

# CITY OF SPENCER, OKLAHOMA

## ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2024



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**City Council**

Frank Calvin	Chairman/Mayor
Vacant	Vice Chairman/Mayor
Earnest Ware	Member
Tonni Canaday	Member
Darnelle Reeves	Member

**Management**

Shamia Jackson	City Manager
Cecilia Taft	City Clerk
Marcus Thurman	Chief of Police
Crystal Booth	Municipal Court Clerk
Kenneth Griffith	Fire Chief
Terry Kellum	Public Works Supervisor

**City Hall**

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

## **INDEPENDENT AUDITOR'S REPORT**



**HINKLE &  
COMPANY**

Strategic <sup>PC</sup>  
Business Advisors

## **Independent Auditor's Report**

City Council  
City of Spencer  
Spencer, Oklahoma

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the 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, 2024, 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.

In our opinion, the accompanying financial statements 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, 2024, and the respective changes in financial position-modified cash basis and, where applicable, cash flows, thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1C.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Spencer and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Emphasis of Matter - Basis of Accounting***

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

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***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1C, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City of Spencer's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Spencer's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on page 7 and 41 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2024, 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  
December 10, 2024



## 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, 2024. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts.

### FINANCIAL HIGHLIGHTS

- The City's total net position increased by \$417,769 and the assets of the City exceeded its liabilities at June 30, 2024, by \$1,207,660 (net position). Of this amount, the City has an unrestricted net position of \$406,655 available to meet the government's ongoing needs.
- At June 30, 2024, the unassigned fund balance for the General Fund was \$310,565 or 10.6% of General Fund expenditures 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 22-38 of this report.

## THE CITY AS A WHOLE

For the year ended June 30, 2024, net position for the governmental and business-type activities increased \$417,769.

	Net position at June 30,					
	Governmental Activities		Business-type		Total	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Beginning net position	\$ 996,051	\$ 1,064,362	\$ (206,160)	\$ 130,507	\$ 789,891	\$ 1,194,869
Increase (Decrease)	384,598	(68,311)	33,171	(336,667)	417,769	(404,978)
Ending net position	<u>\$ 1,380,649</u>	<u>\$ 996,051</u>	<u>\$ (172,989)</u>	<u>\$ (206,160)</u>	<u>\$ 1,207,660</u>	<u>\$ 789,891</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	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>	<u>2023</u>	<u>2023</u>
Assets:						
Current and other assets	\$ 473,888	\$ 1,125,188	\$ 561,963	\$ 1,429,781	\$ 1,035,851	\$ 2,554,969
Capital assets, net	1,691,870	523,344	7,178,473	6,505,724	8,870,343	7,029,068
Total assets	<u>2,165,758</u>	<u>1,648,532</u>	<u>7,740,436</u>	<u>7,935,505</u>	<u>9,906,194</u>	<u>9,584,037</u>
Deferred outflows:						
Unamortized loss on debt refunding	-	-	366,038	399,315	366,038	399,315
Liabilities:						
Long-term liabilities	705,319	51,918	8,183,258	8,304,009	8,888,577	8,355,927
Other liabilities	79,790	600,563	96,205	236,971	175,995	837,534
Total liabilities	<u>785,109</u>	<u>652,481</u>	<u>8,279,463</u>	<u>8,540,980</u>	<u>9,064,572</u>	<u>9,193,461</u>
Net position:						
Invested in capital assets, net	986,551	471,426	(638,747)	(638,747)	347,804	(167,321)
Restricted	83,533	84,072	369,668	421,053	453,201	505,125
Unrestricted	310,565	440,553	96,090	11,534	406,655	452,087
Total net position	<u>\$ 1,380,649</u>	<u>\$ 996,051</u>	<u>\$ (172,989)</u>	<u>\$ (206,160)</u>	<u>\$ 1,207,660</u>	<u>\$ 789,891</u>

