

CITY OF SPENCER, OKLAHOMA

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2019



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City Council

Frank Calvin	Chairman/Mayor
Jim Scanlon	Vice Chairman/Mayor
Kerry Andrews	Member
Tonni Canaday	Member
James Talley	Member

Management

Steallyn Marsh	City Manager (Interim)
Vacant	City Clerk
Allen Lane	Chief of Police
Alexandria Gibson	Municipal Court Clerk
Kenneth Griffith	Fire Chief
Terry Kellum	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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, and each major fund of the City of Spencer, Oklahoma, as of June 30, 2019, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting 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 Note 5, the City had a significant deficit working capital position at June 30, 2019. 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 38, 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 July 7, 2020 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.

A handwritten signature in blue ink that reads "Elfrink and Associates, PLLC". The signature is written in a cursive, flowing style.

Elfrink and Associates, PLLC

Tulsa, Oklahoma

July 7, 2020

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, 2019. 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 increased by \$286,475 and the assets of the City exceeded its liabilities at June 30, 2019, by \$836,245 (net position). Of this amount, the City has a deficit \$202,609 (unrestricted net position) available to meet the government's ongoing needs.
- At June 30, 2019, the unassigned fund balance for the General Fund was a deficit of \$131,029 or 9% 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 Funds

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 20-36 of this report.

THE CITY AS A WHOLE

For the year ended June 30, 2019, net position for the governmental and business-type activities increased \$181,714.

Net position at June 30,						
	Governmental Activities		Business-type		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018*</u>	<u>2019</u>	<u>2018*</u>
Beginning net position	\$ 68,866	\$ (83,262)	\$ 480,904	\$ 451,318	\$ 549,770	\$ 368,056
Increase (Decrease)	63,242	152,128	223,233	29,586	286,475	181,714
Ending net position	<u>\$ 132,108</u>	<u>\$ 68,866</u>	<u>\$ 704,137</u>	<u>\$ 480,904</u>	<u>\$ 836,245</u>	<u>\$ 549,770</u>
*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>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018*</u>	<u>2019</u>	<u>2018*</u>
Assets:						
Current and other assets	\$ 263,466	\$ 196,121	\$ 2,225,113	\$ 2,232,975	\$ 2,488,579	\$ 2,429,096
Capital assets, net	263,137	309,257	4,346,335	4,285,223	4,609,472	4,594,480
Total assets	<u>526,603</u>	<u>505,378</u>	<u>6,571,448</u>	<u>6,518,198</u>	<u>7,098,051</u>	<u>7,023,576</u>
Liabilities:						
Long-term liabilities	-	-	5,613,856	5,821,142	5,613,856	5,821,142
Other liabilities	394,495	436,512	253,455	216,152	647,950	652,664
Total liabilities	<u>394,495</u>	<u>436,512</u>	<u>5,867,311</u>	<u>6,037,294</u>	<u>6,261,806</u>	<u>6,473,806</u>
Net position:						
Invested in capital assets, net	263,137	309,257	304,034	191,184	567,171	500,441
Restricted	-	-	471,683	458,015	471,683	458,015
Unrestricted	(131,029)	(240,391)	(71,580)	(168,295)	(202,609)	(408,686)
Total net position	<u>\$ 132,108</u>	<u>\$ 68,866</u>	<u>\$ 704,137</u>	<u>\$ 480,904</u>	<u>\$ 836,245</u>	<u>\$ 549,770</u>
*Restated						

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

	Governmental Activities		Business-type		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018*</u>	<u>2019</u>	<u>2018*</u>
Revenues:						
Program revenues:						
Charges for services	\$ 138,199	\$ 133,145	\$ 1,123,884	\$ 1,197,307	\$ 1,262,083	\$ 1,330,452
Grants	4,000	63,992	-	-	4,000	63,992
General revenues:						
Taxes	1,292,933	1,090,945	-	-	1,292,933	1,090,945
Other general revenues	9,740	18,051	66,440	48,759	76,180	66,810
Total revenues	<u>1,444,872</u>	<u>1,306,133</u>	<u>1,190,324</u>	<u>1,246,066</u>	<u>2,635,196</u>	<u>2,552,199</u>
Program expenses:						
General government	561,915	589,800	-	-	561,915	589,800
Police	381,943	415,880	-	-	381,943	415,880
Fire	392,185	322,755	-	-	392,185	322,755
Streets and alleys	-	-	35,122	16,368	35,122	16,368
Parks	9,232	35,876	-	-	9,232	35,876
City utilities	-	-	893,396	979,076	893,396	979,076
Total expenses	<u>1,345,275</u>	<u>1,364,311</u>	<u>928,518</u>	<u>995,444</u>	<u>2,273,793</u>	<u>2,359,755</u>
Transfers	-	221,036	-	(221,036)	-	-
Payroll tax penalties	(36,355)	(10,730)	(38,573)	-	(74,928)	(10,730)
Increase/(decrease) net position	<u>63,242</u>	<u>152,128</u>	<u>223,233</u>	<u>29,586</u>	<u>286,475</u>	<u>181,714</u>
Beginning net position (restated)	<u>68,866</u>	<u>(83,262)</u>	<u>480,904</u>	<u>451,318</u>	<u>549,770</u>	<u>368,056</u>
Ending net position	<u>\$ 132,108</u>	<u>\$ 68,866</u>	<u>\$ 704,137</u>	<u>\$ 480,904</u>	<u>\$ 836,245</u>	<u>\$ 549,770</u>

