

**PRELIMINARY OFFICIAL STATEMENT DATED JUNE 15, 2020**

**NEW ISSUE - BOOK-ENTRY ONLY  
QUALIFIED TAX-EXEMPT OBLIGATIONS**

**NOT RATED**

*In the opinion of Bond Counsel under existing statutes, regulations, rulings, and court decisions, assuming continuing compliance with certain conditions imposed by applicable federal tax law as described herein, interest on the Series 2020A Bonds is excluded from the gross income of the owners thereof for federal income tax purposes. Interest on the Series 2020A Bonds will not be treated as a preference item in calculating the alternative minimum tax imposed under the Internal Revenue Code of 1986, as amended, (the "Code"). Interest on the Series 2020B Bonds is included in gross income for federal income tax purposes. The Series 2020A Bonds have been designated by the Authority as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. In the opinion of Bond Counsel, interest on the Series 2020A Bonds and the Series 2020B Bonds is exempt from Oklahoma income taxation. See "TAX MATTERS" herein.*

**\$8,660,000\***

**SPENCER UTILITIES AUTHORITY**

**Utility System Revenue Bonds**

**Consisting of**

**\$2,215,000\* Capital Improvement Revenue Bonds, Tax Exempt Series 2020A**

**\$6,445,000\* Utility System Revenue Bonds, Taxable Refunding Series 2020B**

**Dated Date: Date of Delivery**

**Due: July 1, as shown on page ii**

The Capital Improvement Revenue Bonds, Tax Exempt Series 2020A (the "Tax Exempt Series 2020A Bonds") and the Utility System Revenue Bonds, Taxable Refunding Series 2020B Bonds (the "Taxable Series 2020B Bonds") (collectively "the Bonds") are issuable in fully registered form and when initially issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Purchases of beneficial ownership interests in the Bonds will be made in book-entry-only form in \$5,000 principal amounts or integral multiples thereof. Beneficial owners of the Bonds will not receive physical delivery of certificates evidencing their ownership interest in the Bonds so long as DTC or a successor securities depository acts as the securities depository with respect to the Bonds. Interest on the Bonds will accrue from the Dated Date and will be payable on each January 1 and July 1 commencing January 1, 2021. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made directly to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. (See "THE BONDS- Book-Entry-Only System" herein). The Bonds are subject to optional and mandatory redemption prior to maturity. (See "THE BONDS- Redemption Prior to Maturity" herein).

The Bonds are being issued by the Spencer Utilities Authority (the "Authority") to provide funds which will be used for the purpose of providing funds for the Project (as herein defined), refunding certain indebtedness of the Authority, providing capitalized interest, and paying all costs of their issuance. The Authority is issuing the Bonds pursuant to the terms of a Bond Indenture dated as of July 1, 2020, by and between BancFirst, Oklahoma City, Oklahoma (the "Bank"), and the Authority. The Bonds are special limited obligations of the Authority secured by a pledge of the revenues of the Systems (as herein defined), and other available funds of the Authority including appropriated sales tax, as more specifically set forth herein. (See "SECURITY").

**The Bonds and the interest thereon do not constitute an indebtedness, liability, general or moral obligation, or a loan of the full faith and credit of, or a charge against, the City of Spencer, Oklahoma (the "City"), or the State of Oklahoma (the "State"), or any political subdivision thereof within the meaning of the constitution or any statutes of the State and shall never constitute or give rise to a pecuniary liability or a charge against their general credit. No owner of any Bond shall have the right to compel any exercise of the taxing power of the City or the State to pay the Bonds or interest thereon. THE AUTHORITY HAS NO TAXING POWER. Neither the City nor the State nor any political subdivision thereof shall be obligated to pay the principal of the Bonds or interest thereon or other costs incidental thereto. The Bonds are special limited obligations of the Authority.**

The Bonds are offered when, as and if issued and received by the original purchaser subject to prior sale, to withdrawal, or modifications of the offer without any notice, and to the approval of legality of the Bonds by Johanning & Byrom, PLLC, Oklahoma City, Oklahoma, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its Counsel Floyd Law Firm, P.C., Norman, Oklahoma. Certain legal matters will be passed upon for the Authority by its Counsel Pool and Vincent, Oklahoma City, Oklahoma. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about July 15, 2020.

*\*Preliminary, subject to change.*



**D.A. DAVIDSON**  
D.A. Davidson & Co. member SIPC

**\$8,660,000\***  
**SPENCER UTILITIES AUTHORITY**  
**Utility System Revenue Bonds**  
**Consisting of**  
**\$2,215,000\* Capital Improvement Revenue Bonds, Tax Exempt Series 2020A**  
**\$6,445,000\* Utility System Revenue Bonds, Taxable Refunding Series 2020B**

**Dated: Date of Delivery**

**Due: July 1, as shown below**

**MATURITY SCHEDULE**

**SERIAL BONDS**

Maturity <u>Date</u>	Principal <u>Amount</u> (\$)	Interest <u>Rate (%)</u>	<u>Yield(%)</u>	<u>CUSIP</u> <sup>(1)</sup>
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**TERM BONDS**

\$	___%	Term Bond Maturing July 1, 20__	Price_____%
\$	___%	Term Bond Maturing July 1, 20__	Price_____%
\$	___%	Term Bond Maturing July 1, 20__	Price _____%

<sup>(1)</sup>CUSIP numbers have been assigned to this issue by CUSIP Global Services, which is managed on behalf of the American Bankers Association by S&P Global Market Intelligence, a part of S&P Global Inc., and are included solely for the convenience of the purchasers of the Bonds. None of the Authority, the Trustee, the County or the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

*\*Preliminary, subject to change.*

## **REGARDING USE OF THIS OFFICIAL STATEMENT**

The Bonds are offered only by means of this Preliminary Official Statement. This Preliminary Official Statement does not constitute an offering of any security other than the Bonds specifically offered hereby. It does not constitute an offer to sell or a solicitation of an offer to buy the Bonds in any state or jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale, and no dealer, broker, salesman or other person has been authorized to make such unlawful offer, solicitation or sale. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Preliminary Official Statement in connection with the offering of the Bonds and, if given or made, such other information or representations must not be relied upon.

The Bonds will not be registered under the Securities Act of 1933, as amended, pursuant to an exemption under Section 3(a) thereof, and the Authority does not intend to list the Bonds on any stock or other securities exchange. The U.S. Securities and Exchange Commission has not passed upon the accuracy or adequacy of this Preliminary Official Statement or passed upon or endorsed the merits of this offering of the Bonds. With respect to the various States in which the Bonds may be offered, no attorney general, state official, state agency or bureau, or other state or local governmental entity has passed upon the accuracy or adequacy of this Preliminary Official Statement or passed on or endorsed the merits of this offering of Series 2020 Bonds.

All references made herein to the Bonds are qualified in their entirety by reference to the Indenture. All references made herein to the Indenture are qualified in their entirety by reference to such complete documents, original counterparts of which are on file in the offices of the Authority, 8200 NE 36<sup>th</sup> Street, Spencer, Oklahoma 73084, and the corporate trust offices of BancFirst, 101 N. Broadway, Suite 900, Oklahoma City, OK 73102.

The information contained in this Preliminary Official Statement, including the cover page and Exhibits hereto, has been obtained from the Authority and the City and other sources which are deemed to be reliable. No representation or warranty is made by the Underwriter, however, as to the accuracy or completeness of such information and nothing contained in this Preliminary Official Statement is or shall be relied upon as a promise or representation by the Underwriter. This Preliminary Official Statement is submitted in connection with the sale of securities as referred to herein and may not be reproduced or used in whole or in part for any other purpose. The delivery of this Preliminary Official Statement does not at any time imply that information herein is correct as of any time subsequent to its date. This Preliminary Official Statement is not to be construed as a contract with the purchasers of the Bonds.

For purposes of compliance with Rule 15c2-12(b)(1) of the U. S. Securities and Exchange Commission, as amended, and in effect on the date hereof, this Preliminary Official Statement constitutes an official statement of the Authority that has been deemed final by the Authority as of the date hereof except for the omission of no more than the information permitted by Rule 15c2-12.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND CERTAIN DEALER BANKS AND BANKS ACTING AS AGENTS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS PRELIMINARY OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS PRELIMINARY OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THIS PRELIMINARY OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE U.S. SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS UNAUTHORIZED AND MAY CONSTITUTE A CRIMINAL OFFENSE.

All information contained in this Preliminary Official Statement, including the schedule and exhibits attached hereto, is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty, or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

None of the Authority, the Underwriter, or the Financial Advisor makes any representation or warranty with respect to the information contained in this Preliminary Official Statement regarding DTC (defined herein) or its Book-Entry-Only System, as such information has been provided by DTC.

For additional information or copies of this prospectus, contact Spencer Utilities Authority, (405) 771-3226, 8200 NE 36<sup>th</sup> Street, Spencer, Oklahoma 73084 or The Baker Group LP, Financial Advisor, 1601 Northwest Expressway, 20th Floor, Oklahoma City, Oklahoma 73118, (405) 415-7215.

## **FINANCING PARTICIPANTS**

### **SPENCER UTILITIES AUTHORITY**

Frank Calvin, Chairman

James Scanlan, Trustee

James Talley, Trustee

Tonni Cannaday, Trustee

Kerry Andrews, Trustee

### **CITY OF SPENCER CITY COUNCIL**

Frank Calvin, Mayor

James Scanlan, Vice Mayor

James Talley, Councilmember

Tonni Cannaday, Councilmember

Kerry Andrews, Councilmember

### **PROFESSIONAL STAFF**

Huey Long, City Manager

Lyn Marsh, City Clerk/Treasurer

Pool and Vincent, General Counsel

### **BOND COUNSEL**

Johanning & Byrom, P.C.  
Oklahoma City, Oklahoma

### **UNDERWRITER**

D.A. Davidson & Co.  
Tulsa, Oklahoma

### **FINANCIAL ADVISOR**

The Baker Group LP  
Oklahoma City, Oklahoma

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### EXHIBITS

- A - Debt Service Requirements
- B - General Information about the City of Spencer, Oklahoma
- C - City of Spencer Audited Financial Statements for the Year Ended June 30, 2018
- D - Form of Opinion of Bond Counsel
- E - Lease Agreement and Operation and Maintenance Contract dated as of December 1, 1993
- F - Continuing Disclosure Agreement

## SUMMARY STATEMENT

*This Summary Statement is subject in all respects to the more complete information contained in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement, including the Exhibits hereto. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement including the Exhibits hereto.*

**Spencer Utilities Authority.** The Spencer Utilities Authority (the “Authority”), a public trust, was created under the authority of Title 60, Oklahoma Statutes 2019, Sections 176 to 180.3, as amended, pursuant to the provisions of a Trust Indenture dated as of January 26, 1966, and the Oklahoma Trust Act and other applicable statutes of the State of Oklahoma, for the use and benefit of the City of Spencer, Oklahoma (the “City”). The City is the sole beneficiary of the Authority and receives all net income not needed for Authority purposes. The City has leased to the Authority the entire water, sanitary sewer and garbage systems (the “Systems”). The Authority is empowered by the Trust Indenture to acquire, construct, maintain, and operate the Systems for the City, and borrow money by mortgage, pledge, or other encumbrance of the Trust Estate (as herein defined) or its revenues including the issuance of bonds or notes.

**Purpose.** The \$2,215,000 Series 2020A Capital Improvement Revenue Bonds and the \$6,445,000 Utility System Revenue Bonds, Federally Taxable Series 2020B Bonds, and any bonds exchanged therefor, (the “Bonds”) will be issued for the purpose of funding the Project, refunding certain outstanding indebtedness of the Authority, providing capitalized interest, and paying all costs of their issuance.

**Issuance.** The Authority is issuing the Bonds pursuant to the terms of a Bond Indenture dated as of July 1, 2020, by and between BancFirst, Oklahoma City, Oklahoma (the “Bank”), and the Authority. The Bonds are special limited obligations of the Authority.

**Payment.** The Bonds are payable utilizing revenues pledged for their payment and other available funds including appropriated sales tax as set forth in the section entitled “SECURITY”.

**Security.** The Bonds are special limited obligations of the Authority secured by a pledge of the revenues of the Systems, and other available funds of the Authority including appropriated sales tax, as more specifically described herein.

**Redemption.** The Authority reserves the right to redeem the Bonds maturing on and after July 1, 20\_\_, on July 1, 20\_\_, or any date thereafter, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, at the redemption price of par plus accrued interest as further described herein. The Term Bonds (as defined herein) are subject to mandatory redemption. (See “THE BONDS - Redemption Provisions” herein.)

**Rating.** Neither the Authority, the City, nor the Underwriter has applied for or intends to apply for a rating on the Bonds. (See “NO CREDIT RATING” herein).

**Qualified Tax-Exempt Obligations.** The Authority has designated the Series 2020A Bonds as “Qualified Tax-Exempt Obligations” for financial institutions (See “TAX MATTERS – Federal Income Taxation” herein).

**Tax Exemption.** In the opinion of Bond Counsel, interest on the Series 2020A Bonds will be excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date thereof, and interest on the Series 2020A Bonds and Series 2020B Bonds is exempt from Oklahoma income taxation, subject to the matters described under “TAX MATTERS” herein.

**Book-Entry-Only System.** The Bonds are initially issued only to Cede & Co., the nominee of The Depository Trust Company, New York, New York, pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 of principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the DTC Participants (as defined herein) for subsequent remittance to the owners of the beneficial interests in the Bonds (See “The Bonds - Book-Entry-Only System” herein).

**Legal Opinion.** Delivery of the Bonds is subject to the rendering of an opinion as to legality by Johanning & Byrom, PLLC, Oklahoma City, Oklahoma.

**Payment Record.** The Authority has never defaulted on any of its debt obligations.

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## OFFICIAL STATEMENT

**\$8,660,000\***

### **SPENCER UTILITIES AUTHORITY**

**Utility System Revenue Bonds**

**Consisting of**

**\$2,215,000\* Capital Improvement Revenue Bonds, Tax Exempt Series 2020A**

**\$6,445,000\* Utility System Revenue Bonds, Taxable Refunding Series 2020B**

## INTRODUCTION

This Official Statement, including the cover page, Summary Statement and Exhibits hereto, is furnished to provide information with respect to the offering by the Spencer Utilities Authority (the "Authority") of its Capital Improvement Revenue Bonds, Tax Exempt Series 2020A and Utility System Revenue Bonds, Federally Taxable Refunding Series 2020B (collectively, the "Bonds"). The Bonds are issuable in fully registered form in the denomination of \$5,000 or any integral multiples thereof. The principal of the Bonds is payable to the registered owners at the principal office of BancFirst, Oklahoma City, Oklahoma (the "Bank"). Interest on the Bonds will accrue from Dated Date and will be payable on each January 1 and July 1 commencing January 1, 2021, by check or draft mailed to the registered owners thereof by the Bank. The Bonds are subject to optional and mandatory redemption prior to maturity. (See "THE BONDS— Redemption Prior to Maturity" herein).

The Authority proposes to issue its Bonds for the purpose of funding the Project, refunding certain outstanding indebtedness of the Authority, providing capitalized interest, and paying all costs of their issuance. (See "PLAN OF FINANCING AND APPLICATION OF BOND PROCEEDS" herein).

The Authority is issuing the Bonds pursuant to the terms of a Bond Indenture dated as of July 1, 2020, by and between the Bank and the Authority (the "Bond Indenture"). The Bonds are special limited obligations of the Authority secured by a pledge of the revenues of the Systems, and other available funds of the Authority including appropriated sales tax, as more specifically set forth herein. (See "SECURITY" herein.)

The Bonds and the interest thereon do not constitute an indebtedness, liability, general or moral obligation, or a loan of the full faith and credit of, or a charge against the City of Spencer, Oklahoma (the "City"), or the State of Oklahoma (the "State") or any political subdivision thereof within the meaning of the constitution or any statutes of the State and shall never constitute or give rise to a pecuniary liability or a charge against their general credit. No owner of any Bond shall have the right to compel any exercise of the taxing power of the City or the State to pay the Bonds or the interest thereon. **THE AUTHORITY HAS NO TAXING POWER.** Neither the City nor the State nor any political subdivision thereof, shall be obligated to pay the principal of the Bonds or interest thereon or other costs incidental thereto. The Bonds are special limited obligations of the Authority payable solely from the revenues and other amounts pledged thereto and described herein.

Brief descriptions of the Authority, the Bonds, the City, and the Bond Indenture are contained in this Official Statement and the Exhibits hereto. Such descriptions do not purport to be complete or definitive. All references made herein to the Bonds are qualified in their entirety by reference to the Bond Indenture. All references made herein to the Bond Indenture are qualified in their entirety by reference to such complete documents.

## **SPENCER UTILITIES AUTHORITY**

The Authority, a public trust, is a statutory instrumentality of the City and an agency of the State. The Authority was created under provisions of the Oklahoma Statutes by a Trust Indenture, dated January 26, 1966, to furnish the City with services and facilities for the conservation and implementation of the public welfare and for the protection and promotion of public health and for other purposes proper for the City itself to furnish. The City is the sole beneficiary of the Authority and receives all net income not needed for Authority purposes. The City has leased to the Authority the entire water, sanitary sewer and garbage systems (the "Systems") pursuant to that certain Lease Agreement and Operation and Maintenance Contract dated as of December 1, 1993, as amended by an Amendment thereto dated August, 16, 2007, copies of both of which are attached hereto as Exhibit E (the "Lease"). The Authority is offering as security a first security interest upon and pledge of the net revenues of its leasehold estate in the entire water, sanitary sewer, and garbage systems (the "Trust Estate") and is empowered by the Trust Indenture to acquire, construct, maintain, and operate the aforesaid facilities for the City, and borrow money by mortgage, pledge, or other encumbrance of the Trust Estate or its revenues including the issuance of bonds or notes. All properties held by the Authority for the benefit of the City will become the property of the City when the Authority's debts are extinguished. The Authority has the same duration as the City, or until its purposes shall have been fulfilled, or until it shall have been terminated by mutual agreement and with the consent of the owners of any outstanding indebtedness. The validity of public trusts like the Authority has been approved by the Supreme Court of the State of Oklahoma. **THE AUTHORITY HAS NO TAXING POWER.**

## **TRUSTEES**

The Trustees of the Authority are the same persons who are currently the members of the City Council of the City and, as such, they continue to hold office until their successors are elected to the governing board of the City, and qualify for office. The Mayor of the City is the Chairman of the Trustees of the Authority and the City Clerk is the Secretary of the Trustees. The present Trustees of the Authority are:

Frank Calvin, Chairman

James Scanlan, Trustee

James Talley, Trustee

Tonni Cannaday, Trustee

Kerry Andrews, Trustee

## **PLAN OF FINANCING AND APPLICATION OF BOND PROCEEDS**

The Series 2020A Bonds are being issued by the Authority to provide funds which will be used for the purpose of funding the Project (as defined herein), and paying all costs of issuance of the Series 2020A Bonds. The Series 2020B Bonds are being issued by the Authority to provide funds which will be used for the purpose of refunding the Authority's outstanding Utility System Refunding and Capital Improvement Revenue Bonds, Series 2015, to provide funds for which will be used for the purpose of funding the Project, and paying all costs of issuance of the Series 2020B Bonds. The refunding of said Series 2015 Bonds will effect a discharge of the lien of the Revenue Bond Indenture securing such Series 2015 Bonds.

