

**CITY OF SULPHUR
Sulphur, Oklahoma**

**FINANCIAL STATEMENTS
June 30, 2012**

AUDITED BY

WILSON, DOTSON & ASSOCIATES, P.L.L.C.
SHAWNEE, OKLAHOMA

**CITY OF SULPHUR
Sulphur, Oklahoma**

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Sulphur, Oklahoma**

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WILSON, DOTSON & ASSOCIATES, P.L.L.C.

Certified Public Accountants

Members

American Institute of Certified Public Accountants

Oklahoma Society of Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

June 30, 2013

Honorable Mayor and
Members of the City Council
City of Sulphur
Sulphur, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sulphur, Oklahoma, (City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 the 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 to the financial statements, the City has not maintained accurate capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available for our review. Additionally, the Sulphur Municipal Authority has not recognized depreciation. The amount by which these departures would affect the assets, net assets, and expenses of the Governmental Activities, Business-Type Activities and the discretely presented component unit is not readily determinable.

In our opinion, except for the effects, if any, on the financial statements of incomplete capital asset record keeping described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and the discretely presented component unit of the City of Sulphur, Oklahoma, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major governmental fund and the aggregate remaining governmental fund information of the City of Sulphur, Oklahoma, as of June 30, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant, agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that budgetary comparison information on pages 29 through 31 be presented to supplement the basic financial statements. Such 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 the financial reporting. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City of Sulphur had not presented Managements' Discussion and Analysis that governmental 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 (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational economic or historical context. Our opinion on the financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Sulphur's financial statements as a whole. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is also not a required part of the financial statements. The combining and individual non-major fund financial statements and the Schedule of Expenditure of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Wilson, Dotson & Associates

Wilson, Dotson & Associates, P.L.L.C.

CITY OF SULPHUR
STATEMENT OF NET ASSETS
JUNE 30, 2012

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and investments			
Cash and cash equivalents	\$ 2,094,413	3,054,367	5,148,780
Investments, at cost	775,000	615,861	1,390,861
Receivables			
Accounts receivable	439,315	509,974	949,289
CAPITAL ASSETS			
Depreciable buildings, property and equipment net of depreciation	4,268,244	-	4,268,244
Depreciable buildings, property and equipment	-	25,208,988	25,208,988
TOTAL ASSETS	\$ 7,576,972	29,389,190	36,966,162
LIABILITIES			
Accounts payable	\$ 48,764	3,656	52,420
Accrued compensated absences	65,465	32,167	97,632
Deferred revenue	-	247,698	247,698
Reserve for depositors	-	251,984	251,984
Interest payable	-	113,992	113,992
Notes payable	-	9,181,357	9,181,357
Total Liabilities	114,229	9,830,854	9,945,083
NET ASSETS			
Invested in capital assets, net of related debt	4,268,244	16,027,631	20,295,875
Restricted	1,573,287	-	1,573,287
Unassigned	1,621,212	3,530,705	5,151,917
	\$ 7,462,743	19,558,336	27,021,079

The accompanying notes to the financial statements are an integral part of these financial statements

CITY OF SULPHUR
STATEMENT OF NET ASSETS
JUNE 30, 2011

PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
			ASSETS
\$ 1,824,999	2,526,799	4,351,798	Cash and investments
775,000	616,413	1,391,413	Cash and cash equivalents
			Investments, at cost
308,695	1,193,781	1,502,476	Receivables
			Accounts receivable
			CAPITAL ASSETS
3,987,570	-	3,987,570	Depreciable buildings, property and equipment net of depreciation
-	23,789,762	23,789,762	Depreciable buildings, property and equipment
<u>\$ 6,896,264</u>	<u>28,126,755</u>	<u>35,023,019</u>	TOTAL ASSETS
			LIABILITIES
\$ 60,490	754,820	815,310	Accounts payable
65,465	32,167	97,632	Accrued compensated absences
-	315,796	315,796	Deferred revenue
-	238,314	238,314	Reserve for depositors
-	67,430	67,430	Interest payable
-	8,420,693	8,420,693	Notes payable
<u>125,955</u>	<u>9,829,220</u>	<u>9,955,175</u>	Total Liabilities
			NET ASSETS
3,987,570	15,369,069	19,356,639	Invested in capital assets, net of related debt
1,458,528	-	1,458,528	Restricted
<u>1,324,211</u>	<u>2,928,466</u>	<u>4,252,677</u>	Unassigned
<u>\$ 6,770,309</u>	<u>18,297,535</u>	<u>25,067,844</u>	

The accompanying notes to the financial statements are an integral part of these financial statements

