

CITY OF SPENCER, OKLAHOMA

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2021



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City Council

Frank Calvin	Chairman/Mayor
Jim Scanlon	Vice Chairman/Mayor
Renita Fair	Member
Tonni Canaday	Member
LaTonya Williams	Member

Management

Shamia Jackson	City Manager
Cecilia Taft	City Clerk
Marcus Thurman	Chief of Police
Crystal Wilson	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



**HINKLE &
COMPANY**
PC
*Strategic
Business Advisors*

Independent Auditors' Report

City Council
City of Spencer
Spencer, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Spencer, as of and for the year ended June 30, 2021, and the related notes to the financial statements which collectively comprise the City of Spencer's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

City of Spencer's 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.

Auditors' 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 qualified audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Spencer, as of June 30, 2021, and the respective changes in financial position-modified cash basis and, where applicable, cash flows, thereof for the year then ended on the 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 a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Spencer's basic financial statements. The combining and individual nonmajor fund financial statements and modified cash basis budgetary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and modified cash basis budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, except for the effect on the combining and individual nonmajor fund financial statements and budgetary schedules of the use of modified cash basis of accounting, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.



Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2021 on our consideration of the City of Spencer's internal control over financial reporting and 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 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 of Spencer's internal control over financial reporting and compliance.

Hick & Company, PC

Tulsa, Oklahoma
November 2, 2021



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, 2021. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts.

FINANCIAL HIGHLIGHTS

- The City's total net position decreased by \$146,024 and the assets of the City exceeded its liabilities at June 30, 2021, by \$841,144 (net position). Of this amount, the City has an unrestricted net position of \$262,705 available to meet the government's ongoing needs.
- At June 30, 2021, the unassigned fund balance for the General Fund was \$321,070 or 14.5% 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 20-37 of this report.

THE CITY AS A WHOLE

For the year ended June 30, 2021, net position for the governmental and business-type activities decreased \$146,024.

	Net position at June 30,					
	Governmental Activities		Business-type		Total	
	2021	2020	2021	2020	2021	2020
Beginning net position	\$ 273,769	\$ 132,108	\$ 713,399	\$ 704,137	\$ 987,168	\$ 836,245
Increase (Decrease)	406,803	141,661	(552,827)	9,262	(146,024)	150,923
Ending net position	<u>\$ 680,572</u>	<u>\$ 273,769</u>	<u>\$ 160,572</u>	<u>\$ 713,399</u>	<u>\$ 841,144</u>	<u>\$ 987,168</u>

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	
	2021	2020	2021	2020	2021	2020
Assets:						
Current and other assets	\$ 715,190	\$ 362,044	\$ 2,360,853	\$ 1,046,705	\$ 3,076,043	\$ 1,408,749
Capital assets, net	442,636	412,944	6,545,085	5,327,142	6,987,721	5,740,086
Total assets	<u>1,157,826</u>	<u>774,988</u>	<u>8,905,938</u>	<u>6,373,847</u>	<u>10,063,764</u>	<u>7,148,835</u>
Deferred outflows:						
Unamortized loss on debt refunding	-	-	465,867	-	465,867	-
Liabilities:						
Long-term liabilities	83,134	100,000	8,944,363	5,401,570	9,027,497	5,501,570
Other liabilities	394,120	401,219	266,870	258,878	660,990	660,097
Total liabilities	<u>477,254</u>	<u>501,219</u>	<u>9,211,233</u>	<u>5,660,448</u>	<u>9,688,487</u>	<u>6,161,667</u>
Net position:						
Invested in capital assets, net	359,502	312,944	(383,796)	403,101	(24,294)	716,045
Restricted	-	-	602,733	521,828	602,733	521,828
Unrestricted	321,070	(39,175)	(58,365)	(211,530)	262,705	(250,705)
Total net position	<u>\$ 680,572</u>	<u>\$ 273,769</u>	<u>\$ 160,572</u>	<u>\$ 713,399</u>	<u>\$ 841,144</u>	<u>\$ 987,168</u>