## Sources and Uses of Funds

The proceeds from the sale of the Bonds and other available monies will be applied as follows:

### Sources of Funds

Principal Amount of Bonds	\$
Transfers from Prior Bond Fund	
Transfers from Prior Debt Service Reserve Fund	
Total	\$_____

### Uses of Funds

Deposit to Project Construction Fund	\$
Refund Series 2015 Bonds	
Pay Off Debt - Other	
Underwriter's Discount	
Costs of Issuance*	
Total	\$_____

*\*Includes all costs of issuance, fees for legal counsel, financial advisory, and other expenses, the payment of which is contingent upon the issuance of the Bonds.*

## PROJECT

The Authority will use a portion of the proceeds of the Series 2020A Bonds to provide the following, together (the "Project"):

1. Kringlen Park Improvements: Rodeo Arena/Amphitheater Multi-Use Facility, Splash Park, Horse Stables/Exercise/Facility/Training Area, Walking/Biking/Trails, Pavilion, Restrooms, and other improvements. The cost of improvements is approximately \$900,000.00.
2. Smart Meter Project: The Authority has approximately 1,600 water meter customers. With a variety of dated meters in the system, it has been determined the Authority needs to replace the entire system with a technological advanced "Smart Meter" system. The cost of replacement is approximately \$550,000.00.
3. Wastewater Treatment Improvements: Replacement of the internal workings of the clarifier which treats approximately 325,000 gallons of wastewater on a daily basis. The system has not been upgraded in twenty (20) years. In addition, the Authority will install a new chlorination and de-chlorination system and telemetry system. Other improvements include expansion/replacement of water and sewer lines in the system. The cost of improvements is approximately \$250,000.00.
4. Public Safety, Public Works Equipment Replacement Program: This will include the replacement of obsolete equipment in the Police, Fire, and Public Works Department such as patrol vehicles, fire equipment, mowers, and utility vehicles. The cost of improvements is approximately \$200,000.00.
5. Internal Revenue Service and Oklahoma Tax Commission: The City and Authority will be escrowing approximately \$600,000.00 for the purpose of negotiating the settlement of past due penalty and interest in past payroll taxes.

## **THE BONDS**

### **Description of the Bonds**

The Bonds are issuable in fully registered form in the denomination of \$5,000 or with respect to principal maturing on the same date, in integral multiples thereof. The Bonds will mature and bear interest at the rates set forth on the inside cover of this Official Statement. Interest on the Bonds will accrue from Dated Date and will be payable on each January 1 and July 1 commencing January 1, 2020, by check or draft mailed to the registered holders thereof.

### **Registration and Payment**

The Bonds will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. The principal of, premium, if any, and interest on the Bonds will be paid by the Bank to DTC. Disbursements of such payments to the DTC participants is the responsibility of DTC and disbursement of such payments to the beneficial owners is the responsibility of the DTC participants and the Indirect Participants. (See “Book-Entry Only System” below).

### **Book-Entry-Only System**

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds (also referred herein as the “Securities”). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee). One fully-registered Security certificate will be issued for the Securities in the aggregate principal amount of such issue and will be deposited with DTC at the office of the Trustee on behalf of DTC utilizing the DTC FAST System of registration.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Participants”) deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Participants are on file with the United States Securities and Exchange Commission.

Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners.

Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities are discontinued.

To facilitate subsequent transfers, all Securities deposited by Participants with DTC (or the Trustee on behalf of DTC utilizing the DTC FAST System of registration) are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Securities with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose account such Securities are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Securities within the issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Securities. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose account the Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Securities will be made by the Bank to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants and not of DTC, Agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or Agent, disbursement of such payments to Direct Participant shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to Agent's DTC account.

DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to the Authority or Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfer through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered. In reading this Official Statement it should be understood that while the Securities are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Securities, but (i) all rights of ownership

must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Indenture will be given only to DTC. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

## **REDEMPTION PROVISIONS**

The Bonds are subject to redemption prior to maturity only as described in this section of the Official Statement.

### **A. Mandatory Redemption**

The Term Bonds maturing July 1, 20\_\_, are subject to mandatory sinking fund redemption and payment prior to maturity on July 1, 20\_\_, and on each July 1, thereafter through July 1, 20\_\_, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the redemption date, as follows:

Mandatory Redemption Dates

Principal

The Term Bonds maturing July 1, 20\_\_, are subject to mandatory sinking fund redemption and payment prior to maturity on July 1, 20\_\_, and on each July 1, thereafter through July 1, 20\_\_, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the redemption date, as follows:

Mandatory Redemption Dates

Principal

The Term Bonds maturing July 1, 20\_\_, are subject to mandatory sinking fund redemption and payment prior to maturity on July 1, 20\_\_, and on each July 1, thereafter through July 1, 20\_\_, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the redemption date, as follows:

Mandatory Redemption Dates

Principal

So long as there is a securities depository for the Bonds there will be only one registered owner and neither the Authority nor the Bank will have responsibility for presenting partial redemptions among beneficial owners of the Term Bonds. Notice of any mandatory sinking fund redemption of Term Bonds will be sent by certified or first-class mail not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption to the registered owner of each Term Bond (or portion thereof) to be redeemed at the address shown on the registration books of the Bank, or at such other address as is furnished in writing by such registered owner to the Bank.

B. Optional Redemption - The Bonds maturing July 1, 20\_\_, and thereafter shall be subject to redemption prior to maturity at the option of the Authority, on at least thirty (30) days' notice (to be provided in the manner hereafter stated), in whole or in part, in inverse order of maturity and by lot within a maturity on any date, on and after July 1, 20\_\_, at the respective redemption prices set forth below plus accrued interest:

Redemption Dates	Redemption Price
---------------------	---------------------

C. Notice and Effect of Optional Redemption - Notice of any call for optional redemption will be given by the Bank, identifying the Bonds to be redeemed, not less than thirty (30) days prior to the redemption date by notice sent by first class mail to the holder or holders of the Bond or Bonds to be redeemed, directed to the address shown on the registration books. No further interest will accrue on the principal of any Bonds called for optional redemption from and after the date fixed for redemption if payment of the redemption price thereof has been duly provided for.

## **SOURCE OF PAYMENT AND SECURITY FOR THE BONDS**

### **Payment**

The Bonds are special limited obligations of the Authority. The Bonds are payable utilizing revenues pledged for their payment and other available funds including appropriated sales tax as set forth in the section below entitled "Security".

### **Security**

The Bonds are secured by a first lien on the Net Revenues of the leasehold of the Systems owned by and serving the City and leased to the Authority pursuant to the Lease. Said Lease shall remain in effect until November 30, 2043, and so long thereafter as any indebtedness incurred by the Authority secured by the revenues thereof shall remain unpaid. A copy of the Lease, as amended, is attached hereto as Exhibit E and should be read in full. Net Revenues of the Trust Estate are defined as all revenues derived from it, together with the proceeds of an annually appropriated four cents (\$0.04) sales tax actually paid over to the Authority plus investment income of the Authority, less only all costs of its operation and maintenance. Average annual debt service charges are defined as all charges for payment of principal of and interest on the Bonds, due and payable from their date of issue up to and including payment of the final maturity of such issue divided by the number of years elapsed during that period with the last principal maturity calculated as credited with the principal amount of investment of any debt service reserve fund.

The payment of the principal of and interest on the Bonds does not constitute an indebtedness, liability, general or moral obligation, or a loan of the full faith and credit of, or charge against, the City, the State, or any political subdivision thereof within the meaning of the Constitution or any statutes of the State and shall never constitute or give rise to a pecuniary liability or charge against its general credit. No owners of any Bonds shall have the right to compel any exercise of the taxing power of the City or State to pay the Bonds, or the interest thereon. Neither the City nor the State nor any political subdivision thereof shall be obligated to pay the principal of and interest on the Bonds or other cost incidental thereto, except from the revenues and other amounts pledged thereto. The Bonds are not obligations of the State, nor the City, nor personal obligations of the Trustees of the Authority, but are limited special revenue obligations of the Authority payable solely from the sources described herein. **THE AUTHORITY HAS NO TAXING POWER.**

### **RATE COVENANT**

The Authority has covenanted to adopt a schedule of rates and charges for water, sanitary sewer, and garbage services sufficient, together with appropriated sales tax proceeds actually paid over to the Authority by the City, to provide net revenues equal to one and one-fourth (1.25) times average annual debt service charges for the Bonds and all bonds equally secured with them.

Any appropriation in whatever amount by the City to the Authority shall be treated as income of the Trust Estate and any expenditures by the City itself to pay costs of operation and maintenance of the Trust Estate shall be deducted from the costs of operation and maintenance of the Trust Estate in calculating the net revenues of the Trust Estate. In the event no such appropriation or expenditure is made or is insufficient in amount, then the Authority must immediately revise its rate schedules to remedy any resultant deficiency in its revenues so that its net revenues shall at all times be equal to one and one-fourth (1.25) times average annual debt service charges. The purpose of these provisions is to permit lower charges for the water and sanitary sewer services and garbage collection rendered to the people of the City so long as the City makes sufficient appropriations to transfer the funds so appropriated to the Authority.

Since no City Council can bind itself nor be bound by an act either of its predecessors or by the terms of the election authorizing sales tax to make any such appropriation, the members of the Authority, whose membership is identical with that of the City Council, have pledged that in the event that the City Council fails to make the appropriation or for any reason, amounts so appropriated are not paid over to the Authority or are insufficient in amount, the members of the Board of Trustees of the Authority, in their capacity as Authority Trustees, will immediately increase rates, charges, and fees for services rendered by the Trust Estate in that amount which will produce net revenues equal to one and one-fourth (1.25) times average annual debt service charges for the Bonds and all bonds equally secured with them.

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## COMPARATIVE REVENUE AND EXPENDITURES

	UNAUDITED			
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues:				
Water sales	\$ 406,962	\$ 520,594	\$ 423,027	\$ 581,474
Sewer fees	158,347	252,397	172,278	170,023
Sanitation fees	426,482	367,299	405,646	510,168
Penalties	46,955	57,017	28,436	-
Miscellaneous	23,794	23,219	26,393	-
Total Operating Revenues	\$ 1,062,540	\$ 1,220,526	\$ 1,055,780	\$ 1,261,666
Operating Expenditures: (1)				
Personnel Services	\$ 206,346	\$ 265,906	\$ 360,255	\$ 154,844
Maintenance/Operations	365,880	371,794	326,078	814,112
Other	10,787	-	-	3,452
Total Operating Expenditures	\$ 583,013	\$ 637,700	\$ 686,333	\$ 972,408
Net Income	\$ 479,527	\$ 582,826	\$ 369,447	\$ 289,257
Annually Appropriated 4 Cent Sales Tax	\$ 791,623	\$ 810,486	\$ 709,481	\$ 761,387
Funds Available for Debt Service	\$ 1,271,150	\$ 1,393,312	\$ 1,078,928	\$ 1,050,644
Series 2020 Debt Service - PROPOSED (Avg Annual)	\$ 480,845	\$ 480,845	\$ 480,845	\$ 480,845
Coverage	2.64	2.90	2.24	2.18
(1) does not include Depreciation, Amortization, Interest Expense				

*The Comparative Revenue and Expenditures Statements are based upon the City's 2019 unaudited financials and certified audits prepared by Elfrink and Associates, PLLC, Tulsa, Oklahoma. A copy of the 2018 audit for the City is included and should be read in full. Copies of previous audits are available upon request from the Authority.*

## **THE DEPOSITORY**

The Authority is from time to time to designate a bank or banks, preferably in Spencer, Oklahoma, which shall act as Depository for the Spencer Utilities Authority Gross Revenue Account and Bond Account, and from which withdrawals are to be made as stipulated in the section "Flow of Funds" which follows.

## **THE TRUSTEE BANK**

BancFirst, Oklahoma City, Oklahoma, will act as Trustee for the holders of the Bonds, and is to hold the Bond Indenture securing the Bonds, and perform such other duties as have or may be agreed upon and as are outlined briefly in the paragraphs that follow and fully in the Bond Indenture.

## **THE REGISTRAR**

BancFirst, Oklahoma City, Oklahoma, will act as Registrar for the Bonds and will register ownership and transfer of the Bonds on books kept for that purpose and act as paying agent on behalf of the Authority. Interest shall be paid by check or draft mailed by the Registrar to bondholders of record on the Record Date, which is the 15th day of the month, next preceding each interest payment date whether or not such date is a business day.

## **FLOW OF FUNDS**

**I. BOND PROCEEDS:** The proceeds of the Bonds will be deposited in the Bank in the Spencer Utilities Authority Series 2020 Construction Fund, except that accrued interest will be deposited directly into the Spencer Utilities Authority Sinking Fund, described in III below. All fees and expenses for services in connection with the issuance of the Bonds shall be paid to the persons entitled thereto, and the cost of establishing the escrow to defease all of the outstanding Series 2015 Bonds of the Authority shall be paid. The then-remaining amounts in the Construction Fund shall be used for:

A. All payments for properties and equipment purchased, for professional services, labor, and materials furnished, for all construction performed, and for deposit to the Sinking Fund during construction; and

B. Any remainder shall be retained in the Construction Fund to be used later for the same purpose for which the proceeds of the Bonds are to be used, or transferred to the Sinking Fund and used to diminish payments otherwise required to be made into it.

**II. AUTHORITY REVENUES:** The Depository Bank (described above) shall receive daily all money received from the Trust Estate into an account known as the Spencer Utilities Authority Gross Revenue Account and hereafter called the "Gross Revenue Account". The Authority has the sole authority to withdraw money from the Gross Revenue Account. From the Gross Revenue Account there is to be paid in the following order:

A. Costs and expenses of and incidental to the operation and ordinary maintenance of the Trust Estate, including but not limited to payments due under any contract for the operation and maintenance of the Systems, the necessary costs and expenses of and incidental to the collection of revenues of the Trust Estate and fees and expenses of the Bank and Registrar.

B. The sums required for payment of principal of and interest on the Bonds are to be deposited in the Spencer Utilities Authority Bond Account, to be held by the Depository but with the sole right of withdrawal from the Bond Account vested in the Bank. Bond account deposits are to be made monthly and in as nearly equal amounts as may be practicable.

C. The remainder is to be used for any proper purpose of the Authority, including, but not limited to, purchase of any Bonds or any other equally secured indebtedness on the open market, redemption of bonds of this or any equally secured debt prior to maturity, or payments to or for the Beneficiary.

All deposits made by the Authority must be in banks the accounts of which are insured by the Federal Deposit Insurance Corporation (the "FDIC") and any deposit in excess of that amount insured by the FDIC must be secured as are the deposits of un-invested sinking funds of political subdivisions of the State, or in the case of deposits in the Bank, in the manner prescribed by federal law for securing trust funds.

**III. DEBT SERVICE:** From the Bond Account the Bank shall, not later than each interest and principal payment date so long as the Bonds remain outstanding, withdraw therefrom the accumulated sum, shown in Exhibit C to the Indenture and deposit it in the "Sinking Fund" which it holds. The Sinking Fund is to be used by the Bank for payment of principal of and interest on the Bonds as they mature. The withdrawals are to be made in that amount which will permit payment of principal of and interest on Bonds as they become due.

#### **IV. INVESTMENT OF FUNDS:**

A. The Bank shall invest such portions of the Sinking Fund and Bond Account as shall be practicable with maturity thereof prior to the interest payment date next ensuing after date of investment as directed by the Authority. All of said investments shall be in one or more of the Permitted Investments as defined in Article IX of the Indenture. All interest collected by the Bank on such investments in the Sinking Fund shall be deposited as collected, in the Sinking Fund and following each interest payment date, any surplus therein shall be applied to pay the semi-annual fee of the Bank.

B. The Construction Fund shall be kept continuously invested by the Bank upon written instructions of the Authority in Permitted Investments (as defined in the Bond Indenture). Interest earned is to be retained in the Construction Fund or upon direction of the Authority transferred by the Bank to the Sinking Fund of the Authority.

#### **ADDITIONAL BONDS**

Provided no state of default exists under the Bond Indenture, additional debt equally secured with this debt may be incurred under the following conditions:

1. Any such secured additional indebtedness shall be incurred only for acquiring, constructing, extending, improving, protecting, or enlarging the properties and facilities of the Trust Estate, or of the City, or to effect major repairs and replacements to the Trust Estate or for refunding any outstanding indebtedness of the Authority incurred for any of the foregoing purposes.

2. No such additional indebtedness shall be incurred unless the Net Revenues of the Trust Estate (hereinafter defined) shall, as certified by a Certified Public Accountant, have been at an annual rate equal to one and one-fourth (1.25) times average annual debt service charges (herein above defined) of the outstanding Bonds for the preceding fiscal year and projected Net Revenues for the calendar year immediately following completion of any such authorized project shall be equal to one and one-fourth (1.25) times the average annual debt service charges of the outstanding indebtedness secured under the

Bond Indenture. In making the calculations, increased utility rates and increased sales taxes then in effect may be assumed to have been in effect during the period under consideration. Debt service charges for the Bonds pursuant to each of the interest rate schedules provided under the Bond Indenture are shown in Exhibit A.

3. The Supplemental Indenture providing for any such additional equally secured debt shall provide that payments into the Bond Account and Sinking Fund shall be increased in such amounts as shall be necessary to service the additional Bonds. The deposits or payments into the Bond Account, Sinking Fund and Sinking Fund Reserve Fund required for each series of equally secured Bonds are to be commingled with all other deposits and payments made into such account or fund under the Bond Indenture. The Sinking Fund Reserve Fund shall be increased for each issue of additional indebtedness in an amount equal to the Sinking Fund Reserve Fund requirement as defined in the Bond Indenture. The Sinking Fund Reserve Fund shall be capitalized upon delivery of the additional indebtedness.

### **BOND COVENANTS**

Pursuant to the Bond Indenture, the Authority has made certain covenants, which include the following:

1. The Authority has good right and lawful authority to execute and deliver the security interest and pledge of revenues set forth in the Bond Indenture, and all of said property is free and clear of all liens, claims, demands, encumbrances, and governmental charges which could or in any manner might adversely affect or prejudice the rights, interests, privileges, powers, and liens provided in the Bond Indenture, and the Authority, so often as requested so to do by the Bank or any holder of any Bond, promptly will execute and deliver all such other and further instruments and do, or cause to be done, all such other and further things, as reasonably shall be required to vest in the Bank all of the rights, powers, and benefits intended to be conveyed, assigned, and conferred by the Bond Indenture.

2. The Authority will not suffer or permit any lien or encumbrance upon any of the property or revenues conveyed as security under the terms of the Bond Indenture, or any part of said property or revenues, to be or become superior or in preference to the lien created by the Bond Indenture, neither will the Authority do or suffer to be done any act or thing whereby the security provided in the Bond Indenture shall be diminished or impaired.

3. The Authority forever will defend the unimpaired and unencumbered right, title, and interest in and to each and every part of the property and revenues mentioned in the Bond Indenture against all claims and demands asserted by any person or entity whatsoever to be prior or preferential to the lien created by the Bond Indenture, and the Authority, upon request by the Bank or by the holder of any Bond, promptly will take such action as reasonably shall be required to extinguish any defect or cloud upon the rights, title, and interests described as aforesaid whether presently existing or hereafter coming into existence; and the Authority will save harmless the Bank and each holder of any Bond from all loss, cost, expense, and damage with respect to any of the foregoing.

4. The Authority will maintain a schedule of utility charges, fees, and rates sufficient (together with sales tax receipts appropriated and paid over to the Authority), to produce Net Revenues annually not less than one and one-fourth (1.25) times the applicable average annual debt service requirements on the Bonds and all equally secured bonds after payment of all operation and maintenance costs and expenses of the Trust Estate.

5. The Authority will keep the Systems insured by all forms of insurance ordinarily carried by reasonably prudent operators of like properties, the policies to be payable to the Beneficiary and/or the Bank as their interests shall appear and either the policies or certificates of insurance are to be delivered to the Bank promptly upon issuance thereof.

6. The Authority will maintain the systems in first-class working condition and will not remove or dispose of any of the mortgaged properties without written consent of the Bank.

7. The Authority will maintain its right to operate and will operate the Systems so long as any bonded indebtedness remains outstanding, will comply with all applicable laws, rules, and regulations, and will give no free service except to the Beneficiary for strictly governmental purposes.

8. The proceeds of these Bonds will be used solely for the purposes for which they were issued, as briefly outlined in a preceding paragraph entitled "Plan of Financing and Application of Bond Proceeds" and as described in complete detail in the Bond Indenture itself under which they are issued.

9. All monies collected by the Authority will be applied in the manner provided in the preceding section entitled "Flow of Funds".

10. The Authority will keep proper books, records, and accounts in accord with good accounting practices which shall at all reasonable times be made available to bondholders or their representatives.

11. The Authority will incur no additional indebtedness secured by the revenues of the Trust Estate, or the Systems, (a) if it is in default in any of its covenants; and (b) unless the additional debt be issued in full compliance with all requirements of the section entitled "Additional Bonds".