CITY OF SULPHUR
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
General government	\$ 494,218	1,697	-	140,508	(352,013)
Public safety and judiciary	1,257,582	80,000	-	-	(1,177,582)
Highway, roads and airport	119,163	-	-	-	(119,163)
Cultural, parks and recreation	43,544	-	-	-	(43,544)
Total governmental activities	1,914,507	81,697	-	140,508	(1,692,302)
Unallocated Depreciation	330,642	-	-	-	(330,642)
Total Governmental Activities	2,245,149	81,697	-	140,508	(2,022,944)
Business-Type Activities:					
General administration	499,690	-	-	-	(499,690)
Water & sewer service	577,554	2,105,826	-	-	1,528,272
Wastewater	325,829	-	-	-	(325,829)
Water plant	75,006	-	-	-	(75,006)
Maintenance	35,559	-	-	-	(35,559)
Sanitation service	636,519	806,831	-	-	170,312
Total business-type activities	2,150,157	2,912,657	-	-	762,500
Totals	\$ 4,395,306	2,994,354	-	140,508	(1,260,444)

	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Net (Expense)/Revenue	\$ (2,022,944)	762,500	(1,260,444)
General Revenues			
Taxes:			
Sales tax	2,113,433	420,246	2,533,679
All other taxes	388,170	-	388,170
Intergovernmental	38,679	-	38,679
Licenses and permits	5,670	-	5,670
Investment earnings	13,327	7,245	20,572
Miscellaneous	98,802	70,810	169,612
In lieu of taxes	57,297	-	57,297
Total general revenues and transfers	2,715,378	498,301	3,213,679
Change in Net Assets	692,434	1,260,801	1,953,235
Net Assets-beginning of year	6,770,309	18,297,535	25,067,844
Net Assets-end of year	\$ 7,462,743	19,558,336	27,021,079

The accompanying notes to the financial statements are an integral part of these financial statements

CITY OF SULPHUR
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011

EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUE	FUNCTIONS/PROGRAMS
	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS		
\$ 623,459	26,483	-	-	(596,976)	Governmental Activities:
1,117,242	50,000	-	-	(1,067,242)	General government
128,598	-	-	-	(128,598)	Public safety and judiciary
174,439	-	-	-	(174,439)	Highway, roads and airport
<u>2,043,738</u>	<u>76,483</u>	<u>-</u>	<u>-</u>	<u>(1,967,255)</u>	Cultural, parks and recreation
					Total governmental activities
301,588	-	-	-	(301,588)	Unallocated Depreciation
<u>2,345,326</u>	<u>76,483</u>	<u>-</u>	<u>-</u>	<u>(2,268,843)</u>	Total Governmental Activities
					Business-Type Activities:
433,066	-	-	-	(433,066)	General administration
549,231	2,121,750	149,989	-	1,722,508	Water & sewer service
227,640	-	-	-	(227,640)	Wastewater
66,195	-	-	-	(66,195)	Water plant
30,740	-	-	-	(30,740)	Maintenance
591,709	754,380	-	-	162,671	Sanitation service
<u>1,898,581</u>	<u>2,876,130</u>	<u>149,989</u>	<u>-</u>	<u>1,127,538</u>	Total business-type activities
\$ <u>4,243,907</u>	<u>2,952,613</u>	<u>149,989</u>	<u>-</u>	<u>(1,141,305)</u>	Totals

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
\$ (2,268,843)	1,127,538	(1,141,305)	Net (Expense)/Revenue
			General Revenues
			Taxes:
1,881,166	352,225	2,233,391	Sales tax
198,499	-	198,499	Franchise taxes
209,582	-	209,582	Intergovernmental
26,670	-	26,670	Licenses and permits
18,285	12,743	31,028	Investment earnings
219,434	95,239	314,673	Miscellaneous
56,459	-	56,459	In lieu of taxes
<u>2,610,095</u>	<u>460,207</u>	<u>3,070,302</u>	Total general revenues and transfers
341,252	1,587,745	1,928,997	Change in Net Assets
<u>6,429,057</u>	<u>16,709,790</u>	<u>23,138,847</u>	Net Assets-beginning of year
\$ <u>6,770,309</u>	<u>18,297,535</u>	<u>25,067,844</u>	Net Assets-end of year

The accompanying notes to the financial statements are an integral part of these financial statements