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

	<b>Governmental Activities</b>		<b>Business-type</b>		<b>Total</b>	
	<b><u>2024</u></b>	<b><u>2023</u></b>	<b><u>2024</u></b>	<b><u>2023</u></b>	<b><u>2024</u></b>	<b><u>2023</u></b>
Revenues:						
Program revenues:						
Charges for services	\$ 223,122	\$ 244,351	\$ 1,572,895	\$ 1,504,941	\$ 1,796,017	\$ 1,749,292
Grants	649,652	41,237	-	-	649,652	41,237
General revenues:						
Taxes	1,752,159	1,780,314	-	-	1,752,159	1,780,314
Other general revenues	324,668	113,856	156,508	68,979	481,176	182,835
Total revenues	<u>2,949,601</u>	<u>2,179,758</u>	<u>1,729,403</u>	<u>1,573,920</u>	<u>4,679,004</u>	<u>3,753,678</u>
Program expenses:						
General government	813,570	848,283	-	-	813,570	848,283
Police and court	841,193	783,399	-	-	841,193	783,399
Fire	600,411	537,501	-	-	600,411	537,501
Streets and alleys	149,682	93,726	-	-	149,682	93,726
Parks & recreation	6,592	5,365	-	-	6,592	5,365
City utilities	-	-	1,849,787	1,890,382	1,849,787	1,890,382
Total expenses	<u>2,411,448</u>	<u>2,268,274</u>	<u>1,849,787</u>	<u>1,890,382</u>	<u>4,261,235</u>	<u>4,158,656</u>
Transfers	(153,555)	20,205	153,555	(20,205)	-	-
Increase/(decrease) net position	<u>384,598</u>	<u>(68,311)</u>	<u>33,171</u>	<u>(336,667)</u>	<u>417,769</u>	<u>(404,978)</u>
Beginning net position	996,051	1,064,362	(206,160)	130,507	789,891	1,194,869
Ending net position	<u>\$ 1,380,649</u>	<u>\$ 996,051</u>	<u>\$ (172,989)</u>	<u>\$ (206,160)</u>	<u>\$ 1,207,660</u>	<u>\$ 789,891</u>

**Governmental Activities**

The increase in net position related to governmental activities of \$384,598 in the fiscal year ended June 30, 2024 reflected the purchase of capital assets utilizing grant revenues.

**Business-type Activities**

Business-type activities recorded an increase in net position of \$33,171 for the year ended June 30, reflecting the settlement of a payroll tax liability as well as transfers from the City's general fund.

**A FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As the City completed its 2024 fiscal year, the General Fund reported a fund balance of \$310,565. For the year ended June 30, 2024, the General Fund decreased by \$129,988.

**Budgetary Highlights**

General fund revenues were \$308,601 higher than budgeted which included the forgiveness of a payroll tax liability in the amount of \$248,262. General fund expenditures were \$399,289 higher than budgeted due to higher spending by police, fire, streets, and capital outlay as well as an unbudgeted transfer of \$153,555 to the SPWA to cover debt payments.

For fiscal year 2024-2025, general fund revenues are projected to increase slightly from the 2023-2024 budget, as a fund balance carryover is being utilized to offset lower taxes and grant revenues. General fund appropriations are higher than the prior year, reflecting increased spending for police services, parks, and general government.

## CAPITAL ASSETS & DEBT ADMINISTRATION

### Capital Assets

At the end of June 30, 2024, the City had approximately \$8.9 million in capital assets (net of accumulated depreciation). Below are details regarding the City's capital assets for the year ended June 30, 2024:

<b>Capital Assets</b>						
<b>June 30,</b>						
	<b>Governmental Activities</b>		<b>Business-type</b>		<b>Total</b>	
	<b><u>2024</u></b>	<b><u>2023</u></b>	<b><u>2024</u></b>	<b><u>2023</u></b>	<b><u>2024</u></b>	<b><u>2023</u></b>
Land and other non-depreciable assets	\$ 473,234	\$ 20,000	\$ 1,365,745	\$ 621,589	* \$ 1,838,979	\$ 641,589
Buildings and improvements	402,962	381,157	94,756	94,756	497,718	475,913
Infrastructure	110,071	110,071	-	-	110,071	110,071
Equipment	1,642,185	1,296,735	366,965	366,966	2,009,150	1,663,701
Utility systems and equipment	-	-	8,012,194	7,752,636	8,012,194	7,752,636
Totals	<u>2,628,452</u>	<u>1,807,963</u>	<u>9,839,660</u>	<u>8,835,947</u>	<u>12,468,112</u>	<u>10,643,910</u>
Less accumulated depreciation	<u>(936,582)</u>	<u>(1,284,619)</u>	<u>(2,661,187)</u>	<u>(2,330,223)</u>	<u>(3,597,769)</u>	<u>(3,614,842)</u>
Totals, net	<u>\$ 1,691,870</u>	<u>\$ 523,344</u>	<u>\$ 7,178,473</u>	<u>\$ 6,505,724</u>	<u>\$ 8,870,343</u>	<u>\$ 7,029,068</u>

This year's capital asset additions include the following:

- The purchase of a pumper truck in the amount of \$670,000
- Kringlen Park improvements of \$1,197,390.
- Sanitary sewer extension in the amount of \$106,002
- Water line improvements for NE 50<sup>th</sup> Street, Baker Street to Shady Nook in the amount of \$153,555

### Debt Administration

The debt activity for the year ended June 30, 2024 is as follows:

	<b><u>Balance</u></b>			<b><u>Balance</u></b>
	<b><u>July 1, 2023</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>June 30, 2024</u></b>
Governmental Activities:				
Lease payable	\$ 51,918	\$ 670,000	\$ 16,599	\$ 705,319
Business-type Activities:				
Bonds payable	\$ 8,415,000	\$ -	\$ 130,000	\$ 8,285,000
Unamortized bond premium	46,901	-	3,908	42,993
Unamortized bond discount	(157,892)	-	(13,157)	(144,735)
	<u>\$ 8,304,009</u>	<u>\$ -</u>	<u>\$ 120,751</u>	<u>\$ 8,183,258</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 36<sup>th</sup> Street, Spencer, Oklahoma, 73084.

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## **BASIC FINANCIAL STATEMENTS**

**Statement of Net Position (Modified Cash Basis) – June 30, 2024**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 473,888	\$ 192,295	\$ 666,183
Restricted assets:			
Cash and cash equivalents	-	369,668	369,668
Total current assets	473,888	561,963	1,035,851
Non-current assets			
Capital assets, net of depreciation	1,691,870	7,178,473	8,870,343
Total assets	2,165,758	7,740,436	9,906,194
<b>Deferred Outflows</b>			
Unamortized loss on debt refunding	-	366,038	366,038
<b>Liabilities:</b>			
Current liabilities:			
Unearned revenue	79,790	-	79,790
Lease payable, current portion	46,615	-	46,615
Bonds payable, current portion	-	135,000	135,000
Total current liabilities	126,405	135,000	261,405
Noncurrent liabilities			
Meter deposit liability	-	96,205	96,205
Lease payable, noncurrent	658,704	-	658,704
Bonds payable, noncurrent	-	8,048,258	8,048,258
Total noncurrent liabilities	658,704	8,144,463	8,803,167
Total liabilities	785,109	8,279,463	9,064,572
<b>Net Position:</b>			
Net investment in capital assets	986,551	(638,747)	347,804
Restricted for debt service	-	369,668	369,668
Restricted for park improvements	83,533	-	83,533
Unrestricted	310,565	96,090	406,655
Total net position	\$ 1,380,649	\$ (172,989)	\$ 1,207,660

See accompanying notes to the basic financial statements.

**Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2024**

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
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 813,570	\$ 35,422	\$ 1,131	\$ 126,028	\$ (650,989)	\$ -	\$ (650,989)
Fire	600,411	-	9,994	74,815	(515,602)	-	(515,602)
Municipal court	104,354	-	-	-	(104,354)	-	(104,354)
Police	736,839	187,700	22,720	29,162	(497,257)	-	(497,257)
Streets and alleys	149,682	-	-	-	(149,682)	-	(149,682)
Parks and recreation	6,592	-	-	385,802	379,210	-	379,210
Total governmental activities	2,411,448	223,122	33,845	615,807	(1,538,674)	-	(1,538,674)
<b>Business-type activities</b>							
Water/Wastewater	1,544,910	971,158	-	-	-	(573,752)	(573,752)
Sanitation	304,877	601,737	-	-	-	296,860	296,860
Total business-type activities	1,849,787	1,572,895	-	-	-	(276,892)	(276,892)
<b>Total primary government</b>	<b>\$ 4,261,235</b>	<b>\$ 1,796,017</b>	<b>\$ 33,845</b>	<b>\$ 615,807</b>	<b>\$ (1,538,674)</b>	<b>\$ (276,892)</b>	<b>\$ (1,815,566)</b>
General revenues:							
Taxes:							
Sales and use					1,514,520	-	1,514,520
Franchise					175,867	-	175,867
Intergovernmental					61,772	-	61,772
Investment income					-	58,700	58,700
Miscellaneous					76,406	31,899	108,305
Settlement of payroll tax liability					248,262	65,909	314,171
Total general revenues					2,076,827	156,508	2,233,335
Transfer in/out					(153,555)	153,555	-
Change in net position					384,598	33,171	417,769
Net position - beginning					996,051	(206,160)	789,891
Net position - ending					\$ 1,380,649	\$ (172,989)	\$ 1,207,660

See accompanying notes to the basic financial statements.



**Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2024**

	<b>General Fund</b>	<b>Park Improvement Fund</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 390,355	\$ 83,533	\$ 473,888
Total assets	<u>\$ 390,355</u>	<u>\$ 83,533</u>	<u>\$ 473,888</u>
<b>Liabilities and fund balances:</b>			
<b>Liabilities:</b>			
Unearned revenue	79,790	-	79,790
Total liabilities	<u>79,790</u>	<u>-</u>	<u>79,790</u>
<b>Fund Balances:</b>			
Unrestricted			
Unassigned	310,565	83,533	394,098
Total fund balances	<u>310,565</u>	<u>83,533</u>	<u>394,098</u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 390,355</u></u>	<u><u>\$ 83,533</u></u>	<u><u>\$ 473,888</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, 2024**

	General Fund	Park Improvement Fund	Total Governmental Funds
<b>Revenues:</b>			
Taxes	\$ 1,690,387	\$ -	\$ 1,690,387
Intergovernmental	61,772	-	61,772
Licenses and permits	35,422	-	35,422
Grants	649,651	-	649,651
Fines and forfeitures	187,700	-	187,700
Donations	-	5,357	5,357
Settlement of payroll tax liability	248,262	-	248,262
Miscellaneous	71,049	-	71,049
Total Revenues	2,944,243	5,357	2,949,600
<b>Expenditures:</b>			
General government	804,680	-	804,680
Fire	532,483	-	532,483
Municipal court	104,354	-	104,354
Police	698,830	-	698,830
Streets and alleys	142,109	-	142,109
Parks and recreation	4,616	400	5,016
Capital outlay	639,100	-	639,100
Total expenditures	2,926,172	400	2,926,572
Excess (deficiency) of revenues over expenditures	18,071	4,957	23,028
<b>Other financing sources (uses):</b>			
Transfer from (to) Park Fund	5,496	(5,496)	-
Transfer from (to) SPWA	(153,555)	-	(153,555)
Net other financing sources (uses)	(148,059)	(5,496)	(153,555)
<b>Net change in fund balance</b>	(129,988)	(539)	(130,527)
<b>Fund balance - beginning</b>	440,553	84,072	524,625
<b>Fund balance - ending</b>	\$ 310,565	\$ 83,533	\$ 394,098

See accompanying notes to the basic financial statements.

