

CITY OF SPENCER, OKLAHOMA

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2017



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City Council

Earnest Ware	Chairman/Mayor
Paula Mason	Vice Chairman/Mayor
Frank Calvin	Member
Jim Scanlon	Member
James Talley	Member

Management

Sunny Rock	City Manager
Sealyn Marsh	City Clerk
Allen Lane	Chief of Police
Devin Bruner	Municipal Court Clerk
Kenneth Griffith	Fire Chief
Kiel Vaughn	Public Works Supervisor

City Hall

8200 NE 36th Street
PO Box 660
Spencer, OK 73084
405-771-3226

INDEPENDENT AUDITOR'S REPORT



Elfrink and Associates, PLLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
City of Spencer, Oklahoma

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Spencer, Oklahoma, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1C; 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.

Basis for Qualified Opinion

The City implemented a new accounting system in the current year that was not set up correctly, creating a need for significant adjustments, both by the City's consultant as well as the auditor. Although the City reports on a cash basis and the cash balances as well as liabilities could be supported by external confirmation, we were unable to determine that the classification of the revenues and expenditures or expenses is materially representative of the activity that took place during the year.



Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Spencer, Oklahoma, as of June 30, 2017, and the changes in financial position thereof for the year then ended in accordance with a modified cash basis of accounting as described in Note 1C.

Basis of Accounting

We draw attention to Note 1C of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Emphasis of a Matter

Going Concern

As discussed in footnote 5, the City had a significant deficit working capital position at June 30, 2017. However, the financial statements were prepared on the assumption that the City is a going concern.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the City of Spencer, Oklahoma’s basic financial statements. The management’s discussion and analysis and budgetary comparison information on pages 6-10 and 36, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2019 on our consideration of the City of Spencer, Oklahoma’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.



Elfrink and Associates, PLLC

Tulsa, Oklahoma

March 22, 2019

Management Discussion and Analysis

The management of the City of Spencer is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2017. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts.

FINANCIAL HIGHLIGHTS

- The City's total net position decreased by \$287,658 and the assets of the City exceeded its liabilities at June 30, 2017, by \$312,102 (net position). Of this amount, the City has a deficit \$577,368 (unrestricted net position) available to meet the government's ongoing needs.
- At June 30, 2017, the unassigned fund balance for the General Fund was a deficit of \$415,369 or 37% of General Fund revenues for the year.

ABOUT THE CITY

The City of Spencer is a municipality with a population of approximately 3,746 located in Oklahoma County and is a suburb of Oklahoma City. The City is governed by a five-member City Council chaired by the Mayor and operates under Oklahoma state laws and City ordinances as a City Council/City Manager form of government.

The City provides typical municipal services such as public safety, street and alley maintenance, and through its Utilities Authority, certain utility services including water, wastewater, and sanitation.

The City's Financial Reporting Entity

This annual report includes all activities for which the City of Spencer's City Council is financially accountable. These activities, defined as the City's financial reporting entity, are operated within separate legal entities that make up the primary government.

The City's financial reporting entity includes the following separate legal entities:

- **The City of Spencer** – an incorporated City established in 1903 that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the City – *reported as part of the primary government as "governmental" activities.*
- **The Spencer Utilities Authority (SUA)** – a public trust created pursuant to 60 O.S. § 176 to operate the water, wastewater, and sanitation services of the City – *considered part of the primary government presentation for reporting purposes; reported as "business-type" activities.*

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements presented herein include all of the activities of the City of Spencer (the "City") and the Spencer Utilities Authority (the "SUA"). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus. They present governmental activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's governmental funds.

Reporting the City as a Whole

Government-wide financial statements

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

The Statement of Net position and Statement of Activities

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

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. uncollected taxes and earned but unused vacation leave).

In the Statement of Net Position and the Statement of Activities, we divide the Primary Government into two kinds of activities: *Governmental activities* - Most of the City's basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* - Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City's water, sewer, and sanitation utilities are reported as business-type activities.

Reporting the City's - Fund Financial Statements

Fund Financial Statements

The City's two kinds of funds - *governmental and proprietary* - use different accounting approaches.

Governmental funds - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following the governmental fund financial statements.

Proprietary funds - When the City, through the Utilities Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on an economic resources measurement focus. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 20-33 of this report.

THE CITY AS A WHOLE

For the year ended June 30, 2017, net position for the governmental and business-type activities decreased \$287,658.

Net position at June 30,						
	Governmental Activities		Business-type		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Beginning net position*	\$ 218,588	\$ (33,403)	\$ 381,172	\$ 1,289,825	\$ 599,760	\$ 1,256,422
Increase (Decrease)	(301,850)	421,777	14,192	(568,174)	\$ (287,658)	\$ (146,397)
Ending net position	<u>\$ (83,262)</u>	<u>\$ 388,374</u>	<u>\$ 395,364</u>	<u>\$ 721,651</u>	<u>\$ 312,102</u>	<u>\$ 1,110,025</u>

*2017 beginning net position has been restated

The largest portion of the City's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding.

The following is a summary of net position for the City of Spencer as of June 30:

	Governmental Activities		Business-type		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Assets:						
Current and other assets	\$ 48,719	\$ 344,150	\$ 2,287,133	\$ 2,461,980	\$ 2,335,852	\$ 2,806,130
Capital assets, net	332,107	338,770	4,405,114	4,402,204	4,737,221	4,740,974
Total assets	<u>380,826</u>	<u>682,920</u>	<u>6,692,247</u>	<u>6,864,184</u>	<u>7,073,073</u>	<u>7,547,104</u>
Liabilities:						
Long-term liabilities	-	-	6,023,428	5,921,972	6,023,428	5,921,972
Other liabilities	464,088	294,546	273,455	220,561	737,543	515,107
Total liabilities	<u>464,088</u>	<u>294,546</u>	<u>6,296,883</u>	<u>6,142,533</u>	<u>6,760,971</u>	<u>6,437,079</u>
Net position:						
Invested in capital assets, net	332,107	338,770	114,339	4,402,204	446,446	4,740,974
Restricted	-	-	443,024	2,436,841	443,024	2,436,841
Unrestricted	(415,369)	49,604	(161,999)	(6,117,394)	(577,368)	(6,067,790)
Total net position	<u>\$ (83,262)</u>	<u>\$ 388,374</u>	<u>\$ 395,364</u>	<u>\$ 721,651</u>	<u>\$ 312,102</u>	<u>\$ 1,110,025</u>

