

**CITY OF SPENCER, OKLAHOMA
FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2016
WITH INDEPENDENT AUDITOR'S REPORT**

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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, 2016, 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, 2016, 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 31, 2017, 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.



Oklahoma City, Oklahoma

May 31, 2017

City of Spencer
Statement of Net Position - Modified Cash Basis
June 30, 2016

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash in Bank - Unrestricted	344,150.26	25,138.88	369,289.14
Cash in Bank - Restricted	-	2,436,841.40	2,436,841.40
Total Current Assets	<u>344,150.26</u>	<u>2,461,980.28</u>	<u>2,806,130.54</u>
Noncurrent Assets:			
Capital Assets, net	<u>338,770.88</u>	<u>4,402,203.42</u>	<u>4,740,974.30</u>
Total Noncurrent Assets	<u>338,770.88</u>	<u>4,402,203.42</u>	<u>4,740,974.30</u>
TOTAL ASSETS	<u>\$ 682,921.14</u>	<u>\$ 6,864,183.70</u>	<u>\$ 7,547,104.84</u>
LIABILITIES			
Current Liabilities:			
Payroll Taxes Payable	294,548.63	65,804.59	360,353.22
Customer Deposits	-	154,755.69	154,755.69
Total Current Liabilities	<u>294,548.63</u>	<u>220,560.28</u>	<u>515,108.91</u>
Noncurrent Liabilities:			
Bond Premium	-	(166,163.47)	166.163.47
Bond Discount	-	18,135.34	(18,135.34)
Mortgages and Notes Payable	-	6,070,000.00	6,070,000.00
Total Noncurrent Liabilities	<u>-</u>	<u>5,921,971.87</u>	<u>5,921,971.87</u>
TOTAL LIABILITIES	<u>294,548.63</u>	<u>6,142,532.15</u>	<u>6,437,080.78</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	338,770.88	4,402,203.42	4,740,974.30
Net Assets - Restricted	-	2,436,841.40	2,436,841.40
Net Assets - Unrestricted	<u>49,601.63</u>	<u>(6,117,393.27)</u>	<u>(6,067,791.64)</u>
TOTAL NET POSITION	<u>388,372.51</u>	<u>721,651.55</u>	<u>1,110,024.06</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 682,921.14</u>	<u>\$ 6,864,183.70</u>	<u>\$ 7,547,104.84</u>

City of Spencer
Statement of Activities - Modified Cash Basis
For the Year Ending June 30, 2016

Functions/Programs	Expenses	<u>Program Revenues</u>		<u>Net (expense) revenue and Changes in net assets</u>		<u>Total</u>
		<u>Charges for Services</u>	<u>Capital Grants</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Primary Government						
Governmental Activities						
General Government	350,060.23	55,997.29	-	(294,062.94)	-	(294,062.94)
Police Department	448,130.33	359,799.81	-	(88,330.52)	-	(88,330.52)
Fire Department	308,994.74	-	-	(308,994.74)	-	(308,994.74)
Street and Alleys	35,975.00	-	-	(35,975.00)	-	(35,975.00)
Parks	3,076.14	-	-	(3,076.14)	-	(3,076.14)
Total Governmental Activities	1,146,236.44	415,797.10	-	(730,439.34)	-	(730,439.34)
Business-Type Activities						
Water Department	1,231,456.92	581,474.39	-	-	(649,982.53)	(649,982.53)
Sanitation Department	262,101.95	510,168.09	-	-	248,066.14	248,066.14
Sewer Department	155,819.95	170,023.11	-	-	14,203.16	14,203.16
Total Business-Type Activities	1,649,378.82	1,261,665.59	-	-	(387,713.23)	(387,713.23)
Total Primary Governmen	<u>\$2,795,615.26</u>	<u>\$1,677,462.69</u>	<u>\$ -</u>	<u>\$ (730,439.34)</u>	<u>\$ (387,713.23)</u>	<u>\$(1,118,152.57)</u>
		<u>General Revenues</u>				
		Sales Taxes		761,386.99	-	761,386.99
		Other Taxes		210,367.14	-	210,367.14
		Total General Government Revenue		971,754.13	-	971,754.13
		Transfer In/Out		180,460.54	(180,460.54)	-
		Change in Net Assets		421,775.33	(568,173.77)	(146,398.44)
		Net Position Beginning		(33,402.82)	1,289,825.32	1,256,422.50
		Net Position Ending		<u>\$ 388,372.51</u>	<u>\$ 721,651.55</u>	<u>\$ 1,110,024.06</u>