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

	Governmental Activities		Business-type		Total	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenues:						
Program revenues:						
Charges for services	\$ 345,861	\$ 230,685	\$ 1,181,871	\$ 1,064,353	\$ 1,527,732	\$ 1,295,038
Grants	263,806	59,642	-	-	263,806	59,642
General revenues:						
Taxes	1,547,104	1,118,488	-	-	1,547,104	1,118,488
Other general revenues	64,325	43,708	32,589	83,142	96,914	126,850
Total revenues	<u>2,221,096</u>	<u>1,452,523</u>	<u>1,214,460</u>	<u>1,147,495</u>	<u>3,435,556</u>	<u>2,600,018</u>
Program expenses:						
General government	572,617	498,424	-	-	572,617	498,424
Police and court	667,070	471,493	-	-	667,070	471,493
Fire	495,488	413,466	-	-	495,488	413,466
Streets and alleys	43,134	58,153	-	-	43,134	58,153
Parks	22,986	886	-	-	22,986	886
City utilities	-	-	1,698,005	1,006,673	1,698,005	1,006,673
Total expenses	<u>1,801,295</u>	<u>1,442,422</u>	<u>1,698,005</u>	<u>1,006,673</u>	<u>3,499,300</u>	<u>2,449,095</u>
Transfers	69,282	131,560	(69,282)	(131,560)	-	-
Payroll tax penalties	(82,280)	-	-	-	(82,280)	-
Increase/(decrease) net position	<u>406,803</u>	<u>141,661</u>	<u>(552,827)</u>	<u>9,262</u>	<u>(146,024)</u>	<u>150,923</u>
Beginning net position	<u>273,769</u>	<u>132,108</u>	<u>713,399</u>	<u>704,137</u>	<u>987,168</u>	<u>836,245</u>
Ending net position	<u>\$ 680,572</u>	<u>\$ 273,769</u>	<u>\$ 160,572</u>	<u>\$ 713,399</u>	<u>\$ 841,144</u>	<u>\$ 987,168</u>

Governmental Activities

The increase in net position related to governmental activities of \$406,803 in the fiscal year ended June 30, 2021 reflected the receipt of grant revenue related to the COVID-19 virus mitigation efforts as well as higher sales and use tax receipts, somewhat offset by higher spending in nearly every functional area.

Business-type Activities

The decrease of \$552,827 for business-type activities for the year ended June 30, 2021 included debt issuance costs of \$322,903, higher interest costs, and additional contract costs to operate the water and sewer treatment plants.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2021 fiscal year, the General Fund reported a fund balance of \$321,070. For the year ended June 30, 2021, the General Fund increased by \$360,245, primarily due to the receipt of COVID-19 grant funds and higher sales and use taxes as discussed above.

Budgetary Highlights

General fund revenues were \$842,146 higher than budgeted and expenditures were \$481,901 higher than budgeted, reflecting higher spending in every functional area except for parks and recreation. The street operating expenditures shown in the general fund were budgeted in the SPWA fund.

For fiscal year 2021-2022, general fund revenues are projected to increase 39% from the 2020-2021 budget, as the higher sales and use tax receipt trend is expected to continue. General fund appropriations are 20% higher, showing increases in every functional area except for parks.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2021, the City had approximately \$7.0 million in capital assets (net of accumulated depreciation). Below are details regarding the City's capital assets for the year ended June 30, 2021:

Capital Assets						
June 30,						
	Governmental Activities		Business-type		Total	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Land and other non-depreciable assets	\$ 20,000	\$ 20,000	\$ 2,460,551	\$ 1,602,709	\$ 2,480,551	\$ 1,622,709
Building improvements	362,210	362,210	86,418	86,418	448,628	448,628
Equipment	1,209,471	1,118,221	351,323	351,323	1,560,794	1,469,544
Utility systems and equipment	-	-	5,442,099	4,947,019	5,442,099	4,947,019
Totals	<u>1,591,681</u>	<u>1,500,431</u>	<u>8,340,391</u>	<u>6,987,469</u>	<u>9,932,072</u>	<u>8,487,900</u>
Less accumulated depreciation	<u>(1,149,045)</u>	<u>(1,087,487)</u>	<u>(1,795,306)</u>	<u>(1,660,327)</u>	<u>(2,944,351)</u>	<u>(2,747,814)</u>
Totals, net	<u>\$ 442,636</u>	<u>\$ 412,944</u>	<u>\$ 6,545,085</u>	<u>\$ 5,327,142</u>	<u>\$ 6,987,721</u>	<u>\$ 5,740,086</u>