**Changes in Net Position
Year Ended June 30,**

	Governmental Activities		Business-type		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Revenues:						
Program revenues:						
Charges for services	\$ 168,936	\$ 415,797	\$ 1,029,387	\$ 1,261,666	\$ 1,198,323	\$ 1,677,463
Grants	-	-	-	-	-	-
General revenues:						
Taxes	942,646	971,754	-	-	942,646	971,754
Other general revenues	21,585	-	37,087	-	58,672	-
Total revenues	<u>1,133,167</u>	<u>1,387,551</u>	<u>1,066,474</u>	<u>1,261,666</u>	<u>2,199,641</u>	<u>2,649,217</u>
Program expenses:						
General government	340,428	350,059	-	-	340,428	350,059
Police	522,200	448,130	-	-	522,200	448,130
Fire	345,343	308,995	-	-	345,343	308,995
Streets and alleys	-	35,975	33,158	-	33,158	35,975
Parks	24,680	3,076	-	-	24,680	3,076
City utilities	-	-	1,001,169	1,649,379	1,001,169	1,649,379
Total expenses	<u>1,232,651</u>	<u>1,146,235</u>	<u>1,034,327</u>	<u>1,649,379</u>	<u>2,266,978</u>	<u>2,795,614</u>
Transfers	(41,781)	180,461	41,781	(180,461)	-	-
Payroll tax penalties	(160,585)	-	(59,736)	-	(220,321)	-
Increase/(decrease) net position	<u>(301,850)</u>	<u>421,777</u>	<u>14,192</u>	<u>(568,174)</u>	<u>(287,658)</u>	<u>(146,397)</u>
Beginning net position*	<u>218,588</u>	<u>(33,403)</u>	<u>381,172</u>	<u>1,289,825</u>	<u>599,760</u>	<u>1,256,422</u>
Ending net position	<u>\$ (83,262)</u>	<u>\$ 388,374</u>	<u>\$ 395,364</u>	<u>\$ 721,651</u>	<u>\$ 312,102</u>	<u>\$ 1,110,025</u>

* Beginning net position for 2017 has been restated

Governmental Activities

The decrease in net position related to governmental activities of \$301,850 is primarily attributable to lower police fine receipts and the assessment of payroll tax penalties.

Business-type Activities

The increase of \$14,972 for business-type activities reflected lower revenues in the current year, more than offset by lower operating costs and lower operating transfers to the City.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2017 fiscal year, Governmental Funds reported a fund balance deficit of \$415,369. For the year ended June 30, 2017, the Governmental Funds' total fund balances decreased by \$295,189, primarily due to lower police fines receipts and the assessment of payroll tax penalties.

Budgetary Highlights

General fund revenues were \$220,757 lower than budgeted and expenditures were \$163,195 lower than budgeted, reflecting unused appropriations in nearly every department.

For fiscal year 2017-2018, general fund revenues were expected to see a slight decrease as the City continues to see decreases in tax receipts. Planned governmental expenditures for all departments were planned to be lower with the exception of the police department which showed a slight increase.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2017, the City had approximately \$4.7 million in capital assets (net of accumulated depreciation). Below are details regarding the City's capital assets for the year ended June 30, 2017:

Capital Assets						
June 30,						
	Governmental Activities		Business-type		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land and other non-depreciable assets	\$ 24,990	\$ 20,000	\$ 285,169	\$ 142,751	\$ 310,159	\$ 162,751
Building improvements	230,048	225,000	86,418	86,418	316,466	311,418
Equipment	1,027,852	994,796	339,410	339,410	1,367,262	1,334,206
Utility systems and equipment	-	-	4,948,297	4,947,019	4,948,297	4,947,019
Totals	<u>1,282,890</u>	<u>1,239,796</u>	<u>5,659,294</u>	<u>5,515,598</u>	<u>6,942,184</u>	<u>6,755,394</u>
Less accumulated depreciation	<u>(950,783)</u>	<u>(901,026)</u>	<u>(1,254,180)</u>	<u>(1,113,394)</u>	<u>(2,204,963)</u>	<u>(2,014,420)</u>
Totals, net	<u><u>\$ 332,107</u></u>	<u><u>\$ 338,770</u></u>	<u><u>\$ 4,405,114</u></u>	<u><u>\$ 4,402,204</u></u>	<u><u>\$ 4,737,221</u></u>	<u><u>\$ 4,740,974</u></u>

This year's capital asset additions include the following:

- Additional work on the water lines replacement project, primarily design fees, in the amount of \$142,418
- The purchase of a used 2015 Ford Explorer for the police department
- The purchase of two SCUBA units for the fire department
- Remodeling of the fire station

Debt Administration

The City did not issue any new debt in the fiscal year ended June 30, 2017. Bonds for business-type activities in the amount of \$185,000 matured, leaving an outstanding balance of \$5,885,000. The carrying value for the bonds is \$6,023,428 as it includes unamortized bond premiums and discounts. As the bonds mature, the unamortized amounts will reduce interest expense.

Contacting the City's Financial Management

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at 8200 nE 36th Street, Spencer, Oklahoma, 73084.

BASIC FINANCIAL STATEMENTS

Statement of Net Position (Modified Cash Basis) – June 30, 2017

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ -	\$ 24,210	\$ 24,210
Other current assets	48,719	-	48,719
Restricted assets:			
Cash and cash equivalents	-	2,262,923	2,262,923
Total current assets	48,719	2,287,133	2,335,852
Non-current assets			
Capital assets, net of depreciation	332,107	4,405,114	4,737,221
Total assets	380,826	6,692,247	4,761,431
Liabilities:			
Current liabilities:			
Overdrawn cash balance	38,306	-	38,306
Payroll tax arrearage	425,782	114,622	540,404
Bonds payable, current portion	-	202,286	202,286
Total current liabilities	464,088	316,908	780,996
Noncurrent liabilities			
Meter deposit liability	-	158,833	158,833
Bonds payable, noncurrent	-	5,821,142	5,821,142
Total noncurrent liabilities	-	5,979,975	5,979,975
Total liabilities	464,088	6,296,883	6,760,971
Net Position:			
Net investment in capital assets	332,107	114,339	446,446
Restricted for debt service	-	443,024	443,024
Unrestricted	(415,369)	(161,999)	(577,368)
Total net position	\$ (83,262)	\$ 395,364	\$ 312,102

See accompanying notes to the basic financial statements.

Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Capital Grants	Governmental Activities	Business-type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 340,428	\$ 11,628	\$ -	\$ (328,800)	\$ -	\$ (328,800)
Fire	345,343	-	-	(345,343)	-	(345,343)
Municipal court	48,601	157,308	-	108,707	-	108,707
Police	473,599	-	-	(473,599)	-	(473,599)
Parks department	24,680	-	-	(24,680)	-	(24,680)
Total governmental activities	1,232,651	168,936	-	(1,063,715)	-	(1,063,715)
Business-type activities						
Water/Wastewater	784,165	623,741	-	-	(160,424)	(160,424)
Sanitation	250,162	405,646	-	-	155,484	155,484
Total business-type activities	1,034,327	1,029,387	-	-	(4,940)	(4,940)
Total primary government	\$ 2,266,978	\$ 1,198,323	\$ -	\$ (1,063,715)	\$ (4,940)	\$ (1,068,655)
General revenues:						
Taxes:						
Sales and use				749,435	-	749,435
Franchise				147,338	-	147,338
Intergovernmental				45,873	-	45,873
Investment income				-	10,694	10,694
Miscellaneous				21,585	26,393	47,978
Total general revenues				964,231	37,087	1,001,318
Transfer in/out				(41,781)	41,781	-
Payroll tax penalties				(160,585)	(59,736)	(220,321)
Change in net position				(301,850)	14,192	(287,658)
Net position - beginning*				218,588	381,172	599,760
Net position - ending				\$ (83,262)	\$ 395,364	\$ 312,102

*restated

See accompanying notes to the basic financial statements.

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2017

	General Fund
Assets:	
Deposit (ODOT Project)	\$ 11,293
Cash held by County	<u>37,426</u>
Total assets	<u>\$ 48,719</u>
 Liabilities and fund balances:	
Liabilities:	
Overdrawn cash balance	38,306
Payroll tax arrearage	<u>425,782</u>
Due to other governments	<u>464,088</u>
 Fund Balances:	
Unrestricted	
Unassigned	<u>(415,369)</u>
Total fund balances	<u>(415,369)</u>
 Total liabilities and fund balances	 <u><u>\$ 48,719</u></u>

See accompanying notes to the basic financial statements.

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis) – Year Ended June 30, 2017

	General Fund
Revenues:	
Taxes	\$ 896,773
Intergovernmental	45,873
Licenses and permits	11,628
Grants	-
Charges for services	-
Fines and forfeitures	157,308
Investment earnings	-
Miscellaneous	21,585
Total Revenues	<u>1,133,167</u>
Expenditures:	
General government	334,739
Fire	321,079
Municipal court	48,601
Police	455,588
Parks department	22,889
Capital outlay	43,094
Total expenditures	<u>1,225,990</u>
Deficiency of revenues over expenditures	<u>(92,823)</u>
Other financing sources (uses):	
Payroll tax penalties	(160,585)
Transfer to SPWA	(41,781)
Net other financing sources (uses)	<u>(202,366)</u>
Net change in fund balance	(295,189)
Fund balance - beginning*	<u>(120,180)</u>
Fund balance - ending	<u><u>\$ (415,369)</u></u>

*The beginning fund balance has been restated

See accompanying notes to the basic financial statements.

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund balances of governmental funds	\$	(415,369)
--	-----------	------------------

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

Capital assets used in governmental activities of \$1,282,890, net of accumulated depreciation of \$950,783 are not financial resources and, therefore, are not reported in the funds.		332,107
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Net position of governmental activities	\$	(83,262)
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Net changes in fund balances - total governmental funds	\$	(295,189)
--	-----------	------------------

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:		
Capital asset purchased with cash		43,096
Depreciation expense		(49,757)
		(6,661)

Change in net position of governmental activities	\$	(301,850)
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See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2017

	Spencer Utilities Authority
Assets	
Current assets:	
Cash and cash equivalents	\$ 24,210
Restricted cash and cash equivalents	2,262,923
Total current assets	<u>2,287,133</u>
Noncurrent assets:	
Capital assets, net	<u>4,405,114</u>
Total assets	<u>6,692,247</u>
Liabilities	
Current liabilities:	
Payroll tax arrearage	114,622
Bonds payable - current portion	202,286
Total current liabilities	<u>316,908</u>
Noncurrent Liabilities:	
Meter deposit liability	158,833
Bonds payable - noncurrent portion	5,821,142
Total noncurrent liabilities	<u>5,979,975</u>
Total liabilities	<u>6,296,883</u>
Net Position	
Net investment in capital assets	114,339
Restricted for debt service	443,024
Unrestricted	<u>(161,999)</u>
Total net position	<u>\$ 395,364</u>

See accompanying notes to the basic financial statements.

**Proprietary Fund Statement of Revenues, Expenses and Change in Net position (Modified Cash Basis) –
Year Ended June 30, 2017**

	Spencer Utilities Authority
Operating revenues:	
Charges for sales and services:	
Water	\$ 423,027
Sewer	172,278
Sanitation	405,646
Penalties	28,436
Miscellaneous	26,393
Total operating revenues	<u>1,055,780</u>
Operating expenses:	
Utility administration	360,255
Water treatment plant	35,737
Wastewater treatment plant	7,021
Sanitation	250,162
Streets and alleys	33,158
Depreciation	140,786
Total operating expenses	<u>827,119</u>
Net operating income	<u>228,661</u>
Nonoperating revenue (expense):	
Transfer in (out)	41,781
Interest and fees	(207,208)
Payroll tax penalties	(59,736)
Investment income	10,694
Total nonoperating revenue (expense)	<u>(214,469)</u>
Change in net position	<u>14,192</u>
Net position - beginning*	<u>381,172</u>
Net position - ending	<u><u>\$ 395,364</u></u>

*restated

See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2017

	Spencer Utility Authority
Cash flows from operating activities:	
Receipts from customers	\$ 1,059,857
Payments to suppliers	(399,164)
Payments to employees	(287,169)
Net cash provided by operating activities	<u>373,524</u>
Cash flows from noncapital financing activities:	
Transfers from other funds	41,781
Payments made on payroll tax arrearage	(34,250)
Net cash flows provided by noncapital financing activities	<u>7,531</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(143,696)
Principal paid on capital debt	(185,000)
Interest and fees paid on capital debt	(216,808)
Net cash used in capital and related financing activities	<u>(545,504)</u>
Cash flows from investing activities	
Investment and dividends	10,694
Net cash provided by investing activities	<u>10,694</u>
Net decrease in cash and cash equivalents	(153,755)
Cash and equivalents - beginning of year	2,440,888
Cash and equivalents - end of year	<u><u>\$ 2,287,133</u></u>
Reconciliation of operating income to net cash provided:	
Operating gain(loss)	228,661
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase (decrease) in meter deposit liability	4,077
Depreciation expense	140,786
Net cash provided by operating activities	<u><u>\$ 373,524</u></u>

See accompanying notes to the basic financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

As discussed further in Note 1.C, these financial statements are presented in accordance with 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 constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Financial Reporting Entity

The City's financial reporting entity comprises the following:

Primary Government: City of Spencer
Blended Component Unit: Spencer Utilities Authority

Primary Government

The City of Spencer's primary government is a general purpose local government formed as a statutory City form of municipal government under the laws of the State of Oklahoma. The governing body is a five-member City Council, with the mayor serving as the head of the City government for all ceremonial purposes and has other powers, duties, and functions as prescribed by law or ordinance and is elected by the City Council. The City operates the general government activities of the community, including police and fire protection, street and road maintenance, municipal cemetery operation, parks and other culture and recreation, and various administrative functions.