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

**City of Spencer
Governmental Funds
Balance Sheet - Modified Cash Basis
June 30, 2016**

	General Fund	Court Fund	Special Revenue Fund	Total Governmental Fund
ASSETS				
Cash in Bank - Unrestricted	6,000.48	232,466.08	105,683.70	344,150.26
Total Assets	<u>\$ 6,000.48</u>	<u>\$ 232,466.08</u>	<u>\$ 105,683.70</u>	<u>\$ 344,150.26</u>
LIABILITIES				
Payroll Taxes Payable	294,548.63	-	-	294,548.63
Total Liabilities	<u>294,548.63</u>	<u>-</u>	<u>-</u>	<u>294,548.63</u>
NET ASSETS				
Assigned Fund Balance	-	232,466.08	105,683.70	338,149.78
Unassigned Fund Balance	(288,548.15)	-	-	(288,548.15)
TOTAL NET ASSETS	<u>(288,548.15)</u>	<u>232,466.08</u>	<u>105,683.70</u>	<u>49,601.63</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,000.48</u>	<u>\$ 232,466.08</u>	<u>\$ 105,683.70</u>	<u>\$ 344,150.26</u>

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

Total Governmental Fund Balances	49,601.63
Amounts reported for governmental activities in the statement net assets are different because:	
Capital assets used in governmental activities are not financial resources resources and therefore are not reported in the funds.	<u>338,770.88</u>
Net Assets of Governmental Activities	<u>\$ 388,372.51</u>

City of Spencer
Governmental Funds
Statement of Revenues, Expenditures and Changes in Net Position- Modified Cash Basis
For the Year Ending June 30, 2016

	General Fund	Court Fund	Special Revenue Funds	Total Governmental Funds
Revenues				
Taxes	953,154.13	-	18,600.00	971,754.13
Charges for Services	43,948.82	-	12,048.47	55,997.29
Court Fines	<u>86,346.55</u>	<u>273,453.26</u>		<u>359,799.81</u>
Total Revenues	<u>1,083,449.50</u>	<u>273,453.26</u>	<u>30,648.47</u>	<u>1,387,551.23</u>
Expenditures				
Personal Services	662,924.94	-	30,175.00	693,099.94
Maintenance and Operations	242,654.15	17,550.70	23,294.21	283,499.06
Other Services and Charges	118,815.38	-		118,815.38
Capital Outlay	<u>21,149.00</u>	<u>-</u>		<u>21,149.00</u>
Total Expenditures	<u>1,045,543.47</u>	<u>17,550.70</u>	<u>53,469.21</u>	<u>1,116,563.38</u>
Excess revenues over (under) expenditures	37,906.03	255,902.56	(22,820.74)	270,987.85
Transfers In/Out	<u>252,409.06</u>	<u>(93,541.10)</u>	<u>21,592.58</u>	<u>180,460.54</u>
Excess revenue over (under) expenditures after transfers	290,315.09	162,361.46	(1,228.16)	451,448.39
Net Assets at beginning of year	<u>(578,863.24)</u>	<u>70,104.62</u>	<u>106,911.86</u>	<u>(401,846.76)</u>
Net Assets at end of year	<u><u>\$ (288,548.15)</u></u>	<u><u>\$232,466.08</u></u>	<u><u>\$105,683.70</u></u>	<u><u>\$ 49,601.63</u></u>

