SPERRY UTILITY SERVICES AUTHORITY

Sperry, Oklahoma

FINANCIAL STATEMENTS & INDEPENDENT AUDITORS REPORT

For the Year Ended June 30, 2019
TABLE OF CONTENTS

Independent Auditor's Report 1

Financial Statements
   Statement of Net Position 3
   Statement of Revenue, Expenses & Changes in Net Position 4
   Statement of Cash Flows 5

Notes to Financial Statements 6

Report on Internal Control Over Financial Reporting and on
   Compliance and Other Matters Based on an Audit of
   Financials Statements Performed in Accordance with
   Government Auditing Standards 15

Schedule of Findings 17
INDEPENDENT AUDITOR'S REPORT

Board of Trustees,
Sperry Utility Services Authority
Sperry, OK

Report on the Financial Statements

I have audited the accompanying financial statements of the business type activity, and the aggregate remaining fund information of the Sperry Utility Services Authority, (the Authority), a component unit of the Town of Sperry, Oklahoma, as of and for the year ended June 30, 2019, which collectively comprise the Authority’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 accounting principles generally accepted in the United States of America; this includes 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.
Emphasis of Matter

As discussed in Note 1, the financial statements present on the Sperry Utility Services Authority and do not purport to, and do not present fairly the financial position of the Town of Sperry, Oklahoma, as of June 30, 2019, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued a report dated January 31, 2020, on my consideration of the Authority’s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Authority’s internal control over financial reporting and compliance.

Michael Green, CPA

January 31, 2020
# Statement of Net Position

## June 30, 2019

### Assets

**Current assets:**
- Cash and cash equivalents: $316,110
- Restricted cash (Note 7): 4,598
- Investments: 114,060
- Accounts receivable (less allowance for bad debts of $8,121 in 2019): 83,337
- Due from Town: 21,174
- Prepaid insurance: 1,809

**Total current assets:** 541,088

**Noncurrent assets:**

- Other assets:
  - Building & land: 148,866
  - Equipment: 66,970
  - Automotive equipment: 186,187
  - Furniture & fixtures: 5,791
  - Gas and water treatment & distribution system: 2,045,299
  - Less accumulated depreciation: (2,020,338)

**Total capital assets:** 432,775

**Total Assets:** 973,863

### Liabilities

**Current liabilities:**
- Accounts payable: 44,467
- Accrued payroll and taxes: 19,879
- Accrued interest payable: 865
- Current portion of long-term debt (Note 2): 13,018

**Total current liabilities:** 78,229

**Noncurrent liabilities:**
- Refundable deposits: 106,765
- Notes payable (Note 2): 163,619
  - Less: current portion: (13,018)

**Total noncurrent liabilities:** 257,366

**Total Liabilities:** 335,595

### Net Position

- Net invested in capital assets: 269,156
- Restricted for debt service: 4,598
- Unrestricted: 364,514

**Total Net Position:** $638,268

The accompanying notes to the financial statements are an integral part of this statement.
**SPERRY UTILITY SERVICES AUTHORITY**  
**SPERRY, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2019**

Operating revenues:
- Gas: $356,927
- Water: $391,207
- Sewer: $173,507
- Trash: $111,967
- Penalties: $14,338
- Tap fees: $7,200
- Grant: -
- Other: $1,350

**Total operating revenues:** $1,056,496

Operating expenses:
- Gas purchases: $133,825
- Water purchases: $189,180
- Trash services: $83,177
- Utility lease: $60,000
- Salaries: $240,088
- Payroll taxes: $20,621
- Repairs and maintenance: $136,563
- Contract labor: $17,330
- Auto expense: $7,382
- Utilities: $10,495
- Telephone: $15,172
- Office supplies and expense: $41,337
- Legal and accounting: $10,665
- Insurance: $46,878
- Bad debts: $6,535
- Depreciation: $87,368
- Grant: -
- Engineering, licenses, and fees: $8,707