*Restated

Governmental Activities

The increase in net position related to governmental activities of \$63,242 in the fiscal year ended June 30, 2019 is primarily attributable to higher tax receipts.

Business-type Activities

The increase of \$223,233 for business-type activities for the year ended June 30, 2019 reflected lower operating costs in the current year as well as no operating transfers to the City.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2019 fiscal year, Governmental Funds reported a fund balance deficit of \$131,029. For the year ended June 30, 2019, the Governmental Funds' total fund balances increased by \$109,362, primarily due to higher tax revenues.

Budgetary Highlights

General fund revenues were \$301,549 higher than budgeted and expenditures were \$36,920 lower than budgeted, as lower spending than budget in court and parks were somewhat offset by higher spending in police and general government.

For fiscal year 2019-2020, general fund revenues were expected to increase 44.6% over the 2018-2019 budget, reflecting higher sales and use tax receipts as well as higher court fines. Planned governmental expenditures for police and fire are budgeted to increase with slight decreases planned for most other functional areas.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2019, 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, 2019:

Capital Assets						
June 30,						
	Governmental Activities		Business-type		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Land and other non-depreciable assets	\$ 20,000	\$ 31,293	\$ 491,021	\$ 304,865	\$ 511,021	\$ 336,158
Building improvements	350,964	339,671	86,418	86,418	437,382	426,089
Equipment	938,831	938,831	351,323	340,688	1,290,154	1,279,519
Utility systems and equipment	-	-	4,947,019	4,947,019	4,947,019	4,947,019
Totals	<u>1,309,795</u>	<u>1,309,795</u>	<u>5,875,781</u>	<u>5,678,990</u>	<u>7,185,576</u>	<u>6,988,785</u>
Less accumulated depreciation	<u>(1,046,658)</u>	<u>(1,000,538)</u>	<u>(1,393,767)</u>	<u>(1,393,767)</u>	<u>(2,440,425)</u>	<u>(2,394,305)</u>
Totals, net	<u>\$ 263,137</u>	<u>\$ 309,257</u>	<u>\$ 4,482,014</u>	<u>\$ 4,285,223</u>	<u>\$ 4,745,151</u>	<u>\$ 4,594,480</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 \$15,400
- The construction of a booster pump in the amount of \$170,756
- The purchase of two used trucks for the SPWA

Debt Administration

The City did not issue any new debt in the fiscal year ended June 30, 2019. Bonds for business-type activities in the amount of \$200,000 matured, leaving an outstanding balance of \$5,490,000. The carrying value for the bonds is \$5,613,856 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, 2019

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 263,466	\$ 93,844	\$ 357,310
Restricted assets:			
Cash and cash equivalents	-	2,131,269	2,131,269
Total current assets	<u>263,466</u>	<u>2,225,113</u>	<u>2,488,579</u>
Non-current assets			
Capital assets, net of depreciation	263,137	4,346,335	4,609,472
Total assets	<u>526,603</u>	<u>6,571,448</u>	<u>7,098,051</u>
Liabilities:			
Current liabilities:			
Payroll tax arrearage	394,495	145,909	540,404
Bonds payable, current portion	-	205,000	205,000
Total current liabilities	<u>394,495</u>	<u>350,909</u>	<u>745,404</u>
Noncurrent liabilities			
Meter deposit liability	-	107,546	107,546
Bonds payable, noncurrent	-	5,408,856	5,408,856
Total noncurrent liabilities	<u>-</u>	<u>5,516,402</u>	<u>5,516,402</u>
Total liabilities	<u>394,495</u>	<u>5,867,311</u>	<u>6,261,806</u>
Net Position:			
Net investment in capital assets	263,137	304,034	567,171
Restricted for debt service	-	471,683	471,683
Unrestricted	<u>(131,029)</u>	<u>(71,580)</u>	<u>(202,609)</u>
Total net position	<u>\$ 132,108</u>	<u>\$ 704,137</u>	<u>\$ 836,245</u>

See accompanying notes to the basic financial statements.

Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position		
		Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 561,915	\$ 12,349	\$ -	\$ -	\$ (549,566)	\$ -	\$ (549,566)
Fire	392,185	-	4,000	-	(388,185)	-	(388,185)
Municipal court	65,326	124,500	-	-	59,174	-	59,174
Police	316,617	-	-	-	(316,617)	-	(316,617)
Parks department	9,232	1,350	-	-	(7,882)	-	(7,882)
Total governmental activities	1,345,275	138,199	4,000	-	(1,203,076)	-	(1,203,076)
Business-type activities							
Water/Wastewater	627,324	717,360	-	-	-	90,036	90,036
Sanitation	266,072	406,524	-	-	-	140,452	140,452
Streets and alleys	35,122	-	-	-	-	(35,122)	(35,122)
Total business-type activities	928,518	1,123,884	-	-	-	195,366	195,366
Total primary government	\$ 2,273,793	\$ 1,262,083	\$ 4,000	\$ -	\$ (1,203,076)	\$ 195,366	\$ (1,007,710)
General revenues:							
Taxes:							
Sales and use					1,083,620	-	1,083,620
Franchise					159,899	-	159,899
Intergovernmental					49,414	-	49,414
Investment income					790	42,647	43,437
Miscellaneous					8,950	23,793	32,743
Total general revenues					1,302,673	66,440	1,369,113
Payroll tax penalties					(36,355)	(38,573)	(74,928)
Change in net position					63,242	223,233	286,475
Net position - beginning (business-type is restated)					68,866	480,904	549,770
Net position - ending					\$ 132,108	\$ 704,137	\$ 836,245

See accompanying notes to the basic financial statements.

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2019

	General Fund
Assets:	
Cash and cash equivalents	\$ 263,466
Total assets	<u>\$ 263,466</u>
Liabilities and fund balances:	
Liabilities:	
Payroll tax arrearage	<u>394,495</u>
Total liabilities	<u>394,495</u>
Fund Balances:	
Unrestricted	
Unassigned	<u>(131,029)</u>
Total fund balances	<u>(131,029)</u>
Total liabilities and fund balances	<u><u>\$ 263,466</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, 2019

	General Fund
Revenues:	
Taxes	\$ 1,243,519
Intergovernmental	49,414
Licenses and permits	12,349
Grants	4,000
Rental income	1,350
Fines and forfeitures	124,500
Donations	63
Investment earnings	790
Miscellaneous	8,889
Total Revenues	<u>1,444,874</u>
Expenditures:	
General government	557,126
Fire	369,856
Municipal court	65,326
Police	298,122
Parks department	8,727
Total expenditures	<u>1,299,157</u>
Excess of revenues over expenditures	<u>145,717</u>
Other financing sources (uses):	
Payroll tax penalties	<u>(36,355)</u>
Net other financing sources (uses)	<u>(36,355)</u>
Net change in fund balance	109,362
Fund balance - beginning	<u>(240,391)</u>
Fund balance - ending	<u><u>\$ (131,029)</u></u>

See accompanying notes to the basic financial statements.

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund balances of governmental funds	\$	(131,029)
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities of \$1,309,795, net of accumulated depreciation of \$1,046,658 are not financial resources and, therefore, are not reported in the funds.		263,137
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Net position of governmental activities	\$	<u>132,108</u>
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Net changes in fund balances - total governmental funds	\$	109,362
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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:		
Depreciation expense		(46,120)
		<u>(46,120)</u>

Change in net position of governmental activities	\$	<u>63,242</u>
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See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2019

	Spencer Utilities Authority
Assets	
Current assets:	
Cash and cash equivalents	\$ 93,844
Restricted cash and cash equivalents	2,131,269
Total current assets	<u>2,225,113</u>
Noncurrent assets:	
Capital assets, net	<u>4,346,335</u>
Total assets	<u>6,571,448</u>
Liabilities	
Current liabilities:	
Payroll tax arrearage	145,909
Bonds payable - current portion	205,000
Total current liabilities	<u>350,909</u>
Noncurrent Liabilities:	
Meter deposit liability	107,546
Bonds payable - noncurrent portion	5,408,856
Total noncurrent liabilities	<u>5,516,402</u>
Total liabilities	<u>5,867,311</u>
Net Position	
Net investment in capital assets	304,034
Restricted for debt service	471,683
Unrestricted	(71,580)
Total net position	<u>\$ 704,137</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, 2019**