**Reconciliation of Governmental Funds and Government-Wide Financial Statements:**

<b>Fund balances of governmental funds</b>	<b>\$ 394,098</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities of \$2,628,452, net of accumulated depreciation of \$936,582 are not financial resources and, therefore, are not reported in the funds.	1,691,870
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the fund financial statements.	(705,319)
<b>Net position of governmental activities</b>	<b><u>\$ 1,380,649</u></b>
 <b>Net changes in fund balances - total governmental funds</b>	 <b>\$ (130,527)</b>
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 assets purchased with cash	639,101
Book value of disposed assets	(5,828)
Depreciation expense	(134,747)
	<u>498,526</u>
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:	
Principal payments on long term debt in the current year	16,599
	<u>16,599</u>
<b>Change in net position of governmental activities</b>	<b><u>\$ 384,598</u></b>

See accompanying notes to the basic financial statements.

**Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2024**

	<b>Spencer Utilities Authority</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 192,295
Restricted cash and cash equivalents	369,668
Total current assets	<u>561,963</u>
Noncurrent assets:	
Capital assets, net	<u>7,178,473</u>
Total assets	<u>7,740,436</u>
<b>Deferred Outflows</b>	
Unamortized loss on debt refunding	366,038
<b>Liabilities</b>	
Bonds payable - current portion	<u>135,000</u>
Total current liabilities	<u>135,000</u>
Noncurrent Liabilities:	
Meter deposit liability	96,205
Bonds payable - noncurrent portion	<u>8,048,258</u>
Total noncurrent liabilities	<u>8,144,463</u>
Total liabilities	<u>8,279,463</u>
<b>Net Position</b>	
Net investment in capital assets	(638,747)
Restricted for debt service	369,668
Unrestricted	<u>96,090</u>
Total net position	<u>\$ (172,989)</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, 2024**

	<b>Spencer Utilities Authority</b>
<b>Operating revenues:</b>	
Charges for sales and services:	
Water	\$ 660,931
Sewer	258,419
Sanitation	601,737
Penalties	51,808
Miscellaneous	31,899
Total operating revenues	<u>1,604,794</u>
<b>Operating expenses:</b>	
Utility administration	457,292
Water treatment plant	196,391
Wastewater treatment plant	163,092
Sanitation	304,877
Depreciation	330,964
Total operating expenses	<u>1,452,616</u>
Net operating income	<u>152,178</u>
<b>Nonoperating revenue (expense):</b>	
Interest and fees	(397,171)
Investment income	58,700
Settlement of payroll tax liability	65,909
Transfers from City of Spencer	153,555
Total nonoperating revenue (expense)	<u>(119,007)</u>
<b>Change in net position</b>	<u>33,171</u>
<b>Net position - beginning</b>	<u>(206,160)</u>
<b>Net position - ending</b>	<u>\$ (172,989)</u>

See accompanying notes to the basic financial statements.

**Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2024**

	<b>Spencer Utility Authority</b>
<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 1,611,371
Payments to suppliers	(895,827)
Payments to employees	(307,259)
Net cash provided by operating activities	<u>408,285</u>
<b>Cash flows from capital and related financing activities:</b>	
Purchases of capital assets	(1,003,713)
Principal paid on capital debt	(130,000)
Capital transfers from other funds	153,555
Interest and fees paid on capital debt	(354,645)
Net cash used by capital and related financing activities	<u>(1,334,803)</u>
<b>Cash flows from investing activities</b>	
Investment and dividends	<u>58,700</u>
Net cash provided by investing activities	<u>58,700</u>
<b>Net decrease in cash and cash equivalents</b>	(867,818)
<b>Cash and equivalents - beginning of year</b>	1,429,781
<b>Cash and equivalents - end of year</b>	<u><u>\$ 561,963</u></u>
<b>Reconciliation of net operating income to net cash provided by operating activities:</b>	
Net operating income	152,178
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase (decrease) in meter deposit liability	6,577
Increase (decrease) in other accrued liabilities	(81,434)
Depreciation expense	330,964
Net cash provided by operating activities	<u><u>\$ 408,285</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:

<b><i>Component Unit</i></b>	<b><i>Brief Description/Inclusion Criteria</i></b>
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 of 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

#### **Capital Improvement Funds**

Capital improvement funds are used to account for financial resources used for the acquisition or construction of capital facilities.