CITY OF SULPHUR
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	GENERAL FUND	1/6 SALES TAX FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
ASSETS				
Cash and investments				
Cash & cash equivalents	\$ 907,921	1,053,018	133,474	2,094,413
Investments	475,000	300,000	-	775,000
Receivables				
Accounts receivable	<u>350,958</u>	<u>84,691</u>	<u>3,666</u>	<u>439,315</u>
TOTAL ASSETS	<u>\$ 1,733,879</u>	<u>1,437,709</u>	<u>137,140</u>	<u>3,308,728</u>
LIABILITIES				
Accounts payable	<u>47,202</u>	<u>1,173</u>	<u>389</u>	<u>48,764</u>
Total Liabilities	<u>47,202</u>	<u>1,173</u>	<u>389</u>	<u>48,764</u>
FUND EQUITY				
Cash fund balances				
Restricted	-	1,436,536	136,751	1,573,287
Unassigned	<u>1,686,677</u>	<u>-</u>	<u>-</u>	<u>1,686,677</u>
Total Fund Equity	<u>1,686,677</u>	<u>1,436,536</u>	<u>136,751</u>	<u>3,259,964</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,733,879</u>	<u>1,437,709</u>	<u>137,140</u>	<u>3,308,728</u>

The accompanying notes to the financial statements are an integral part of these financial statements

CITY OF SULPHUR
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENTS OF NET ASSETS
JUNE 30, 2012

Total Fund Balances - Total Governmental Funds \$ 3,259,964

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

Compensated absences are not reported in the funds (65,465)

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Depreciable buildings, property and equipment, net of depreciation 4,268,244

Net Assets of Governmental Activities \$ 7,462,743

The accompanying notes to the financial statements are an integral part of these financial statements

CITY OF SULPHUR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

	GENERAL FUND	1/6 SALES TAX FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
REVENUES				
Charges for services	\$ 1,697	-	-	1,697
Licenses and permits	5,670	-	-	5,670
Interest	10,379	2,710	238	13,327
Franchise fees	210,136	-	-	210,136
Fines and forfeitures	80,000	-	-	80,000
Sales tax	1,693,187	420,246	-	2,113,433
Use tax	107,821	-	-	107,821
Alcoholic beverage tax	34,932	-	-	34,932
Cigarette tax	35,281	-	-	35,281
Intergovernmental	140,508	-	38,679	179,187
Lot sales	13,002	-	-	13,002
In lieu of taxes	57,297	-	-	57,297
Miscellaneous revenue	66,517	-	19,283	85,800
Total Revenues	<u>2,456,427</u>	<u>422,956</u>	<u>58,200</u>	<u>2,937,583</u>
EXPENDITURES				
Current				
General government	494,218	-	-	494,218
Public safety	1,257,582	-	-	1,257,582
Highways, roads and airport	100,002	19,161	-	119,163
Cultural and recreational	36,958	-	6,586	43,544
Capital outlay	270,666	340,650	-	611,316
Total Expenditures	<u>2,159,426</u>	<u>359,811</u>	<u>6,586</u>	<u>2,525,823</u>
Excess of revenues over (under) expenditures	297,001	63,145	51,614	411,760
Fund Balance - beginning of year	<u>1,389,676</u>	<u>1,373,391</u>	<u>85,137</u>	<u>2,848,204</u>
Fund Balance - end of year	<u>\$ 1,686,677</u>	<u>1,436,536</u>	<u>136,751</u>	<u>3,259,964</u>

The accompanying notes to the financial statements are an integral part of these financial statements

CITY OF SULPHUR
 RECONCILIATION OF THE GOVERNMENT FUNDS STATEMENTS OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES
 IN NET ASSETS
 YEAR ENDED JUNE 30, 2012

Net Change in Fund Balances - Total Governmental Funds	\$	411,760
Amount reported for governmental activities in the Statement of Activities are different because:		
Governmental Funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		611,316
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in Governmental Funds		<u>(330,642)</u>
Change in Net Assets of Governmental Activities	\$	<u>692,434</u>

The accompanying notes to the financial statements are an integral part of these financial statements

CITY OF SULPHUR
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2012 AND 2011

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	
	MUNICIPAL AUTHORITY	
	2012	2011
ASSETS		
Cash and investments		
Cash & cash equivalents	\$ 3,054,367	2,526,799
Investments	615,861	616,413
Receivables		
Accounts receivable	509,974	1,193,781
 CAPITAL ASSETS		
Depreciable buildings, property and equipment	<u>25,208,988</u>	<u>23,789,762</u>
TOTAL ASSETS	<u>\$ 29,389,190</u>	<u>28,126,755</u>
 LIABILITIES		
Accounts payable	\$ 3,656	754,820
Accrued interest payable	113,992	67,430
Accrued compensated absences	32,167	32,167
Deferred revenue	247,698	315,796
Reserve for depositors	251,984	238,314
Notes payable	<u>9,181,357</u>	<u>8,420,693</u>
Total Liabilities	<u>9,830,854</u>	<u>9,829,220</u>
 NET ASSETS		
Retained earnings:		
Invested in capital assets, net of related debt	16,027,631	15,369,069
Unassigned	<u>3,530,705</u>	<u>2,928,466</u>
TOTAL NET ASSETS	<u>\$ 19,558,336</u>	<u>18,297,535</u>