	Spencer Utilities Authority
Operating revenues:	
Charges for sales and services:	
Water	\$ 517,644
Sewer	152,761
Sanitation	406,524
Penalties	46,955
Miscellaneous	23,793
Total operating revenues	<u>1,147,677</u>
Operating expenses:	
Utility administration	213,381
Water treatment plant	50,923
Wastewater treatment plant	18,407
Sanitation	266,072
Streets and alleys	35,122
Depreciation	135,679
Total operating expenses	<u>719,584</u>
Net operating income	<u>428,093</u>
Nonoperating revenue (expense):	
Payroll tax penalties	(38,573)
Interest and fees	(208,934)
Investment income	42,647
Total nonoperating revenue (expense)	<u>(204,860)</u>
Change in net position	<u>223,233</u>
Net position - beginning (restated)	<u>480,904</u>
Net position - ending	<u><u>\$ 704,137</u></u>

See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2019

	Spencer Utility Authority
Cash flows from operating activities:	
Receipts from customers	\$ 1,153,693
Payments to suppliers	(441,074)
Payments to employees	(150,117)
Net cash provided by operating activities	<u>562,502</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(196,791)
Principal paid on capital debt	(200,000)
Interest and fees paid on capital debt	(216,220)
Net cash used in capital and related financing activities	<u>(613,011)</u>
Cash flows from investing activities	
Investment and dividends	<u>42,647</u>
Net cash provided by investing activities	<u>42,647</u>
Net decrease in cash and cash equivalents	(7,862)
Cash and equivalents - beginning of year	2,232,975
Cash and equivalents - end of year	<u><u>\$ 2,225,113</u></u>
Reconciliation of net operating income to net cash provided by operating activities:	
Net operating income	428,093
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase (decrease) in meter deposit liability	6,016
Payments made towards payroll tax arrearage	(7,286)
Depreciation expense	135,679
Net cash provided by operating activities	<u><u>\$ 562,502</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 Statement 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, 2019, the City recognized \$43,437 of investment income. At June 30, 2019, the primary government held the following deposits and investments:

<u>Type</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Demand deposits	\$ 263,466	\$ 181,875	\$ 445,341
US Treasuries money market fund	-	2,043,238	2,043,238
Total deposits	<u>\$ 263,466</u>	<u>\$ 2,225,113</u>	<u>\$ 2,488,579</u>

Reconciliation to the statement of net position:

Cash and cash equivalents	\$ 263,466	\$ 93,844	\$ 357,310
Restricted cash and cash equivalents	-	2,131,269	2,131,269
Total	<u>\$ 263,466</u>	<u>\$ 2,225,113</u>	<u>\$ 2,488,579</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, 2019, 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, 2019, 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, 2019, 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, 2019, the City had no concentration of credit risk as defined above.

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 \$88,031 and the amount of government mutual funds held in trustee accounts on behalf of the promissory note trust accounts in the amount as follows: \$471,683 for debt service reserves and \$1,571,555 for dedicated project funds from a bond issuance.

C. Prior Period Adjustment

The beginning equity balances for the business-type activities and the Spencer Utilities Fund have been restated due to additional information that became available for the meter deposit liability as follows:

	Net Position	
	Business-type Activities	Spencer Public Works Authority
Balance reported 6/30/2018	\$ 424,950	\$ 424,950
Prior period adjustments:		
Adjustment to correct meter deposit liability	55,954	55,954
Restated balance at 7/1/2018	\$ 480,904	\$ 480,904

C. Capital Assets

Capital asset activity resulting from modified cash basis transactions or events for the fiscal year ended June 30, 2019, was as follows:

	<u>Balance at</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>June 30, 2019</u>
Governmental:				
Capital assets not being depreciated:				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Construction in progress	11,293	-	11,293	-
Total capital assets not being depreciated:	31,293	-	11,293	20,000
Capital assets being depreciated:				
Buildings/improvements	339,671	11,293	-	350,964
Vehicles, equipment & furniture	938,831	-	-	938,831
Total capital assets being depreciated	1,278,502	11,293	-	1,289,795
Less accumulated depreciation:				
Buildings/improvements	216,105	8,830	-	224,935
Vehicles, equipment & furniture	784,433	37,290	-	821,723
Total accumulated depreciation	1,000,538	46,120	-	1,046,658
Governmental, net capital assets	<u>\$ 309,257</u>	<u>\$ (34,827)</u>	<u>\$ 11,293</u>	<u>\$ 263,137</u>
Business-type				
Capital assets not being depreciated:				
Land	\$ 11,600	\$ -	\$ -	\$ 11,600
Construction in progress	293,265	186,156	-	479,421
Total capital assets not being depreciated:	304,865	186,156	-	491,021
Capital assets being depreciated:				
Buildings/improvements	86,418	-	-	86,418
Utility system	4,947,019	-	-	4,947,019
Vehicles, equipment & furniture	340,688	10,635	-	351,323
Total capital assets being depreciated	5,374,125	10,635	-	5,384,760
Less accumulated depreciation				
Buildings/improvements	61,394	2,465	-	63,859
Utility system	1,044,211	121,523	-	1,165,734
Vehicles, equipment & furniture	288,162	11,691	-	299,853
Total accumulated depreciation	1,393,767	135,679	-	1,529,446
Business-type, net capital assets	<u>\$ 4,285,223</u>	<u>\$ 61,112</u>	<u>\$ -</u>	<u>\$ 4,346,335</u>