<b><i>Fund</i></b>	<b><i>Brief Description</i></b>
Park Improvement Fund	Accounts for restricted donations and other revenues as directed by the City Council that are to be used for park capital outlays and projects. The City considers the fund to be a major 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><b>Fund</b></i>	<i><b>Brief Description</b></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, 2024, 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, 2024, the City recognized \$58,700 of investment income. At June 30, 2024, the primary government held the following deposits and investments:

<u>Type</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Demand deposits	\$ 473,888	\$ 192,295	\$ 666,183
US Treasuries money market fund	-	369,668	369,668
Total deposits	<u>\$ 473,888</u>	<u>\$ 561,963</u>	<u>\$ 1,035,851</u>

#### Reconciliation to the statement of net position:

Cash and cash equivalents	\$ 473,888	\$ 192,295	\$ 666,183
Restricted cash and cash equivalents	-	369,668	369,668
Total	<u>\$ 473,888</u>	<u>\$ 561,963</u>	<u>\$ 1,035,851</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, 2024, 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, 2024, 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, 2024, 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, 2024, the City had no concentration of credit risk as defined above.

## B. Restricted Assets

The amounts reported as restricted assets comprise government mutual funds held in trustee accounts on behalf of the promissory note trust accounts in the amount as follows: \$12,586 for debt service reserves, and \$357,082 for dedicated project funds from debt issuance.

## C. Capital Assets

Capital asset activity resulting from modified cash basis transactions or events for the fiscal year ended June 30, 2024, was as follows:

	<u>Balance at</u> <u>June 30, 2023</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>June 30, 2024</u>
<b>Governmental:</b>				
Capital assets not being depreciated:				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Construction in progress	-	453,234	-	453,234
Total capital assets not being depreciated:	20,000	453,234	-	473,234
Capital assets being depreciated:				
Buildings/improvements	381,157	21,805	-	402,962
Infrastructure	110,071	-	-	110,071
Vehicles, equipment & furniture	1,296,735	834,062	488,612	1,642,185
Total capital assets being depreciated	1,787,963	855,867	488,612	2,155,218
Less accumulated depreciation:				
Buildings/improvements	260,419	10,037	-	270,456
Infrastructure	7,352	5,640	-	12,992
Vehicles, equipment & furniture	1,016,848	119,070	482,784	653,134
Total accumulated depreciation	1,284,619	134,747	482,784	936,582
Governmental, net capital assets	<u>\$ 523,344</u>	<u>\$ 1,174,354</u>	<u>\$ 5,828</u>	<u>\$ 1,691,870</u>
<b>Business-type</b>				
Capital assets not being depreciated:				
Land	\$ 11,600	\$ -	\$ -	\$ 11,600
Construction in progress	609,989	744,156	-	1,354,145
Total capital assets not being depreciated:	621,589	744,156	-	1,365,745
Capital assets being depreciated:				
Buildings/improvements	94,756	-	-	94,756
Utility system	7,752,637	259,557	-	8,012,194
Vehicles, equipment & furniture	366,965	-	-	366,965
Total capital assets being depreciated	8,214,358	259,557	-	8,473,915
Less accumulated depreciation				
Buildings/improvements	74,298	3,087	-	77,385
Utility system	1,944,107	314,967	-	2,259,074
Vehicles, equipment & furniture	311,818	12,910	-	324,728
Total accumulated depreciation	2,330,223	330,964	-	2,661,187
Business-type, net capital assets	<u>\$ 6,505,724</u>	<u>\$ 672,749</u>	<u>\$ -</u>	<u>\$ 7,178,473</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:

<b>Governmental activities:</b>		<b>Business-type activities:</b>	
General government	\$ 8,890	Utility administration	\$ 11,487
Fire	78,699	Sewer	12,734
Police	38,009	Water	306,743
Parks & recreation	1,576	Total depreciation	<u>\$ 330,964</u>
Streets	7,573		
Total depreciation	<u>\$ 134,747</u>		