**Total operating expenses:** $1,115,323

**Net operating income:** $(58,827)

Nonoperating revenue (expense):
- Interest income: $842
- Interest expense: $(4,220)

**Total nonoperating revenue (expense):** $(3,378)

Change in net position: $(62,205)

Net position beginning of year, as previously reported: $704,420

Prior period adjustment (see Note 1): $(3,947)

Net position beginning of year restated: $700,473

**Net position end of year:** $638,268

The accompanying notes to the financial statements are an integral part of this statement.
Cash flows from operating activities:
  Receipts from customers $1,047,802
  Payments to suppliers (760,885)
  Payments to employees (260,747)
  Net cash provided (used) by operating activities 26,170

Cash flows from noncapital financing activities:
  Transfers from (to) investments (3,947)
  Transfers from (to) restricted cash and investments -
  Net cash provided (used) by noncapital financing activities (3,947)

Cash flows from capital and related financing activities:
  Purchase of capital assets -
  Principal paid on capital debt (12,773)
  Interest paid on capital debt (4,220)
  Sales and trade assets
    Net cash provided (used) by capital and related
    financing activities (16,993)

Cash flows from investing activities:
  Change in restricted cash (73)
  Interest income 842
  Net cash provided (used) by financing activities 769

  Net increase (decrease) in cash and cash equivalents 5,999

Cash and cash equivalents beginning of year 310,111
Cash and cash equivalents end of year 316,110

Reconciliation of operating income (loss) to
net cash provided (used) by operating activities:
  Operating income (loss) (58,827)
  Adjustments to reconcile operating income to
  net cash provided (used) by operating activities:
    Cash flows reported in other categories:
      Depreciation expense 87,368
      Amortization -
    Change in assets and liabilities:
      Accounts receivable 2,043
      Due from Town (21,063)
      Prepaid insurance 5,136
      Refundable deposits 5,190
      Accounts payable 6,594
      Accrued payroll and taxes (39)
      Accrued interest payable (232)
    Net cash provided by operating activities $26,170

The accompanying notes to the financial statements are an integral part of this statement.
NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sperry Utility Services Authority (the “Authority”) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations.) The accounting and reporting framework and the more significant accounting policies established in GAAP and used by the Authority are discussed below.

A. REPORTING ENTITY

The Authority is a public trust created under a trust indenture dated October 12, 1970, for the use and benefit of the Town of Sperry, Oklahoma, under authority of and pursuant to the provisions of Title 60, Oklahoma Statutes 2003, Sections 176 to 180.3, inclusive as amended and supplemented, the Oklahoma Trust Act and other applicable statutes of the State of Oklahoma (collectively, the “Acts”).

The purpose of the trust is to institute, furnish, provide, distribute and supply gaseous fuels, water, trash pickup services, garbage pickup services, and sewage treating and disposal services for the area of and around the Town of Sperry, Oklahoma. The trustees of the Authority include the five members of the Town Board and two Trustees appointed by the Town Board. The Town of Sperry is the beneficiary of the Trust.

The Authority is exempt from federal and state income taxes.

The Sperry Utility Services Authority is considered a component unit of the Town of Sperry, Oklahoma. In evaluating how to define the Authority, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic (but not the only) criterion for including a potential component unit within the reporting entity is the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility included, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the Authority is able to exercise oversight responsibilities.
Based upon the application of these criteria, there are no potential component units included in the Authority’s reporting entity. And, The Sperry Utility Services Authority is considered a component unit of the Town of Sperry.

B. BASIS OF ACCOUNTING

The Authority's policy is to prepare its financial statements on the accrual basis of accounting; consequently, revenue and the related assets are recognized when earned, and expenditures are recognized when the obligation is incurred.