The accompanying notes to the financial statements are an integral part of these financial statements

CITY OF SULPHUR
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2012 AND 2011

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	
	MUNICIPAL AUTHORITY	
	2012	2011
REVENUES		
Water revenue	\$ 1,115,382	1,154,003
Sewer revenue	990,444	967,747
Sanitation revenue	806,831	754,380
Other revenue	70,810	95,239
Total Revenues	2,983,467	2,971,369
UTILITY OPERATIONS EXPENSE		
General administration	499,690	433,066
Water & sewer service	320,259	383,255
Wastewater	325,829	227,640
Water plant	75,006	66,195
Maintenance	35,559	30,740
Sanitation service	636,519	591,709
Total Utility Operations Expense	1,892,862	1,732,605
INCOME BEFORE NON-OPERATING REVENUES EXPENSES AND TRANSFERS	1,090,605	1,238,764
Non-operating revenues (expenses)		
Interest revenue	7,245	12,743
Sales tax	420,246	352,225
Interest expense	(257,295)	(165,976)
Grant	-	149,989
Total non-operating revenues (expenses)	170,196	348,981
NET INCOME	1,260,801	1,587,745
RETAINED EARNINGS, BEGINNING OF THE YEAR	18,297,535	16,709,790
RETAINED EARNINGS, END OF THE YEAR	\$ 19,558,336	18,297,535

The accompanying notes to the financial statements are an integral part of these financial statements

CITY OF SULPHUR
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEARS ENDED JUNE 30, 2012 AND 2011

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	
	MUNICIPAL AUTHORITY	
	2012	2011
Cash flows from operating activities:		
Cash received from customers & service users	\$ 3,667,274	2,251,130
Cash payments for goods & services & employees	<u>(2,651,892)</u>	<u>(1,223,193)</u>
Net cash provided by operating activities	<u>1,015,382</u>	<u>1,027,937</u>
Cash flows from noncapital financing activities:		
Sales tax	420,246	352,225
Operating transfers out to other funds	<u>-</u>	<u>-</u>
Net cash provided (used) for noncapital financing activities	<u>420,246</u>	<u>352,225</u>
Cash flows from capital and related financing activities:		
Acquisition & construction of capital assets	(1,419,226)	(7,200,149)
Principal paid on debt	(504,158)	(819,546)
Interest paid on debt	(257,295)	(165,976)
Note proceeds	1,264,822	6,873,251
Grant	<u>-</u>	<u>149,989</u>
Net cash provided (used) for capital & related financing activities	<u>(915,857)</u>	<u>(1,162,431)</u>
Cash flows from investing activities:		
(Purchase) liquidation of investments	552	187
Interest on investments	<u>7,245</u>	<u>12,743</u>
Net cash provided by investing activities	<u>7,797</u>	<u>12,930</u>
Net increase (decrease) in cash & cash equivalents	527,568	230,661
Cash & cash equivalents - beginning of year	<u>2,526,799</u>	<u>2,296,138</u>
Cash & cash equivalents - end of year	<u>\$ 3,054,367</u>	<u>2,526,799</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 1,090,605</u>	<u>1,238,764</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	683,807	(720,239)
Increase (decrease) in accounts payable	(751,164)	592,165
Increase (decrease) in accrued interest payable	46,562	46,450
Increase (decrease) in deferred revenue	(68,098)	(135,658)
Increase (decrease) in reserve for depositors	<u>13,670</u>	<u>6,455</u>
Total adjustments	<u>(75,223)</u>	<u>(210,827)</u>
Net cash provided by operating activities	<u>\$ 1,015,382</u>	<u>1,027,937</u>

The accompanying notes to the financial statements are an integral part of these financial statements

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Sulphur, Oklahoma (the City) 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). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

The City of Sulphur, Oklahoma is organized under the statutes of the State of Oklahoma. The City operates under a council form of government and is governed by a five-member board of commissioners. The commissioners elect the mayor from their own body. The city provides the following services as authorized by its charter: general government, public safety (fire and police), streets, public works (electric, water, sewer, and refuse), judicial, health and social services, culture, parks and recreation, public improvements, planning and zoning, and low income apartment rentals for the geographical area organized as the City of Sulphur, Oklahoma.

As required by accounting principles generally accepted in the United States of America, these financial statements present the activities of the City and its component units and trusts, entities for which the City is considered to be financially accountable. Blended component units and trusts, although legally separate entities are, in substance, part of the City's operations and so data from these units are combined with the data of the primary government.