12. Any provision in the Bond Indenture may be amended by the agreement of the Authority and the Bank with the consent given in writing to the Bank by the holders of not less than 75% of all the equally secured Bonds then outstanding except, however:

a. The aforesaid percentage of seventy-five percent (75%) shall not be reduced without the consent of the holders of all of the outstanding indebtedness;

b. Any reduction made in the rate of interest must apply equally to all Bonds unless otherwise consented to in writing by the holder of the excepted Bonds;

c. That in the event that there shall be an extension of maturities serially, the same relative position in the extended schedule shall be retained for each Bond as in the maturity schedule of the Bonds as originally issued, unless otherwise consented to in writing by the holder of the excepted Bonds. However, if the extension of maturities is made into a single maturity, the extension shall apply to all bondholders; and

d. That no Bond be given preference in security over any other. It is also provided that in the event monies in an amount which shall be sufficient or direct obligations of the United States or of agencies of the United States fully guaranteed by the United States are placed in a special escrow account for the sole purpose and in sufficient amount that the principal and interest earned when due shall provide funds to pay promptly and fully as they mature, both interest on and principal of the Bonds or in the alternative, on such earlier date any of said outstanding Bonds, respectively, are callable for redemption prior to maturity, in the latter event, together with any premium payable upon such redemption, at which time the lien securing them by the Trust Estate shall be released.

Upon the issuance of the Bonds, if any, the Authority will timely prepare and file, or cause to be prepared and filed, any and all reports or returns required under the Internal Revenue Code of 1986, as amended, in order to preserve the federal tax-exempt status of the interest payable on the Bonds and the Authority will timely meet the rebate requirements of the Internal Revenue Code of 1986, as amended, including but not limited to, payment of any required rebates to the United States, relating to income derived from investment of the proceeds of the Bonds.

## **DEFEASANCE**

The Bond Indenture shall be defeased if, among other things, there are sufficient funds, the principal of and interest on which when due will provide funds, which together with the funds, if any, deposited with the Bank at the same time are sufficient to pay when due the principal or redemption price of and interest due, and to become due, on the Bonds, on and prior to the redemption date or maturity date thereof, as the case may be.

## **DEFAULTS AND REMEDIES**

The Bond Indenture makes the happening or existence of certain facts a default including, but not limited to, the failure to pay the principal of and interest on the Bonds when due. All of the customary remedies, including acceleration of maturities, receivership, etc., are made available to the Bank and to all bondholders. An additional remedy is also provided which permits the appointment of temporary Trustees in sufficient number to constitute a majority of the Trustees. This device permits continued operation of the properties under control of the bondholders without endangering the tax-free status of the property or its operation as a governmental agency. All remedies expressly are made concurrent and elective and subject to any limitations imposed by bankruptcy, reorganization, insolvency, or other similar laws affecting the rights of creditors generally.

## **OUTSTANDING INDEBTEDNESS**

The Authority's only outstanding debt is the Authority's Utility System Refunding and Capital Improvement Revenue Bonds, Series 2015 which are being refunded by the Series 2020B Bonds. The refunding of said Series 2015 Bonds will effect a discharge of the lien of the Revenue Bond Indenture securing such Series 2015 Bonds.

## **CERTAIN RISKS OF BONDHOLDERS**

*BEFORE PURCHASING ANY OF THE BONDS, PROSPECTIVE INVESTORS AND THEIR PROFESSIONAL ADVISORS SHOULD CAREFULLY CONSIDER ALL POSSIBLE FACTORS WHICH MAY AFFECT BOTH THE OPERATIONS AND REVENUES OF THE SYSTEMS, AND, CONSEQUENTLY, CREATE THE POSSIBILITY THAT THE INTEREST ON THE BONDS MAY NOT BE PAID WHEN DUE OR THAT THE BONDS MAY NOT BE PAID AT MATURITY. THE FOLLOWING RISK FACTORS—WHICH ARE NOT INTENDED TO BE AN EXHAUSTIVE LISTING OF ALL POSSIBLE RISKS ASSOCIATED WITH AN INVESTMENT IN THE BONDS—MUST BE CONSIDERED PRIOR TO PURCHASING THE BONDS, MOREOVER, THE ORDER OF PRESENTATION OF THE RISKS SUMMARIZED BELOW DOES NOT NECESSARILY REFLECT THE SIGNIFICANCE OF THE RISKS.*

## **General**

As reflected herein, the Bonds are limited and special obligations of the Authority payable from the revenues received by the Authority from the operations and existence of the Systems and from sales tax revenues, if any, received by the Authority from the City. The ability of the Authority to generate sufficient revenues from operating the Systems and sales tax revenue appropriated by the City, if any, to pay (i) the debt service requirements on the Bonds; (ii) the costs of operating and maintaining the Systems; and (iii) any other monies required to meet any other lawful needs of the Authority, will depend, in part, upon the ability of the Authority to operate and maintain the Systems at a reasonable cost. See "SOURCE OF PAYMENT AND SECURITY FOR THE BONDS" above. If the Authority should be unable to operate and maintain the Systems, the Authority would have to attempt to contract with another party for the operation of the Systems. Any failure to operate and maintain the Systems, or cause the Systems to be operated and maintained, will result in a reduction or elimination of the revenues of the Authority and could result in the inability of the Authority to pay the debt service requirements on the Bonds.

Furthermore, any reduction in the demand for the services of the Systems, any increases in the costs of operating and maintaining the Systems, any new technology which could render the services of the Systems obsolete and unneeded, and any other similar changes could have a negative impact on the ability of the Authority to pay the debt service requirements of the Bonds. If the Authority shall be unable in the future to raise rates, fees, and charges for services of the Systems, or cause such to be raised, the Authority may be unable to generate sufficient revenues to provide the monies described above.

Since the Oklahoma Constitution allows only for a pledge of the funds derived from the collection of a sales tax on a year to year basis, the sales tax revenues shall be committed to the Authority on a year to year basis, subject to the annual appropriation of such monies by the City.

If the City should decide not to appropriate such monies or should the City take action to eliminate the pledge or should the voters rescind the right of the City to levy and collect any sales tax revenues, and if the Authority shall be unable in the future to raise rates, fees, and charges for services of the Systems or cause such to be raised, the Authority may be unable to pay the debt service requirements of the Bonds. The right of the City to levy and collect any sales tax revenues is provided in the statutes of the State of Oklahoma. The legislature has the ability to could inhibit the ability of the Authority to pay the debt service requirements of the Bonds.

The amount of sales tax revenue depends upon the sale of covered goods and services within the jurisdiction of the City and is therefore dependent upon the general economy of the City. The Oklahoma Legislature has the ability to modify the definition of covered goods and services. There can be no assurance that the amount of sales tax revenue levied and collected in any period will be sufficient to fund debt service on the Bonds.

Under current laws, business establishments operated by American Native American tribes are not required to remit state, county, or city sales taxes. There has been an increase in Oklahoma of tribal operated businesses over the last several years. An increase in tribal operated businesses in the City might have a negative impact on sales tax collections.

## **Secondary Market**

There is no guarantee that a secondary trading market will develop for the Bonds. Consequently, prospective purchasers should be prepared to hold their Bonds to maturity.

## **Tax Legislation**

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Series 2020A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to state income taxation, or otherwise prevent the beneficial owners of the Series 2020A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) could affect the market price or marketability of the Series 2020A Bonds.

## **Enforcement of Remedies**

Enforcement of remedies under the Bond Indenture may be limited or restricted by federal and state laws relating to bankruptcy, fraudulent conveyances, and rights of creditors, and by application of general principles of equity applicable to the availability of specific performance, and may be substantially delayed in the event of litigation or statutory remedy procedures. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings, and decisions affecting remedies, and by general principles of equity and by bankruptcy, reorganization, insolvency, or other similar laws affecting the rights of creditors.

## **Book-Entry**

Persons who purchase Bonds through broker-dealers become creditors of the broker-dealer with respect to the Bonds. Records of the investors' holdings are maintained only by the broker-dealer and the investor. In the event of the insolvency of the broker-dealer, the investor would be required to look to the broker-dealer's estate, and to any insurance maintained by the broker-dealer, to make good the investor's loss. The Authority and the Bank are not responsible for failures to act by, or insolvencies of, DTC or any broker-dealer.

The foregoing is intended only as a non-exclusive summary of certain risk factors attendant to an investment in the Bonds. In order for potential investors to identify risk factors and make an informed investment decision, potential investors should be thoroughly familiar with this entire Official Statement and the Exhibits hereto.

## **Infectious Disease Outlook (COVID-19)**

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Oklahoma. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States declared the Pandemic a national emergency and the Oklahoma Governor (the "Governor") subsequently declared COVID-19 an imminent threat of disaster for all counties in Oklahoma (collectively, the "disaster declarations"). On April 5, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Oklahoma.

Pursuant to Oklahoma's Catastrophic Health Emergency Act, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Oklahoma.



Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Oklahoma. Stock values and crude oil prices in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. Oklahoma may be particularly at risk from any global slowdown, given the risk of contraction in the oil and gas industry and spillover effects into other industries, including manufacturing.

The Bonds are secured by the Net Revenues derived from the Systems and declining demand for services provided by the Systems or the inability of customers to pay for those services may result in lower revenues for the Authority.

The City and the Authority continue to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of COVID-19 upon the City. While the potential impact of COVID-19 on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's financial condition.

## **TAX MATTERS**

### **Series 2020A Federal Tax Considerations**

In the opinion of Bond Counsel, under existing statutes, regulations, rulings, and court decisions, interest on the Series 2020A Bonds is excludable from the gross income of the owners of the Series 2020A Bonds for federal income tax purposes. Bond Counsel is further of the opinion that interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax. In expressing such opinions, Bond Counsel will rely on and assume compliance by the Authority and the Department with the terms of the Federal Tax and Arbitrage Certificate and continuing requirements with certain provisions of the Internal Revenue Code of 1986 (the "Code") after the issuance of the Series 2020A Bonds. The Federal Tax and Arbitrage and Use of Proceeds Certificate and the Lease Agreement contain certain covenants with respect to the use and investment of the proceeds of the Series 2020A Bonds and the use of the Trust Estate. Failure by the Authority or Department to comply with these covenants and all requirements of the Code may cause the interest on the Series 2020A Bonds to become includable in federal gross income retroactively to the date of issuance of the Series 2020A Bonds.

The laws and regulations upon which Bond Counsel has based its opinion are subject to change by the Congress and the Department of the Treasury and to subsequent judicial and administrative interpretation. There can be no assurance that such laws or regulations or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of ownership of the Series 2020A Bonds.

Certain foreign corporations doing business in the United States may be subject to a "branch profits tax" on their effectively-connected earnings and profits including tax-exempt interest such as interest on the Series 2020A Bonds. Furthermore, in the case of a subchapter S corporation, interest on the Series 2020A Bonds is treated as passive investment income which is subject to the tax imposed by Section 1375 of the Code.

Prospective purchasers of the Series 2020A Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers falling within any of these categories should consult their own tax advisers as to the applicability of these consequences.

## **Bank-Qualified Obligations**

The Series 2020A Bonds are “qualified tax-exempt” obligations for purposes of Section 265(b)(3) of the Code, and, in the case of certain financial institutions (within the meaning of Section 265(b)(3) of the Code), no deduction will be allowed for any portion of such financial institution’s interest expense allocable to interest on the Bonds.

## **Backup Withholding**

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series 2020A Bonds is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made after March 31, 2007 to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Code. The reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2020A Bonds from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

## **State Tax Considerations**

Interest on the Series 2020A Bonds is exempt from State of Oklahoma income taxation under present law. Depending upon the state of residence of the registered owners of the Series 2020A Bonds, interest income on the Series 2020A Bonds may be subject to state income tax liability in their respective state of residence. Each registered owner of the Series 2020A Bonds is encouraged to consult with a tax advisor in order to determine the applicability of state income taxation to this investment.

## **Original Issue Discount**

The resulting discount on those Series 2020A Bonds which are sold at an initial offering price to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) which is less than the principal amount of those particular Series 2020A Bonds constitute Original Issue Discount, which is excludable from the gross income for federal income tax purposes. Generally, such Original Issue Discount accretes actuarially on a constant interest rate basis over the term of the respective Series 2020A Bonds and the basis of such Series 2020A Bonds acquired at such initial offering price by an initial purchaser of the particular Series 2020A Bonds will be increased by the amount of such accreted interest.

## **Original Issue Premium**

Certain maturities of the Series 2020A Bonds may be initially offered to the public at prices greater than the amounts payable thereon at maturity. As a result of the tax cost reduction requirements of the Code relating to amortization of bond premium, under certain circumstances an initial owner of Premium Bonds may realize a taxable gain upon disposition of such Premium Bonds even though they are sold or redeemed for an amount equal to such owner’s original cost of acquiring such Premium Bonds. Owners of Premium Bonds are advised that they should consult with their own tax advisors with respect to the tax consequences of owning such Premium Bonds.

## **Compliance with Tax Law Requirements**

In order to maintain the exclusion from federal gross income of interest on the Series 2020A Bonds and for no other purpose, the Authority and the Department covenant in the Indenture and in the Federal Tax and Arbitrage and Use of Proceeds Certificate and the Lease Agreement to comply with the provisions

of the Code. Until and unless, and except to the extent in the opinion of Bond Counsel, the following are not necessary to maintain the exclusion from federal gross income of interest on the Series 2020A Bonds, the Authority and the Department make certain covenants, representations and warranties with respect to the Series 2020A Bonds. The Authority and the Department covenant to submit in a timely manner all reports, accountings and information to the Internal Revenue Service, take whatever action is necessary within its power to assure the continued tax exemption on the Series 2020A Bonds, and take whatever action is necessary within its power to comply with the applicable laws and regulations in order to maintain the exclusion from federal gross income of interest on the Series 2020A Bonds.

Tax legislation, administrative actions taken by tax authorities, and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2020A Bonds under federal or state law and could affect the market price or marketability of the Series 2020A Bonds.

Prospective purchasers of the Series 2020A Bonds should consult their own tax advisors regarding the foregoing matters.

### **Required Rebate to the United States**

The Authority in the Indenture has covenanted to comply and the Trustee is empowered to take any and all actions necessary to comply with all of the provisions of the Code relating to the exemption from federal income taxes of the interest paid upon the Series 2020A Bonds authorized by the Indenture, including the Series 2020A Bonds, to the end that interest thereon shall remain exempt from federal income taxation.

The Code provides that bonds which are part of an issue, including the Series 2020A Bonds, will be treated as arbitrage bonds if certain hereinafter described requirements are not met with respect to such issue.

Under the Code, an issuer, including the Authority, is required to make certain payments or rebates to the United States, absent any exceptions thereto, in an amount equal to the sum of the excess of the amount of money earned on all non-purpose investments, over the amount of money which would have been earned if such non-purpose investments were invested at a rate of interest equal to the yield on the issue, including the Series 2020A Bonds, plus any income derived from the aforesaid excess itself, unless an exception to rebate applies. The aforesaid payments or rebates are to be paid in installments which are required to be made at least once every five years and each such installment is required to be in an amount which ensures that 90 percent of the excess amount (referred to above) with respect to the issue, at the time payment of such installment is required, will have been paid to the United States. The final installment is required to be paid no later than 60 days after the final maturity of the Series 2020A Bonds on July 1, 2050, and shall be in an amount sufficient to pay the remaining balance of the excess amount (referred to above) with respect to such issue.

### **Changes in Federal and State Tax Law**

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Series 2020A Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series 2020A Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2020A Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2020A Bonds should consult their tax

advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2020A Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

### **Series 2020B Federal Tax Considerations**

The following is a summary of certain anticipated federal income tax consequences of the purchase, ownership and disposition of the Series 2020B Bonds under the Code and the Regulations and the judicial and administrative rulings and court decisions now in effect, all of which are subject to change or possible differing interpretations. This summary does not purport to address all aspects of federal income taxation that may affect particular investors in light of their individual circumstances, nor certain types of investors subject to special treatment under the federal income tax laws. This summary does not address owners that may be subject to special tax rules, such as banks, insurance companies, dealers in securities or currencies, purchasers that hold Series 2020B Bonds (or foreign currency) as a hedge against currency risks or as part of a straddle with other investments or as part of a “synthetic security” or other integrated investment (including a “conversion transaction”) comprised of a Series 2020B Bond and one or more other investments, or purchasers that have a “functional currency” other than the U.S. dollar. Except to the extent discussed below under “Foreign Investors,” this summary is not applicable to non-United States persons not subject to federal income tax on their worldwide income. This summary does not discuss the tax laws of any state other than Oklahoma or any local or foreign governments. Potential purchasers of the Series 2020B Bonds should consult their own tax advisors in determining the federal, state or local tax consequences to them of the purchase, holding and disposition of the Series 2020B Bonds.

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Series 2020B Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted, it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series 2020B Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved or whether the Series 2020B Bonds or the market value thereof would be impacted thereby. Purchasers of the Series 2020B Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2020B Bonds and Bond Counsel has not expressed any opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

### **Interest Subject to Federal Income Taxation**

Interest on the Series 2020B Bonds (including original issue discount, as discussed below) is not excludable from gross income for federal income tax purposes under Code Section 103. Interest on the Series 2020B Bonds will be fully subject to federal income taxation. Thus, owners of the Series 2020B Bonds generally must include interest (including original issue discount) on the Series 2020B Bonds in gross income for federal income tax purposes.

In general, interest paid on the Series 2020B Bonds, original issue discount, if any, and market discount, if any, will be treated as ordinary income to the owners of the Series 2020B Bonds, and principal payments (excluding the portion of such payments, if any, characterized as original issue discount) will be treated as a return of capital.

## **Premium**

An investor that acquires a Series 2020B Bond for a cost greater than its remaining stated redemption price at maturity and holds the Series 2020B Bond as a capital asset will be considered to have purchased the Series 2020B Bond at a premium and, subject to prior election permitted by Section 171 of the Code, may generally amortize such premium under the constant yield method. Except as may be provided by regulation, amortized premium will be allocated among, and treated as an offset to, interest payments. The basis reduction requirements of Section 1016(a)(5) of the Code apply to amortizable bond premium that reduces interest payments under Section 171 of the Code. Bond premium is generally amortized over the bond's term using constant yield principles, based on the purchaser's yield to maturity. Investors of any Series 2020B Bond purchased with a bond premium should consult their own tax advisors as to the effect of such bond premium with respect to their own tax situation and as to the treatment of bond premium for state tax purposes.

## **Market Discount**

An investor that acquires a Series 2020B Bond for a price less than the adjusted issue price of such Series 2020B Bond (or an investor who purchases the Bond in the initial offering at a price less than the issue price) may be subject to the market discount rules of Sections 1276 through 1278 of the Code. Under these sections and the principles applied by the Regulations, "market discount" means (i) in the case of a Series 2020B Bond originally issued at a discount, the amount by which the issue price of such Series 2020B Bond, increased by all accrued original issue discount (as if held since the issue date), exceeds the initial tax basis of the owner therein, less any prior payments that did not constitute payments of qualified stated interest, and (ii) in the case of a Series 2020B Bond not originally issued at a discount, the amount by which the stated redemption price of such Series 2020B Bond at maturity exceeds the initial tax basis of the owner therein. Under Section 1276 of the Code, the owner of such a Series 2020B Bond will generally be required (i) to allocate each principal payment to accrued market discount not previously included in income, and upon sale or other disposition of the bond, to recognize the gain on such sale or disposition as ordinary income to the of such cumulative amount of accrued market discount as of the date of sale or other disposition of such bond or (ii) to elect to include such market discount in income currently as it accrues on all market discount instruments acquired by such owner on or after the first day of the taxable year to which such election applies.

The Code authorizes the Treasury Department to issue regulations providing for the method for accruing market discount on debt instruments the principal of which is payable in more than one installment. Until such time as regulations are issued by the Treasury Department, certain rules described in the legislative history will apply. Under those rules, market discount will be included in income either (a) on a constant interest basis or (b) in proportion to the accrual of stated interest or, in the case of a Series 2020B Bond with original issue discount, in proportion to the accrual of original issue discount.

A Bondholder of a Series 2020B Bond who acquired a Series 2020B Bond at a market discount also may be required to defer, until the maturity date of such Series 2020B Bond or its earlier disposition in a taxable transaction, the deduction of a portion of the amount of interest that the Bondholder paid or accrued during the taxable year on indebtedness incurred or maintained to purchase or carry a Series 2020B Bond in excess of the aggregate amount of interest (including original issue discount) includable in such Bondholder's gross income for the taxable year with respect to such Series 2020B Bond. The amount of such net interest expense deferred in a taxable year may not exceed the amount of market discount accrued on the Series 2020B Bond for the days during the taxable year on which the Bondholder held the Bond and, in general, would be deductible when such market discount is includable in income. The amount of any remaining deferred deduction is to be taken into account in the taxable year in which the Series 2020B Bond matures or is disposed of in a taxable transaction. In the case of a disposition in which gain or loss is not recognized in whole or in part, any remaining deferred deduction will be allowed to the extent gain is recognized on the disposition. This deferral rule does not apply if the Bondholder elects to include such

market discount in income currently as it accrues on all market discount obligations acquired by such Bondholder in that taxable year or thereafter.