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	\$ 4,791	Utility administration	\$ 4,292
Fire	22,329	Sewer	12,426
Police	18,495	Water	118,961
Parks department	505	Total depreciation	<u>135,679</u>
Total depreciation	<u>46,120</u>		

D. Debt Service and Coverage Requirements

For the year ended June 30, 2019, the City's long-term debt changed as follows:

Business-type Activities:

Bonds payable	\$ 5,690,000	\$ -	\$ 200,000	\$ 5,490,000	\$ 205,000
Unamortized bond premium	147,168	-	8,176	138,992	-
Unamortized bond discount	(16,026)	-	(890)	(15,136)	-
	<u>\$ 5,821,142</u>	<u>\$ -</u>	<u>\$ 207,286</u>	<u>\$ 5,613,856</u>	<u>\$ 205,000</u>

At June 30, 2019, 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	\$ 5,490,000
Unamortized bond premium and discount	<u>123,856</u>
Total carrying value of bonds to be repaid from business-type activities	<u>\$5,613,856</u>

Payment Requirements to Maturity:

Year ended <u>June 30,</u>	<u>Business-type activities</u>	
	<u>Principal*</u>	<u>Interest*</u>
2020	205,000	210,220
2021	215,000	204,070
2022	220,000	197,620
2023	225,000	191,020
2024	235,000	184,270
2025 to 2029	1,295,000	798,073
2030 to 2034	1,565,000	528,960
2035 to 2037	1,530,000	149,175
Total	<u>\$ 5,490,000</u>	<u>\$ 2,463,408</u>

* Does not include amortization

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

The city participates in three employee pension systems as follows:

<u>Name of Plan/System</u>	<u>Type of Plan</u>
Oklahoma Police Pension and Retirement Fund (OPPRS)	Cost Sharing Multiple Employer - Defined Benefit Plan
Oklahoma Firefighters Pension and Retirement Fund (OFPRS)	Cost Sharing Multiple Employer - Defined Benefit Plan
Employee Retirement System of Spencer, Oklahoma	Agency Multiple Employer – Defined Benefit Plan

Oklahoma Police Pension and Retirement Plan

Plan description - The City of Spencer, as the employer, participates in the Oklahoma Police Pension and Retirement Plan—a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Police Pension and Retirement System (OPPRS). Title 11 of the Oklahoma State Statutes, through the Oklahoma Legislature, grants the authority to establish and amend the benefit terms to the OPPRS. OPPRS issues a publicly available financial report that can be obtained at www.ok.gov/OPPRS

Benefits provided - OPPRS provides retirement, disability, and death benefits to members of the plan. The normal retirement date under the Plan is the date upon which the participant completes 20 years of credited service, regardless of age. Participants become vested upon completing 10 years of credited service as a contributing participant of the Plan. No vesting occurs prior to completing 10 years of credited service. Participants' contributions are refundable, without interest, upon termination prior to normal retirement. Participants who have completed 10 years of credited service may elect a vested benefit in lieu of having their accumulated contributions refunded. If the vested benefit is elected, the participant is entitled to a monthly retirement benefit commencing on the date the participant reaches 50 years of age or the date the participant would have had 20 years of credited service had employment continued uninterrupted, whichever is later. Monthly retirement benefits are calculated at 2.5% of the final average salary (defined as the average paid base salary of the officer over the highest 30 consecutive months of the last 60 months of credited service) multiplied by the years of credited service, with a maximum of 30 years of credited service considered. Monthly benefits for participants due to permanent disability incurred in the line of duty are 2.5% of the participants' final average salary multiplied by 20 years. This disability benefit is reduced by stated percentages

for partial disability based on the percentage of impairment. After 10 years of credited service, participants who retire due to disability incurred from any cause are eligible for a monthly benefit based on 2.5% of their final average salary multiplied by the years of service. This disability benefit is also reduced by stated percentages for partial disability based on the percentage of impairment. Effective July 1, 1998, once a disability benefit is granted to a participant, that participant is no longer allowed to apply for an increase in the dollar amount of the benefit at a subsequent date.

Survivor's benefits are payable in full to the participant's beneficiary upon the death of a retired participant. The beneficiary of any active participant killed in the line of duty is entitled to a pension benefit.