C. FIXED ASSETS

All fixed assets are recorded at their original acquisition cost. Depreciation is provided in the financial statements utilizing the following estimated useful lives:

<table>
<thead>
<tr>
<th></th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings &amp; Improvements</td>
<td>20</td>
</tr>
<tr>
<td>Gas and Water Plant &amp; Systems</td>
<td>5-24</td>
</tr>
<tr>
<td>Furniture and Fixtures</td>
<td>10</td>
</tr>
<tr>
<td>Equipment</td>
<td>5-10</td>
</tr>
<tr>
<td>Automotive</td>
<td>5-10</td>
</tr>
</tbody>
</table>

A summary of the fixed asset accounts for the year ended June 30, 2019, is as follows:

```
<table>
<thead>
<tr>
<th></th>
<th>6/30/18</th>
<th>Additions</th>
<th>Deletions</th>
<th>6/30/19</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Balance</td>
<td></td>
<td></td>
<td>Balance</td>
</tr>
<tr>
<td>Business-type activities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets not being depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$89,531</td>
<td>-</td>
<td>-</td>
<td>$89,531</td>
</tr>
<tr>
<td>Total capital assets not being depreciated</td>
<td>$89,531</td>
<td>-</td>
<td>-</td>
<td>$89,531</td>
</tr>
<tr>
<td>Other capital assets:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building &amp; Improvements</td>
<td>59,335</td>
<td>-</td>
<td>-</td>
<td>59,335</td>
</tr>
<tr>
<td>Equipment</td>
<td>66,970</td>
<td>-</td>
<td>-</td>
<td>66,970</td>
</tr>
<tr>
<td>Automotive</td>
<td>186,187</td>
<td>-</td>
<td>-</td>
<td>186,187</td>
</tr>
<tr>
<td>Furniture &amp; Fixtures</td>
<td>8,209</td>
<td>-</td>
<td>(2,418)</td>
<td>5,791</td>
</tr>
<tr>
<td>Gas &amp; Water Treatment</td>
<td>2,045,299</td>
<td>-</td>
<td>-</td>
<td>2,045,299</td>
</tr>
<tr>
<td>Total other capital assets at historical cost</td>
<td>2,366,000</td>
<td>-</td>
<td>(2,418)</td>
<td>2,363,582</td>
</tr>
<tr>
<td>Less accumulated depreciation for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total accumulated depreciation</td>
<td>($1,932,970)</td>
<td>(87,368)</td>
<td>-</td>
<td>(2,020,338)</td>
</tr>
<tr>
<td>Other capital assets, net</td>
<td>433,030</td>
<td>(87,368)</td>
<td>(2,418)</td>
<td>343,244</td>
</tr>
<tr>
<td>Business-type activities capital assets, net</td>
<td>$522,561</td>
<td>(87,368)</td>
<td>(2,418)</td>
<td>$432,775</td>
</tr>
</tbody>
</table>
```
D. DEPOSITS AND INVESTMENTS

Custodial Credit Risk - Custodial credit risk related to deposits exists when the Authority holds deposits that are uninsured and uncollateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority’s name, or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the Authority holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority’s name.

As of June 30, 2019, $75,514 of the Authority’s bank balances was exposed to custodial credit risk as follows:

- Demand deposit accounts in excess of FDIC limits, which were not insured or collateralized: $75,514

Investment Credit Risk - The Authority has no investment policy that limits its investments choices other than the limitation of state law as follows:

a) Direct obligations of the U.S. Government, its agencies or instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.

b) Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.

c) With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper, and repurchase agreements with certain limitations.

d) County, municipal, or school district tax-supported debt obligation, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, a municipality, or school district.

e) Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.

e) Money market funds regulated by the Securities and Exchange Commission and in which investments consist of the investments mentioned in the previous paragraphs a,b,c, and d.