Blended Component Units/Trusts:

The Sulphur Municipal Authority (SMA) was created pursuant to a Trust Indenture, for the benefit of the City of Sulphur, Oklahoma. SMA was established to acquire, construct, develop, equip, operate, maintain, repair, enlarge and remodel water, sewer, and facilities for the City of Sulphur. The water, sanitary sewer, electricity, and solid waste disposal systems owned by the City have been leased to SMA until such date that all indebtedness of the Authority is retired or provided for. SMA is a public trust and an agency of the State of Oklahoma under Title 60, Oklahoma Statutes

1991, Section 176, et seq., and is governed by a board consisting of five trustees identical with the City Council. SMA is exempt from State and Federal Income taxes. SMA is reported as an enterprise fund.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information. Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except fiduciary funds. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on program revenues are presented as general revenues of the city, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

Fund Accounting – The accounts of the city are organized and operated on the basis of funds. A fund is an independent fiscal accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. There are three categories of funds: governmental, proprietary and fiduciary.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

Governmental Funds – are used to account for the government’s general government activities. Governmental fund types use the flow of current financial resources measurement focus and the accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Sales taxes, gasoline excise taxes and motor vehicle taxes collected and held by the state and county at year-end on behalf of the City are susceptible to accrual and are recognized as revenue. Other receipts and taxes (franchise taxes, licenses, etc.) become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The following are the City’s major governmental funds:

General Fund – is the general operating fund of the City. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

One Sixth Sales Tax Fund – is a special revenue fund that accounts revenue and expenditures related to the one sixth sales tax collected.

Other governmental funds of the City that are considered non-major funds include:

Special Revenue Funds – account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects). The following are the City’s Special Revenue Funds: Street and Alley, Library Cash, Cemetery Cash, and Airport Grant.

Capital Project Funds – accounts for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or non-expendable trust funds. Capital Project Funds of the city include the Community Development Block Grant. The City did not have any projects in the current fiscal year.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting (Continued)

The following are the City's major governmental funds:

Proprietary Funds – are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 20 the city has elected to only apply Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and Accounting Research Board (ARB) materials issued on or before November 30, 1989 that do not conflict with GASB. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds – are used to account for those operations that are financed and operated in a manner similar to private business where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the governing body has decided that the determination of revenues earned, costs incurred and/or net income is necessary for capital maintenance, public policy or management accountability. The following is the City's major enterprise fund:

Sulphur Municipal Authority – accounts for the operations of providing public works (water, sewer, and refuse) to the City.

Fiduciary Funds – account for assets held by the government in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the government under the terms of a formal trust agreement. Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity. The City's only fiduciary funds are agency funds that are composed of customer deposit funds.

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize the City to invest in certificates of deposits, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the City can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

For financial statement presentation and for purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with maturity date of three months or less. Debt instruments with a maturity date of more than three months from date of issue are considered to be investments.

2. Fair Value of Financial Instruments

The City's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. The City's estimates of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

3. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

4. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due from other/due to other funds".

5. Inventories

Inventories in governmental funds and other funds normally consist of minimal amounts of expendable supplies held for consumption. The cost of such inventories are recorded as expenditures when purchased rather than when consumed.

6. Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by

the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

6. Capital Assets (Continued)

All reported capital assets are depreciated except construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacements. Land has not been included which is a variance from accounting principals generally accepted in the United States of America.

The financial statements of Sulphur Municipal Authority include property and equipment. Depreciation has not charged in prior years. This is a variance from accounting principles generally accepted in the United States of America.

Depreciation is computed using the straight-line method over the following estimated useful lives:

Description	Governmental Activities <u>Estimated Lives</u>	Business-Type Activities <u>Estimated Lives</u>
Buildings	40 - 100 years	40 - 100 years
Furniture, Fixtures and Equipment	10 - 100 years	10 - 100 years
Land Improvements	10 - 100 years	10 - 100 years
Vehicles	5 - 40 years	5 - 40 years
Infrastructure	40 - 100 years	40 - 100 years

The City and the Sulphur Municipal Authority has not maintained accurate capital assets records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation. Documentation supporting historical cost was not readily available for our review. The amount by which this departure would affect the assets, net assets, and expenses of the Governmental and Business-Type Activities is not readily determinable.

7. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation time. Full-time and part time regular employees who have been employed continuously for at least 12 months are granted vacation benefits in varying amounts to specified maximums depending on tenure with the City. The expense and related liability for vested vacation benefits and compensatory time is recorded in the respective funds of the City or component unit.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Assets, Liabilities and Equity (Continued)

8. Long-term Obligations

The accounting and reporting treatment applied to long-term liabilities associated with a fund are determined by its measurement focus. All governmental fund types are accounted for on a spending "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Therefore, long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

9. Net Assets

Reservations of fund balance represent amounts that are legally restricted for a specific purpose. Reservations of retained earnings are limited to outside third party restrictions. Designations of fund balance represent tentative management plans that are subject to change. The proprietary funds contributed capital represents equity acquired through capital grants and capital contributions from developers, customers or other funds.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United State of America (GAAP) for all governmental funds. The enterprise funds and internal service fund adopt budgets on the non-GAAP basis wherein service fees, bond and note proceeds are recognized as revenue, principal payments on debt and capital expenditures are recognized as expenses, and depreciation expense is not budgeted. Annual appropriated budgets are not adopted for the agency funds. Budgetary data for enterprise funds, internal service, and permanent funds are not presented in these financial statements.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgetary Information (Continued)

Prior to July 1, the City Manger (not an elected official) submits a proposed operating budget for the fiscal year commencing July 1, to the Commissioners (elected officials). Public hearings are held at regular or special meetings to obtain taxpayer input. Prior to July 1, the budget is legally enacted through passage of a budget resolution. The operating budget, for all budgeted fund, includes proposed expenditures and the means of financing. Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, maintenance and operations, capital outlay, transfers, and debt service. This constitutes the legal level of control. Expenditures may not exceed appropriation at this level. All budget revisions at the legal level are subject to final approval by the City Council. Within these control levels, management may transfer appropriations without council approval. Revisions to the budget were made during the year in accordance with the provisions of the Oklahoma Statutes. All annual appropriations lapse at year-end.

The City uses encumbrance accounting. Encumbrances are recorded when purchase orders are issued but generally are not considered expenditures until liabilities for payments are incurred. At year-end, open purchase orders are reviewed and payments are made on those where the receipt of goods and services is eminent.

3. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments

Custodial Credit Risk

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

The City's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100 percent of the uninsured deposits and accrued interest thereon. The investment policy and state law also limits acceptable collateral to U.S. Treasury and agency securities and direct obligations of the state, municipalities, counties, and school City s in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 2 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

A. Deposits and Investments (Continued)

At June 30, 2012 the City held deposits of approximately \$5,202,952 and investments of \$1,399,861 at financial institutions. The City's cash deposits, including interest-bearing accounts, and investments are entirely covered by Federal Depository Insurance (FDIC) or direct obligations of the U.S. Government insured or collateralized with securities held by the City or by its agent in the City's name. Therefore, the City was not exposed to custodial credit risk as defined above.

Investment Credit Risk

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investment in:

1. Direct obligations of the U.S. government, its agencies and 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.
2. Certificates of deposit of banks when such certificates of deposits are secured by acceptable collateral for the deposit of public monies.
3. Savings accounts or saving certificates to the extent that such accounts or certificates are fully insured by the United States government.
4. Repurchase agreements that have underlying collateral including obligations of the United States government, its agencies and instrumentalities, or the State of Oklahoma.
5. County, municipal or school City debt obligations for which an ad valorem tax may be levied.
6. Money market funds regulated by the SEC and in which investments consist of the investments of obligations of the United States, its agencies and instrumentalities.
7. Warrants, bonds or judgments of the school or City.
8. Qualified pooled investment programs through an interlocal cooperative agreement formed pursuant to applicable law and to which the board of education has voted to be a member, the investments of which consist of those items specified in paragraphs 1 through 7 above, as well as obligations of the United States agencies and instrumentalities.
9. Any other investment that is authorized by law.

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City has no formal policy limiting investments based on credit rating. Unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

3. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments (Continued)

The City had no investment credit risk as of June 30, 2012, as defined above.

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 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. The City had no investment interest rate risk as defined above.

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. 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 places no limit on the amount it may invest in any one issuer.

At June 30, 2012, the City had 100% concentration of credit risk as defined above.

Concentration of Investment Credit Risk (Continued)

<u>Type</u>	<u>Credit Rating</u>	<u>Market Value</u>	<u>Cost</u>
Investments			
Certificate of Deposits	n/a	<u>\$ 1,390,861</u>	<u>\$ 1,390,861</u>
Total Investments		<u>1,390,861</u>	<u>1,390,861</u>
Reconciliation to Statement of Net Assets			
Governmental activities		\$ 775,000	
Business activities		<u>615,861</u>	
		<u>\$ 1,390,861</u>	

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

B. Capital Assets

Primary Governmental Government capital asset activity for the year end is as follows:

Governmental Activities:	Beginning Balance	Additions	Ending Balance
Buildings	\$ 1,716,939	-	1,716,939
Infrastructure	2,465,319	481,158	2,946,477
Equipment	2,599,404	130,158	2,729,562
Other	92,191	-	92,191
	<u>6,873,853</u>	<u>611,316</u>	<u>7,485,169</u>
Less: Accumulated depreciation	<u>(2,886,283)</u>	<u>(330,642)</u>	<u>(3,216,925)</u>
Total	<u>\$ 3,987,570</u>	<u>280,674</u>	<u>4,268,244</u>

Depreciation expense was charged to unallocated depreciation and not charged as a direct expense.