Contributions - The contributions requirements of the Plan are at an established rate determined by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 8% percent of their annual pay. Participating cities are required to contribute 13% of the employees' annual pay. Contributions to the pension plan from the City in the fiscal year ended June 30, 2019 were \$1,290.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions At June 30, 2019, the City's proportionate share of the net pension asset was \$14,818. Due to the modified cash basis of accounting, the City does not report this asset in its financial statements. The net pension asset was measured as of June 30, 2018, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2018. The City's proportion of the net pension asset was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2018. Based upon this information, the City's proportion was 0.0311 percent.

Actuarial Assumptions-The total pension liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	4.5% to 17% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense
Mortality rates:	Active employees (pre-retirement) RP-2000 Blue Collar Healthy Combined table with age set back 4 years with fully generational improvement using Scale AA. Active employees (post-retirement) and nondisabled pensioners: RP-2000 Blue Collar Healthy Combined table with fully generational improvement using scale AA.
Disabled pensioners:	RP-2000 Blue Collar Healthy Combined table with age set forward 4 years with fully generational improvement using Scale AA.

The actuarial assumptions used in the July 1, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2012, to June 30, 2017. Actuarial experience studies are performed every 5 years.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	3.27%
Domestic equity	5.16%
International equity	8.61%
Real estate	4.97%
Private Equity	8.32%
Commodities	2.42%

The current allocation policy is that approximately 60% of assets in equity instruments, including public equity, long-short hedge, venture capital, and private equity strategies; approximately 25% of assets in fixed income to include investment grade bonds, high yield and non-dollar denominated bonds, convertible bonds, and low volatility hedge fund strategies; and 15% of assets in real assets to include real estate, commodities, and other strategies.

Discount Rate-The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 14% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OPPRS; which can be located at www.ok.gov/OPPRS.

Oklahoma Firefighters Pension and Retirement Fund

Plan description - The City of Spencer, as the employer, participates in the Firefighters Pension & retirement—a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Firefighters Pension & Retirement System (FPRS). Title 11 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the FPRS. FPRS issues a publicly available financial report that can be obtained at www.ok.gov/fprs

Benefits provided - FPRS provides retirement, disability, and death benefits to members of the plan. Benefits for members hired prior to November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 20 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$150.60 per month. Benefits vest with 10 years or more of service

Benefits for members hired after November 1, 2013 are determined as 2.5 percent of the employee's final average compensation times the employee's years of service and have reached the age of 50 or have completed 22 years of service, whichever is later. For volunteer firefighters, the monthly pension benefit for normal retirement is \$165.66 per month. Benefits vest with 11 years or more of service

All firefighters are eligible for immediate disability benefits. For paid firefighters, the disability in-the-line-of-duty benefit for firefighters with less than 20 years of service is equal to 50% of final average monthly compensation, based on the most recent 30 months of service. For firefighters with over 20 years of service, a disability in-the-line-of-duty is calculated based on 2.5% of final average monthly compensation, based on the most recent 30 months, per year of service, with a maximum of 30 years of service. For disabilities not-in-the-

line-of-duty, the benefit is limited to only those with less than 20 years of service and is 50% of final average monthly compensation, based on the most recent 60-month salary as opposed to 30 months. For volunteer firefighters, the not-in-line-of-duty disability is also limited to only those with less than 20 years of service and is \$7.53 per year of service. For volunteer firefighters, the in-line-of-duty pension is \$150.60 with less than 20 years of service, or \$7.53 per year of service, with a maximum of 30 years.

A \$5,000 lump sum death benefit is payable to the qualified spouse or designated recipient upon the participant's death. The \$5,000 death benefit does not apply to members electing the vested benefit.

Contributions - The contributions requirements of the Plan are at an established rate determine by Oklahoma Statute and are not based on actuarial calculations. Employees are required to contribute 9% percent of their annual pay. Participating cities are required to contribute 14% of the employees' annual pay. Contributions to the pension plan from the City were \$28,678.

Pension Liability - At June 30, 2019, the City's proportionate share of the net pension liability was \$829,552. Due to the modified cash basis of accounting, the City does not recognize this liability in its financial statements. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2018. The City's proportion of the net pension liability was based on the City's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2018. Based upon this information, the City's proportion was 0.073696 percent.

Actuarial Assumptions-The total pension liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	3%
Salary increases:	3.5% to 9.0% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense

Mortality rates were based on the RP2000 combined healthy with blue collar adjustment as appropriate, with adjustments for generational mortality improvement using scale AA for healthy lives and no mortality improvement for disabled lives.

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2012, to June 30, 2017.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20%	5.18%
Domestic equity	37%	8.70%
International equity	20%	10.87%
Real estate	10%	7.23%
Other assets	13%	6.24%

Discount Rate-The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, determined by State statutes. Projected cash flows also assume the State of Oklahoma will continue contributing 36% of the insurance premium, as established by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the FPRS; which can be located at www.ok.gov/fprs.