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

Change in Net Assets, Fund Financial Statements	451,448.39
Depreciation recorded in the government wide financial statements not recorded in the fund financial statements	(50,822.06)
Capital outlay included as an expense on the fund financial but capitalized on the government wide financial statements.	<u>21,149.00</u>
Change in Net Assets per the Governmental Wide Financial Statements	<u><u>\$ 421,775.33</u></u>

**City of Spencer
Proprietary Fund
Statement of Net Position - Modified Cash Basis
June 30, 2016**

ASSETS

Current Assets:

Cash in Bank - Unrestricted	25,138.88
Cash in Bank - Restricted	<u>2,436,841.40</u>
Total Current Assets	2,461,980.28

Noncurrent Assets:

Capital Assets, net	<u>4,402,203.42</u>
Total Noncurrent Assets	<u>4,402,203.42</u>
TOTAL ASSETS	<u>\$ 6,864,183.70</u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Payroll Taxes Payable	65,804.59
Meter Deposits	<u>154,755.69</u>
Total Current Liabilities	220,560.28

Noncurrent Liabilities

Bond Premium	(166,163.47)
Bond Discount	18,135.34
Mortgages and Notes Payable	<u>6,070,000.00</u>
Total Noncurrent Liabilities	<u>5,921,971.87</u>
TOTAL LIABILITIES	6,142,532.15

NET ASSETS

Invested in Capital Assets, Net of Related Debt	4,402,203.42
Net Assets - Restricted	2,436,841.40
Net Assets - Unrestricted	<u>(6,117,393.27)</u>
TOTAL NET ASSETS	<u>721,651.55</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,864,183.70</u>

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, 2016

Operating Revenues:	
Water Sales	581,474.39
Sewer Fees	170,023.11
Sanitation Fees	<u>510,168.09</u>
Total Operating Revenues	1,261,665.59
Operating Expenditures:	
Personnel Services	154,844.21
Maintenance and Operations	814,111.87
Other Services and Charges	3,452.30
Depreciation	141,835.08
Interest Expense and Amortization Expense	<u>535,135.36</u>
Total Operating Expenditures	1,649,378.82
Excess Revenues over Expenditures	(387,713.23)
Non-operating Revenues (Expenditures)	
Transfer in (out)	<u>(180,460.54)</u>
Net Non-operating Revenues (Expenditures)	(180,460.54)
Excess Revenues over (under) Expenditures after transfers	(568,173.77)
Net Assets at beginning of year	<u>1,289,825.32</u>
Net Assets at end of year	<u><u>\$ 721,651.55</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, 2016**

Cash flows from operating activities	
Receipts from customers	1,261,665.59
Transfers to other funds	(180,460.54)
Net Change in Customer Deposits	(3,617.43)
Interest Paid	(423,607.14)
Payments to employees	(162,537.84)
Payments to supplies	<u>(817,564.18)</u>
Net cash provided by operating activities	(326,121.54)
Cash flows from capital and related financing activities	
Acquisition and Construction of Capital Assets	(131,150.90)
Principal Paid on Long Term Debt	<u>(3,885,000.00)</u>
Net cash flows from capital and related financing activities	(4,016,150.90)
Net increase (decrease) in cash	(4,342,272.44)
Cash, Beginning of the Year	<u>6,804,252.71</u>
Cash, End of the Year	<u>\$ 2,461,980.27</u>

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

Change in Net Assets	(568,173.77)
Adjustments to reconcile change in net assets to net cash provided	
Depreciation and Amortization	253,363.30
Increase (decrease) in payroll taxes payable	(7,693.63)
Increase (decrease) in customer deposits	<u>(3,617.43)</u>
Net cash provided by operating activities	<u>\$ (326,121.53)</u>

City of Spencer, Oklahoma
Notes to the Basic Financial Statements
For the Year Ended June 30, 2016

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 City Government under Oklahoma Statutes. The City 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 City's operations include how the budget is adopted, whether debt is secured by general obligation of the City, the City'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 City's reporting entity. As of June 30, 2016, the City has one component unit, the Spencer Utility 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 City's funds are organized into two major categories: governmental and proprietary. The City 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 City 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 City 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.