#### D. Debt Service and Coverage Requirements

For the year ended June 30, 2024, the City's long-term debt changed as follows:

	<b>Balance</b>			<b>Balance</b>	<b>Amount Due</b>
	<b><u>July 1, 2023</u></b>	<b><u>Additions</u></b>	<b><u>Deductions</u></b>	<b><u>June 30, 2024</u></b>	<b><u>Within One Year</u></b>
Governmental Activities:					
Lease payable	\$ 51,918	\$ 670,000	\$ 16,599	\$ 705,319	\$ 46,615
Business-type Activities:					
Bonds payable	\$ 8,415,000	\$ -	\$ 130,000	\$ 8,285,000	\$ 135,000
Unamortized bond premium	46,901	-	3,908	42,993	-
Unamortized bond discount	(157,892)	-	(13,157)	(144,735)	-
	<u>\$ 8,304,009</u>	<u>\$ -</u>	<u>\$ 120,751</u>	<u>\$ 8,183,258</u>	<u>\$ 135,000</u>

At June 30, 2024, 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.	\$ 35,319
Lease payable to Bank of Grand Lake, dated July 14, 2023, bearing an annual interest rate of 4.99%, in the amount of \$670,000 to be repaid in 15 annual payments beginning October 2024 with the final payment due October 2038 and secured by a 2023 fire pumper truck.	<u>670,000</u>
Total to be paid by governmental activities	<u>\$ 705,319</u>

At June 30, 2024, 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	\$ 2,030,000
Unamortized bond premium	<u>42,993</u>
Carrying value of bond	2,072,993



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		6,255,000
	Unamortized bond discount	<u>(144,735)</u>
	Carrying value of bond series	6,110,265

Total amount to be repaid from business-type activities \$8,183,258

*Payment Requirements to Maturity:*

Year ended	Governmental Activities		Business-type activities	
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal*</u>	<u>Interest*</u>
2025	\$ 46,615	\$ 37,146	\$ 135,000	\$ 343,910
2026	50,590	33,172	165,000	338,340
2027	34,214	30,767	175,000	331,510
2028	35,945	29,035	180,000	324,270
2029	37,690	27,291	190,000	316,820
2030 to 2034	219,413	105,492	1,100,000	1,458,600
2035 to 2039	280,852	44,053	6,340,000	263,370
Total	<u>\$ 705,319</u>	<u>\$ 306,956</u>	<u>\$ 8,285,000</u>	<u>\$ 3,376,820</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](http://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, 2024 were \$33,142.

**Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** At June 30, 2024, the City's proportionate share of the net pension asset was \$14,090. 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, 2023, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of July 1, 2023. 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, 2023. Based upon this information, the City's proportion was 0.000461 percent.

**Actuarial Assumptions**-The total pension liability was determined by an actuarial valuation as of July 1, 2023, 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, 2023, 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, 2023, 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](http://www.ok.gov/OPPRS) .

#### **Oklahoma Firefighters Pension and Retirement Fund (OPPRS)**

**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 OPPRS. OPPRS issues a publicly available financial report that can be obtained at [www.ok.gov/fprs](http://www.ok.gov/fprs)

**Benefits provided** - OPPRS 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 \$47,116.

**Pension Liability** - At June 30, 2024, the City's proportionate share of the net pension liability was \$1,096,628. 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, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2023. 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, 2023. Based upon this information, the City's proportion was 0.084993 percent.

**Actuarial Assumptions**-The total pension liability was determined by an actuarial valuation as of July 1, 2023, 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, 2023, valuation were based on the results of an actuarial experience study for the period July 1, 2018, to June 30, 2023.

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](http://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](http://www.okmrf.org/reports.html). Benefits are established or amended by the City Council in accordance with O.S. Title 11, Section 48-101-102.

