility projects. The transactions in these accounts are not always being recorded in the general ledger system. This was due to current staff not understanding the mechanics of the trust account transactions.

**EFFECT OF CONDITION:** The trust accounts as presented in the accounting records were not correct and associated capital asset accounts were also incorrect.

**RECOMMENDATION:** We recommend that the trust accounts be reconciled and the activity is recorded into the general ledger system monthly.

**CLIENT RESPONSE:** The trust accounts will be reconciled on a monthly basis and all transactions recorded.

### **2013-2 (Repeat Finding) – Funds Not Accounted For In the General Ledger**

**CONDITION:** Currently the City is not using its computerized accounting system to track the activity in 18 of its 21 funds. The funds are minor funds and some activity is being tracked using Excel spreadsheets.

**CRITERIA:** In order for the accounting records to be accurate all transaction and activity should be accounted for in a common and centralized accounting system.

**CAUSE OF CONDITION:** The City has run through a series of Treasurers over the past several years. Each new hire has not had adequate time and training to adequately operate the accounting systems. With this situation each new Treasurer has inherited larger problems than her successor. This situation is compounded by the fact that the general ledger chart of accounts is overly large and convoluted and there are more funds and bank accounts than are necessary.

**EFFECT OF CONDITION:** The accounting records were incomplete and significant transactions are not being accounted for.

**RECOMMENDATION:** The smaller funds and bank accounts be evaluated for usefulness and inactive funds and bank accounts be eliminated and the remainder be accounted for inside the computerized general ledger system.

**CLIENT RESPONSE:** The funds in question will be accounted for in the City's general ledger system in the future



### **2013-3 – (Repeat Findings) – Separation of Duties**

**CONDITION:** Currently the court clerk keeps track of all traffic ticket activity and also handles all court fine monies.

**CRITERIA:** Proper internal control requires a separation of the record keeping from the associated assets or a system of management oversight to compensate for the lack of separation.

**CAUSE OF CONDITION:** Separation of duties in an office with limited staff is often times difficult to achieve.

**EFFECT OF CONDITION:** The City is susceptible to having errors or fraud occur with regard to the police fine monies.

**RECOMMENDATION:** Management develop a system of review of the funds collected to tickets marked as paid or separate the collection of ticket monies from the individual keeping track of the unpaid tickets. The City's internal control would be strengthen by a policy of not accepting cash in city hall.

**CLIENT RESPONSE:** City management has instituted new software and procedures to correct this deficiency.

### **2013-4 – (Repeat Finding) –Utility Billing Input and Posting**

**CONDITION:** During the year there were several months that contained hundreds of thousands of dollars of billing adjustments to customer's accounts that had equally large errors. The customer accounts were adjusted by City staff without management oversight.

**CRITERIA:** The utility billing revenues are a major source of revenues for the City; therefore their importance is self explanatory.

**CAUSE OF THE CONDITION:** Utility billing clerks are keying in incorrect meter readings.

**EFFECT OF CONDITION:** Extremely large keying errors distort the various reports that management should be reviewing.

**RECOMMENDATION:** Management should institute a policy of City staff reviewing the meter readings after they have been input into the utility billing software but before posting to customer accounts. In addition all adjustments to customer accounts should be approved by a member of management or at the very least a member of the City's staff that is not part of the utility bill process. It is further recommended that management review pass due accounts on a monthly basis.

**CLIENT RESPONSE:** Management has instituted a policy of reviewing utility billing input prior to the posting and printing of utility bills.

### **2013-5 – (Repeat Finding) – Payroll Tax Payments**

**CONDITION:** The federal payroll tax reports for the various quarters of the fiscal year ending June 30, 2012 and 2013 were not filed in a timely fashion. The monies that were withheld and the matching payroll obligations for the various quarters were not remitted on time.

**CRITERIA:** Payroll tax reports and the resulting taxes that have been withheld are required by law to be filed and remitted in a timely fashion.

**CAUSE OF CONDITION:** The former treasurer was not sufficiently trained to handle the specifics payroll compliance.

**RECOMMENDATION:** The City management make certain the proper reports are filed on a timely fashion and that the resulting taxes are paid on time. City staff should be properly trained to handle the payroll function or the City should consider outsourcing the payroll function to payroll processing company.

**CLIENT RESPONSE:** City management will evaluate the situation and at the very least bring the City into compliance.