This year's capital asset additions include the following:

- Additional work on the water lines replacement project in the amount of \$857,842.
- The installation of a remote meter reading system in the amount of \$491,148.
- The purchase of four used vehicles for the police department in the amount of \$43,764

Debt Administration

In August 2021, the Spencer Utility Authority Series 2015 bonds were defeased with the issuance of new bonds in the amount of \$8,720,000 that included an additional \$2,082,000 for water line improvements and \$600,000 to settle the payroll tax arrearages. The debt activity for the year ended June 30, 2021 is as follows:

	<u>Balance</u>			<u>Balance</u>	<u>Amount Due</u>
	<u>July 1, 2020</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2021</u>	<u>Within One Year</u>
Governmental Activities:					
Lease payable	\$ 100,000	\$ -	\$ 16,866	\$ 83,134	\$ 15,287
Business-type Activities:					
Bonds payable	\$ 5,285,000	\$ 8,720,000	\$ 5,345,000	\$ 8,660,000	\$ 120,000
Unamortized bond premium	130,816	58,626	134,724	54,718	-
Unamortized bond discount	(14,246)	(197,366)	(27,404)	(184,208)	-
Leases payable	-	491,148	77,295	413,853	175,830
	<u>\$ 5,401,570</u>	<u>\$ 9,072,408</u>	<u>\$ 5,529,615</u>	<u>\$ 8,944,363</u>	<u>\$ 295,830</u>

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.

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BASIC FINANCIAL STATEMENTS

Statement of Net Position (Modified Cash Basis) – June 30, 2021

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 715,190	\$ 154,473	\$ 869,663
Restricted assets:			
Cash and cash equivalents	-	2,206,380	2,206,380
Total current assets	<u>715,190</u>	<u>2,360,853</u>	<u>3,076,043</u>
Non-current assets			
Capital assets, net of depreciation	442,636	6,545,085	6,987,721
Total assets	<u>1,157,826</u>	<u>8,905,938</u>	<u>10,063,764</u>
Deferred Outflows			
Unamortized loss on debt refunding	-	465,867	465,867
Liabilities:			
Current liabilities:			
Payroll tax arrearage	394,120	145,909	540,029
Lease payable, current portion	15,287	175,830	191,117
Bonds payable, current portion	-	120,000	120,000
Total current liabilities	<u>409,407</u>	<u>441,739</u>	<u>851,146</u>
Noncurrent liabilities			
Meter deposit liability	-	120,961	120,961
Lease payable, noncurrent	67,847	238,023	305,870
Bonds payable, noncurrent	-	8,410,510	8,410,510
Total noncurrent liabilities	<u>67,847</u>	<u>8,769,494</u>	<u>8,837,341</u>
Total liabilities	<u>477,254</u>	<u>9,211,233</u>	<u>9,688,487</u>
Net Position:			
Net investment in capital assets	359,502	(383,796)	(24,294)
Restricted for debt service	-	602,733	602,733
Unrestricted	321,070	(58,365)	262,705
Total net position	<u>\$ 680,572</u>	<u>\$ 160,572</u>	<u>\$ 841,144</u>

See accompanying notes to the basic financial statements.

Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2021

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	\$ 572,617	\$ 60,577	\$ -	\$ -	\$ (512,040)	\$ -	\$ (512,040)
Fire	495,488	-	131,903	-	(363,585)	-	(363,585)
Municipal court	104,451	285,284	-	-	180,833	-	180,833
Police	562,619	-	131,903	-	(430,716)	-	(430,716)
Streets and alleys	43,134	-	-	-	(43,134)	-	(43,134)
Parks and recreation	22,986	-	-	-	(22,986)	-	(22,986)
Total governmental activities	1,801,295	345,861	263,806	-	(1,191,628)	-	(1,191,628)
Business-type activities							
Water/Wastewater	1,098,098	720,391	-	-	-	(377,707)	(377,707)
Sanitation	277,004	461,480	-	-	-	184,476	184,476
Total business-type activities	1,375,102	1,181,871	-	-	-	(193,231)	(193,231)
Total primary government	\$ 3,176,397	\$ 1,527,732	\$ 263,806	\$ -	\$ (1,191,628)	\$ (193,231)	\$ (1,384,859)
General revenues:							
Taxes:							
Sales and use					1,331,320	-	1,331,320
Franchise					142,378	-	142,378
Intergovernmental					73,406	-	73,406
Investment income					433	987	1,420
Miscellaneous					63,892	31,602	95,494
Debt issuance costs					-	(322,903)	(322,903)
Total general revenues					1,611,429	(290,314)	1,321,115
Transfer in/out					69,282	(69,282)	-
Payroll tax penalties					(82,280)	-	(82,280)
Change in net position					406,803	(552,827)	(146,024)
Net position - beginning					273,769	713,399	987,168
Net position - ending					\$ 680,572	\$ 160,572	\$ 841,144

See accompanying notes to the basic financial statements.

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2021

	General Fund
Assets:	
Cash and cash equivalents	\$ 715,190
Total assets	<u>\$ 715,190</u>
Liabilities and fund balances:	
Liabilities:	
Payroll tax arrearage	<u>394,120</u>
Total liabilities	<u>394,120</u>
Fund Balances:	
Unrestricted	
Unassigned	<u>321,070</u>
Total fund balances	<u>321,070</u>
Total liabilities and fund balances	<u><u>\$ 715,190</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, 2021

	General Fund
Revenues:	
Taxes	\$ 1,473,698
Intergovernmental	73,406
Licenses and permits	60,577
Grants	263,806
Fines and forfeitures	285,284
Investment earnings	433
Miscellaneous	63,892
Total Revenues	<u>2,221,096</u>
Expenditures:	
General government	567,031
Fire	478,273
Municipal court	104,451
Police	542,027
Streets and alleys	41,835
Parks and recreation	22,986
Capital outlay	91,250
Total expenditures	<u>1,847,853</u>
Excess (deficiency) of revenues over expenditures	<u>373,243</u>
Other financing sources (uses):	
Payroll penalties	(82,280)
Transfer from SPWA	69,282
Net other financing sources (uses)	<u>(12,998)</u>
Net change in fund balance	360,245
Fund balance - beginning	<u>(39,175)</u>
Fund balance - ending	<u><u>\$ 321,070</u></u>

See accompanying notes to the basic financial statements.

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund balances of governmental funds	\$	321,070
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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 \$1,591,681, net of accumulated depreciation of \$1,149,045 are not financial resources and, therefore, are not reported in the funds.		442,636
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Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund financial statements.		(83,134)
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Net position of governmental activities	\$	680,572
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Net changes in fund balances - total governmental funds	\$	360,245
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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:

Capital asset purchased with cash		91,250
Depreciation expense		(61,558)
		29,692

The issuance of debt is an other financing source in the governmental funds, but is recorded as a long-term liability in the statement of net position.

Principal payments on long term debt in the current year		16,866
		16,866

Change in net position of governmental activities	\$	406,803
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See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2021

	Spencer Utilities Authority
Assets	
Current assets:	
Cash and cash equivalents	\$ 154,473
Restricted cash and cash equivalents	2,206,380
Total current assets	<u>2,360,853</u>
Noncurrent assets:	
Capital assets, net	<u>6,545,085</u>
Total assets	<u>8,905,938</u>
Deferred Outflows	
Unamortized loss on debt refunding	465,867
Liabilities	
Current liabilities:	
Payroll tax arrearage	145,909
Lease payable - current portion	175,830
Bonds payable - current portion	120,000
Total current liabilities	<u>441,739</u>
Noncurrent Liabilities:	
Meter deposit liability	120,961
Lease payable - noncurrent portion	238,023
Bonds payable - noncurrent portion	8,410,510
Total noncurrent liabilities	<u>8,769,494</u>
Total liabilities	<u>9,211,233</u>
Net Position	
Net investment in capital assets	(383,796)
Restricted for debt service	602,733
Unrestricted	(58,365)
Total net position	<u>\$ 160,572</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, 2021**