C. Long-term Debt

The City's long-term debt is detailed as follows:

	Date of Last Maturity	Original Amount	Balance Outstanding 7/1/2011	Issued	Retired	Balance Outstanding 6/30/2012
Sulphur Municipal Authority						
Notes payable						
Utility system (Interest @3.55%)	3/15/2007	1,750,000	1,588,889	-	71,484	1,517,405
Utility system (Interest @2.73%)	12/4/2009	10,200,000	<u>6,903,288</u>	<u>1,264,822</u>	<u>432,373</u>	<u>7,735,737</u>
Total			<u>\$ 8,492,177</u>	<u>1,264,822</u>	<u>503,857</u>	<u>9,253,142</u>

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

C. Long-term Debt (Continued)

The annual estimated debt service requirements to maturity, including principal and interest, for long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 393,657	262,227	655,884
2014	405,128	250,756	655,884
2015	416,938	238,946	655,884
2016	429,097	266,787	695,884
2017	441,614	214,270	655,884
2018-22	2,409,184	870,237	3,279,421
2023-27	2,782,616	496,805	3,279,421
2028-31	1,974,908	123,223	2,098,131
Total	<u>\$ 9,253,142</u>	<u>2,723,251</u>	<u>11,976,393</u>

Principal, redemption premium, and interest on SMA debt are payable from the gross revenues of the water, sanitary sewer and solid waste disposal systems, and from other funds established by the bond indentures.

4. AUTHORITIES

A. Sulphur Municipal Authority (A Blended Component Unit)

UTILITY OPERATIONS:

The operations of the utility departments of the City (water, sewer and refuse) were transferred to the Sulphur Municipal Authority. The Municipal Authority provides utility services for its customers including the City of Sulphur and its related departments.

NOTES PAYABLE:

In 2007, the SMA issued a note payable in the amount of \$1,750,000 to the Oklahoma Water Resources Board. The proceeds of the note were used to complete the water system improvements. Principal and interest payments are due on March 15 and September 15 of each year for a period of 20 years at an interest rate of 3.55%. The gross utility revenues of the SMA have been pledged to secure the note.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

4. AUTHORITIES (Continued)

A. Sulphur Municipal Authority (A Blended Component Unit) (Continued)

In 2009, the SMA issued a note payable in the amount of \$10,200,000 to the Oklahoma Water Resources Board. The proceeds of the note were used to complete the water system improvements. Principal and interest payments are due on March 15 and September 15 of each year for a period of 20 years at an interest rate of 2.23%. The gross utility revenues of the SMA have been pledged to secure the note.

5. OTHER INFORMATION

A. Employment Retirement Systems and Pension Plans

The City of Sulphur participates in the Oklahoma State Police Pension and Retirement Systems and the Oklahoma State Firefighters' Pension and Retirement System, both of which are cost sharing multiple-employer defined benefit pension plans administered by the State of Oklahoma. Copies of the State of Oklahoma sponsored multiple employer plans and schedule of funding progress are available for each Plan. The State of Oklahoma is responsible for any funding deficiencies.

Oklahoma State Police Pension and Retirement System (OPPRS)

Plan Description – The OPPRS provides retirement and disability benefits, annual cost-of living adjustments and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions are delegated to the administrators of the OPPRS issues a publicly available financial report that includes financial statements and required supplementary information for the police employees of the City. That report may be obtained by writing the Oklahoma State Police Pension and Retirement System, 1001 NW 63rd Street, Suite 305, Oklahoma City, Oklahoma 73116-7335 or by calling (405) 840-3555.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City contributes 13.0% of the annual covered payroll. The contribution requirements of plan members and the City are established by the state legislature. Contributions to OPPRS for the years ended June 30, 2012 for employees and employer were \$22,804 and \$37,057, respectively, on covered payroll of \$285,052.

The required employer contributions and actual employer contributions made to OPPRS for the current and past two fiscal years are as follows:

<u>Fiscal year</u>	<u>Required</u>	<u>Contributed</u>
2011-2012	\$37,057	\$37,057
2010-2011	37,224	37,224
2009-2010	37,174	37,174

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

5. OTHER INFORMATION (Continued)

A. Employment Retirement Systems and Pension Plans (Continued)

Oklahoma State Firefighters' Pension and Retirement System (OPPRS)

Plan Description – The OFPRS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The ability to establish and amend benefit provisions is delegated to the administrators of the OFPRS. The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information for the firefighting employees of the City. That report may be obtained by writing the Oklahoma State Firefighter's Pension and Retirement System, 4545 North Lincoln Boulevard, Suite 265, Oklahoma City, Oklahoma 73105-3414 or by calling (405) 525-7813.