Attention is called to the fact that Treasury regulations implementing the market discount rules have not yet been issued. Therefore, investors should consult their own tax advisors regarding the application of these rules as well as the advisability of making any of the elections with respect thereto.

### **State Taxation Considerations**

In the opinion of the Bond Counsel, to be delivered at the time of original issuance of the Series 2020B Bonds, the transfer thereof and the interest earned thereon, including any profit derived from the sale thereof, are not subject to taxation of any kind by the State of Oklahoma or by any county, municipality or political subdivision therein under present law. Except with respect to State of Oklahoma taxation, the discussion above does not address the tax consequences of purchase, ownership or disposition of the Series 2020B Bonds under any state or local tax law. Investors should consult their own tax advisors regarding state and local tax consequences.

### **ERISA Considerations**

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the Code generally prohibit certain transactions between a qualified employee benefit plan under ERISA (an “ERISA Plan”) and persons who, with respect to that plan, are fiduciaries or other “parties in interest” within the meaning of ERISA or “disqualified persons” within the meaning of the Code. In the absence of an applicable statutory, class or administrative exemption, transactions between an ERISA Plan and a party in interest with respect to an ERISA Plan, including the acquisition by one from the other of a Series 2020B Bond, could be viewed as violating those prohibitions. For example, Code Section 4975 prohibits transactions between certain tax-favored vehicles such as Individual Retirement Accounts and disqualified persons and Code Section 503 includes similar restrictions with respect to governmental and church plans. In this regard, the Issuer or any underwriter of the Bonds, might be considered or might become a “party in interest” within the meaning of ERISA or a “disqualified person” within the meaning of the Code, with respect to an ERISA Plan or a plan or arrangement subject to Code Sections 4975 or 503. Prohibited transactions within the meaning of ERISA and the Code may arise if Bonds are acquired by such plans or arrangements. In all events, fiduciaries of ERISA Plans and plans or arrangements subject to the above Code Sections, in consultation with their advisors, should carefully consider the impact of ERISA and the Code on an investment in the Bonds.

### **Sales or Other Dispositions**

If an owner of a Series 2020B Bond sells the bond, such person will recognize gain or loss equal to the difference between the amount realized on such sale and such owner’s basis in such bond. Ordinarily, such gain or loss will be treated as a capital gain or loss. However, if a Series 2020B Bond was, at its initial issuance, sold at a discount, a portion of such gain will be recharacterized as interest and therefore ordinary income. If the terms of a Series 2020B Bond were materially modified, in certain circumstances, a new obligation would be deemed created and exchanged for the prior obligation in a taxable transaction. Among the modifications that may be treated as material are those that relate to redemption provisions and, in the case of a nonrecourse obligation, those which involve the substitution of collateral. Each potential owner of a Series 2020B Bond should consult its own tax advisor concerning the circumstances in which such bond would be deemed reissued and the likely effects, if any of such reissuance.

## **Defeasance**

The legal defeasance of the Series 2020B Bonds may result in a deemed sale or exchange of such bonds under certain circumstances. Owners of such Series 2020B Bonds should consult their tax advisors as to the federal income tax consequences of such a defeasance.

## **Backup Withholding**

An owner of a Series 2020B Bond may be subject to backup withholding at the applicable rate determined by statute with respect to interest paid with respect to the Series 2020B Bonds, if such owner, upon issuance of the Series 2020B Bonds, fails to provide to any person required to collect such information pursuant to Section 6049 of the Code with such owner's taxpayer identification number, furnishes an incorrect taxpayer identification number, fails to report interest, dividends or other "reportable payments" (as defined in the Code) properly, or, under certain circumstances, fails to provide such persons with a certified statement, under penalty of perjury, that such owner is not subject to backup withholding.

## **Health Care and Education Reconciliation Act of 2010**

Pursuant to Section 1411 of the Code, as enacted by the Health Care and Education Reconciliation Act of 2010, an additional tax is imposed on individuals beginning January 1, 2013. The additional tax is 3.8% of the lesser of (i) net investment income (defined as gross income from interest, dividends, net gain from disposition of property not used in a trade or business, and certain other listed items of gross income), or (ii) the excess of "modified adjusted gross income" of the individual over \$200,000 for unmarried individuals (\$250,000 for married couples filing a joint return and a surviving spouse). Holders of the Series 2020B Bonds should consult with their tax advisor concerning this additional tax as it may apply to interest earned on the Series 2020B Bonds as well as gain on the sale of a Series 2020B Bond.

## **Foreign Investors**

An owner of a Series 2020B Bond that is not a "United States person" (as defined below) and is not subject to federal income tax as a result of any direct or indirect connection to the United States of America in addition to its ownership of a Series 2020B Bond will generally not be subject to United States income or withholding tax in respect of a payment on a Series 2020B Bond, provided that the owner complies to the extent necessary with certain identification requirements (including delivery of a statement, signed by the owner under penalties of perjury, certifying that such owner is not a United States person and providing the name and address of such owner). For this purpose the term "United States person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States of America or any political subdivision thereof, or an estate or trust whose income from sources within the United States is includable in gross income for United States of America income tax purposes regardless of its connection with the conduct of a trade or business within the United States of America.

Except as explained in the preceding paragraph and subject to the provisions of any applicable tax treaty, a 30% United States withholding tax will apply to interest paid and original issue discount accruing on Series 2020B Bonds owned by foreign investors. In those instances in which payments of interest on the Series 2020B Bonds continue to be subject to withholding, special rules apply with respect to the withholding of tax on payments of interest on, or the sale or exchange of Series 2020B Bonds having original issue discount and held by foreign investors. Potential investors that are foreign persons should consult their own tax advisors regarding the specific tax consequences to them of owning a Series 2020B Bond.

## **Other Tax Consequences.**

The foregoing is not intended to be a complete description of all Federal or Oklahoma income tax consequences associated with an investment in the Series 2020B Bonds, and except as set forth in Bond Counsel's opinion (described above), Bond Counsel expresses no opinion regarding these tax consequences. Purchasers of the Series 2020B Bonds should consult their own tax advisors regarding the particular tax consequences to them of an investment in such bonds.

## **CONTINUING DISCLOSURE**

The Authority will enter into a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") for the benefit of the holders and beneficial owners of the Bonds. The Authority is required to observe the Continuing Disclosure Agreement for so long as it remains obligated to advance funds to pay the Bonds. Pursuant to the Continuing Disclosure Agreement, the Authority will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

The Authority will provide certain updated financial information to the MSRB on an annual basis. The Authority will update and provide this information within 6 months after the end of each fiscal year. The financial information to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12, as amended (the "Rule"). The updated information will include audited financial statements of the City which include the Authority's information, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Authority will provide unaudited financial information of the type described in the preceding paragraph by the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Exhibit C or such other accounting principles as the Authority may be required to employ from time to time pursuant to State law or regulation. The Authority's fiscal year end is June 30 of each year. Accordingly, the Authority must provide updated information within 180 days of the end of the Authority's fiscal year end. If the Authority changes its fiscal year, it will notify the MSRB of the change.

### **Notice of Certain Events**

The Authority will file with the MSRB notice of any of the Material Events listed in the Continuing Disclosure Agreement with respect to the Bonds in a timely manner (and not more than 10 business days after occurrence of the event). In addition, the Authority will provide timely notice of any failure by the Authority to provide information, data, or financial statements described above under Annual Reports in accordance with the Continuing Disclosure Agreement. The Authority will provide each notice described in the Continuing Disclosure Agreement to the MSRB.

### **Availability of Information**

In connection with its Continuing Disclosure Agreement entered into with respect to the Bonds, the Authority will file all required information and documentation with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org).



## **Limitations and Amendments**

The Authority has agreed to update information and to provide notices of material events only as described above. The Authority has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The Authority makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Authority disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its Continuing Disclosure Agreement or from any statement made pursuant to its Continuing Disclosure Agreement, although registered owners of Bonds may seek a writ of mandamus to compel the Authority to comply with its Continuing Disclosure Agreement.

The Continuing Disclosure Agreement may be amended by the Authority from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the Authority, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the Authority (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The Authority may also amend or repeal the provisions of the Continuing Disclosure Agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

If the Authority amends its Continuing Disclosure Agreement, it must include with the next financial information and operating date provided in accordance with its Continuing Disclosure Agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

## **Compliance with Prior Undertakings**

The Authority has entered into prior continuing disclosure undertakings pursuant to the Rule with respect to its previously issued Utility System Refunding and Capital Improvement Revenue Bonds, Series 2015 dated April 1, 2015 (the "Prior Undertakings"). For the last five years, the Authority has not complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule, as hereinafter described. The Authority has been obligated to provide certain financial and operating information of the Authority and the City's audited financial statements within 180 days after the end of each fiscal year (fiscal year ending June 30). During the previous five years, the Authority did not timely file audited financial statements for its fiscal years ended June 30, 2015 through 2018, and did not file audited financial statements for its fiscal year ended 2019.

## **NO LITIGATION**

There is no pending or threatened legal proceeding or proceedings against the Authority, which if prosecuted to an adverse conclusion would be considered material, or would constitute a material change of financial circumstances, nor is there any litigation pending or threatened against the Authority which would restrain or enjoin the issuance or delivery of the Bonds or questioning or affecting the validity of the Bonds or the proceedings and authority under which they are to be issued. Neither the creation,

organization, nor existence of the Authority nor the title of the current members of the Authority is being questioned.

## **LEGAL MATTERS**

The legality of the Bonds will be subject to the approval of Johanning & Byrom, PLLC, Oklahoma City, Oklahoma, Bond Counsel, whose opinion will be delivered with the Bonds. The opinion of Bond Counsel is expected to be in substantially the form of Exhibit D hereto. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain federal law matters will be passed upon for the Underwriter by its counsel, The Floyd Law Firm, P.C., Norman, Oklahoma. Certain legal matters will be passed upon for the Issuer by its counsel, Pool and Vincent, Oklahoma City, Oklahoma. The legal fee of such firm is contingent upon the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## **NO CREDIT RATING**

Neither the Authority, the City, nor the Underwriter has applied for or intends to apply for a rating on the Bonds.

## **UNDERWRITING**

The Bonds are to be purchased by D.A. Davidson & Co. (the “Underwriter”) pursuant to a Contract of Purchase with the Authority (the “Contract of Purchase”). The Underwriter has agreed to purchase the Bonds at a price of \$\_\_\_\_\_ (representing the principal amount thereof less an Underwriter’s Discount of \$\_\_\_\_\_ plus an original issue premium of \$\_\_\_\_\_). The Contract of Purchase provides that the Underwriter will not be obligated to purchase any Bonds if all of the Bonds are not available for purchase and requires the Authority to indemnify the Underwriter against losses, claims, damages and liabilities arising out of any incorrect or incomplete statements or information contained in this Official Statement pertaining to the Authority, the Systems, and certain other matters. The initial public offering price set forth on the inside cover page may be changed by the Underwriter.

In connection with the offering of the Bonds, the Underwriter may overallocate or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

## **FINANCIAL STATEMENTS**

The City’s Financial Statements for the fiscal year ended June 30, 2018, have been audited by Elfrink and Associates, PLLC, Tulsa, Oklahoma, as set forth in their report (See Exhibit C). Copies of previous audited financial statements are available upon request from the Authority.

## **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); nor have the Bonds been qualified under the securities act of any other jurisdiction. The Authority assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

## **MISCELLANEOUS**

Any statements in this Official Statement and the Exhibits hereto involving estimates or assumptions, whether or not expressly so stated, are intended as such and no representation whatsoever is made that such estimates or assumptions are correct or will be realized. So far as any statements are made in this Official Statement and the Exhibits attached hereto involving matters of opinion, whether or not expressly so stated, they are intended as such and not as representations of fact. Neither this Official Statement, nor any statement that may have been made orally or in writing, is to be construed as a contract with the purchasers or holders of any of the Bonds. All information contained in this Official Statement and the Exhibits hereto pertaining to the Authority has been furnished by the Authority for use herein. All information contained in this Official Statement and the Exhibits hereto is subject to change and/or correction without notice and neither the delivery of this Official Statement nor any sale made hereunder shall create any implication that the information contained herein is complete or accurate in its entirety as of any date after the date hereof.

## **FORWARD LOOKING STATEMENTS**

The statements contained in this Official Statement, and in any other information provided by the Authority, that are not purely historical are forward-looking statements, including statements regarding the Authority's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Authority on the date hereof, and the Authority assumes no obligation to update any such forward-looking statements. It is important to note that the Authority's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners, and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Authority. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

## **DEEMED FINAL**

THE AUTHORITY HAS CERTIFIED THAT THIS PRELIMINARY OFFICIAL STATEMENT WAS DEEMED FINAL AS OF ITS DATE FOR PURPOSES OF RULE 15c2-12(b), EXCEPT FOR THE INFORMATION NOT REQUIRED TO BE INCLUDED THEREIN UNDER RULE 15c2-12(b).

Concurrently with the delivery of the Bonds, the Authority will furnish a certificate executed on behalf of the Authority to the effect that the final Official Statement, as of the date of the final Official Statement and as of the date of delivery of the Bonds, does not contain any untrue statement of a material fact or omit to state any material fact necessary to make to the statements herein, in light of the circumstances under which they were made, not misleading.

## **CERTIFICATION AS TO OFFICIAL STATEMENT**

At the time of delivery of the Bonds, the Authority shall execute and furnish the Underwriter with a certificate to the effect that; (i) the descriptions and statements of or pertaining to the Authority contained in this Official Statement and any addenda thereto, for the Bonds, as of the date of this Official Statement, on the date of sale of the Bonds, and on the date of the delivery of the Bonds, were and are true and correct in all material respects; (ii) insofar as the Authority and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (iii) insofar as the descriptions and statements, including financial data of or pertaining to entities, other than the Authority, and their activities contained in this Official Statement are concerned, such statements and data have been obtained from sources which the Authority believes to be reliable and that the Authority has no reason to believe that they are untrue in any material respect; and (iv) there has been no material adverse change in the financial condition of the Authority since the date of the last financial statement of the Authority which appears in Exhibit C to this Official Statement.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

Reference is made to the Exhibits hereto which are an integral part of this Official Statement and must be read together with the rest of this Official Statement.

This Official Statement has been approved by the Authority.

SPENCER UTILITIES AUTHORITY

By:/s/ Frank Calvin  
Chairman

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## **EXHIBIT A**

### **DEBT SERVICE REQUIREMENTS**

**Dated: Date of Delivery**

**Due: July 1, as shown below**

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total P&amp;I</u>
7/1/2021			
7/1/2022			
7/1/2023			
7/1/2024			
7/1/2025			
7/1/2026			
7/1/2027			
7/1/2028			
7/1/2029			
7/1/2030			
7/1/2031			
7/1/2032			
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7/1/2046			
7/1/2047			
7/1/2048			
7/1/2049			
7/1/2050			

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**EXHIBIT B**

**GENERAL INFORMATION ABOUT THE CITY OF SPENCER, OKLAHOMA**

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## GENERAL INFORMATION ABOUT THE CITY OF SPENCER, OKLAHOMA

### GENERAL

The City of Spencer is located on US 62 in Oklahoma County. The nearest interstate highway is I-35 approximately 5 miles to the west. The city has a statutory council-manager type of government. There is a comprehensive city plan and zoning. Garbage service is provided by private contractor. Spencer has 6 full-time and 2 volunteer fire personnel, a full-time fire chief, 7 full-time police officers and 6 reservists. The city's fire insurance has a 6 classification. Electric service is provided by OG&E, telephone service by AT&T and natural gas by ONG.

### TRANSPORTATION

Air Transportation. The nearest airport is 25 miles from Spencer at Oklahoma City, Oklahoma. This airport is a full service field with four runways, the longest having a total runway length of 10,000 feet. There are at least seven major commercial airlines operating out of Will Rogers. There are several air freight companies in operation.

Water Transportation. The nearest water transportation is the Port of Catoosa. It is 124 miles from Spencer and has a channel depth of 9 feet. It is connected via the Arkansas River to the Mississippi River and the Gulf of Mexico.

## THE SYSTEMS

### SANITARY SEWER SYSTEM

Spencer has an extended aeration type of treatment. The City's sewage treatment system is currently operating at approximately 46% of capacity.

#### Sewer Treatment Capacity and Load

<u>Measurement</u>	<u>Capacity</u>	<u>Present Load</u>
Gallons/day	325,000	150,000

*The Sewer Rates are subject to an automatic annual increase of 5% in perpetuity.*

### WATER SYSTEM

<u>Storage Capacity</u>	<u>Daily Consumption</u>	<u>Pressure in Mains</u>	<u>Source Capacity</u>
Ground: NA GPD	Max: 350,000GPD	50 PSI	5 Wells 350,000GPD
Elevated: 492,000GPD	Min: 50,000GPD	30 PSI	

*The Water Rates are subject to an automatic annual increase of 5% in perpetuity.*

Source: City Officials

## MAJOR EMPLOYERS

<u>EMPLOYER</u>	<u>PRODUCT</u>	<u>EMPLOYEES</u>
Integrus Spencer Campus	Health Provider	225
Advantage Bank	Financial Services/Banking	28
Lumber 2	Home and Ranch Products	15
Estey Cabinet Doors	Cabinet/Door Manufacturing	19
Shadynook Auto Parts	Auto Parts	4
Walgreens	Pharmacy/Health & Wellness	12
Eisenhour Funeral Home	Funeral /Cremation services	8
Star Spencer High School	Public School System	60
Spencer Elementary	Public School System	36
Rogers Middle School	Public School System	51

## EDUCATION

Spencer has 4 primary and secondary schools with approximately 2,000 students and approximately 120 teachers.

<u>Type</u>	<u>Grades</u>	<u>Facilities</u>
Public	K-4	2
Public	6-8	1
Public	9-12	1

Source: City Officials

## POPULATION

<u>Year</u>	<u>#</u>
2020	4,400 (approximate)
2010	3,912
2000	3,749
1990	3,972
1980	4,064
1970	3,714

Source: US Census Bureau

## UTILITY CONNECTIONS

Total utility connections are: 1,548 (Water) 1,507 (Sewer) 1,652 (Sanitation)

Year	Water Meters	Sewer Connections	Garbage Customers
2020	1,548	1,507	1,652
2019	1,500	1,480	1,647
2018	1,490	1,460	1,625
2017	1,485	1,455	1,580
2016	1,476	1,436	1,567
2015	1,465	1,420	1,560
2014	1,455	1,394	1,553
2013	1,447	1,391	1,542
2012	1,436	1,384	1,537
2011	1,432	1,378	1,531
2010	1,425	1,372	1,525

Source: City Officials

## SALES TAX HISTORICAL

SALES TAX HISTORICAL					
				AVERAGE	
	TOTAL	4 CENT	1 CENT	1 CENT	
	SALES TAX	SALES TAX	SALES TAX	MONTHLY	%
FY	COLLECTIONS	COLLECTIONS	COLLECTIONS	COLLECTIONS	CHANGE
2019/20	\$ 709,494	\$ 567,595	\$ 141,899	\$ 12,900	-21.78%
2018/19	\$ 989,529	\$ 791,623	\$ 197,906	\$ 16,492	-2.33%
2017/18	\$ 845,094	\$ 810,486	\$ 202,622	\$ 16,885	-14.32%
2016/17	\$ 709,481	\$ 709,481	\$ 236,494	\$ 19,708	-6.82%
2015/16	\$ 761,387	\$ 761,387	\$ 253,796	\$ 21,150	-9.78%
2014/15	\$ 843,917	\$ 843,917	\$ 281,306	\$ 23,442	45.58%
2013/14	\$ 772,929	\$ 772,929	\$ 193,232	\$ 16,103	6.45%
2012/13	\$ 726,104	\$ 544,578	\$ 181,526	\$ 15,127	2.61%
2011/12	\$ 707,641	\$ 530,731	\$ 176,910	\$ 14,743	-2.30%
2010/11	\$ 724,329	\$ 543,247	\$ 181,082	\$ 15,090	N/A
2019/20	Total collections are 5 cents for eleven months ONLY.				
2018/19	Total collections are 5 cents for twelve months.				
2017/18	Total collections are 4 cents for 10 months and 5 cents for 2 months.				
2016/17	Total collections are 4 cents for twelve months.				
2015/16	Total collections are 4 cents for twelve months.				
2014/15	Total collections are 4 cents for twelve months.				
2013/14	Total collections are 4 cents for twelve months.				
2012/13	Total collections are 4 cents for twelve months.				
2011/12	Total collections are 4 cents for twelve months.				
2010/11	Total collections are 4 cents for twelve months.				