	Spencer Utilities Authority
Operating revenues:	
Charges for sales and services:	
Water	\$ 530,250
Sewer	175,120
Sanitation	461,480
Penalties	15,021
Miscellaneous	31,602
Total operating revenues	<u>1,213,473</u>
Operating expenses:	
Utility administration	473,129
Water treatment plant	84,104
Wastewater treatment plant	33,803
Sanitation	277,004
Depreciation	134,979
Total operating expenses	<u>1,003,019</u>
Net operating income	<u>210,454</u>
Nonoperating revenue (expense):	
Interest and fees	(372,083)
Investment income	987
Debt issuance costs	(322,903)
Transfers to City of Spencer	(69,282)
Total nonoperating revenue (expense)	<u>(763,281)</u>
Change in net position	<u>(552,827)</u>
Net position - beginning	<u>713,399</u>
Net position - ending	<u>\$ 160,572</u>

See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2021

	Spencer Utility Authority
Cash flows from operating activities:	
Receipts from customers	\$ 1,221,465
Payments to suppliers	(530,776)
Payments to employees	(337,264)
Net cash provided by operating activities	<u>353,425</u>
Cash flows from noncapital financing activities:	
Transfers to City	(69,282)
Net cash flows used by noncapital financing activities	<u>(69,282)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	(1,352,922)
Principal paid on capital debt	(5,422,295)
Deposits to defeased escrow for interest to maturity	(499,143)
Interest and fees paid on capital debt	(446,127)
Issuance of capital debt	9,072,408
Debt issuance costs	(322,903)
Net cash used by capital and related financing activities	<u>1,029,018</u>
Cash flows from investing activities	
Investment and dividends	987
Net cash provided by investing activities	<u>987</u>
Net decrease in cash and cash equivalents	1,314,148
Cash and equivalents - beginning of year	1,046,705
Cash and equivalents - end of year	<u><u>\$ 2,360,853</u></u>
Reconciliation of net operating income to net cash provided by operating activities:	
Net operating income	210,454
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase (decrease) in meter deposit liability	7,992
Depreciation expense	134,979
Net cash provided by operating activities	<u><u>\$ 353,425</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.

Deferred Outflow of Resources

In addition to assets, the statement of position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflows of resources, represents a cash transaction that has occurred that applies to a future period and will not be recognized as an expense (or expenditure) until then. In the year ended June 30, 2021, the deferred outflow of resources is due to amounts in addition to outstanding principal that were required to be escrowed in order to refund the SUA 2015 Revenue Bonds.

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 5.0 cents on each dollar of taxable sales within the City and 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, 2021, the City recognized \$1,420 of investment income. At June 30, 2021, the primary government held the following deposits and investments:

<u>Type</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Demand deposits	\$ 715,190	\$ 201,776	\$ 916,966
US Treasuries money market fund	-	2,159,077	2,159,077
Total deposits	<u>\$ 715,190</u>	<u>\$ 2,360,853</u>	<u>\$ 3,076,043</u>

Reconciliation to the statement of net position:

Cash and cash equivalents	\$ 715,190	\$ 154,473	\$ 869,663
Restricted cash and cash equivalents	-	2,206,380	2,206,380
Total	<u>\$ 715,190</u>	<u>\$ 2,360,853</u>	<u>\$ 3,076,043</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, 2021, 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, 2021, 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, 2021, 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, 2021, 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 \$54,032 and the amount of government mutual funds held in trustee accounts on behalf of the promissory note trust accounts in the amount as follows: \$52,257 for debt service reserves, \$550,476 to settle payroll tax arrearages, and \$1,549,615 for dedicated project funds from a bond issuance.