Oklahoma Municipal Retirement Plan (OMRF)

Plan Description - The City contributes to the OMRF for all eligible employees except for those covered by the Police and Firefighter Pension Systems. The plan is an agent multiple employer - defined benefit plan administered by OMRF. The OMRF plan issues a separate financial report and can be obtained from OMRF or from their website: www.okmrf.org/reports.html. Benefits are established or amended by the City Council in accordance with O.S. Title 11, Section 48-101-102.

Summary of Significant Accounting Policies - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's plan and additions to/deductions from the City's fiduciary net position have been determined on the same basis as they are reported by OMRF. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value based on published market prices. Detailed information about the OMRF plans' fiduciary net position is available in the separately issued OMRF financial report.

Eligibility Factors and Benefit Provisions - Eligible to participate Full-time employees except police, firefighters and other employees who are covered under an approved system

b. Period Required to Vest	7 years of credited service.
c. Eligibility for Distribution	-Normal retirement at age 65 with 7 years of service or age 62 with 30 or more years of vesting service -Early retirement at age 55 with 7 years of service -Disability retirement upon disability with 10 years of service -Death benefit with 10 years of service for married employees
d. Benefit Determination Base	The average of the five highest consecutive annual salaries out of the last 10 calendar years of service
e. Benefit Determination Methods:	Normal Retirement- 2.625% of final average salary multiplied by credited years of service Early Retirement -Reduced 5% per year prior to normal retirement age Disability Retirement – total and permanent disability after 7 or more years of service Death Benefit -50% of employees accrued benefit, but terminates upon spouse re-marriage Prior to 7 Years Service -Return of employee contributions
f. Benefit Authorization	-Benefits are established and amended by City Council adoption of an ordinance in accordance with O.S. Title, 11, Section 48-101-102

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.

Payroll Tax Arrearage:

At September 19, 2019, management reported total amounts due the Internal Revenue Service, per letters received from the agency, of \$861,188 which included \$358,062 in civil penalties, \$4,331 in failure to pay penalties, and \$48,655 in accrued interest. All are amounts related to payroll periods of December 31, 2017 or earlier. Management believes that they will be able to get some or all of the penalties waived and consequently have only accrued \$540,404 in the current reporting year.

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

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. The spread of the virus to the United States is reported to have begun in February 2020, causing business disruption through temporary business closures throughout the country. While the City expects this matter to negatively impact its revenue collections, the impact and duration cannot be reasonably estimated at this time.

OTHER INFORMATION

Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2019 - UNAUDITED

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Beginning budgetary fund balance	\$ 229,107	\$ 229,107	\$(240,391)	\$ (469,498)
Resources (inflows)				
Taxes	1,009,000	1,009,000	1,243,519	234,519
Intergovernmental	15,000	15,000	49,414	34,414
Grants and donations	-	-	4,063	4,063
Licenses and permits	10,750	10,750	12,349	1,599
Charges for services	1,000	1,000	1,350	350
Fines and forfeitures	100,000	100,000	124,500	24,500
Investment income	75	75	790	715
Miscellaneous	7,500	7,500	8,889	1,389
Total resources (inflows)	1,143,325	1,143,325	1,444,874	301,549
Amounts available for appropriation	1,372,432	1,372,432	1,204,483	(167,949)
Charges to appropriations (outflows):				
General government	549,963	549,963	557,126	(7,163)
Fire	370,031	370,031	369,856	175
Municipal court	103,575	103,575	65,326	38,249
Police	289,920	289,920	298,122	(8,202)
Parks department	58,943	58,943	8,727	50,216
Capital outlay	-	-	-	-
Payroll tax penalties	-	-	36,355	(36,355)
Total charges to appropriations	1,372,432	1,372,432	1,335,512	36,920
Ending budgetary fund balance	\$ -	\$ -	\$(131,029)	\$ (131,029)

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.

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, 2019, and the related notes to the financial statements, which collectively comprise City's basic financial statements and have issued our report thereon dated July 7, 2020. The City reports on a modified cash basis of accounting as described in Note 1C.

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 2019-01, 2019-02, 2019-04, and 2019-06 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 2019-05 and 2019-07 to be significant deficiencies.

Compliance and Other Matters

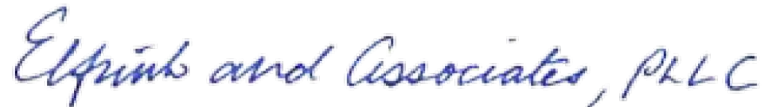
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* that is described in the accompanying schedule of findings and responses as item 2019-03.

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

July 7, 2020

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.