Source: Oklahoma Tax Commission

## WATER SERVICE RATES FOR 2019 & 2020

*\*Note: Utility rates are subject to an automatic annual 5% increase*

WATER SERVICE	OLD RATE	INCREASE	Current
	2019		2020
<b>BUSINESS &amp; RESIDENTIAL</b>			
		<b>5.00%</b>	
1st 1,000	<b>\$18.28</b>	\$ 0.91	<b>\$19.19</b>
1,000 to 9,000	<b>\$6.58</b>	\$ 0.33	<b>\$6.91</b>
1,000 to 20,000	<b>\$5.97</b>	\$ 0.30	<b>\$6.27</b>
1,000 to over 30,000	<b>\$5.92</b>	\$ 0.30	<b>\$6.22</b>
 WATER 3/4 INCH	 <b>\$14.07</b>	 \$ 0.70	 <b>\$14.77</b>
10,000	<b>\$3.82</b>	\$ 0.19	<b>\$4.01</b>
20,000	<b>\$3.99</b>	\$ 0.20	<b>\$4.19</b>
9,999,999	<b>\$4.14</b>	\$ 0.21	<b>\$4.35</b>
 Water 1 Inch	 <b>\$15.41</b>	 \$ 0.77	 <b>\$16.18</b>
10,000	<b>\$3.82</b>	\$ 0.19	<b>\$4.01</b>
20,000	<b>\$3.99</b>	\$ 0.20	<b>\$4.19</b>
9,999,999	<b>\$4.14</b>	\$ 0.21	<b>\$4.35</b>
 Water 1 1/2 inch	 <b>\$26.18</b>	 \$ 1.31	 <b>\$27.49</b>
10,000	<b>\$3.82</b>	\$ 0.19	<b>\$4.01</b>
20,000	<b>\$3.99</b>	\$ 0.20	<b>\$4.19</b>
9,999,999	<b>\$4.14</b>	\$ 0.21	<b>\$4.35</b>
 Water 2 inch	 <b>\$36.91</b>	 \$ 1.85	 <b>\$38.76</b>
10,000	<b>\$3.82</b>	\$ 0.19	<b>\$4.01</b>
20,000	<b>\$3.99</b>	\$ 0.20	<b>\$4.19</b>
9,999,999	<b>\$4.14</b>	\$ 0.21	<b>\$4.35</b>
 Water 3 Inch	 <b>\$60.67</b>	 \$ 3.03	 <b>\$63.70</b>
10,000	<b>\$3.82</b>	\$ 0.19	<b>\$4.01</b>
20,000	<b>\$3.99</b>	\$ 0.20	<b>\$4.19</b>
9,999,999	<b>\$4.14</b>	\$ 0.21	<b>\$4.35</b>
 Water 4 Inch	 <b>\$92.90</b>	 \$ 4.65	 <b>\$97.55</b>
10,000	<b>\$3.82</b>	\$ 0.19	<b>\$4.01</b>
20,000	<b>\$3.99</b>	\$ 0.20	<b>\$4.19</b>
9,999,999	<b>\$4.14</b>	\$ 0.21	<b>\$4.35</b>
 Water 5 Inch	 <b>\$182.51</b>	 \$ 9.13	 <b>\$191.64</b>
10,000	<b>\$3.82</b>	\$ 0.19	<b>\$4.01</b>
20,000	<b>\$3.99</b>	\$ 0.20	<b>\$4.19</b>

9,999,999	<b>\$4.14</b>	\$ 0.21	<b>\$4.35</b>
Water 2 -n 1	<b>\$24.84</b>	\$ 1.24	<b>\$26.08</b>
10,000	<b>\$3.82</b>	\$ 0.19	<b>\$4.01</b>
20,000	<b>\$3.99</b>	\$ 0.20	<b>\$4.19</b>
9,999,999	<b>\$4.14</b>	\$ 0.21	<b>\$4.35</b>
Water - Anderson PK	<b>\$24.84</b>	\$ 1.24	<b>\$26.08</b>
10,000	<b>\$3.82</b>	\$ 0.19	<b>\$4.01</b>
20,000	<b>\$3.99</b>	\$ 0.20	<b>\$4.19</b>
9,999,999	<b>\$4.14</b>	\$ 0.21	<b>\$4.35</b>
Water - 6 inch.	<b>\$272.09</b>	\$ 13.60	<b>\$285.69</b>
10,000	<b>\$3.82</b>	\$ 0.19	<b>\$4.01</b>
20,000	<b>\$3.99</b>	\$ 0.20	<b>\$4.19</b>
9,999,999	<b>\$4.14</b>	\$ 0.21	<b>\$4.35</b>

## SEWER RATES FOR WATER CUSTOMERS 2019 & 2020

WATER AND SEWER	OLD RATE	INCREASE	NEW
	2019		2020
		<b>5.00%</b>	
Residential	\$10.45	\$0.52	<b>\$10.97</b>
Business	\$10.45	\$0.52	<b>\$10.97</b>
Sewer NW over 2	\$13.00	\$0.65	<b>\$13.65</b>
Sewer - Birkicht	\$104.01	\$5.20	<b>\$109.21</b>
Sewer - 1335x30	\$373.80	\$18.69	<b>\$392.49</b>
Sewer - 2 on Met to 1000	\$13.83	\$0.69	<b>\$14.52</b>
Sewer - 2 on Met 999,999	0.0014099	\$7.05	<b>\$148.04</b>
Gospel Tabernacle - 12 Trailers	\$163.43	\$8.17	<b>\$171.60</b>
	0.0063327	\$31.66	<b>\$664.93</b>
Sewer - OKCSCH	\$10.74	\$0.54	<b>\$11.28</b>
	0.0014099	\$7.05	<b>\$148.04</b>
Sewer - 4 on Met to 1000	\$26.84	\$1.34	<b>\$28.18</b>
	0.0014099	\$7.05	<b>\$148.04</b>
Sewer Roscoe	\$211.44	\$10.57	<b>\$222.01</b>
	0.0063658	\$31.83	<b>\$668.41</b>

## SEWER RATES FOR SEWER CUSTOMERS ONLY

SEWER ONLY	OLD RATE	INCREASE	NEW
	2019		2020
		<b>5.00%</b>	
Sewer Service Only	<b>\$12.37</b>	\$ 0.62	<b>\$12.99</b>



# GARBAGE RATES 2019 & 2020

GARBAGE		OLD RATE	INCREASE	NEW RATE	SIZE		OLD RATE	INCREASE	NEW RATE
		2019	5%	2020			2019	5%	2020
Residential					Dumpster				
1 Cart	\$22.39	\$ 1.12	\$23.51		2C 1P		\$93.52	\$ 4.68	\$98.20
2 Carts	\$44.79	\$ 2.24	\$47.03		2C 2P		\$162.02	\$ 8.10	\$170.12
3 Carts	\$67.20	\$ 3.36	\$70.56		3C 1P		\$162.02	\$ 8.10	\$170.12
Extra	\$79.02	\$ 3.95	\$82.97		3C 2P		\$169.92	\$ 8.50	\$178.42
					4C 1P		\$125.11	\$ 6.26	\$131.37
Houseside	\$22.39	\$ 1.12	\$23.51		4C 2P		\$187.99	\$ 9.40	\$197.39
					6C 1P		\$159.38	\$ 7.97	\$167.35
					6C 2P		\$238.29	\$ 11.91	\$250.20
Business					8C 1P		\$196.26	\$ 9.81	\$206.07
1 Cart	\$28.06	\$ 1.40	\$29.46		8C 2P		\$337.91	\$ 16.90	\$354.81
2 Carts	\$55.08	\$ 2.75	\$57.83		10C 1P		\$230.57	\$ 11.53	\$242.10
3 Carts	\$84.17	\$ 4.21	\$88.38		10C 2P		\$362.22	\$ 18.11	\$380.33
Extra		\$ -	\$0.00		2 Dumpsters 6C 1P		\$289.78	\$ 14.49	\$304.27
					Intgr 8C/3D 3PU		\$812.94	\$ 40.65	\$853.59
					Neal McGee Retail Shops		\$27.34	\$ 1.37	\$28.71
					Mary's 8 6C 1P		\$786.60	\$ 39.33	\$825.93

Compactor	5%		
4C 1P	\$ 8.93	\$178.68	\$187.61
4C 2P	\$ 13.40	\$268.03	\$281.43

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**EXHIBIT C**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED  
JUNE 30, 2018  
AND INDEPENDENT AUDITOR'S REPORT**

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# CITY OF SPENCER, OKLAHOMA

## ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2018



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**City Council**

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

**Management**

Steallyn Marsh	City Manager (Interim)
Vacant	City Clerk
Allen Lane	Chief of Police
Alexandria Gibson	Municipal Court Clerk
Kenneth Griffith	Fire Chief
Terry Kellum	Public Works Supervisor

**City Hall**

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

## **INDEPENDENT AUDITOR'S REPORT**





# Elfrink and Associates, PLLC

Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Spencer, Oklahoma, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City of Spencer, Oklahoma, as of June 30, 2018, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1C.

3119 E 87<sup>th</sup> Street  
Tulsa, OK, 74137

Members of the AICPA and OSCP

918-361-2133

[anne.elfrink@CPA.com](mailto:anne.elfrink@CPA.com)

Government and Nonprofit Auditing

**Basis of Accounting**

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

**Emphasis of a Matter***Going Concern*

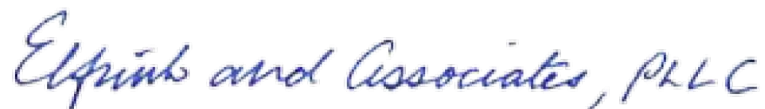
As discussed in Note 5, the City had a significant deficit working capital position at June 30, 2018. However, the financial statements were prepared on the assumption that the City is a going concern.

**Other Matters***Other Information*

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2019 on our consideration of the City of Spencer, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Elfrink and Associates, PLLC

Tulsa, Oklahoma

December 20, 2019

## Management Discussion and Analysis

The management of the City of Spencer is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2018. 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 \$181,714 and the assets of the City exceeded its liabilities at June 30, 2018, by \$493,816 (net position). Of this amount, the City has a deficit \$464,640 (unrestricted net position) available to meet the government's ongoing needs.
- At June 30, 2018, the unassigned fund balance for the General Fund was a deficit of \$240,391 or 18% of General Fund revenues for the year.

### ABOUT THE CITY

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

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

#### *The City's Financial Reporting Entity*

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

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

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

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

## **Reporting the City as a Whole**

### ***Government-wide financial statements***

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

### ***The Statement of Net position and Statement of Activities***

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

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

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

## **Reporting the City's Funds**

### ***Fund Financial Statements***

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

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

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

## **Notes to the Financial Statements**

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

## THE CITY AS A WHOLE

For the year ended June 30, 2018, net position for the governmental and business-type activities increased \$181,714.

Net position at June 30,						
	Governmental Activities		Business-type		Total	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Beginning net position	\$ (83,262)	\$ 218,588	\$ 395,364	\$ 381,172	\$ 312,102	\$ 599,760
Increase (Decrease)	152,128	(301,850)	29,586	14,192	\$ 181,714	\$ (287,658)
Ending net position	<u>\$ 68,866</u>	<u>\$ (83,262)</u>	<u>\$ 424,950</u>	<u>\$ 395,364</u>	<u>\$ 493,816</u>	<u>\$ 312,102</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>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Assets:						
Current and other assets	\$ 196,121	\$ 48,719	\$ 2,232,975	\$ 2,287,133	\$ 2,429,096	\$ 2,335,852
Capital assets, net	309,257	332,107	4,285,223	4,405,114	4,594,480	4,737,221
Total assets	<u>505,378</u>	<u>380,826</u>	<u>6,518,198</u>	<u>6,692,247</u>	<u>7,023,576</u>	<u>7,073,073</u>
Liabilities:						
Long-term liabilities	-	-	5,821,142	6,023,428	5,821,142	6,023,428
Other liabilities	436,512	464,088	272,106	273,455	708,618	737,543
Total liabilities	<u>436,512</u>	<u>464,088</u>	<u>6,093,248</u>	<u>6,296,883</u>	<u>6,529,760</u>	<u>6,760,971</u>
Net position:						
Invested in capital assets, net	309,257	332,107	191,184	114,339	500,441	446,446
Restricted	-	-	458,015	443,024	458,015	443,024
Unrestricted	(240,391)	(415,369)	(224,249)	(161,999)	(464,640)	(577,368)
Total net position	<u>\$ 68,866</u>	<u>\$ (83,262)</u>	<u>\$ 424,950</u>	<u>\$ 395,364</u>	<u>\$ 493,816</u>	<u>\$ 312,102</u>

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

	<b>Governmental Activities</b>		<b>Business-type</b>		<b>Total</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Revenues:						
Program revenues:						
Charges for services	\$ 133,145	\$ 168,936	\$ 1,197,307	\$ 1,029,387	\$ 1,330,452	\$ 1,198,323
Grants	63,992	-	-	-	63,992	-
General revenues:						
Taxes	1,090,945	942,646	-	-	1,090,945	942,646
Other general revenues	18,051	21,585	48,759	37,087	66,810	58,672
Total revenues	<u>1,306,133</u>	<u>1,133,167</u>	<u>1,246,066</u>	<u>1,066,474</u>	<u>2,552,199</u>	<u>2,199,641</u>
Program expenses:						
General government	589,800	340,428	-	-	589,800	340,428
Police	415,880	522,200	-	-	415,880	522,200
Fire	322,755	345,343	-	-	322,755	345,343
Streets and alleys	-	-	16,368	33,158	16,368	33,158
Parks	35,876	24,680	-	-	35,876	24,680
City utilities	-	-	979,076	1,001,169	979,076	1,001,169
Total expenses	<u>1,364,311</u>	<u>1,232,651</u>	<u>995,444</u>	<u>1,034,327</u>	<u>2,359,755</u>	<u>2,266,978</u>
Transfers	221,036	(41,781)	(221,036)	41,781	-	-
Payroll tax penalties	(10,730)	(160,585)	-	(59,736)	(10,730)	(220,321)
Increase/(decrease) net position	<u>152,128</u>	<u>(301,850)</u>	<u>29,586</u>	<u>14,192</u>	<u>181,714</u>	<u>(287,658)</u>
Beginning net position	(83,262)	218,588	395,364	381,172	312,102	599,760
Ending net position	<u>\$ 68,866</u>	<u>\$ (83,262)</u>	<u>\$ 424,950</u>	<u>\$ 395,364</u>	<u>\$ 493,816</u>	<u>\$ 312,102</u>

**Governmental Activities**

The increase in net position related to governmental activities of \$152,128 is primarily attributable to transfers from business-type activities.

**Business-type Activities**

The increase of \$29,586 for business-type activities reflected slightly higher revenues in the current year and lower payroll and other operating expenses, somewhat offset by higher operating transfers to the City.

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

As the City completed its 2018 fiscal year, Governmental Funds reported a fund balance deficit of \$240,391. For the year ended June 30, 2018, the Governmental Funds' total fund balances increased by \$174,978, primarily due to higher transfers from the Spencer Public Works Authority.

**Budgetary Highlights**

General fund revenues were \$183,703 higher than budgeted and expenditures were \$8,725 higher than budgeted, as higher spending than budget in general government and parks were nearly offset by lower spending in police and fire.

For fiscal year 2018-2019, general fund revenues were expected to see a slight decrease as the City anticipates lower tax and court fine receipts. Planned governmental expenditures for nearly all departments were planned to be lower than prior year.

## CAPITAL ASSETS & DEBT ADMINISTRATION

### Capital Assets

At the end of June 30, 2018, the City had approximately \$4.6 million in capital assets (net of accumulated depreciation). Below are details regarding the City's capital assets for the year ended June 30, 2018:

<b>Capital Assets June 30,</b>						
	<b>Governmental Activities</b>		<b>Business-type</b>		<b>Total</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Land and other non-depreciable assets	\$ 31,293	\$ 24,990	\$ 304,865	\$ 285,169	\$ 336,158	\$ 310,159
Building improvements	339,671	323,766	86,418	86,418	426,089	410,184
Equipment	938,831	934,134	339,410	339,410	1,278,241	1,273,544
Utility systems and equipment	-	-	4,948,297	4,948,297	4,948,297	4,948,297
Totals	<u>1,309,795</u>	<u>1,282,890</u>	<u>5,678,990</u>	<u>5,659,294</u>	<u>6,988,785</u>	<u>6,942,184</u>
Less accumulated depreciation	<u>(1,000,538)</u>	<u>(950,783)</u>	<u>(1,393,767)</u>	<u>(1,254,180)</u>	<u>(2,394,305)</u>	<u>(2,204,963)</u>
Totals, net	<u>\$ 309,257</u>	<u>\$ 332,107</u>	<u>\$ 4,285,223</u>	<u>\$ 4,405,114</u>	<u>\$ 4,594,480</u>	<u>\$ 4,737,221</u>

This year's capital asset additions include the following:

- Additional work on the water lines replacement project, primarily design fees, in the amount of \$19,696
- The reclassification of a deposit for an ODOT street project as construction in progress in the amount of \$11,293
- The purchase of three bunker gear sets for the fire department
- Remodeling of the fire station

### Debt Administration

The City did not issue any new debt in the fiscal year ended June 30, 2018. Bonds for business-type activities in the amount of \$195,000 matured, leaving an outstanding balance of \$5,690,000. The carrying value for the bonds is \$5,821,142 as it includes unamortized bond premiums and discounts. As the bonds mature, the unamortized amounts will reduce interest expense.

### Contacting the City's Financial Management

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

## **BASIC FINANCIAL STATEMENTS**



**Statement of Net Position (Modified Cash Basis) – June 30, 2018**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 196,121	\$ 11,121	\$ 207,242
Restricted assets:			
Cash and cash equivalents	-	2,221,854	2,221,854
Total current assets	<u>196,121</u>	<u>2,232,975</u>	<u>2,429,096</u>
Non-current assets			
Capital assets, net of depreciation	309,257	4,285,223	4,594,480
Total assets	<u>505,378</u>	<u>6,518,198</u>	<u>7,023,576</u>
<b>Liabilities:</b>			
Current liabilities:			
Payroll tax arrearage	436,512	114,622	551,134
Bonds payable, current portion	-	207,286	207,286
Total current liabilities	<u>436,512</u>	<u>321,908</u>	<u>758,420</u>
Noncurrent liabilities			
Meter deposit liability	-	157,484	157,484
Bonds payable, noncurrent	-	5,613,856	5,613,856
Total noncurrent liabilities	<u>-</u>	<u>5,771,340</u>	<u>5,771,340</u>
Total liabilities	<u>436,512</u>	<u>6,093,248</u>	<u>6,529,760</u>
<b>Net Position:</b>			
Net investment in capital assets	309,257	191,184	500,441
Restricted for debt service	-	458,015	458,015
Unrestricted	<u>(240,391)</u>	<u>(224,249)</u>	<u>(464,640)</u>
Total net position	<u>\$ 68,866</u>	<u>\$ 424,950</u>	<u>\$ 493,816</u>

See accompanying notes to the basic financial statements.

**Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2018**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Change in Net Position		
	Expenses	Charges for Services	Operating Grants	Capital Grants	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental activities:							
General government	\$ 589,800	\$ 14,954	\$ -	\$ -	\$ (574,846)	\$ -	\$ (574,846)
Fire	322,755	-	3,744	-	(319,011)	-	(319,011)
Municipal court	73,820	115,756	-	-	41,936	-	41,936
Police	342,060	-	-	55,000	(287,060)	-	(287,060)
Parks department	35,876	2,435	5,248	-	(28,193)	-	(28,193)
Total governmental activities	1,364,311	133,145	8,992	55,000	(1,167,174)	-	(1,167,174)
<b>Business-type activities</b>							
Water/Wastewater	673,955	830,008			-	156,053	156,053
Sanitation	305,121	367,299			-	62,178	62,178
Streets and alleys	16,368					(16,368)	(16,368)
Total business-type activities	995,444	1,197,307	-	-	-	201,863	201,863
<b>Total primary government</b>	<b>\$ 2,359,755</b>	<b>\$ 1,330,452</b>	<b>\$ 8,992</b>	<b>\$ 55,000</b>	<b>\$ (1,167,174)</b>	<b>\$ 201,863</b>	<b>\$ (965,311)</b>
General revenues:							
Taxes:							
Sales and use					1,000,733	-	1,000,733
Franchise					45,881	-	45,881
Intergovernmental					44,331	-	44,331
Investment income					213	25,540	25,753
Miscellaneous					17,838	23,219	41,057
Total general revenues					1,108,996	48,759	1,157,755
Transfer in/out					221,036	(221,036)	-
Payroll tax penalties					(10,730)	-	(10,730)
Change in net position					152,128	29,586	181,714
Net position - beginning					(83,262)	395,364	312,102
Net position - ending					\$ 68,866	\$ 424,950	\$ 493,816

See accompanying notes to the basic financial statements.

**Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2018**

	<b>General Fund</b>
<b>Assets:</b>	
Cash and cash equivalents	<u>\$ 196,121</u>
Total assets	<u>\$ 196,121</u>
<b>Liabilities and fund balances:</b>	
<b>Liabilities:</b>	
Payroll tax arrearage	<u>436,512</u>
Total liabilities	<u>436,512</u>
<b>Fund Balances:</b>	
Unrestricted	
Unassigned	<u>(240,391)</u>
Total fund balances	<u>(240,391)</u>
<b>Total liabilities and fund balances</b>	<u><u>\$ 196,121</u></u>

See accompanying notes to the basic financial statements.

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**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis) – Year Ended June 30, 2018**

	<b>Fund</b>
<b>Revenues:</b>	
Taxes	\$ 1,046,614
Intergovernmental	44,331
Licenses and permits	14,954
Grants	58,744
Charges for services	2,435
Fines and forfeitures	115,756
Donations	5,248
Investment earnings	213
Miscellaneous	17,838
Total Revenues	<u>1,306,133</u>
<b>Expenditures:</b>	
General government	584,758
Fire	300,691
Municipal court	73,820
Police	321,202
Parks department	34,085
Capital outlay	26,905
Total expenditures	<u>1,341,461</u>
Deficiency of revenues over expenditures	<u>(35,328)</u>
<b>Other financing sources (uses):</b>	
Payroll tax penalties	(10,730)
Transfer from SUA	221,036
Net other financing sources (uses)	<u>210,306</u>
<b>Net change in fund balance</b>	174,978
<b>Fund balance - beginning</b>	<u>(415,369)</u>
<b>Fund balance - ending</b>	<u><u>\$ (240,391)</u></u>

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>\$</b>	<b>(240,391)</b>
--------------------------------------------	-----------	------------------

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

Capital assets used in governmental activities of \$1,309,795, net of accumulated depreciation of \$1,000,538 are not financial resources and, therefore, are not reported in the funds.		309,257
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<b>Net position of governmental activities</b>	<b>\$</b>	<b><u>68,866</u></b>
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<b>Net changes in fund balances - total governmental funds</b>	<b>\$</b>	<b>174,978</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchased with cash		26,905
Depreciation expense		(49,755)
		<u>(22,850)</u>

<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u>152,128</u></b>
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See accompanying notes to the basic financial statements.

**Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2018**

	<b>Spencer Utilities Authority</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 11,121
Restricted cash and cash equivalents	2,221,854
Total current assets	<u>2,232,975</u>
Noncurrent assets:	
Capital assets, net	<u>4,285,223</u>
Total assets	<u>6,518,198</u>
<b>Liabilities</b>	
Current liabilities:	
Payroll tax arrearage	114,622
Bonds payable - current portion	207,286
Total current liabilities	<u>321,908</u>
Noncurrent Liabilities:	
Meter deposit liability	157,484
Bonds payable - noncurrent portion	5,613,856
Total noncurrent liabilities	<u>5,771,340</u>
Total liabilities	<u>6,093,248</u>
<b>Net Position</b>	
Net investment in capital assets	191,184
Restricted for debt service	458,015
Unrestricted	<u>(224,249)</u>
Total net position	<u>\$ 424,950</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, 2018**

	<b>Spencer Utilities Authority</b>
<b>Operating revenues:</b>	
Charges for sales and services:	
Water	\$ 520,594
Sewer	252,397
Sanitation	367,299
Penalties	57,017
Miscellaneous	23,219
Total operating revenues	<u>1,220,526</u>
<b>Operating expenses:</b>	
Utility administration	265,906
Water treatment plant	40,326
Wastewater treatment plant	9,979
Sanitation	305,121
Streets and alleys	16,368
Depreciation	139,587
Total operating expenses	<u>777,287</u>
Net operating income	<u>443,239</u>
<b>Nonoperating revenue (expense):</b>	
Transfer to City	(221,036)
Interest and fees	(218,157)
Investment income	25,540
Total nonoperating revenue (expense)	<u>(413,653)</u>
<b>Change in net position</b>	<u>29,586</u>
<b>Net position - beginning</b>	<u>395,364</u>
<b>Net position - ending</b>	<u><u>\$ 424,950</u></u>

See accompanying notes to the basic financial statements.

**Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2018**

	<b>Spencer Utility Authority</b>
<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 1,219,177
Payments to suppliers	(445,202)
Payments to employees	(192,498)
Net cash provided by operating activities	<u>581,477</u>
<b>Cash flows from noncapital financing activities:</b>	
Transfers to City	(221,036)
Net cash flows provided by noncapital financing activities	<u>(221,036)</u>
<b>Cash flows from capital and related financing activities:</b>	
Purchases of capital assets	(19,696)
Principal paid on capital debt	(195,000)
Interest and fees paid on capital debt	(225,443)
Net cash used in capital and related financing activities	<u>(440,139)</u>
<b>Cash flows from investing activities</b>	
Investment and dividends	25,540
Net cash provided by investing activities	<u>25,540</u>
<b>Net decrease in cash and cash equivalents</b>	(54,158)
<b>Cash and equivalents - beginning of year</b>	2,287,133
<b>Cash and equivalents - end of year</b>	<u><u>\$ 2,232,975</u></u>
<b>Reconciliation of operating income to net cash provided:</b>	
Operating gain(loss)	443,239
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase (decrease) in meter deposit liability	(1,349)
Depreciation expense	139,587
Net cash provided by operating activities	<u><u>\$ 581,477</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 for the Trust to the Trustees on a

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

## **B. Basis of Presentation**

### *Government-Wide Financial Statements*

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole within the limitations of the modified cash basis of accounting. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed, in whole or in part, by fees charged to external parties for goods and services.

### *Fund Financial Statements*

Fund financial statement of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position or fund balance, revenues, and expenditures or expenses. The City's funds are organized into two main categories: governmental and proprietary. The City presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures or expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of the category or type.
- b) Total assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenues, or expenditures or expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described subsequently:

### **Governmental Funds**

#### **General Fund**

The general fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund. In the current year, the City implemented a new accounting system and consolidated all governmental fund activity to the general fund.

### **Proprietary Funds**

#### **Enterprise Fund**

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund that is reported as a major fund:

<i><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.

#### **Long-term Debt**

All long-term bonds, notes, and other debt arising from cash transactions or events to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements.

Long-term debt arising from cash transactions or events of governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources, and payment of principal and interest is reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

## **Net Position/Fund Balance Classifications**

### *Government-wide Statements*

Net position is classified and displayed in three components:

1. **Net investment in capital assets** – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. **Restricted** – Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, with restriction constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. **Unrestricted** – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the City's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

### *Fund Financial Statements*

#### Governmental Funds

The difference among assets, deferred outflows, liabilities, and deferred inflows of governmental funds is reported as fund balance and classified as nonspendable, restricted, committed, assigned, and unassigned based on the respective level of constraint. These constraints are defined as follows:

- **Nonspendable** – Amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact.
- **Restricted** – Amounts constrained regarding use from restrictions externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or by restrictions imposed by law through constitutional provisions or enabling legislation.
- **Committed** – Amounts constrained regarding use for specific purposes pursuant to requirements imposed by formal action of the City's highest level of decision-making authority (In the City of Spencer's case, commitments are evidenced by adoption of an ordinance by the City Council.)
- **Assigned** – Amounts constrained by the City's intent to be used for specific purposes but that are neither restricted nor committed. (In the case of the City of Spencer, assignments are evidenced by resolution of the City Council)
- **Unassigned** – The residual classification of the General Fund for spendable amounts that have not been restricted, committed, or assigned to specific purposes.

It is the City's policy to first use restricted fund balances prior to the use of unrestricted fund balances when an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available. It is also the City's policy to use committed fund balance before assigned fund balances and assigned fund balances before unassigned amounts when an expenditure is incurred for purposes for which amounts in those classification are available to be used.

The City has no formal minimum fund balance policies or any formal stabilization arrangements in place.

Proprietary Funds

The difference among assets, deferred outflows of resources, liabilities, and deferred inflows of resources of proprietary funds is reported as net position and classified in the same manner as the government-wide financial statements, as previously described.

**E. Revenues, Expenditures, and Expenses**

*Sales tax*

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

*Property tax*

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

*Program revenues*

In the Statement of Activities, modified cash basis revenues that are derived directly from each activity or from parties outside the City's taxpayers are reported as program revenues. The City has the following program revenues in each activity:

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

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

*Operating Revenues and Expenses*

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

**F. Internal and Interfund Balances and Activities**

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

*Fund Financial Statements*

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

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

*Government-wide Financial Statements*

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

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

**G. Use of Estimates**

The preparation of financial statements in accordance with the modified cash basis of accounting used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

**2. Stewardship, Compliance and Accountability**

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations.

**3. Detail Notes – Transaction Classes and Accounts**

**A. Cash and Investments**

For the year ended June 30, 2018, the City recognized \$25,753 of investment income. At June 30, 2018, the primary government held the following deposits and investments:

<u>Type</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Carrying Value</u>
Demand deposits	\$ 196,121	\$ 47,849	\$ 243,970
US Treasuries money market fund	-	2,185,126	2,185,126
Total deposits	<u>\$ 196,121</u>	<u>\$ 2,232,975</u>	<u>\$ 2,429,096</u>

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

Cash and cash equivalents	\$ 196,121	\$ 11,121	\$ 207,242
Restricted cash and cash equivalents	-	2,221,854	2,221,854
Total	<u>\$ 196,121</u>	<u>\$ 2,232,975</u>	<u>\$ 2,429,096</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, 2018, 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, 2018, 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, 2018, 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, 2018, the City had no concentration of credit risk as defined above.

*Cash held by County* – At June 30, 2018, Oklahoma County held \$37,426 for benefit of the City of Spencer representing alcoholic beverage taxes and commercial vehicle taxes collected during the year and apportioned to the City as the County was awaiting receipt of proof of fidelity bond coverage from the City.

## **B. Restricted Assets**

The amounts reported as restricted assets comprise amounts held by the SUA for utility deposits (refunded upon termination of service or applied to final bill) of \$36,728 and the amount of government mutual funds held in trustee accounts on behalf of the promissory note trust accounts in the amount as follows: \$458,023 for debt service reserves and \$1,727,103 for dedicated project funds from a bond issuance.



**C. Capital Assets**

Capital asset activity resulting from modified cash basis transactions or events for the fiscal year ended June 30, 2018, was as follows:

	<u>Balance at</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at</u> <u>June 30, 2018</u>
<b>Governmental:</b>				
Capital assets not being depreciated:				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Construction in progress	4,990	11,293	4,990	11,293
Total capital assets not being depreciated:	<u>24,990</u>	<u>11,293</u>	<u>4,990</u>	<u>31,293</u>
Capital assets being depreciated:				
Buildings/improvements	323,766	15,905	-	339,671
Vehicles, equipment & furniture	934,134	4,697	-	938,831
Total capital assets being depreciated	<u>1,257,900</u>	<u>20,602</u>	<u>-</u>	<u>1,278,502</u>
Less accumulated depreciation:				
Buildings/improvements	207,410	8,695	-	216,105
Vehicles, equipment & furniture	743,373	41,060	-	784,433
Total accumulated depreciation	<u>950,783</u>	<u>49,755</u>	<u>-</u>	<u>1,000,538</u>
Governmental, net capital assets	<u>\$ 332,107</u>	<u>\$ (17,860)</u>	<u>\$ 4,990</u>	<u>\$ 309,257</u>
<b>Business-type</b>				
Capital assets not being depreciated:				
Land	\$ 11,600	\$ -	\$ -	\$ 11,600
Construction in progress	273,569	19,696	-	293,265
Total capital assets not being depreciated:	<u>285,169</u>	<u>19,696</u>	<u>-</u>	<u>304,865</u>
Capital assets being depreciated:				
Buildings/improvements	86,418	-	-	86,418
Utility system	4,948,297	-	-	4,948,297
Vehicles, equipment & furniture	339,410	-	-	339,410
Total capital assets being depreciated	<u>5,374,125</u>	<u>-</u>	<u>-</u>	<u>5,374,125</u>
Less accumulated depreciation				
Buildings/improvements	58,929	2,465	-	61,394
Utility system	922,360	121,851	-	1,044,211
Vehicles, equipment & furniture	272,891	15,271	-	288,162
Total accumulated depreciation	<u>1,254,180</u>	<u>139,587</u>	<u>-</u>	<u>1,393,767</u>
Business-type, net capital assets	<u>\$ 4,405,114</u>	<u>\$ (119,891)</u>	<u>\$ -</u>	<u>\$ 4,285,223</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	\$ 5,042	Utility administration	\$ 4,906
Fire	22,064	Sewer	14,420
Police	20,858	Water	120,261
Parks department	1,791	Total depreciation	<u>139,587</u>
Total depreciation	<u>49,755</u>		

**D. Debt Service and Coverage Requirements**

For the year ended June 30, 2018, the City's long-term debt changed as follows:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2018</u>	<u>Amount Due Within One Year</u>
Business-type Activities:					
Bonds payable	\$ 5,885,000	\$ -	\$ 195,000	\$ 5,690,000	\$ 200,000
Unamortized bond premium	155,344	-	8,176	147,168	8,176
Unamortized bond discount	(16,916)	-	(890)	(16,026)	(890)
	<u>\$ 6,023,428</u>	<u>\$ -</u>	<u>\$ 202,286</u>	<u>\$ 5,821,142</u>	<u>\$ 207,286</u>

At June 30, 2018, the City had the following debt outstanding, arising from cash transactions, to be repaid from business-type activities:

Spencer Utilities Authority Utility System Refunding and Capital Improvement Revenue Bonds, Series 2015, dated April 1, 2015, in the amount of \$6,250,000 with interest rates ranging from of 3.00% to 4.25%. The remaining amount is scheduled to be paid in semi-annual installments with a final payment due July 1, 2037		
	Outstanding bond principal	\$ 5,690,000
	Unamortized bond premium and discount	<u>131,142</u>
	Total carrying value of bonds to be repaid from business-type activities	<u>\$5,821,142</u>

*Payment Requirements to Maturity:*

<u>Year ended June 30,</u>	<u>Business-type activities</u>	
	<u>Principal*</u>	<u>Interest*</u>
2019	200,000	216,220
2020	205,000	210,220
2021	215,000	204,070
2022	220,000	197,620
2023	225,000	191,020
2024 to 2028	1,255,000	841,370
2029 to 2033	1,500,000	590,458
2034 to 2037	1,870,000	228,650
Total	<u>\$ 5,690,000</u>	<u>\$ 2,679,628</u>

\* Does not include amortization

#### 4. Other Notes

##### A. Risk Management

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

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

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

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

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

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

##### B. Employee Retirement Plan Participation

###### Oklahoma Firefighter's Pension and Retirement System

The City participates in a statewide, cost-sharing, multiple-employer benefit plan on behalf of firefighters. The system is administered by an agency of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. For 2018, the City's annual required contribution was \$30,686 for the OFPRS plan. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

Eligibility to participate	All full-time or voluntary firefighters of a participating municipality hired before age 45 (the City only has volunteer firefighters)
Authority establishing contribution obligations and benefit provisions	State Statute

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Plan members' contribution rate	None
City's contribution rate	\$60 per volunteer
Period required to vest	10 years
Benefits and eligibility for distribution (volunteer)	20 years credited service equal to \$5.46 per month per year of service with a maximum of 30 years considered
Deferred retirement option	Yes, 20 years credited service with continued service for 30 or more years
Provisions for:	
Cost of living adjustments (normal retirement)	Yes, if vested by May, 1983
Death (duty, non-duty, post retirement)	Yes
Disability	Yes
Cost of living allowances	Yes

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

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

Oklahoma Police Pension and Retirement System

The City participates in a statewide, cost-sharing, multiple-employer benefit plan on behalf of police officers. The system is administered by an agency of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. For 2018, the City's annual required contribution was \$12,335 for the OPPRS plan which was equal to the City's actual contribution. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

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

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Cost of living allowances

Yes

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

OPPRS  
1001 NW 63<sup>rd</sup> Street, Suite 305  
Oklahoma City, OK 73116-7335

#### **Defined Contribution Plan - Oklahoma Municipal Retirement Fund (OkMRF)**

##### *A. Plan Description*

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

For the year ended June 30, 2018, the total contributions were 6 percent of covered payroll, of which 3 percent was contributed by both the employer and employee. For the year ended June 30, 2018, City contributions to the plan amount to \$9,527.

##### **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, 2018, the City did not calculate a value for compensated absences.

#### **5. Commitments and Contingencies**

##### *Litigation:*

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

##### *Workers Compensation:*

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

##### *Payroll Tax Arrearage:*

At September 19, 2019, management reported total amounts due the Internal Revenue Service, per letters received from the agency, of \$861,188 which included \$358,062 in civil penalties, \$4,331 in failure to pay penalties, and \$48,655 in accrued interest. All are amounts related to payroll periods of December 31, 2017 or earlier. Management believes that they will be able to get some or all of the penalties waived and consequently have only accrued \$551,134 in the current reporting year.

*Going Concern:*

The City has had difficulty meeting its obligations for several years. Payroll taxes are at least partially in arrears dating back to calendar year 2010 and continue to accrue interest and penalties. The general fund and the SUA fund have deficit unrestricted balances of \$240,391 and \$224,249, respectively. The City has experienced significant turnover in key management positions. Without a source of new funding, the City could be required to significantly curtail its services or consider other options.

*Federal and State Award Programs:*

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

**6. Subsequent Events**

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

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## **OTHER INFORMATION**



**Budgetary Comparison Schedule (Modified Cash Basis) – Year Ended June 30, 2018 - UNAUDITED**

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<b>Beginning budgetary fund balance</b>	\$ -	\$ -	<b>\$ (415,369)</b>	<b>\$ (415,369)</b>
<b>Resources (inflows)</b>				
Taxes	916,166	916,166	1,046,614	130,448
Intergovernmental	15,407	15,407	44,331	28,924
Grants and donations	55,000	55,000	63,992	8,992
Licenses and permits	25,561	25,561	14,954	(10,607)
Charges for services	1,290	1,290	2,435	1,145
Fines and forfeitures	150,000	150,000	115,756	(34,244)
Investment income	256	256	213	(43)
Miscellaneous	11,338	11,338	17,838	6,500
Transfer in	168,448	168,448	221,036	52,588
<b>Total resources (inflows)</b>	<b>1,343,466</b>	<b>1,343,466</b>	<b>1,527,169</b>	<b>183,703</b>
<b>Amounts available for appropriation</b>	<b>1,343,466</b>	<b>1,343,466</b>	<b>1,111,800</b>	<b>(231,666)</b>
<b>Charges to appropriations (outflows):</b>				
General government	486,899	486,899	584,758	(97,859)
Fire	315,820	315,820	300,691	15,129
Municipal court	40,415	40,415	73,820	(33,405)
Police	489,832	489,832	321,202	168,630
Parks department	10,500	10,500	34,085	(23,585)
Capital outlay	-	-	26,905	(26,905)
Payroll tax penalties	-	-	10,730	(10,730)
<b>Total charges to appropriations</b>	<b>1,343,466</b>	<b>1,343,466</b>	<b>1,352,191</b>	<b>(8,725)</b>
<b>Ending budgetary fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (240,391)</b>	<b>\$ (240,391)</b>

**Footnotes to Budgetary Comparison Schedule:**

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

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



# Elfrink and Associates, PLLC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

To the City Council  
City of Spencer, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Spencer, Oklahoma ("City"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise City's basic financial statements and have issued our report thereon dated December 20, 2019. The City reports on a modified cash basis of accounting as described in Note 1C.

### Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2018-01, 2018-02, 2018-03, and 2018-08 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2017-06 and 2017-07 to be significant deficiencies.

### Compliance and Other Matters

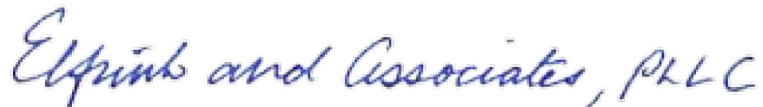
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* that are described in the accompanying schedule of findings and responses as items 2017-04 and 2017-05.

### **The City of Spencer, Oklahoma's Response to Findings**

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

### **Purpose of this Report**

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

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

Elfrink and Associates, PLLC

Tulsa, Oklahoma

December 20, 2019

### SCHEDULE OF FINDINGS AND RESPONSES

This schedule is presented as an addendum to accompany the *“Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards”*. Consideration of items listed should be made in conjunction with that report.

#### 2018-01 – Pooled Cash

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

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

CAUSE OF CONDITION: A new accounting system was implemented in the prior year that was not correctly set up to account for pooled cash by fund. There has not been significant progress in correcting the system.

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

RECOMMENDATION: The City should continue to work with their consultant to correct the accounting system.

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

#### 2018-02 – Cash Balances Omitted from Accounting System

CONDITION: The City’s general ledger did not have any cash balances recorded. Only transactions for the master operating account were recorded, but there was no beginning balance entered and no balance that corresponded with the actual bank account. In addition, the City had 21 other bank accounts, including 4 trust accounts, that were not recorded on the accounting system at all. Although the consultant performed a proof of cash on each of the missing accounts, the trust accounts and related activity were not included in the trial balance provided for audit, requiring material audit adjustments.

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

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

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

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

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

2018-03 – Bank Reconciliations

CONDITION: Although the City's consultant is reconciling the master bank account, the general ledger is not being corrected on a monthly basis and the other bank accounts are being recorded by adjusting entries at the end of the year.

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

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

POTENTIAL EFFECT OF CONDITION: The City was operating with incorrect and/or incomplete financial information. Fraud or abuse, to include improper payments, could occur and not be detected on a timely basis.

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

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

2018-04 – Deficit Fund Balance

CONDITION: At June 30, 2018, the City of Spencer's General Fund showed a deficit fund balance of \$240,391

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

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

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

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

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

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

2018-05 – Purchase Orders; Support for Payments

CONDITION: Twenty-five of the fifty-one payments examined from our random sample of general vendor disbursements did not have a purchase order or invoice available for examination.

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

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

POTENTIAL EFFECT OF CONDITION: The City's expenditures could exceed its appropriations, improper payments could occur, fraud or abuse could occur and not be detected on a timely basis.

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

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

2018-06 – Utility Billing; Cutoff Procedures

CONDITION: Sixteen of the twenty-five accounts systematically selected for review appeared to be in arrears two or more months and had current service, including one city council member who was significantly in arrears. This is continued from 2017.

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

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

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

RECOMMENDATION: Cutoff procedures should be strictly enforced.

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

2018-07 – Segregation of Duties

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

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

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

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

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

RESPONSE: Management has taken these recommendations under advisement.

#### 2018-08 – Internal Control Over Financial Reporting

CONDITION: The trial balance provided for audit was not in balance by fund and the prior period equity carry-forward accounts did not agree with the fund balances in the prior year's financial statements, requiring significant entries.

CRITERIA: Debits should equal credits for each fund in the trial balance provided for audit. The equity carry-forward accounts should agree to the fund balances in the prior year's financial statements.

CAUSE OF CONDITION: The integrity of the City's accounting system is not being maintained during the year. Although the main bank account is being reconciled, there does not appear to be significant analysis and correction of the accounts and corresponding discrepancies to assure that all transactions are being recorded accurately. The utility revenues are being recorded as billed and not adjusted for actual collections, consistent with a modified cash basis of accounting.

POTENTIAL EFFECT OF CONDITION: Information obtained from the system is not reliable. Errors, fraud, abuse or waste could occur and not be detected in a timely manner.

RECOMMENDATION: All bank account should be included in the accounting system. All transactions for all bank accounts should be recorded in the accounting system. When a transaction is identified that is not recorded, processes should be reviewed and or staff training should take place to prevent omission and/or improper recording in the future. Other account balances should be reconciled regularly. The utility accounts receivable system should be evaluated to develop a method to accurately reflect utility revenue collected.

RESPONSE: Management has taken these recommendations under advisement.



**EXHIBIT D**

**FORM OF OPINION OF BOND COUNSEL**

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We have examined a certified copy of the Transcript of Proceedings of the Trustees of the Spencer Utilities Authority (the "Authority"), preliminary to, and in the issuance of Capital Improvement Revenue Bonds, Tax-Exempt Series 2020A, of the Authority (the "Series 2020A Tax-Exempt Bonds"), in the principal amount of \$2,215,000.00 and a specimen Series 2020A Tax-Exempt Bond of the issue, and based upon such examination, it is our opinion that said issue is lawfully authorized by said proceedings under present law. The Series 2020A Tax-Exempt Bonds are issuable only in registered form in denominations of \$5,000.00 and, with respect to principal maturing on the same date, integral multiples thereof are exchangeable for other Series 2020A Tax-Exempt Bonds of the same maturity, bear interest payable on January 1 and July 1 of each year commencing on January 1, 2021, next following the date of registration thereof, until the principal is paid, and mature on July 1 in the years, in the principal amounts and bear interest at the rates all as set forth on the face thereof and in the Indenture hereinafter mentioned.

The items examined included the Trust Indenture of the Authority dated January 26, 1966, a Lease Agreement and Operation and Maintenance Contract dated December 1, 1993, as amended, by which the City of Spencer, Oklahoma (the "City"), leased to the Authority all then existing and thereafter acquired water, sanitary sewer and garbage systems (the "Systems") for a term extending to November 30, 2043, and so long thereafter as any indebtedness of the Authority secured by the Systems or their revenues shall remain unpaid, the Spencer Utilities Authority Series 2020 Revenue Bond Indenture dated July 1, 2020 (the "Indenture"), between the Authority and BancFirst, Oklahoma City, Oklahoma, as trustee, the proceedings authorizing execution and delivery of all of the foregoing and the relevant provisions of the Constitution and Statutes of the State of Oklahoma.

From such examination, it is our opinion that the Authority is a validly existing public trust of which the City is the beneficiary and, as such, an agency of the State of Oklahoma and regularly constituted authority of the City, that the Series 2020A Tax-Exempt Bonds and the Indenture are valid and binding obligations of the Authority according to their terms, the Series 2020A Tax-Exempt Bonds being secured by a first lien on the net revenues of the Systems, as defined in the Indenture. The Series 2020A Tax-Exempt Bonds are exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934 and the approval of no agency of the State of Oklahoma other than the Authority is required for their issuance. No qualification of the Indenture is required under the Trust Indenture Act of 1939.

It is our further opinion that interest paid by the Authority on the Series 2020A Tax-Exempt Bonds is and, assuming continuing compliance by the Authority with its hereinafter described covenants to comply with all of the requirements of the Internal Revenue Code of 1986, as amended, contained in the aforesaid Indenture, said interest will continue to be, excluded from the gross income of the payees thereof in the computation of federal income taxes under present law and interpretation thereof and is not an item of tax preference for purposes of the federal alternative minimum tax. In our opinion, the covenants contained in the aforesaid Indenture by which the Authority has agreed to comply with the Internal Revenue Code of 1986, as amended, to the end that interest on the Series 2020A Tax-Exempt Bonds shall remain exempt from federal income taxes are valid and binding obligations of the Authority and compliance therewith is not prohibited by or violative of any provision of law applicable to the Authority. The failure of the Authority to comply with its aforesaid covenants could cause the interest on the Series 2020A Tax-Exempt Bonds to be so included in gross income retroactive to the date of issuance of the Series 2020A Tax-Exempt Bonds

It is further our opinion that interest paid by the Authority on the Series 2020A Tax-Exempt Bonds is excluded from the gross income of the payees thereof in the computation of State of Oklahoma income taxes.

JOHANNING & BYROM, PLLC

By  
Chris Byrom

CB:pe

We have examined a certified copy of the Transcript of Proceedings of the Trustees of the Spencer Utilities Authority (the "Authority"), preliminary to, and in the issuance of Utility System Revenue Bonds, Taxable Refunding Series 2020B, of the Authority (the "Series 2020B Taxable Bonds"), in the principal amount of \$6,445,000.00 and a specimen Series 2020B Taxable Bond of the issue, and based upon such examination, it is our opinion that said issue is lawfully authorized by said proceedings under present law. The Series 2020B Taxable Bonds are issuable only in registered form in denominations of \$5,000.00 and, with respect to principal maturing on the same date, integral multiples thereof are exchangeable for other Series 2020B Taxable Bonds of the same maturity, bear interest payable on January 1 and July 1 of each year commencing on January 1, 2021, until the principal is paid, and mature on July 1 in the years, in the principal amounts and bear interest at the rates all as set forth on the face thereof and in the Indenture hereinafter mentioned.

The items examined included the Trust Indenture of the Authority dated January 26, 1966, a Lease Agreement and Operation and Maintenance Contract dated December 1, 1993, as amended, by which the City of Spencer, Oklahoma (the "City"), leased to the Authority all then existing and thereafter acquired water, sanitary sewer and garbage systems (the "Systems") for a term extending to November 30, 2043, and so long thereafter as any indebtedness of the Authority secured by the Systems or their revenues shall remain unpaid, the Spencer Utilities Authority Series 2020 Revenue Bond Indenture dated July 1, 2020 (the "Indenture"), between the Authority and BancFirst, Oklahoma City, Oklahoma, as trustee, the proceedings authorizing execution and delivery of all of the foregoing and the relevant provisions of the Constitution and Statutes of the State of Oklahoma.

From such examination, it is our opinion that the Authority is a validly existing public trust of which the City is the beneficiary and, as such, an agency of the State of Oklahoma and regularly constituted authority of the City, that the Series 2020B Taxable Bonds and the Indenture are valid and binding obligations of the Authority according to their terms, the Series 2020B Taxable Bonds being secured by a first lien and security interest in the Systems. The Series 2020B Taxable Bonds are exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934 and the approval of no agency of the State of Oklahoma other than the Authority is required for their issuance. No qualification of the Indenture is required under the Trust Indenture Act of 1939.

It is further our opinion that interest paid by the Authority on the Series 2020B Taxable Bonds is excluded from the gross income of the payees thereof in the computation of State of Oklahoma income taxes.

JOHANNING & BYROM, PLLC

By  
Chris Byrom

CB:pe

**EXHIBIT E**

**LEASE AGREEMENT AND OPERATION AND MAINTENANCE CONTRACT  
DATED AS OF DECEMBER 1, 1993, AS AMENDED**

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LEASE AGREEMENT AND  
OPERATION AND MAINTENANCE CONTRACT

THIS LEASE AGREEMENT AND OPERATION AND MAINTENANCE CONTRACT dated as of December 1, 1993 (hereinafter called "Agreement"), by and between the City of Spencer, Oklahoma (hereinafter called "City"), a municipal corporation acting by its Mayor and City Council, and the SPENCER UTILITIES AUTHORITY (hereinafter called "Authority"), a public trust created under the authority of and pursuant to the provisions of Title 60, Oklahoma Statutes 1991, Section 176 to 180.4, as amended and supplemented, and the Oklahoma Trust Act, amends and supersedes a Lease Agreement dated March 1, 1966, and recorded in Book 3324, Page 525 of the records of the Oklahoma County Clerk, between the City and the Authority and any other leases and/or amendments pertaining to the Facilities (hereinafter defined), not specifically heretofore described (collectively, the "Original Lease").

W I T N E S S E T H :

WHEREAS, the Authority was created pursuant to Indenture dated as of January 26, 1966, for the use and benefit of the City pursuant to Title 60, Oklahoma Statutes 1991, Sections 176 to 180.4; and

WHEREAS, it has been determined beneficial to the City that the Authority incur indebtedness for the purpose of constructing improvements to the City's wastewater treatment system and refinancing certain outstanding indebtedness of the Authority, but thereafter for such purposes as may from time to time be determined by the Authority to be beneficial to the City (hereinafter collectively or individually called "Projects"); and

WHEREAS, in consideration of the Authority's agreement to make the referenced improvements and to refinance certain outstanding indebtedness and pursuant to Title 11, Oklahoma Statutes 1991, Section 35-201, as amended and supplemented, the City has determined to lease certain water rights and its presently existing and hereafter acquired water and sanitary sewer systems, together with all additions, betterments and improvements thereto and extensions thereof hereafter constructed or acquired by the Authority or the City (hereinafter called the "Facilities"), together with all appurtenances thereof and incidents thereto, more fully described in Section 1 hereof, to the Authority to enable the Authority to obtain financing secured by a pledge of its leasehold interest in the Facilities and the proceeds, fees, charges, revenues, income, rents, receipts, issues and benefits therefrom (hereinafter called the "Revenues" and together with the Facilities called the "Trust Estate"); and

WHEREAS, the Authority has determined, in conformity with the desires of the City and to insure the continued efficient operation and maintenance of the Facilities, to operate and maintain the facilities for and on behalf of the City during the term of this agreement and to collect the Revenues therefrom.

RETURN TO: Fagin, Brown, Bush, Tinney & Kiser  
1900 West First National Center  
Oklahoma City, Oklahoma 73102

BOOK 657 PAGE 1178  
PAGES 1178 - 1190  
TIME 2:17:25  
FEE 32.00  
03/01/94  
JOHN J GARVEY  
OKLAHOMA COUNTY CLERK  
RECORDED AND FILED

NOW, THEREFORE:

SECTION 1. The City, in consideration of the agreements of the Authority and the contribution of the projects to the health, safety and welfare of the City's citizens and residents, does by these presents demise, lease and rent to the Authority the following described property, real or personal or both, owned by or under the control of the City as follows:

(1) The real property and water rights described in Schedule A which is attached hereto and incorporated herein by reference;

(2) All of the presently existing water and sanitary sewer systems of the City and all appurtenances thereof presently belonging to the City, or under its custody, management or control, located within and without the corporate limits of the City, together with the right-of-ways, licenses, easements, permits to take and use ground water and other rights and privileges appertaining or related thereto;

(3) The real estate (including but not limited to that real estate described in Schedule "A" which is attached hereto) currently owned and utilized by the City for the operation of the existing water and sanitary sewer systems;

(4) All interest of the City in and to all unexpired leases and contracts heretofore or hereafter executed by the City pertaining to all or any part of said Facilities, including revenue and income to be received therefrom and retained by the City;

(5) All interest of the City in and to proceeds, fees, charges, revenues, income, rents, receipts, issues and benefits from the Facilities of the City; and

(6) All property, real, personal or mixed, together with all rights and privileges, appertaining or related thereto which hereafter may be acquired by or in the name of the City for use in connection with furnishing of water and sanitary sewer services to persons, firms, corporations and others within and without the corporate limits of the City; it being the intention of this paragraph that any of the foregoing, including income therefrom, immediately upon its acquisition shall be a part of the property devised and leased hereunder.

TO HAVE AND TO HOLD the same to the Authority for a term of fifty (50) years commencing December 1, 1993 and ending November 2043. Provided, that such term shall be extended beyond fifty (50) years until all indebtedness payable from the Trust Estate, whenever issued, issued by the Authority and secured by the Trust Estate or payable from revenues derived therefrom, has been retired and paid or provision for the payment thereof has been made.

The City hereby covenants and agrees that all or any part of the leasehold interest in the Facilities herein granted to the Authority may be pledged by the Authority as security for any indebtedness incurred by the Authority.

SECTION 2. In consideration of the agreements of the Authority, the City hereby covenants and agrees during the term of this Agreement set out in Section 1 above, as follows:

(1) To bill and collect all rates, charges and fees on a monthly basis, derived from the operation of the Facilities, and deposit same in a trustee or depository bank in the manner as may specifically be set out in any indenture or other instrument securing any indebtedness incurred by the Authority;

(2) To furnish for distribution through the Facilities a supply of water adequate to meet the demand of the users of the Facilities;

(3) To set such rates, fees and charges which shall be sufficient to satisfy all the provisions of any indenture or other instrument securing and providing for the payment of any indebtedness incurred by the Authority, including the establishment of and maintenance of any funds, reserves or accounts required pursuant to any indenture or other instrument securing such indebtedness;

(4) In accordance with the uniform rates, fees and charges to each and every user of the Facilities and the services thereof, and if legal, to enforce payments of said rates, fees and charges by termination of water or other services to users delinquent in payment of the rates, fees and charges, and, in addition, by any other legally available means; the City will not permit any free use of any of the Facilities of the Trust Estate;

(5) Not to commit or allow any waste with respect to any of the Facilities;

(6) To comply faithfully and fully with and abide by every statute, rule, order and regulation now in force or hereafter enacted by any competent government agency or authority with respect to or affecting the Facilities or the operation and maintenance thereof, and to keep the Facilities and the Revenues and all parts thereof free from judgments, mechanic's and materialmen's liens and free from all other mortgages, liens, claims, demands and encumbrances of whatever nature or character to the end that the priority of the pledge provided for in any indenture or other instrument properly entered into by the Authority may at all times be maintained and preserved free from any claim or liability. The provisions set out in this paragraph (6) of this Section 2 shall not prevent the transfer or possession or control of the Trust Estate or any part thereof to temporary trustees or a receiver for operation therein in accordance with the provisions of any indenture or other instrument securing the payment of any indebtedness incurred by the Authority;

(7) To carry, as long as any indebtedness of the Authority secured by a pledge of the Authority's leasehold interest in the Facilities and the Revenues therefrom is outstanding, the insurance required to be carried by the Authority under the terms of any indenture or instrument relating to such indebtedness and to apply the proceeds of any such insurance in accordance with the terms of such indenture, indentures or other instrument;

(8) To keep proper books of record and account of all transactions relating to the Trust Estate in accordance with the terms established by the Authority and to cause statements and audits to be furnished to the Authority and other designated parties in accordance with the terms to be provided for by the Authority;

(9) To promptly institute and diligently prosecute appropriate proceedings in eminent domain for the condemnation of lands or interest therein necessary for the construction or acquisition of any improvement or betterment to or extension of the properties of the Trust Estate which has been approved by the governing body of the City, the costs and expenses of such proceedings and the award of damages as a result thereof to be paid by the Authority unless otherwise agreed to by the parties hereto, title to all such property to be taken in the name of the City and upon acquisition to become part of the properties leased to the Authority hereunder and to be included in the Trust Estate;

(10) The City and the Authority will agree at any time to amend this Agreement to transfer the responsibility of operation and maintenance of the Facilities or any part thereof from the Authority to the City; provided, that the City hereby agrees that the Authority may provide for the operation and maintenance of the Facilities by a temporary trustee or a receiver in the event there is a default under any indenture or other instrument securing indebtedness incurred by the Authority; and in such event, the City will cooperate fully with such provisions; and

(11) To be bound by and keep and perform all covenants, acts and things by it to be kept and performed according to the true intent and meaning of any indenture or instrument executed by the Authority, the Trust Indenture and this Agreement.