Investment Interest Rate Risk – the Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk – The Authority places no limit on the amount it may invest in any one issuer. Since the Authority has all investments in certificates of deposit, there is no concentration of investment credit risk exposure.
The deposits and investments held at June 30, 2019, are as follows:

<table>
<thead>
<tr>
<th>Asset Classification</th>
<th>Maturity (Months)</th>
<th>Credit Rating</th>
<th>Market Value</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>N/A</td>
<td>N/A</td>
<td>$320,708</td>
<td>$320,708</td>
</tr>
<tr>
<td>Investments:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificates of Deposit</td>
<td>12</td>
<td>N/A</td>
<td>114,060</td>
<td>114,060</td>
</tr>
<tr>
<td>Total Deposits and Investments:</td>
<td></td>
<td></td>
<td>$434,768</td>
<td>$434,768</td>
</tr>
</tbody>
</table>

**E. COMPENSATED ABSENCES**

The Authority’s policies regarding vacation time permit employees to accumulate earned but unused vacation and sick leave. Vacation pay vests for full time employees, depending upon length of service, as follows:

- 1-4 years: 80 hours
- 5-19 years: 120 hours
- 20-30 years: 160 hours
- > 30 years: 200 hours

Sick leave accrues for full time employees at 6 hours per month, although it is not vested. Employees may accrue a maximum of 72 hours per year, beginning upon completion of one full month of employment. When an employee resigns in good standing, one half of the accumulated sick pay is paid upon separation.

As a result of the Authority’s use of the accrual method of accounting, accrued liabilities related to compensated absences (vacation and sick leave) earned but unpaid at year-end are reflected in the basic financial statements. The compensated absence commitment at June 30, 2019, is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued compensated absences</td>
<td>$16,706</td>
</tr>
</tbody>
</table>
F. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2019, represent charges for services provided to customers. The Authority utilizes the reserve method of recognition of bad debts. The allowance for bad debts is calculated by multiplying a ratio, computed by dividing actual bad debts for the current year and previous four years by billed revenues for the previous five years, times the current year billed revenues.

G. INVESTMENTS

Investments classified in the financial statements, consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximated fair value.

H. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period (such as estimated useful lives in determining depreciation expense.) Accordingly, actual results could differ from those estimates.

I. CASH AND CASH EQUIVALENTS

For the purpose of financial reporting, “cash and cash equivalents” include all demand and savings accounts subject to withdrawal by check, and cash on hand, as cash and cash equivalents.

J. EQUITY CLASSIFICATION

Net position is displayed in three components:

a. Invested 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.

b. Restricted fund balance – consists of net assets with constraints placed on the use either by an external group such as creditors, grantors, contributors, or laws and regulation of other governments, or by law through constitutional provisions or enabling legislation.

c. Unrestricted fund balance – all other net assets that do not meet the definition of “restricted” or “invested in capital assets.”

The Authority applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by
assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

K. BUDGETARY DATA

The Authority’s annual operating budget is prepared under the provisions of the Municipal Budget Act (the “New Budget Act”) as part of the Town of Sperry’s budget. The budget is prepared on the accrual basis of accounting.

L. INVENTORIES

The Authority does not place a value on any of its inventory for financial statement purposes; consequently, materials, supplies, and replacement parts are not included as assets, and the cost of these items has been charged against income as repairs and maintenance expense at the time of purchase. Expenditures for major renewals and betterments which extend the useful lives of property and equipment are capitalized.

M. RESTATEMENT OF NET POSITION JUNE 30, 2018

Net position for the Year Ended June 30, 2018, has been restated on the Statement of Revenues, Expenses, and Changes in Net Position due to an error in year end postings.

NOTE 2: LONG-TERM DEBT

On December 14, 2009, the District entered into a Clean Water SRF (State Revolving Fund) promissory note, with the Oklahoma Water Resources Board, for $390,000, for wastewater system improvements. The loan is to be repaid in semi-annual installments for twenty years, at 2.58% interest rate. The note is secured by a security agreement pledging the system’s revenue. In accordance with the terms of the loan, $120,432 of the loan was forgiven in a previous year. The total balance outstanding under the loan as of June 30, 2019, was $163,619. The monthly payments are made to a debt service fund maintained by a trustee. Bancfirst serves as the trustee under the loan. The balance in the debt service account at June 30, 2019, was $4,598.