C. Capital Assets

Capital asset activity resulting from modified cash basis transactions or events for the fiscal year ended June 30, 2021, was as follows:

	Balance at June 30, 2020	Additions	Disposals	Balance at June 30, 2021
Governmental:				
Capital assets not being depreciated:				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Total capital assets not being depreciated:	20,000	-	-	20,000
Capital assets being depreciated:				
Buildings/improvements	362,210	-	-	362,210
Vehicles, equipment & furniture	1,118,221	91,250	-	1,209,471
Total capital assets being depreciated	1,480,431	91,250	-	1,571,681
Less accumulated depreciation:				
Buildings/improvements	234,881	10,284	-	245,165
Vehicles, equipment & furniture	852,606	51,274	-	903,880
Total accumulated depreciation	1,087,487	61,558	-	1,149,045
Governmental, net capital assets	<u>\$ 412,944</u>	<u>\$ 29,692</u>	<u>\$ -</u>	<u>\$ 442,636</u>
Business-type				
Capital assets not being depreciated:				
Land	\$ 11,600	\$ -	\$ -	\$ 11,600
Construction in progress	1,591,109	857,842	-	2,448,951
Total capital assets not being depreciated:	1,602,709	857,842	-	2,460,551
Capital assets being depreciated:				
Buildings/improvements	86,418	-	-	86,418
Utility system	4,947,019	495,080	-	5,442,099
Vehicles, equipment & furniture	351,323	-	-	351,323
Total capital assets being depreciated	5,384,760	495,080	-	5,879,840
Less accumulated depreciation				
Buildings/improvements	66,324	2,467	-	68,791
Utility system	1,287,258	125,622	-	1,412,880
Vehicles, equipment & furniture	306,745	6,890	-	313,635
Total accumulated depreciation	1,660,327	134,979	-	1,795,306
Business-type, net capital assets	<u>\$ 5,327,142</u>	<u>\$ 1,217,943</u>	<u>\$ -</u>	<u>\$ 6,545,085</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	\$ 5,586	Utility administration	\$ 2,465
Fire	34,081	Sewer	11,489
Police	20,592	Water	121,025
Streets	1,299	Total depreciation	<u>\$ 134,979</u>
Total depreciation	<u>\$ 61,558</u>		

D. Debt Service and Coverage Requirements

For the year ended June 30, 2021, the City's long-term debt changed as follows:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Amount Due</u> <u>Within One Year</u>
Governmental Activities:					
Lease payable	\$ 100,000	\$ -	\$ 16,866	\$ 83,134	\$ 15,287
Business-type Activities:					
Bonds payable	\$ 5,285,000	\$ 8,720,000	\$ 5,345,000	\$ 8,660,000	\$ 120,000
Unamortized bond premium	130,816	58,626	134,724	54,718	-
Unamortized bond discount	(14,246)	(197,366)	(27,404)	(184,208)	-
Leases payable	-	491,148	77,295	413,853	175,830
	<u>\$ 5,401,570</u>	<u>\$ 9,072,408</u>	<u>\$ 5,529,615</u>	<u>\$ 8,944,363</u>	<u>\$ 295,830</u>

At June 30, 2021, the City had the following debt outstanding, arising from cash transactions, to be repaid from governmental activities:

Lease payable to KS State Bank, dated April 20, 2020, in the amount of \$100,000 to be repaid in 6 annual payments of \$18,781 beginning October 2020 with the final payment due October 2025 and secured by a 2006 fire brush truck.

Total amount to be paid from governmental activities \$ 83,134

At June 30, 2021, 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 2020A, dated August 12, 2020, in the amount of \$2,190,000 with interest rate of 4.00%. The remaining amount is scheduled to be paid in semi-annual installments with a final payment due July 1, 2035

Outstanding bond principal	\$ 2,170,000
Unamortized bond premium	<u>54,718</u>
Carrying value of bond	2,224,718

Spencer Utilities Authority Utility System Refunding and Capital Improvement Revenue Bonds, Series 2020B, dated August 12, 2020, in the amount of \$6,530,000 with interest rate of 4.20%. The remaining amount is scheduled to be paid in semi-annual installments with a final payment due July 1, 2035

Outstanding bond principal	6,490,000
Unamortized bond discount	<u>(184,208)</u>
Carrying value of bond series	6,305,792

Lease payable to First National Bank and Trust, dated April 20, 2020, in the amount of \$100,000, with an interest rate of 3.32%, to be repaid in 36 monthly payments of \$14,353 beginning December 2020 with the final payment due October 2025 and secured by an automated meter reading system.