SECTION 3. In consideration of the agreements of the City, the Authority hereby covenants and agrees during the term of this Agreement set out in Section 1 above, as follows:

(1) To procure financing and to expend the proceeds thereof for the expansion of the sanitary sewer system and to procure financing in the future for other approved projects as shall be mutually agreeable by the parties;

(2) To fix, with the consent of the City, a schedule of uniform and non-discriminatory rates, fees and charges for the use of the Facilities and for services supplied by the Facilities such as will provide in any year revenues sufficient to pay monthly debt service requirements including the principal of and interest on all indebtedness incurred by the Authority including the establishment of and maintenance of any funds, reserves or accounts required pursuant to any indenture or other instrument securing such indebtedness;

(3) To adjust the rents, rates, fees and charges for the services supplied by the use of the Facilities to reflect uniform changes in such rents, rates, fees and charges requested from time to time by ordinance or resolution of the governing body of the City, provided that such adjustments and changes in such rents, rates, fees and charges do not in any way impair the ability of the Authority to comply fully with any covenant contained in any indenture or other instrument securing indebtedness of Authority;

(4) From the Revenues of the Facilities paid by the City to the Authority as hereinafter provided, to maintain and operate in first class condition, keep in good repair and make necessary replacements, extensions and improvements of the Facilities and from said Revenues to protect and hold the City harmless from damages due to injury to persons or property arising by reason of the Authority's operation, maintenance, repair, replacement, extension and improvement of the Facilities;

(5) To submit to the City each month during the term of this Agreement an itemized statement of all costs and expenses of operation, maintenance, repairs, replacements, extensions and improvements of the Facilities including the cost of holding the City harmless from damages to persons or property.

(6) To receive the monies transferred to it by the City or by direction of the City each month and to use said monies to pay all costs and expenses of operation, maintenance, repairs, replacements, extensions and improvements of the Facilities, including the cost of water and electricity and other related fees and expenses and the cost of holding the City harmless from damages to persons or property;

(7) To incur only such indebtedness secured by the Trust Estate as may be authorized in the Trust Indenture creating the Authority and as may be approved from time to time by ordinance or resolution of the governing body of the City;

(8) To do all things necessary and proper to perform the purposes of the Trust within the scope of the powers and duties set forth in the Trust Indenture and within the scope of any indenture or other instrument securing the payment of any indebtedness incurred by the Authority, including the payment of principal, interest and the accumulation of reserve requirements as may be provided for in such indenture or other instrument securing same;

(9) To do any and all things required to be done by it under the terms of this Agreement, and cooperate with the City to the end that the Facilities may be efficiently operated and maintained.

SECTION 4. The Authority hereby agrees with the City that the full legal title to the Facilities shall be vested in the City and the Facilities shall be operated and maintained by the Authority, provided upon the expiration of this Agreement, all right, title and interest of the Authority in the Facilities shall revert to the City.

SECTION 5. The City and the Authority may, from time to time and at any time, amend this Agreement, provided, any amendment shall not be inconsistent with the terms and provisions hereof nor with the terms and provisions of any indenture securing the payment of indebtedness incurred by the Authority, for the following purposes:

- (a) To cure any ambiguity or formal defect, inconsistency or omission in this Agreement or to clarify matters or questions arising thereunder; or
- (b) To add additional covenants and agreements for the purpose of securing the payment of indebtedness incurred by the Authority; or
- (c) To confirm as further assurance any pledge of additional revenues, monies, securities or funds; or
- (d) For the purposes set out in Section 2(10) hereof.

From and after the incurrence of any indebtedness, this Agreement shall not be assigned by either party, provided, however, it may be assigned and pledged pursuant to any indenture and/or mortgage securing the payment of indebtedness incurred by the Authority.

SECTION 6. Indebtedness incurred by the Authority shall not constitute an indebtedness of the State of Oklahoma nor of the City, nor be personal obligations of the Trustees of the Authority, but such indebtedness shall be special obligations of the Authority, payable solely from the revenues of the Trust Estate or portions thereof as may be set out in any indenture or other instrument securing the payment of such indebtedness.

SECTION 7. The provisions of this Agreement shall be deemed separable. If it shall ever be held by a court of competent jurisdiction that any one or more sections, clauses or provisions of this Agreement is invalid or ineffective for any reason, such holding shall not affect the validity and effectiveness of the remaining sections, clauses and provisions thereof.

SECTION 8. It is the contemplation of the parties and the City hereby agrees that facilities built with approved sources of financing and any additional financing shall be fully integrated with the existing Facilities of the City, for the purposes of operation, maintenance, repair, replacement, extension and improvement. In the event of the Authority's default under any indenture or other instrument securing indebtedness incurred by the Authority which results in the appointment of temporary or permanent receivers or trustees for the Trust Estate of the Authority, or any part thereof, the City hereby agrees to perform with respect to such receivers or trustees, all covenants and agreements herein undertaken with respect to the Authority.

In the event of the City's default hereunder resulting in the Authority (or receivers or temporary trustees) taking over operation of the Facilities, the City agrees to continue to perform the agreements of the City set out in Section 2 hereof, and promptly remit all revenues from the Facilities to the Authority.

IN WITNESS WHEREOF, the City has caused this instrument to be signed by its Mayor and City Clerk and its seal affixed, and the Authority has caused this instrument to be signed by its Chairman and Secretary and its seal affixed, all as of the 1st day of December, 1993.

SPENCER, OKLAHOMA

Mayor

*Bill Earnest*

(SEAL)  
ATTEST: 0

City Clerk

*Kelly Patterson*

SPENCER UTILITIES AUTHORITY

Chairman

*Bill Earnest*

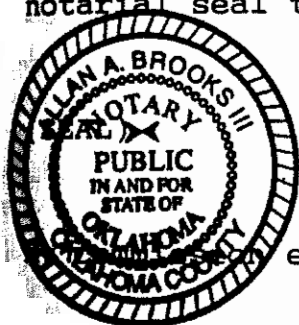
(SEAL)  
ATTEST:

Secretary

*Kelly Patterson*



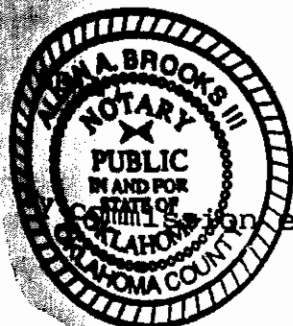
IN WITNESS WHEREOF, I have hereunto set my hand and affixed my  
notarial seal the day and year aforesaid.



expires: 6/3/97

STATE OF OKLAHOMA )  
 ) SS  
COUNTY OF OKLAHOMA )

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my  
notarial seal the day and year aforesaid.



Expires: 6/3/97

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**EXHIBIT F**

**CONTINUING DISCLOSURE AGREEMENT**

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## CONTINUING DISCLOSURE AGREEMENT

This **CONTINUING DISCLOSURE AGREEMENT** dated as of July 1, 2020 (the “Continuing Disclosure Agreement”), is executed and delivered by the Spencer Utilities Authority (the “Authority”) and BancFirst, Oklahoma City, Oklahoma, as dissemination agent (the “Dissemination Agent”).

### RECITALS

1. This Continuing Disclosure Agreement is executed and delivered in connection with the issuance by the Spencer Utilities Authority (the “Authority”) of \$8,660,000.00 Utility System Revenue Bonds, Series 2020 (the “Bonds”), pursuant to a Bond Indenture dated as of July 1, 2020 between the Authority and BancFirst, Oklahoma City, Oklahoma, as trustee (the “Indenture”).

2. The Authority and the Dissemination Agent are entering into this Continuing Disclosure Agreement for the benefit of the Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with Rule 15c2-12 of the Securities and Exchange Commission. The Authority is an “obligated person” with responsibility for continuing disclosure hereunder.

In consideration of the mutual covenants and agreements herein, the Authority and the Dissemination Agent covenant and agree as follows:

**Section 1. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Continuing Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“**Annual Report**” means any Annual Report filed by the Authority pursuant to, and as described in, **Section 2** of this Continuing Disclosure Agreement.

“**Beneficial Owner**” means any registered owner of any Bonds and any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

“**Dissemination Agent**” means BancFirst, Oklahoma City, Oklahoma, acting in its capacity as dissemination agent hereunder, or any successor Dissemination Agent designated in writing by the Authority.

“**EMMA**” means the Electronic Municipal Market Access system for municipal securities disclosures established and maintained by the MSRB, which can be accessed at [www.emma.msrb.org](http://www.emma.msrb.org) or such other location as may be designated in the future by the MSRB pursuant to the Rule.

“**Financial Obligation**” shall mean (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

**“Fiscal Year”** means the 12-month period beginning on July 1 and ending on June 30 or any other 12-month period selected by the Authority as the Fiscal Year of the Authority for financial reporting purposes.

**“Material Events”** means any of the events listed in **Section 3(a)** of this Continuing Disclosure Agreement.

**“MSRB”** means the Municipal Securities Rulemaking Board, or any successor repository designated as such by the Securities and Exchange Commission in accordance with the Rule.

**“Participating Underwriter”** means any of the original underwriter(s) of the Bonds required to comply with the Rule in connection with offering of the Bonds.

**“Rule”** means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

## **Section 2. Provision of Annual Reports.**

- (a) The Authority shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the Authority’s Fiscal Year, commencing with the year ending June 30, 2020, file with the MSRB, through EMMA, the following financial information and operating data and certification (the “Annual Report”):
  - (1) *Audited Financials:* The financial statements of the Authority for the prior Fiscal Year, prepared in accordance with accounting principles generally accepted in the United States of America. If audited financial statements are to be prepared but are not available by the time the Annual Report is required to be filed pursuant to this Section, the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report promptly after they become available.
  - (2) *Updated Financial Data:* Each Annual Report shall add the immediately preceding Fiscal Year’s information concerning the Authority’s revenue, expenditures, debt service requirements, and coverage ratio as provided in the table entitled “Comparative Revenue and Expenses” provided in the Official Statement for the Bonds.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the Authority is an “obligated person” (as defined by the Rule), which have been filed with the MSRB and are available through EMMA or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB on EMMA. The Authority shall clearly identify each such other document so included by reference.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in this Section. If the Authority’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Material Event under **Section 3** of this Continuing Disclosure Agreement.

- (b) Not later than three (3) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the Authority shall either (1) provide the Annual Report to the Dissemination Agent, with written instructions to file the Annual Report as specified in subsection (a), or (2) provide written notice to the Dissemination Agent that the Authority has filed the Annual Report with the MSRB or will do so prior to the deadline specified in subsection (a). The Dissemination Agent may rely conclusively on the certification of the Authority provided pursuant to subsection (a)(4) above that such Annual Report constitutes the Annual Report required to be furnished by the Authority hereunder and shall have no independent duty to review such Annual Report.
- (c) If the Dissemination Agent has not received either an Annual Report with filing instructions or a written notice from the Authority that it has filed an Annual Report with the MSRB by the date required in subsection (a), the Dissemination Agent shall send a notice to the MSRB in substantially the form attached as **Exhibit A**.
- (d) The Dissemination Agent shall, unless the Authority has filed the Annual Report with the MSRB, promptly following receipt of the Annual Report and instructions required in subsection (b) above, file the Annual Report with the MSRB and file a report with the Authority certifying that the Annual Report has been filed pursuant to this Continuing Disclosure Agreement, stating the date it was filed with the MSRB. Such confirmation may be in the form of any confirming email or submission confirmation obtained from EMMA.
- (e) In addition to the foregoing requirements of this Section, the Authority agrees to provide copies of the most recent Annual Report to any requesting bondowner or prospective bondowner, but only after the same have been delivered to the MSRB.

### **Section 3. Reporting of Material Events.**

- (a) No later than ten (10) Business Days after the occurrence of any of the following events, the Authority shall give, or cause to be given to the MSRB by the Dissemination Agent, through EMMA, notice of the occurrence of any of the following events with respect to the Bonds (“**Material Events**”):
  - (1) principal and interest payment delinquencies;
  - (2) non-payment related defaults, if material;
  - (3) unscheduled draws on debt service reserves reflecting financial difficulties;
  - (4) unscheduled draws on credit enhancements reflecting financial difficulties;
  - (5) substitution of credit or liquidity providers, or their failure to perform;
  - (6) adverse tax opinions; the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
  - (7) modifications to rights of bondholders, if material;
  - (8) bond calls, if material, and tender offers;
  - (9) defeasances;
  - (10) release, substitution or sale of property securing repayment of the Bonds, if material;
  - (11) rating changes;
  - (12) bankruptcy, insolvency, receivership or similar event of the Authority or the City of Spencer, Oklahoma (the “City”);

- (13) the consummation of a merger, consolidation, or acquisition involving the Authority or the City or the sale of all or substantially all of the assets of the Authority or the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
  - (14) appointment of a successor or additional trustee or the change of name of the trustee, if material;
  - (15) incurrence of a Financial Obligation of the Authority or the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Authority or the City, any of which affect bondholders, if material; and
  - (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Authority or the City, any of which reflect financial difficulties.
- (b) The Dissemination Agent shall, promptly after obtaining actual knowledge of the occurrence of any event that it believes may constitute a Material Event, contact the Chairman of the Authority or his or her designee, or such other person as the Authority shall designate in writing to the Dissemination Agent from time to time, inform such person of the event, and request that the Authority promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (d). If in response to a request under this subsection (b), the Authority determines that the event does not constitute a Material Event, the Authority shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent whether or not to report the occurrence pursuant to subsection (d).
- (c) Whenever the Authority obtains knowledge of the occurrence of a Material Event, because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the Authority shall promptly notify and instruct the Dissemination Agent in writing to report the occurrence pursuant to subsection (d).
- (d) If the Dissemination Agent receives written instructions from the Authority to report the occurrence of a Material Event, the Dissemination Agent shall promptly file a notice of such occurrence to the MSRB, with a copy to the Authority. Notwithstanding the foregoing, notice of Material Events described in subsections (a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the registered owners of affected Bonds pursuant to the Indenture.

**Section 4. Termination of Reporting Obligation.** The Authority's obligations under this Continuing Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If the obligations of the Authority under this Continuing Disclosure Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Continuing Disclosure Agreement in the same manner as if it were the Authority, and the Authority shall have no further responsibility hereunder. If such termination or substitution occurs prior to legal defeasance, prior redemption or payment in full of all of the Bonds, the Authority shall give notice of such termination or substitution in the same manner as for a Material Event under **Section 3** of this Continuing Disclosure Agreement.



**Section 5. Dissemination Agents.** The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Continuing Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign as dissemination agent hereunder at any time upon 30 days prior written notice to the Authority. Except as otherwise provided herein, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report (including without limitation the Annual Report) prepared by the Authority pursuant to this Continuing Disclosure Agreement. The initial Dissemination Agent is BancFirst, Oklahoma City, Oklahoma.

**Section 6. Amendment; Waiver.** Notwithstanding any other provision of this Continuing Disclosure Agreement, the Authority and the Dissemination Agent may amend this Continuing Disclosure Agreement and any provision of this Continuing Disclosure Agreement may be waived, provided that Bond Counsel or other counsel experienced in federal securities law matters provides the Authority and the Dissemination Agent with its written opinion that the undertaking of the Authority contained herein, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to this Continuing Disclosure Agreement.

In the event of any amendment or waiver of a provision of this Continuing Disclosure Agreement, the Authority shall describe such amendment or waiver in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Authority. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (1) notice of such change shall be given in the same manner as for a Material Event under **Section 3** of this Continuing Disclosure Agreement, and the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**Section 7. Additional Information.** Nothing in this Continuing Disclosure Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Continuing Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is required by this Continuing Disclosure Agreement. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Material Event, in addition to that which is specifically required by this Continuing Disclosure Agreement, the Authority shall not have any obligation under this Continuing Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Material Event.

**Section 8. Default.** If the Authority or the Dissemination Agent fails to comply with any provision of this Continuing Disclosure Agreement, any Participating Underwriter or any Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Authority or the Dissemination Agent, as the case may be, to comply with its obligations under this Continuing Disclosure Agreement. A default under this Continuing Disclosure Agreement shall not be deemed an event of default under the Indenture or the Bonds, and the sole remedy under this Continuing Disclosure Agreement in the event of any failure of the Authority or the Dissemination Agent to comply with this Continuing Disclosure Agreement shall be an action to compel performance.

**Section 9. Duties and Liabilities of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Continuing Disclosure Agreement. The fees, charges and expenses of the Dissemination Agent in connection with its administration of this Continuing Disclosure Agreement shall be paid as provided in the Indenture.

The Dissemination Agent shall not be responsible for the content of any notice or information provided by the Authority to the Dissemination Agent for filing or the Authority's failure to submit a complete Annual Report. The Dissemination Agent shall not be responsible for ensuring the compliance with any rule or regulation of the Authority or Participating Underwriter in connection with the filings of information herein, but is merely responsible for the filing of any such information provided to the Dissemination Agent by the Authority.

**Section 10. Notices.** Any notices or communications to or among any of the parties to this Continuing Disclosure Agreement may be given by registered or certified mail, return receipt requested, or by confirmed facsimile, or delivered in person or by overnight courier, and will be deemed given on the second day following the date on which the notice or communication is so mailed, as follows:

**To the Authority:** Spencer Utilities Authority  
8200 NE 36<sup>th</sup> Street  
Spencer, Oklahoma 73084  
ATTN: Chairman of Trustees

**To the Dissemination Agent:** BancFirst  
101 N. Broadway, Suite 800  
Oklahoma City, Oklahoma 73102  
ATTN: Corporate Trust Department

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

**Section 11. Beneficiaries.** Subject to the limitation on remedies contained in **Section 9** of this Continuing Disclosure Agreement, this Continuing Disclosure Agreement shall inure solely to the benefit of the Authority, the Dissemination Agent, the Participating Underwriter, and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

**Section 12. Severability.** If any provision in this Continuing Disclosure Agreement, the Indenture or the Bonds shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

**Section 13. Counterparts.** This Continuing Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

**Section 14. Electronic Transactions.** The arrangement described herein may be conducted and related documents may be stored by electronic means. Copies, telecopies, facsimiles, electronic files and other reproductions of original documents shall be deemed to be authentic and valid counterparts of such original documents for all purposes, including the filing of any claim, action or suit in the appropriate court of law.

**Section 15. No Pecuniary Liability; General Limitation on Authority Obligations.**

(a) Notwithstanding the language or implication of any provision, representation, covenant or agreement to the contrary, no provision, representation, covenant or agreement contained in this Continuing Disclosure Agreement or any obligation herein imposed upon the Authority, or the breach thereof, shall constitute or give rise to or impose upon the Authority a pecuniary liability. No provision hereof shall be construed to impose a charge against the general credit of the Authority or any personal or pecuniary liability upon any official, director, officer, agent, or employee of the Authority.

(b) ANY OTHER TERM OR PROVISION OF THIS CONTINUING DISCLOSURE AGREEMENT OR ANY OTHER DOCUMENT EXECUTED IN CONNECTION WITH THE TRANSACTION WHICH IS THE SUBJECT HEREOF TO THE CONTRARY NOTWITHSTANDING, THE AUTHORITY SHALL NOT BE REQUIRED TO TAKE OR OMIT TO TAKE, OR REQUIRE ANY OTHER PERSON OR ENTITY TO TAKE OR OMIT TO TAKE, ANY ACTION WHICH WOULD CAUSE IT OR ANY PERSON OR ENTITY TO BE, OR RESULT IN IT OR ANY PERSON OR ENTITY BEING, IN VIOLATION OF ANY LAW OF THE STATE OF OKLAHOMA.

**Section 16. Governing Law.** This Continuing Disclosure Agreement shall be governed by and construed in accordance with the laws of the State of Oklahoma.

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**IN WITNESS WHEREOF**, the Authority and the Dissemination Agent have caused this Continuing Disclosure Agreement to be executed as of the day and year first above written.

**SPENCER UTILITIES AUTHORITY**

By: \_\_\_\_\_  
Title: Chairman of Trustees

**BancFirst**, Oklahoma City, Oklahoma, as  
Dissemination Agent

By: \_\_\_\_\_  
Title: Authorized Officer

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

**Name of Issuer:** Spencer Utilities Authority (the “Authority”)

**Name of Bond Issue:** \$8,660,000.00 Utility System Revenue Bonds,  
Series 2020

**Name of Obligated Person:** Spencer Utilities Authority

**Date of Issuance:** July 1, 2020

**NOTICE IS HEREBY GIVEN** that the Authority has not filed an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated as of July 1, 2020, between the Authority and BancFirst, Oklahoma City, Oklahoma, as Dissemination Agent. The Authority has informed the Dissemination Agent that the Authority anticipates that the Annual Report will be filed by \_\_\_\_\_.

**Dated:** \_\_\_\_\_, \_\_\_\_.

**BancFirst,** Oklahoma City, Oklahoma, as  
Dissemination Agent on behalf of the Spencer Utilities  
Authority

cc: Spencer Utilities Authority

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