CHANGES IN LONG-TERM DEBT

The following is a summary of changes in Long-term debt for the year ended June 30, 2019:

<table>
<thead>
<tr>
<th>Type of Debt</th>
<th>Balance 6/30/18</th>
<th>Additions</th>
<th>Reductions</th>
<th>Balance 6/30/19</th>
<th>Amount Due Within One Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business-Type Activities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oklahoma Water Resources Board</td>
<td>$176,392</td>
<td>-</td>
<td>(12,773)</td>
<td>$163,619</td>
<td>$13,018</td>
</tr>
<tr>
<td>Total Business-Type Activities</td>
<td>$176,392</td>
<td>-</td>
<td>(12,773)</td>
<td>$163,619</td>
<td>$13,018</td>
</tr>
</tbody>
</table>
DEBT SERVICE REQUIREMENTS

The annual debt service requirements to maturity, including principal and interest, for the long-term debt as of June 30, 2019, is as follows:

<table>
<thead>
<tr>
<th>For the Year Ended June 30,</th>
<th>OWRB Loan</th>
<th>OWRB Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
</tr>
<tr>
<td>2020</td>
<td>$13,018</td>
<td>$4,185</td>
</tr>
<tr>
<td>2021</td>
<td>13,371</td>
<td>3,833</td>
</tr>
<tr>
<td>2022</td>
<td>13,720</td>
<td>3,482</td>
</tr>
<tr>
<td>2023</td>
<td>14,080</td>
<td>3,123</td>
</tr>
<tr>
<td>2024</td>
<td>14,441</td>
<td>2,762</td>
</tr>
<tr>
<td>2025 - 2029</td>
<td>78,117</td>
<td>7,901</td>
</tr>
<tr>
<td>2030 - 2034</td>
<td>16,872</td>
<td>331</td>
</tr>
<tr>
<td></td>
<td>$163,619</td>
<td>$25,617</td>
</tr>
</tbody>
</table>

NOTE 3: LEASE AGREEMENTS

On October 1, 1974, the Town of Sperry leased to the Authority its then existing and thereafter-acquired water, sewer and solid waste disposal systems for a term ending November 20, 1999, or until such date as all indebtedness incurred by the Authority has been paid or provisions for payment has been made. Also, on February 1, 1994, the Town of Sperry leased to the Authority its then existing and thereafter-acquired gas system for a term ending January 19, 2044, or until such date as all indebtedness payable from the revenues of the gas system has been paid or provision for payment has been made. Lease payments paid to the Town of Sperry for the years ended June 30, 2019 were $60,000.

NOTE 4: INVESTMENTS

Investments as of June 30, 2019, are summarized as follows:

<table>
<thead>
<tr>
<th>Unrestricted:</th>
<th>Cost</th>
<th>Fair Value</th>
<th>Carrying Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificates of Deposit</td>
<td>$114,060</td>
<td>114,060</td>
<td>$114,060</td>
</tr>
</tbody>
</table>
NOTE 5: FAIR VALUE MEASUREMENTS

Governmental Accounting Standards Board Statement No. 72 establishes a framework for measuring fair value. That Framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under GASB Stmt. No 72 are described below:

- **Level 1** Valuation based on unadjusted quoted prices in active markets for identical assets or liabilities that the Authority has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

- **Level 2** Valuations based on quoted prices in markets that are not active or on valuation models for which all significant inputs are observable, either directly or indirectly.

- **Level 3** Valuation based on inputs that are unobservable and significant to the overall fair value measurement. Level 3 investments include situations where there is little, if any, market activity for the investments. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for significant assets and liabilities measured at fair value at June 30, 2019:

- **Money market funds and certificates of deposits**: Consist of cash deposits with financial institutions and money market funds. The Authority uses quoted market prices of identical assets on active exchanges, or Level 1 measurements.

- **Investments**: Primarily consist of domestic equity, international equity, and fixed income funds. The Authority uses quoted market prices of identical assets on active exchanges, or Level 1 measurements.