Blended Component Unit

A *blended component unit* is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit's governing body is the same or substantially the same as the City Council, and there is a financial benefit or burden relationship with the City, or City management has operational responsibility for the component unit; (b) the component unit provides services entirely or almost entirely to the City; or (c) the component unit's debt is expected to be repaid entirely or almost entirely with resources of the City. The blended component unit's funds are blended into those of the City by appropriate fund type to constitute the primary government presentation. The City's blended component unit is presented subsequently:

<i>Component Unit</i>	<i>Brief Description/Inclusion Criteria</i>
Spencer Utilities Authority (SUA)	A trust that operates the water, sewer, and sanitation services for the Town. The Town is the beneficiary of the SUA. The City Council also serves as the governing body for the SUA. Debt issued by the Authority requires two-thirds approval of the City Council.

The component unit is a Public Trust established pursuant to Title 60 of Oklahoma State law. A Public Trust (Trust) has no taxing power. The Trust is generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Trust. The Trust generally retains title to assets which are acquired or constructed with the Trust debt or other Trust generated resources. In addition, the City has leased certain existing assets at the creation for the Trust to the Trustees on a

long-term basis. The City, as beneficiary of the Public Trust, receives title to any residual assets when a Public Trust is dissolved.

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 in part, by fees charged to external parties for goods and services.

Fund Financial Statements

Fund financial statement 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 of resources, liabilities, deferred inflows of resources, net position or fund balance, revenues, and expenditures or expenses. The City's funds are organized into two main 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 of resources, liabilities, deferred inflows of resources, 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 the category or type.
- b) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, 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 is always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund. In the current year, the City implemented a new accounting system and consolidated all governmental fund activity to the general fund.

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:

<i>Fund</i>	<i>Brief Description</i>
Spencer Utilities Authority Fund	Accounts for the activities of the SUA public trust, a blended component unit, in providing water, wastewater, and sanitation services to the public.

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) 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 of resources, liabilities, and deferred inflows of resources (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 in accordance with 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 statement 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) are not recorded in these financial statements. In addition, other economic assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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 accounting principles generally accepted in the United States of America, 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 in accordance with the accrual basis of accounting.

D. Financial Position

Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents include all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of six 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 six months. Investments are carried at cost, which approximates fair value.

Due from Other Funds or Governments

Receivables and payables to other funds or governments arising from cash transactions or events are recorded in the financial statements as a modification to the cash basis of accounting.

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. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2001. Prior to July 1, 2001, governmental funds' infrastructure assets were not capitalized. Infrastructure assets acquired since July 1, 2001 are recorded at cost.

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 \$1,000 is used to report capital assets. The range of estimated useful lives by type of asset is as follows:

- | | |
|--------------------------------------|-------------|
| • Buildings and improvements | 15-40 years |
| • Vehicles, equipment, and furniture | 5-20 years |
| • Utility systems | 15-40 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 of 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 City of Spencer's case, 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 by resolution of the City Council)
- **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 the City's policy to use committed fund balance before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classification 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 of resources, liabilities, and deferred inflows of resources of proprietary funds is reported as net position and classified in the same manner as the government-wide financial statements, as previously described.

E. Revenues, Expenditures, and Expenses

Sales tax

The City has levied a sales tax of 3.0 cents on each dollar of taxable sales within the City. ½ cent is restricted for debt service on the SUA debt; ½ cent is restricted for economic development; and 1 cent is restricted for capital improvements and/or job growth if needed. The remaining 1.0 cent is recorded in the General Fund for general use of the City.

Property tax

Under State statutes, municipalities are limited in their ability to levy property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by the voters and any court-assessed judgments. The City currently does not levy property tax.

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 – licenses and permits
- Police – fine revenue, operating and capital grants including the US Department of Justice
- Fire – operating and capital grants
- Culture and recreation – rental income, fees, grants, and specific donations,

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

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds 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.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide State of Net Position and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

Interfund activity resulting from cash transactions or events, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

- a) *Interfund loans* – Amounts provided with a requirement for repayment are reported as interfund receivables and payables.
- b) *Interfund services* – Sales or purchases of goods and services between funds are reported as revenues and expenditures or expenses.
- c) *Interfund reimbursements* – Repayments from funds responsible for certain expenditures or expenses to the funds that initially paid for them are not reported as reimbursements but as adjustments to expenditures or expenses in the respective funds.
- d) *Interfund transfers* – Flow of assets from one fund to another when repayment is not expected and reported as transfers in and out.

Government-wide Financial Statements

Interfund activity and balances resulting from cash transactions or events, if any, are eliminated or reclassified in the government-wide financial statements as follows:

- a) *Internal balances* – amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the “Governmental” and “Business-Type Activities” columns of the State of Net Position, except for the net residual amounts due between governmental and business-type activities, which are reported as Internal Balances.
- b) *Internal activities* – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities, except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers-Internal Activities. The effects of interfund services between funds, if any are not eliminated in the Statement of Activities.

G. Use of Estimates

The preparation of financial statements in accordance 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 lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

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.

3. Detail Notes – Transaction Classes and Accounts

A. Cash and Investments

For the year ended June 30, 2017, the City recognized \$10,694 of investment income. At June 30, 2017, the primary government held the following deposits and investments:

<u>Type</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Carrying Value</u>
Demand deposits	\$ (38,306)	\$ 24,210	\$ (14,096)
US Treasuries money market fund	-	2,262,923	2,262,923
Total deposits	<u>\$ (38,306)</u>	<u>\$ 2,287,133</u>	<u>\$ 2,248,827</u>

Reconciliation to the statement of net position:

Cash and cash equivalents	\$ (38,306)	\$ 24,210	\$ (14,096)
Restricted cash and cash equivalents	-	2,262,923	2,262,923
Total	<u>\$ (38,306)</u>	<u>\$ 2,287,133</u>	<u>\$ 2,248,827</u>

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by a counterparty or a counterparty's trust, department or agent, but not in the government's name.