Interfund Balances and Transfers

Interfund Balances

As of and for the year ending June 30, 2016 the City did not have any interfund balances.

Transfers In and Out

The City will transfer funds within the City's fund structure in order to facilitate cash flow or for special purposes. Net transfers are as follows:

	<u>In (Out)</u>
General Fund	(158,868)
Street and Alley Fund	(30,175)
Spec EMT	1,730
CDS Fund	2,343
Capital Improvement	4,509
Total Governmental Funds	<u>(180,461)</u>
Spencer Utility Authority	600,461
SRF Fund	(420,000)
Total Proprietary Funds	<u>180,461</u>
Total Net Transfers	<u>\$ -</u>

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 City 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.

RESTRICTED CASH

Restricted cash consists of monies held for debt service, capital projects, \$2,245,352 and water meter deposits of \$91,452.

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 City'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 City'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 City's highest level of decision-making authority. (In the case of the City of Spencer, commitments are evidenced by adoption of an ordinance by the City Council.)

Assigned. Amounts constrained by the City's intent to be used for specific purposes but that are neither restricted nor committed. (In the case of the City of Spencer, assignments are evidenced either by resolution of the City Council or by the City Manager in written form as approved by vote of the City Council pursuant to City 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 City'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 City 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 City 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 City's taxpayers are reported as program revenues. The City 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.

1.G. USE OF ESTIMATES

The preparation of financial statements in conformity with the modified cash basis of accounting used by the City 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 City 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 City 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, 2016 was as follows:

<u>General Government</u>	Beginning Balance	Increases	Decreases	Ending Balance
Buildings	\$ 259,624	\$ -	\$ -	\$ 259,624
Equipment	959,023	21,149	-	980,172
	1,218,647	21,149	-	1,239,796
Accumulated Depreciation	(850,203)	(50,823)	-	(901,026)
Net Assets	<u>\$ 368,444</u>			<u>\$ 338,770</u>

As of June 30, 2016 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 \$50,823 for the governmental funds was recorded as follows: office - \$4,500; animal control - \$1,005; fire department - \$24,115; parks department - \$1,790 and police department - \$19,411.

<u>Public Works Authority</u>	Beginning Balance	Increases	Decreases	Ending Balance
Land	\$ 525,000	\$ -	\$ -	\$ 525,000
Equipment	826,972			826,972
Construction in Process	-	131,151	-	131,151
Water & Sewer Systems	4,032,475	-	-	4,032,475
	5,384,447	131,151	-	5,515,598
Accumulated Depreciation	(971,559)	(141,835)	-	(1,113,394)
Net Assets	<u>\$ 4,412,888</u>			<u>\$ 4,402,204</u>

As of June 30, 2016, 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 \$141,835 for the Public Works Authority funds. Depreciation of \$85,101 was charged to water operations and \$56,734 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. This obligation was paid off in July 2015 with the proceeds from another debt issue. 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, 2016 the Authority paid \$127,097 in interest on the revenue bonds and principal of \$3,705,000. 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, 2016 the SUA recorded \$106,378 of discount. Discount amortization is recorded as interest expense in the financial statements.

Bond Discount		Note Balance	
Beginning Balance	106,378	Beginning Balance	3,705,000
Discount Amortized	(106,378)	Principal Paid	(3,705,000)
Ending Balance	<u>\$ -</u>	Ending Balance	<u>\$ -</u>

Utility System Refunding and Capital Improvement Revenue Bonds, Series 2015

During the year ending June 30, 2015 the Spencer Utility Authority issued revenue bonds for the upgrade and construction of sewer treatment facilities and repay the previously outstanding revenue bonds. The revenue bonds total \$6,250,000 and carry interest rates from 3.00% to 4.250%. 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 the annual principal and interest. The first interest payment of \$58,255 was due and paid on July 1, 2015, no principal was due at this date. The first payment of principal and interest is due on July 1, 2016 and annually each year on that date. The bonds sold at a premium of \$171,875 and discount of \$18,696. The City recorded amortization on the premium and discount for the year ending June 30, 2016 of \$561 and \$5,139 respectively. The first principal and interest payment was made on June 30, 2016, one day early.