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

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

- |                                   |   |
|-----------------------------------|---|
| b. Period Required to Vest        | 7 years of credited service.  |
| c. Eligibility for Distribution   | -Normal retirement at age 65 with 7 years of service or age 62 with 30 or more years of vesting service<br>-Early retirement at age 55 with 7 years of service<br>-Disability retirement upon disability with 10 years of service<br>-Death benefit with 10 years of service for married employees  |
| d. Benefit Determination Base     | The average of the five highest consecutive annual salaries out of the last 10 calendar years of service  |
| e. Benefit Determination Methods: | Normal Retirement- 2.625% of final average salary multiplied by credited years of service<br>Early Retirement -Reduced 5% per year prior to normal retirement age<br>Disability Retirement – total and permanent disability after 7 or more years of service<br>Death Benefit -50% of employees accrued benefit, but terminates upon spouse re-marriage<br>Prior to 7 Years Service -Return of employee contributions |
| f. Benefit Authorization          | -Benefits are established and amended by City Council adoption of an ordinance in accordance with O.S. Title, 11, Section 48-101-102  |
| g. Form of Benefit Payments       | Normal form is 60 months certain and life thereafter basis.<br>Employee may elect, with City consent, optional form:<br>-Joint and 50% survivor annuity<br>-Joint and 66 2/3% last survivor annuity<br>-Joint and 100% survivor annuity   |

**Employees Covered by Benefit Terms**

Active employees	15
Deferred vested former employees	2
Disabled Participants	1
Retirees or Retiree Beneficiaries	<u>9</u>
Total	<u>27</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 2024 was 3.66%. Employees contribute 5.25% in accordance with plan provisions. Due to the plan's overfunded status, the funding requirement for the 2023-2024 year was less than the value of benefits accruing (8.91% as measured by the entry age normal cost). Funding requirements may increase in the future as benefits accrue. In fiscal year 2024, the City recognized \$22,690 of employer contributions to the plan based on covered payroll of \$619,945.

**Pension Liability** - At June 30, 2024, the City's net pension surplus was \$305,326. Due to the modified cash basis of accounting, the City does not recognize this asset in its financial statements. The net pension asset was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2023.

**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, 2024, 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.

*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.



## **OTHER INFORMATION**

**Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2024 - UNAUDITED**

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive (Negative)
Beginning budgetary fund balance	\$ 31,500	\$ 31,500	\$ 440,553	\$ 409,053
Resources (inflows)				
Taxes	1,796,300	1,796,300	1,690,387	(105,913)
Intergovernmental	61,600	61,600	61,772	172
Grants and donations	177,500	527,302	649,651	122,349
Licenses and permits	70,380	70,380	35,422	(34,958)
Fines and forfeitures	150,000	150,000	187,700	37,700
Settlement of payroll tax liability	-	-	248,262	248,262
Miscellaneous	35,556	35,556	71,049	35,493
Transfer in	-	-	5,496	5,496
Total resources (inflows)	2,291,336	2,641,138	2,949,739	308,601
Amounts available for appropriation	2,322,836	2,672,638	3,390,292	717,654
Charges to appropriations (outflows):				
General government	884,929	884,929	804,680	80,249
Fire	461,978	461,978	532,483	(70,505)
Municipal court	98,639	98,639	104,354	(5,715)
Police	604,678	576,678	698,830	(122,152)
Parks and recreation	9,000	9,000	4,616	4,384
Streets and alleys	87,412	87,412	142,109	(54,697)
Capital outlay	184,000	561,802	639,100	(77,298)
Transfers out	-	-	153,555	(153,555)
Total charges to appropriations	2,330,636	2,680,438	3,079,727	(399,289)
Ending budgetary fund balance	\$ (7,800)	\$ (7,800)	\$ 310,565	\$ 318,365

**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. Fire \$70,505
  - b. Municipal court \$5,715
  - c. Police \$122,152
  - d. Streets and alleys \$54,697
  - e. Capital outlay \$77,298
  - f. Transfers out \$153,555

**INDEPENDENT AUDITOR'S REPORT ON CONTROL AND**  
**COMPLIANCE**



**Independent Auditor's 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, 2024 and the related notes to the financial statements, which collectively comprise the City of Spencer's basic financial statements, and have issued our report thereon dated December 10, 2024.

**Report on 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.

#### **Report on 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  
December 10, 2024