The City's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2017 all of the City's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City Council monitors the investment performance on an ongoing basis to limit the City's interest rate risk. As of June 30, 2017, the City's deposits consisted of demand deposits and investments in a money market fund targeting short term US Treasuries. All of the City's investments had a maturity date of 12 months or less.

Investment Credit Risk – The City follows the Oklahoma state statutes that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts. As of June 30, 2017, the City did not hold any securities with credit ratings.

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no policy regarding concentration of credit risk. At June 30, 2017, the City had no concentration of credit risk as defined above.

Cash held by County – At June 30, 2017, Oklahoma County held \$37,426 for benefit of the City of Spencer representing alcoholic beverage taxes and commercial vehicle taxes collected during the year and apportioned to the City as the County was awaiting receipt of proof of fidelity bond coverage from the City.

B. Restricted Assets

The amounts reported as restricted assets comprise amounts held by the SUA for utility deposits (refunded upon termination of service or applied to final bill) of \$83,147 and the amount of government mutual funds held in trustee accounts on behalf of the promissory note trust accounts in the amount as follows: \$447,123 for debt service reserves and \$1,732,653 for dedicated project funds from a bond issuance.

C. Capital Assets

Capital asset activity resulting from modified cash basis transactions or events for the fiscal year ended June 30, 2017, was as follows:

	Balance at June 30, 2016	Additions	Disposals	Balance at June 30, 2017
Governmental:				
Capital assets not being depreciated:				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Construction in progress	-	4,990	-	4,990
Total capital assets not being depreciated:	20,000	4,990	-	24,990
Capital assets being depreciated:				
Buildings/improvements	225,000	5,048	-	230,048
Vehicles, equipment & furniture	994,796	33,056	-	1,027,852
Total capital assets being depreciated	1,219,796	38,104	-	1,257,900
Less accumulated depreciation:				
Buildings/improvements	200,280	7,131	-	207,411
Vehicles, equipment & furniture	700,746	42,626	-	743,372
Total accumulated depreciation	901,026	49,757	-	950,783
Governmental, net capital assets	\$ 338,770	\$ (6,663)	\$ -	\$ 332,107
Business-type				
Capital assets not being depreciated:				
Land	\$ 11,600	\$ -	\$ -	\$ 11,600
Construction in progress	131,151	142,418	-	273,569
Total capital assets not being depreciated:	142,751	142,418	-	285,169
Capital assets being depreciated:				
Buildings/improvements	86,418	-	-	86,418
Utility system	4,947,019	1,278	-	4,948,297
Vehicles, equipment & furniture	339,410	-	-	339,410
Total capital assets being depreciated	5,372,847	1,278	-	5,374,125
Less accumulated depreciation				
Buildings/improvements	56,464	2,465	-	58,929
Utility system	800,508	121,852	-	922,360
Vehicles, equipment & furniture	256,422	16,469	-	272,891
Total accumulated depreciation	1,113,394	140,786	-	1,254,180
Business-type, net capital assets	\$ 4,402,204	\$ 2,910	\$ -	\$ 4,405,114

Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

Governmental activities:		Business-type activities:	
General government	\$ 5,691	Utility administration	\$ 5,840
Fire	24,264	Sewer	14,420
Police	18,011	Water	120,526
Parks department	1,791	Total depreciation	140,786
Total depreciation	<u>49,757</u>		

D. Debt Service and Coverage Requirements

For the year ended June 30, 2017, the City's long-term debt changed as follows:

Business-type Activities:

Bonds payable	\$ 6,070,000	\$ -	\$ 185,000	\$ 5,885,000	\$ 195,000
Unamortized bond premium	166,163	-	10,819	155,344	8,176
Unamortized bond discount	(18,135)	-	(1,219)	(16,916)	(890)
	<u>\$ 6,218,028</u>	<u>\$ -</u>	<u>\$ 194,600</u>	<u>\$ 6,023,428</u>	<u>\$ 202,286</u>

At June 30, 2017, the City had the following debt outstanding, arising from cash transactions, to be repaid from business-type activities:

Spencer Utilities Authority Utility System Refunding and Capital Improvement Revenue Bonds, Series 2015, dated April 1, 2015, in the amount of \$6,250,000 with interest rates ranging from of 3.00% to 4.25%. The remaining amount is scheduled to be paid in semi-annual installments with a final payment due July 1, 2037

Outstanding bond principal	\$ 5,885,000
Unamortized bond premium and discount	<u>138,428</u>
Total carrying value of bonds to be repaid from business-type activities	<u>\$6,023,428</u>

Payment Requirements to Maturity:

Year ended June 30,	Business-type activities	
	Principal*	Interest*
2018	195,000	222,070
2019	200,000	216,220
2020	205,000	210,220
2021	215,000	204,070
2022	220,000	197,620
2023 to 2027	1,210,000	881,428
2028 to 2032	1,445,000	648,133
2033 to 2037	2,195,000	321,938
Total	<u>\$ 5,885,000</u>	<u>\$ 2,901,699</u>

* Does not include amortization

E. Restatement of Prior Period Equity Balances

Prior period beginning net position and fund balances were restated as follows:

	Net Positions		Fund Balances	
	Governmental Activities	Business-type Activities	General Fund	Spencer Public Works Authority
Balance reported 6/30/2016	\$ 388,371	\$ 721,651	\$ 49,603	\$ 721,651
Prior period adjustments:				
Adjustment to beginning cash balances for checks dated prior to 7/1/2016 that were not shown outstanding at 6/30/2016	(107,063)		(107,063)	
Additional federal payroll taxes that were outstanding at 6/30/2016	(62,720)	(23,331)	(62,720)	(23,331)
Bond premium and discount reported backwards at 6/30/2016		(296,056)		(296,056)
Trust account balances shown at market at 6/30/2016; should be valued at cost under a modified cash basis of accounting		(21,092)		(21,092)
Restated balance (deficit) at 7/1/2016	\$ 218,588	\$ 381,172	\$ (120,180)	\$ 381,172

4. Other Notes

A. Risk Management

The City and its public trust are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. These risks are managed by securing commercial insurance for all risks except workers' compensation. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years. The deductibles for each line of coverage are as follows:

General liability, including property	\$0 - \$5,000 per occurrence
Automobile liability	\$0

The City participated in the Oklahoma Municipal Assurance Group's (OMAG) Workmen's Compensation Plan.