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, 2016 the Spencer Utility Authority was not in compliance with this requirement.

Principal and interest paid on this obligation during the year ending June 30, 2016 was as follows:

Beginning Balance	6,250,000
Principal Paid	(180,000)
Ending Balance	<u>\$ 6,070,000</u>
Interest Paid	<u>\$ 233,020</u>

Principal and interest required to retire this obligation is as follows:

<u>Due July 1</u>	<u>Principal</u>	<u>Interest</u>
2017	185,000	227,620
2018	195,000	222,070
2019	200,000	216,220
2020	205,000	210,220
2021	215,000	204,070
2021/2025	1,170,000	918,725
2026/2030	1,395,000	701,993
2031/2035	1,700,000	394,188
2036/2037	805,000	34,212
	<u>\$ 6,070,000</u>	<u>\$ 3,129,318</u>

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 7 years. Covered employees are required to contribute 5.25% of their gross payroll which the city pays for them. City contributions are variable and were 9.39% for the current year. The payroll for city employees for the year was \$387,617. The payroll for city employees covered by the OMRF for the year was \$368,472. Actual city and employee contributions for the year were \$47,523 and \$19,344 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 9% of eligible salary, while the city is required to contribute 14%. 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 \$26,938, equal to the required contribution for the year. Employees contributed \$17,257. Total fire payroll and covered payroll for the year was \$230,001 and \$191,687, 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 63rd 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 \$16,934, equal to the required contribution for the year. Employees contributed \$8,836. Total police payroll and covered payroll for the year was \$230,326 and \$130,259, respectively.

NOTE 7. SUBSEQUENT EVENTS

Subsequent events have been evaluated through May 31, 2017, which is the date the financial statements were issued.

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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 City Council
City of Spencer, 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 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, Oklahoma, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise City of Spencer, Oklahoma's basic financial statements and have issued our report thereon dated May 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Spencer, 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 Spencer, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Spencer, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses. Findings 2016-1, 2016-2 and 2016-3.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Spencer, 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 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 questioned costs as items. Finding 2016-4 and 2016-5

City of Spencer, Oklahoma's Response to Findings

City of Spencer, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Spencer, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Paul Williams CPA, P.C." The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
May 31, 2017

Schedule of Findings and Responses

2016-1 (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.

2016-2 (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

2016-3 – (Repeat Finding) – Payroll Tax Payments

CONDITION: The federal payroll tax reports for the various quarters of the fiscal year ending June 30, 2015 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.

2016-4 – (General Fund Insolvency)

CONDITION: The general fund's liabilities exceed its assets.

CRITERIA: Per Oklahoma law the City's general fund is not allowed to be insolvent.

CAUSE OF CONDITION: The City has accrued payroll tax liabilities that have caused the general fund's liabilities to exceed its assets. Also the general fund's cash balances have deteriorated to an unsafe level.

RECOMMENDATION: The City reduces general fund spending and pays the payroll taxes as soon as possible.

CLIENT RESPONSE: City management will evaluate the situation and attempt to bring the City into compliance.

2016-5- (Non Compliance with Bond Covenant)

CONDITION: The Spencer Utility Authority's Utility System Refund and Capital Improvement Revenues Bonds Series 2015 have a covenant requiring the maintenance of rates and charges that will produce a positive change in net assets equal to 1.25 of the next year's annual principal payment and semi-annual interest payments. The Authority did not generate sufficient revenues over expenses to be in conformance with the debt covenant.

CRITERIA: The schedule of fees and charges are required by the bond indenture.

CASUE OF CONDITION: The rates being charged were not high enough or expenses paid by the Authority are too high in relation to the rates being charged.

RECOMMENDATION: The City should consider raising it utility rates and concurrently reduce expenses.

CLIENT RESPONSE: City management will evaluate the situation and attempt to bring the City into compliance