413,853

Total amount to be repaid from business-type activities \$8,944,363

Payment Requirements to Maturity:

Year ended June 30,	Governmental Activities		Business-type activities	
	Principal	Interest	Principal*	Interest*
2022	\$ 15,287	\$ 3,494	295,830	370,200
2023	15,929	2,582	291,852	359,809
2024	16,599	2,182	201,171	349,862
2025	17,296	1,484	135,000	343,910
2026	18,023	1,484	165,000	338,340
2027 to 2031	-	-	950,000	1,582,430
2032 to 2036	-	-	7,035,000	1,112,140
Total	<u>\$ 83,134</u>	<u>\$ 11,226</u>	<u>\$ 9,073,853</u>	<u>\$ 4,456,691</u>

* Does not include amortization (bond premium/discount, deferred outflow)

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 (OPPRS)

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, 2021 were \$1,634.

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions At June 30, 2021, the City's proportionate share of the net pension liability was \$2,631. 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, 2020, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2020. 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, 2020. Based upon this information, the City's proportion was 0.0023 percent.

Actuarial Assumptions-The total pension liability was determined by an actuarial valuation as of July 1, 2020, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	2.75%
Salary increases:	3.5% to 12% 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:	Blue Collar Healthy Combined table with age set forward 4 years.

The actuarial assumptions used in the July 1, 2020, 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, 2020, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	4.79%
Domestic equity	5.74%
International equity	9.19%
Real estate	7.99%
Private equity	10.20%
Commodities	3.50%

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 (OFPRS)

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 OFPRS. OFPRS issues a publicly available financial report that can be obtained at www.ok.gov/fprs

Benefits provided - OFPRS 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 \$40,686.

Pension Liability - At June 30, 2021, the City's proportionate share of the net pension liability was \$925,987. 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, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020. 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, 2020. Based upon this information, the City's proportion was 0.0751670 percent.

Actuarial Assumptions-The total pension liability was determined by an actuarial valuation as of July 1, 2020, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Inflation:	2.75%
Salary increases:	2.75% to 10.5% average, including inflation
Investment rate of return:	7.5% net of pension plan investment expense

Mortality rates were based on the Pub-2010 Public Safety Table, with adjustments for generational mortality improvement using scale MP-2018 for healthy lives and no mortality improvement for disabled lives.

The actuarial assumptions used in the July 1, 2020, valuation were based on the results of an actuarial experience study for the period July 1, 2013, to June 30, 2018.

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%	4.90%
Domestic equity	47%	7.09%
International equity	15%	9.19%
Real estate	10%	7.99%
Other assets	8%	5.57%

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 | <ul style="list-style-type: none"> -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: | <p>Normal Retirement- 2.625% of final average salary multiplied by credited years of service</p> <p>Early Retirement -Reduced 5% per year prior to normal retirement age</p> <p>Disability Retirement – total and permanent disability after 7 or more years of service</p> <p>Death Benefit -50% of employees accrued benefit, but terminates upon spouse re-marriage</p> <p>Prior to 7 Years Service -Return of employee contributions</p> |
| 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 |
| g. Form of Benefit Payments | <p>Normal form is 60 months certain and life thereafter basis.</p> <p>Employee may elect, with City consent, optional form:</p> <ul style="list-style-type: none"> -Joint and 50% survivor annuity -Joint and 66 2/3% last survivor annuity -Joint and 100% survivor annuity |

Employees Covered by Benefit Terms

Active Employees	10
Deferred Vested Former Employees	1
Retirees or Retiree Beneficiaries	<u>10</u>
Total	<u>21</u>

Contribution Requirements - The City Council has the authority to set and amend contribution rates by ordinance for the OMRF defined benefit plan in accordance with O.S. Title 11, Section 48-102. The contribution rates for the current fiscal year have been made in accordance with an actuarially determined rate. The total actuarially determined rate for fiscal year 2021 was 3.76%. Employees contribute 5.25% in accordance with plan provisions. Due to the plan's overfunded status, the funding requirement for the 2020-2021 year was less than the value of benefits accruing (13.34% as measured by the entry age normal cost). Funding requirements may increase in the future as benefits accrue. In fiscal year 2020, the City recognized \$12,406 of employer contributions to the plan based on covered payroll of \$329,960.