The OMAG Workers' Compensation Plan (the Plan) became effective October 1, 1984. The purpose of the Plan is to provide workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the plan year. A plan year normally begins at 12:01 am on July 1, in any year and ends at Midnight June 30, of the following calendar year. The Plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

The City has entered into an agreement with the Plan to participate in the coverages and services that the Plan offers. The City has the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, the City is responsible for complying with all requirements of the Oklahoma Workers Compensation Act. The City has a right to the return of any Loss Funds set aside for claims which have not been paid out in benefits.

The City maintains Loss Fund balances with OMAG in respect to the City's worker's compensation retention. CompSource Oklahoma provides coverage in excess of the City's retention levels so each participant's liability for claim losses is limited to these retention levels. Failure of CompSource Oklahoma to honor its obligations could result in losses to the Plan. However, OMAG's evaluation of the financial condition of CompSource Oklahoma indicates that CompSource Oklahoma is presently financially sound and will be able to meet its contractual obligations.

B. Employee Retirement Plan Participation

Oklahoma Firefighter's Pension and Retirement System

The City participates in a statewide, cost-sharing, multiple-employer benefit plan on behalf of firefighters. The system is administered by an agency of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. For 2017, the City's annual required contribution was \$23,101 for the OFPRS plan and at June 30, 2017 there was an arrearage of \$7,053. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

Eligibility to participate	All full-time or voluntary firefighters of a participating municipality hired before age 45 (the City only has volunteer firefighters)
Authority establishing contribution obligations and benefit provisions	State Statute
Plan members' contribution rate	None
City's contribution rate	\$60 per volunteer
Period required to vest	10 years
Benefits and eligibility for distribution (volunteer)	20 years credited service equal to \$5.46 per month per year of service with a maximum of 30 years considered
Deferred retirement option	Yes, 20 years credited service with continued service for 30 or more years
Provisions for:	
Cost of living adjustments (normal retirement)	Yes, if vested by May, 1983
Death (duty, non-duty, post retirement)	Yes
Disability	Yes
Cost of living allowances	Yes

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OFPRS
4545 N. Lincoln Blvd., Suite 265
Oklahoma City, OK 73105-3414

Oklahoma Police Pension and Retirement System

The City participates in a statewide, cost-sharing, multiple-employer benefit plan on behalf of police officers. The system is administered by an agency of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. For 2017, the City's annual required contribution was \$19,460 for the OPPRS plan which was equal to the City's actual contribution. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

Eligibility to participate	All full-time police officers of a participating municipality
Authority establishing contribution obligations and benefit provisions	State Statute
Plan members' contribution rate	8% of annual covered pay
City's contribution rate	13% of annual covered pay
Period required to vest	10 years
Benefits and eligibility for distribution (volunteer)	2.5% of final annual salary multiplied by year of service with a maximum of 20 years considered
Deferred retirement option	Yes, after 10 years of credited service
Provisions for:	
Cost of living adjustments (normal retirement)	Yes
Death (duty, non-duty, post retirement)	Yes
Disability	Yes
Cost of living allowances	Yes

The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OPPRS
1001 NW 63rd Street, Suite 305
Oklahoma City, OK 73116-7335

Defined Contribution Plan - Oklahoma Municipal Retirement Fund (OkMRF)

A. Plan Description

The City contributes to the Employee Retirement System of Spencer, Oklahoma in the form of the Oklahoma Municipal Retirement System Master Contribution Plan and Trust, an agent multiple employer- defined contribution plan for all eligible full time employees who are not covered by another plan. Administration of the City's individual plan rests with the City Council. The overall operations of OkMRF are supervised by a nine-member Council of Trustees elected by the participating municipalities. Bank One Trust Company of Oklahoma City acts as administrator and securities custodian. The OkMRF plan issues a separate financial report and can be obtained from OkMRF or from their website: www.okmrf.org/reports.html.

For the year ended June 30, 2017, the total contributions were 9.39 percent of covered payroll, of which 3 percent was contributed by both the employer and employee. For the year ended June 30, 2017, City contributions to the plan amount to \$21,294 which were the required contributions.

C. Compensated Absences

Due to the modified cash basis of accounting, the City does not report a liability for compensated absences in its financial statements. At June 30, 2017, the City did not calculate a value for compensated absences.

5. Commitments and Contingencies

Litigation:

From time to time, the City and its public trust may be parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations; however, the City's legal counsel advises that at report date there were no pending issues. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a sinking fund for the payment of any court assessed judgment rendered against the City. (This provision is not available to public trusts.) The City also carries insurance that provides some degree of protection for litigation and legal proceedings.

Workers Compensation:

The City had a lapse in coverage for workers compensation insurance coverage during the year ended June 30, 2017 due to nonpayment of premiums. There is one known case filed as of the report date that relates to this period. City's management does not believe the outcome of the case will be material to the financial statements, and consequently has not accrued a provision for this possible liability.

Going Concern:

The City has had difficulty meeting its obligations for several years. Payroll taxes are at least partially in arrears dating back to calendar year 2010 and continue to accrue interest and penalties. The pooled master bank account was overdrawn by \$71,821 at June 30, 2017. The general fund and the SUA fund have deficit unrestricted balances of \$415,369 and \$161,999, respectively. The City has experienced significant turnover in key management positions. Without a source of new funding, the City could be required to significantly curtail its services or consider other options.

Federal and State Award Programs:

The City of Spencer participates in various federal or state grant/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

6. Subsequent Events

Management evaluated events and transactions that occurred after the balance sheet date for potential recognition and disclosure through the date on which the financial statements were available to be issued, and has determined that no additional disclosures are necessary.