2019-01 – Pooled Cash

CONDITION: The City’s financial accounting system utilizes a pooled cash system that does not appear to be working correctly. Significant adjustments were made by the City’s consultant as well as audit adjustments to correct the cash status of each fund. Consequently, the City was operating with incorrect financial information during the year. This is continued from 2017 and 2018.

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 in fiscal year 2016 that was not correctly set up to account for pooled cash by fund. There has not been significant progress in correcting the system.

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 continue to work with their consultant to correct the accounting system.

RESPONSE: The City is working with 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.

2019-02 – Internal Control Over Financial Reporting

CONDITION: Although the City’s consultant is reconciling the master bank account, the general ledger is not being corrected monthly, and the other bank accounts were recorded by adjusting entries at the end of the year. We noted a net total net adjustment for the year in the amount of \$161,945 that was recorded to reduce water revenue in order to correct the pooled operating cash account balance. Upon additional review, it appeared that the cash discrepancy was most likely due to excess recording of court revenue, consequently an audit adjustment was proposed and made to correct the revenue, cash, and fund equity. This is continued from 2017 and 2018.

CRITERIA: Management is responsible for establishing and maintaining effective internal control over financial reporting. Reconciling all bank accounts to the general ledger is essential in order to produce reliable financial information. A process should be in place to clearly relate a deposit to its source.

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. Although some activity from the bank account reconciliation process is recorded during the year, the final adjusting amounts are not being recorded until the end of the year. Reconciling items are not being investigated and resolved, instead are being “plugged” to correct cash.

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 not be detected on a timely basis.

RECOMMENDATION: The City should work with its consultant to correct the accounting system and perform the bank reconciliations on a timely basis. 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.

2019-03 – Deficit Fund Balance

CONDITION: At June 30, 2019, the City of Spencer’s General Fund showed a deficit fund balance of \$131,029. It is continued but improved from the deficit position of \$240,391 at June 30, 2018.

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.

2019-04 – Utility Billing; Cutoff Procedures

CONDITION: Eight of the twenty-five accounts systematically selected for review appeared to be in arrears two or more months and had current service, including three city council members of which one was significantly in arrears. We recapped the monthly billing registers which showed total billing for the year of \$1,338,663 and payments credited to accounts of \$1,109,505, resulting in an increase in the receivable arrearage of \$229,128.

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.

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. Fraud, abuse, or waste could occur and not be detected on a timely basis.

RECOMMENDATION: Cutoff procedures should be strictly enforced.

RESPONSE: The City will review its procedures to assure that cutoff procedures are enforced.

2019-05 – 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.

2019-06 – Controls over Citations

CONDITION: During citation testing, nine tickets out of a population of 20 tickets selected could not be located. After testing, it was determined that seven of these tickets were written from "warning" books, but ticket copies were not located to support this assertion. The final two tickets could not be located and were not recorded in the system.

CRITERIA: Controls should be in place to assure that citation books are kept in a secure location, signed out to a specific officer, and followed up on missing ticket numbers to assure that they are handled properly.

CAUSE OF CONDITION: The City is not following up on missing ticket numbers. There are no procedures in place to assure that all tickets are accounted for.

POTENTIAL EFFECT OF CONDITION: A citation may not be entered on a court docket appropriately. Fraud could occur and not be detected on a timely basis.

RECOMMENDATION: The City should implement processes to monitor the receipt of all tickets to ensure tickets are properly entered into the ODIS system, adjudicated in the court system, and citation revenue is properly recorded.

RESPONSE: Management has taken these recommendations under advisement.

2019-07 – Controls over Fuel Purchases

CONDITION: The City uses a fuel card system for the police, fire, and public works vehicles, with odometer readings as a control feature on the system. It was evident from review of the October 1, 2018 invoice that the odometer control feature was not being used and the fuel cards were being shared between vehicles. Evidence of this included different types of fuel being charged to the same vehicle, multiple charges on the same vehicle within a few hours, and disparate odometer readings on the same vehicle. On August 31, for instance, one vehicle was shown to have 64.15 gallons pumped, with odometer readings of 93,173, 178,462, and 98,131 at the times of purchase – all at the same station.

CRITERIA: In order to control the ability for personal fuel purchases, employees should be required to enter actual odometer readings and the fuel cards should be attached to the vehicle shown in the statement. Comdata statements should be reviewed and accountability should be enforced.

CAUSE OF CONDITION: The City does not appear to be exercising control over the use of cards or requiring that the information entered at the time of the fuel purchase is accurate.

POTENTIAL EFFECT OF CONDITION: Unauthorized fuel purchases could take place.

RECOMMENDATION: The City should review the issuance of fuel cards to improve accountability. All card users should be required to enter the correct vehicle and odometer information. The monthly invoice should be reviewed by the appropriate person to assure the cards are being used correctly and the fuel purchases appear reasonable.

RESPONSE: Management has taken these recommendations under advisement.