- **Other assets**: Primarily consists of accounts receivable, and inventory. The assets are valued based upon the expected collectible amount, lower of cost or market on a first-in, first-out method, and other unobservable inputs or Level 3 measurements.

The methods described above may produce a fair value calculation that may not be indicative of the net realizable value or reflective of future fair values. Furthermore, while the Authority believes its valuation methods are appropriate and consistent with other market participants, the use of different
methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table set forth by level, within the fair value hierarchy, the Authority’s assets and liabilities at fair value as of:

<table>
<thead>
<tr>
<th>Investments:</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificates of deposit</td>
<td>$ 114,060</td>
<td>-</td>
<td>-</td>
<td>$ 114,060</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other Assets:</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>-</td>
<td>-</td>
<td>83,337</td>
<td>83,337</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ 114,060</td>
<td>-</td>
<td>83,337</td>
<td>$ 197,397</td>
</tr>
</tbody>
</table>

Assets and liabilities in all levels could result in volatile and material price fluctuations. Realized and unrealized gains and losses on Level 3 assets and liabilities represent only a portion of the risk to market fluctuations in the balance sheet.

**NOTE 6: RETIREMENT PLAN**

Employees of the Authority have no retirement plan.

**NOTE 7: RESTRICTED NET ASSETS**

Net assets were restricted for debt service at June 30, 2019 were as follows:

<table>
<thead>
<tr>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>OWRB Reserve</td>
</tr>
</tbody>
</table>

The OWRB Reserve is maintained by the Authority, in a separate interest-bearing account, as discussed in Note 2.

**NOTE 9: SUBSEQUENT EVENTS**

Subsequent events have been evaluated through January 31, 2020, which is the date the financial statements were available to be issued.
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

Board of Trustees
Sperry Utility Services Authority
Sperry, Oklahoma

I 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 business-type activities of the Sperry Utility Services Authority as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Sperry Utility Services Authority’s basic financial statements and have issued my report thereon dated January 31, 2020.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Sperry Utility Services Authority’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sperry Utility Services Authority’s internal control. Accordingly, I do not express an opinion on the effectiveness of the Sperry Utility Services Authority’s internal control.

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

My 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 were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify deficiencies in internal control, described in the accompanying schedule of findings and responses (# 2019-01 & 2019-02), that I consider to be a significant deficiency.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sperry Utility Services Authority’s financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Sperry Utility Services Authority’s Response to Findings

The Sperry Utility Services Authority’s, response to the finding identified in my audit is described in the accompanying schedule of findings and responses. The Sperry Utility Services Authority’s, response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Michael Green, CPA
January 31, 2020
# 2019-01 Deposits in Excess of FDIC Coverage

**Condition:** The Authority’s total demand account bank balances at the local bank exceeded the $250,000 FDIC insurance coverage at June 30, 2019, by $75,514.  
**Criteria:** Authority personnel should monitor the amount of funds in the bank, and if necessary, notify the bank that collateralization will be necessary.  
**Cause:** Authority personnel were not monitoring the bank balances for FDIC coverage.  
**Effect of Potential Effect:** There is the possibility that the financial institution could not be able to return the Authority’s uncollateralized deposits.  
**Recommendation:** The Authority should have the local bank pledge funds as collateral for its demand deposits in excess of the $250,000 FDIC coverage.  
**Responsible Official’s Response:** The Authority concurs with the recommendation.

# 2019-02 Deposits in Transit to Bank

**Condition:** The Authority lost a deposit in transit to the bank in the amount of $1,916.15.  
**Criteria:** The Authority should maintain an effective internal control of cash collections to safeguard against fraud.  
**Cause:** The Authority’s management had not taken the necessary steps to safeguard cash collections.  
**Effect or Potential Effect:** This appears to be an isolated event but the potential for loss and/or theft of cash due to fraud exist.  
**Recommendation:** The Authority’s management and board of directors should implement policies and training to facilitate checks and balances for ensuring cash deposits reach the bank.  
**Responsible Official’s Response:** The Authority concurs with the recommendation.