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OTHER INFORMATION

Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2017 - UNAUDITED

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Beginning budgetary fund balance	\$ 237,627	\$ 237,627	\$(120,180) *	\$ (357,807)
Resources (inflows)				
Taxes	938,675	938,675	896,773	(41,902)
Intergovernmental	21,516	21,516	45,873	24,357
Licenses and permits	20,668	20,668	11,628	(9,040)
Fines and forfeitures	350,000	350,000	157,308	(192,692)
Investment income	275	275	-	(275)
Miscellaneous	22,790	22,790	21,585	(1,205)
Total resources (inflows)	1,353,924	1,353,924	1,133,167	(220,757)
Amounts available for appropriation	1,591,551	1,591,551	1,012,987	(578,564)
Charges to appropriations (outflows):				
General government	538,482	538,482	334,739	203,743
Fire	385,155	385,155	321,079	64,076
Municipal court	44,642	44,642	48,601	(3,959)
Police	553,125	553,125	455,588	97,537
Parks department	70,147	70,147	22,889	47,258
Capital outlay	-	-	43,094	(43,094)
Payroll tax penalties	-	-	160,585	(160,585)
Transfers out	-	-	41,781	(41,781)
Total charges to appropriations	1,591,551	1,591,551	1,428,356	163,195
Ending budgetary fund balance	\$ -	\$ -	\$(415,369)	\$ (415,369)

* Beginning fund balance has been restated from prior year

Footnotes to Budgetary Comparison Schedule:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfer appropriations require the Mayor's approval and supplemental appropriations require the City Council's approval.

Combining Balance Sheet (Modified Cash Basis) – General Fund – June 30, 2017 - UNAUDITED

	General Fund	Court Fund	Special Reve Revenue Fund	Total Combined General Fund
Assets:				
Deposit (ODOT Project)	\$ 11,293	\$ -	\$ -	\$ 11,293
Cash held by County	37,426	-	-	37,426
Restricted assets:				
Cash and cash equivalents	-	-	-	-
Total assets	<u>\$ 48,719</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48,719</u>
Liabilities and fund balances:				
Liabilities:				
Overdrawn cash balance	\$ 38,306	\$ -	\$ -	\$ 38,306
Payroll tax arrearage	425,782	-	-	425,782
Due to other governments	<u>464,088</u>	<u>-</u>	<u>-</u>	<u>464,088</u>
Fund Balances:				
Unrestricted				
Unassigned	(415,369)	-	-	(415,369)
Total fund balances	<u>(415,369)</u>	<u>-</u>	<u>-</u>	<u>(415,369)</u>
Total liabilities and fund balances	<u><u>\$ 48,719</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 48,719</u></u>

**Combining Schedule of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis) –
General Fund – Year ended June 30, 2017 - UNAUDITED**

	General Fund	Court Fund	Special Revenue Fund	Total Combined General Fund
Revenues:				
Taxes	\$ 896,773	\$ -	\$ -	\$ 896,773
Intergovernmental	45,873	-	-	45,873
Licenses and permits	11,628	-	-	11,628
Fines and forfeitures	157,308	-	-	157,308
Miscellaneous	21,585	-	-	21,585
Total Revenues	1,133,167	-	-	1,133,167
Expenditures:				
General government	334,739	-	-	334,739
Fire	321,079	-	-	321,079
Municipal court	48,601	-	-	48,601
Police	455,588	-	-	455,588
Parks department	22,889	-	-	22,889
Capital outlay	43,094	-	-	43,094
Total expenditures	1,225,990	-	-	1,225,990
Deficiency of revenues over expenditures	(92,823)	-	-	(92,823)
Other financing sources (uses):				
Payroll tax penalties	(160,585)	-	-	(160,585)
Interfund transfers	338,151	(232,466)	(105,685)	-
Transfer to SPWA	(41,781)	-	-	(41,781)
Net other financing sources (uses)	135,785	(232,466)	(105,685)	(202,366)
Net change in fund balance	42,962	(232,466)	(105,685)	(295,189)
Fund balance - beginning*	(458,331)	232,466	105,685	(120,180)
Fund balance - ending	\$ (415,369)	\$ -	\$ -	\$ (415,369)

* Restated

INDEPENDENT AUDITOR'S REPORT ON CONTROL AND
COMPLIANCE



Elfrink and Associates, PLLC

Certified Public Accountants

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, and each major fund of the City of Spencer, Oklahoma ("City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise City's basic financial statements and have issued our report thereon dated March 22, 2019. The City reports on a modified cash basis of accounting as described in Note 1C. We issued a qualified opinion on the financial statements due to significant amount of accounting entries necessary by the City's consultant to prepare financial statements resulting from a lack of general internal controls over reporting during the year.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine 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's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2017-01, 2017-02, and 2017-03 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2017-06 and 2017-07 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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* that are described in the accompanying schedule of findings and responses as items 2017-04 and 2017-05.

The City of Spencer, Oklahoma's Response to Findings

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

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 blue ink that reads "Elfrink and Associates, PLLC". The script is cursive and fluid.

Elfrink and Associates, PLLC

Tulsa, Oklahoma

March 22, 2019

SCHEDULE OF FINDINGS AND RESPONSES

This schedule is presented as an addendum to accompany the *“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”*. Consideration of items listed should be made in conjunction with that report.

2017-01 – Pooled Cash

CONDITION: The City’s financial accounting system utilizes a pooled cash system that does not appear to be working correctly. Significant audit adjustments were necessary to correct the cash status of each fund. Consequently, the City was operating with incorrect financial information during the year.

CRITERIA: Management is responsible for establishing and maintaining effective internal control over financial reporting. Accurate financial statements are critical to communicating financial position and results of operations to the citizens of the City and other interested parties.

CAUSE OF CONDITION: A new accounting system was implemented at the beginning of the year that was not correctly set up to account for pooled cash by fund. Management of the City did not appear to have the experience necessary to identify and correct the problem.

POTENTIAL EFFECT OF CONDITION: The City was operating with incorrect information. Cash accounts could be overdrawn, and unauthorized spending could take place. Fraud, abuse, or waste could occur and not be detected on a timely basis.

RECOMMENDATION: The City should work with a consultant knowledgeable about government accounting to correct the accounting system.

RESPONSE: The City has engaged a qualified accounting consultant to assist with the corrections necessary to existing records as well as implementing the appropriate system to record and track future activity.

2017-02 – Cash Balances Omitted from Accounting System

CONDITION: The City’s general ledger did not have any cash balances recorded. Only transactions for the master operating account were recorded, but there was no beginning balance entered and no balance that corresponded with the actual bank account. In addition, the City had 26 other bank accounts, including 4 trust accounts, that were not recorded on the accounting system at all.

CRITERIA: Management is responsible for establishing and maintaining effective internal control over financial reporting. In order to assure accurate reporting, all cash accounts should be recorded to the general ledger and all transactions should follow the statutory requirements for disbursements and transfers, where applicable.

CAUSE OF CONDITION: A new accounting system was implemented at the beginning of the year that was not correctly set up to account for pooled cash by fund. Management of the City did not appear to have the experience necessary to identify and correct the problem.