Pension Liability - At June 30, 2021, the City's net pension surplus was \$200,548. Due to the modified cash basis of accounting, the City does not recognize this asset in its financial statements. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020.

Discount Rate – The discount rate used to value benefits was the long-term expected rate of return on plan investments, 7.25% since the plan’s net fiduciary position is projected to be sufficient to make projected benefit payments. The City has adopted a funding method that is designed to fund all benefits payable to participants over the course of their working careers. Any differences between actual and expected experience are funded over a fixed period to ensure all funds necessary to pay benefits have been contributed to the trust before those benefits are payable. Thus, the sufficiency of pension plan assets was made without a separate projection of cash flows.

Actuarial Cost Methods and Assumptions – The required contribution rate is actuarially measured each plan year as the amount necessary to fund the plan on a long-term basis using the actuarial cost methods and assumptions adopted for the plan as follows:

Cost Method	Entry age normal
Interest Rate	7.25% per annum
Pay Increases	Rates by age
Mortality	UP 94 mortality (projected)
Retirement age	Rates by age
Turnover	Rates by age and service
Asset value	Actuarial method

C. Compensated Absences

Due to the modified cash basis of accounting, the City does not report a liability for compensated absences in its financial statements. At June 30, 2021, the City did not calculate a value for compensated absences.

5. Commitments and Contingencies

Litigation:

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

Workers Compensation:

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

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 \$540,029 in the current reporting year related to this arrearage.

Federal and State Award Programs:

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

6. Subsequent Events

Management has evaluated subsequent events as of the date of this report and determined no additional disclosures are required.

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OTHER INFORMATION

Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2021 - UNAUDITED

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Beginning budgetary fund balance	\$ -	\$ -	\$ (39,175)	\$ (39,175)
Resources (inflows)				
Taxes	1,114,013	1,114,013	1,473,698	359,685
Intergovernmental	-	-	73,406	73,406
Grants and donations	55,000	55,000	263,806	208,806
Licenses and permits	36,946	36,946	60,577	23,631
Fines and forfeitures	217,408	217,408	285,284	67,876
Investment income	734	734	433	(301)
Miscellaneous	24,131	24,131	63,892	39,761
Transfer in	-	-	69,282	69,282
Total resources (inflows)	<u>1,448,232</u>	<u>1,448,232</u>	<u>2,290,378</u>	<u>842,146</u>
Amounts available for appropriation	<u>1,448,232</u>	<u>1,448,232</u>	<u>2,251,203</u>	<u>802,971</u>
Charges to appropriations (outflows):				
General government	427,495	427,495	567,031	(139,536)
Fire	426,343	426,343	478,273	(51,930)
Municipal court	67,145	67,145	104,451	(37,306)
Police	493,411	493,411	542,027	(48,616)
Parks and recreation	33,838	33,838	22,986	10,852
Streets and alleys	-	-	41,835	(41,835)
Capital outlay	-	-	91,250	(91,250)
Payroll tax penalties	-	-	82,280	(82,280)
Total charges to appropriations	<u>1,448,232</u>	<u>1,448,232</u>	<u>1,930,133</u>	<u>(481,901)</u>
Ending budgetary fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 321,070</u>	<u>\$ 321,070</u>

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.
3. The City exceeded appropriations in the following departments:
 - a. General Government \$139,536
 - b. Fire \$51,930
 - c. Municipal Court \$37,306
 - d. Police \$48,616
 - e. Streets and Alleys \$41,835
 - f. Capital Outlay \$91,250
 - g. Payroll Tax Penalties \$82,280

INDEPENDENT AUDITOR'S REPORT ON CONTROL AND
COMPLIANCE



**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Financial
Statements Performed in Accordance with
Government Auditing Standards**

City Council
City of Spencer
Spencer, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Spencer, as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprise City of Spencer's basic financial statements, and have issued our report thereon dated November 2, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Spencer's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

Hick & Company, PC

Tulsa, Oklahoma
November 2, 2021