POTENTIAL EFFECT OF CONDITION: Correcting entries were required by the City’s consultant to add the bank accounts, including the bank account activity during the year, in order to correct the City’s accounting records. The City was operating with incorrect information during the year. Fraud, abuse, or waste could occur and not be detected on a timely basis.

RECOMMENDATION: The City should work with a consultant knowledgeable about government accounting to correct the accounting system so that all cash accounts are recorded on the general ledger.

RESPONSE: The City has engaged a qualified accounting consultant to assist with the corrections necessary to existing records as well as implementing the appropriate system to record and track future activity.

2017-03 – Bank Reconciliations

CONDITION: The City did not perform any reconciliations of its cash accounts to the general ledger during the year. The master bank account was managed by checking the bank balance online prior to releasing checks that had been held pending receipt of funds.

CRITERIA: Management is responsible for establishing and maintaining effective internal control over financial reporting. Reconciling the bank account to the general ledger is essential in order to produce reliable financial information.

CAUSE OF CONDITION: Most of the normal operating activity occurs in a single pooled master bank account which increases the complexity of the bank account reconciliation. There were no cash accounts set up on the system at inception, so no reliable book balances that could be reconciled.

POTENTIAL EFFECT OF CONDITION: The City was operating with incorrect and/or incomplete financial information. Fraud or abuse, to include improper payments, could occur and be undetected in a timely manner.

RECOMMENDATION: The City should work with a consultant knowledgeable about government accounting to correct the accounting system and perform the bank reconciliations. When errors are discovered, processes should be refined to assure reliable information is being generated by the system.

RESPONSE: The City has engaged a qualified accounting consultant to assist with the corrections necessary to existing records as well as implementing the appropriate system to record and track future activity and perform the bank reconciliations.

2017-04 – Deficit Fund Balance

CONDITION: At June 30, 2017, the City of Spencer's General Fund showed a deficit fund balance of \$415,369.

CRITERIA: Oklahoma Statute Title 11 section 17-211 states the following:

- a. No expenditure may be incurred or made by any officer or employee which exceeds the fund balance for any fund. Any fund balance remaining in a fund at the end of the fiscal year shall be carried forward to the credit of the fund for the next fiscal year. No expenditure may be authorized or made by any officer or employee which exceeds the appropriation of any fund.
- b. It shall be unlawful for any officer or employee of the municipality in any budget year:
 1. To create or authorize creation of a deficit in any fund; or
 2. To authorize, make or incur expenditures in excess of ninety percent (90%) of the appropriation for any fund of the budget as adopted or amended until revenues received, including the prior fiscal year's fund balance carried forward, totals an amount equal to at least ninety percent (90%) of the appropriation for the fund. Expenditures may then be made and authorized so long as any expenditure does not exceed any fund balance.

CAUSE OF CONDITION: The general fund deficit was caused by incurring and paying for operating expenditures in excess of available revenues.

POTENTIAL EFFECT OF CONDITION: The City is in violation of Oklahoma Statute Title 11 section 17-211.

RECOMMENDATION: The City should work diligently towards elimination of the deficit fund balance in the general fund which may require the identification of additional funding sources and/or the reduction and/or elimination of some City services.

RESPONSE: The City is aware of the financial difficulties and is working on a plan to address them.

2017-05 – Purchase Orders; Support for Payments

CONDITION: Nine of the twenty-six payments examined from our random sample of general vendor disbursements did not have a purchase order attached. Eight of the twenty-six payments did not have a detailed invoice attached.

CRITERIA: Title 62, section 310.1 of the Oklahoma State Statutes requires that purchase orders have the written approval of a purchasing officer and an encumbering clerk prior to release. Invoices must be in writing and examined per the Purchase Order Act or municipal ordinance. Invoices are required, after satisfactory delivery, and shall be itemized.

CAUSE OF CONDITION: The City does not have a practice in place to require purchase orders prior to the commitment of funds or a detailed invoice prior to payment.

POTENTIAL EFFECT OF CONDITION: The City's expenditures could exceed its appropriations, improper payments could occur, fraud or abuse could occur and be undetected on a timely basis.

RECOMMENDATION: City personnel should assure that a properly executed purchase order is in place prior to the commitment of funds. An itemized invoice must be received and matched to the purchase order prior to submitting for payment. The City should assure that relevant personnel are properly trained as to the law and established procedures regarding purchases and disbursements.

RESPONSE: The City will review its procedures to assure that the Purchase Order Act and relevant statutes as well as established municipal ordinances are followed related to purchases and disbursements.

2017-06 – Utility Billing; Cutoff Procedures

CONDITION: We examined the details and calculations of 20 utility bills, of which 2 showed that the rate tables were not calculating the bill correctly. In each instance the customer had been underbilled. Although not significant, it could be material when extrapolated to the entire customer population and for the entire year. In addition, four of the accounts appeared to be in arrears two or more months and had current service, including one city council member who was significantly in arrears.

CRITERIA: City ordinance requires service to be disconnected if payment is not received by the 25th of the month. The debt covenants require that utility rate structure and revenue receipts are sufficient to maintain efficient utility operations and amortize the debt.

CAUSE OF CONDITION: The City does not appear to be strictly enforcing the cutoff procedures and does not appear to be testing the application of rate changes prior to bill issuance.

POTENTIAL EFFECT OF CONDITION: Utility customers with delinquent accounts could be subsidized by other customers inappropriately. The utility system may not generate sufficient revenue to maintain the system, operate effectively and efficiently, and amortize the revenue bonds.

RECOMMENDATION: Regular testing of the rate tables should be implemented. Cutoff procedures should be strictly enforced.

RESPONSE: The City will review its procedures to assure that rate tables are tested, and cutoff procedures are enforced.

2017-07 – Segregation of Duties

CONDITION: The City does not have formal accounting policies and procedures over the City's accounting and internal control processes, and current processes and procedures may not effectively limit duties to minimize risks associated with segregation of duties.

CRITERIA: The segregation of duties and responsibilities between individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the City's assets and ensure accurate financial reporting.

CAUSE OF CONDITION: The City's limited size and staffing resources have made it difficult for management to provide sufficient staffing to segregate incompatible duties in a cost-effective manner.

POTENTIAL EFFECT OF CONDITION: Without sufficient segregation of duties, the risk increases that errors and fraud could occur and not be detected on a timely basis.

RECOMMENDATION: Consideration should be given to the design of internal control to improve segregation of duties and/or implementation of mitigating activities performed by the City Council.

RESPONSE: Management has taken these recommendations under advisement.