Funding Policy – Plan members are required to contribute 8.0% of their annual covered salary, and the City contributes 13.0% of the annual covered payroll. The contribution requirements of plan members and the City are established by the state legislature. Contributions to OFPRS for the year ended June 30, 2012 for employees and employer were \$25,556 and \$41,529, respectively, on covered payroll of \$319,451.

The required employer contributions and actual employer contributions made to OFPRS for the current and past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Required</u>	<u>Contributed</u>
2011-2012	\$41,529	\$41,529
2010-2011	37,815	37,815
2009-2010	34,147	34,147

Oklahoma Municipal Retirement Fund Defined Contribution Plan (The Plan)

Plan Description – The city has also provided a defined contribution plan and trust known as the City of Sulphur Plan and Trust (the Plan) in the form of the Oklahoma Municipal Retirement Fund Master Defined Contribution Plan (OMRF). The Plan is administered by JP Morgan Chase Bank of Oklahoma City, Oklahoma. The defined contribution is available to all full-time employees except those participating in the State of Oklahoma fire or police program. The Oklahoma Municipal Retirement Fund issues a publicly available financial report that includes financial statements and required supplementary information for the fund. That report may be obtained by writing to Oklahoma Municipal Retirement Fund, 525 Central Park, Oklahoma City, OK 73105

OMRF operations are supervised by a nine member Board of Trustees elected by the participating municipalities. Benefits depend solely on amount contributed to the Plan plus investment earnings.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2012**

5. OTHER INFORMATION (Continued)

A. Employment Retirement Systems and Pension Plans (Continued)

Funding Policy – Benefits depend solely on amounts contributed to the Plan plus investment earnings. Employees are eligible to participate upon completing six months of employment, and must make a mandatory minimum pre-tax contribution. The City was required to make a 9.7% contribution to the Plan. The employee is fully vested after 5 years of services. All forfeitures for the Plan are applied to future City contributions. Contributions to the Plan for the year ended June 30, 2012 for employees and employer were \$46,888 and \$135,320 respectively, on the covered payroll of \$1,116,767.

The required employer contributions and actual employer contributions made to OMRP for the current and past two fiscal years are as follows:

<u>Fiscal year</u>	<u>Required</u>	<u>Contributed</u>
2011-2012	\$135,320	\$135,320
2010-2011	127,837	127,837
2009-2010	119,414	119,414

CITY OF SULPHUR
Sulphur, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2012

CITY OF SULPHUR
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL GOVERNMENTAL FUNDS
Year Ended June 30, 2012

GENERAL FUND

	Original	Final	Actual	Variance with Final Budget Over (Under)
Revenues				
Charges for services	\$ 4,200	4,200	1,697	(2,503)
Licenses & permits	16,600	16,600	5,670	(10,930)
Interest	8,500	8,500	10,379	1,879
Franchise fees	200,000	200,000	210,136	10,136
Fines and forfeitures	80,000	80,000	80,000	-
Sales tax	1,300,000	1,300,000	1,586,245	286,245
Use tax	80,000	80,000	107,821	27,821
Alcoholic beverage tax	27,000	27,000	34,932	7,932
Cigarette tax	25,000	25,000	35,281	10,281
Airport grant	-	-	140,508	140,508
Lot sales	17,000	17,000	13,002	(3,998)
In lieu of taxes	55,000	55,000	57,297	2,297
Miscellaneous	28,150	28,150	66,517	38,367
Total revenues	<u>1,841,450</u>	<u>1,841,450</u>	<u>2,349,485</u>	<u>508,035</u>
Expenditures:				
Current				
General government				
Administration	50,052	50,052	48,448	1,604
City Clerk and clerks	74,201	74,201	65,928	8,273
Attorney	13,107	13,107	13,179	(72)
Judge	9,565	9,565	9,335	230
General government	401,404	401,404	203,934	197,470
Treasurer	10,925	10,925	10,873	52
Grounds maintenance	158,848	158,848	142,521	16,327
Public safety				
Police	729,109	729,109	700,135	28,974
Fire	603,385	603,385	557,249	46,136
Office of emergency management	884	884	198	686
Highways, roads, & airport				
Streets	120,442	120,442	100,002	20,440
Cultural & recreational				
Cemetery	53,718	53,718	36,951	16,767
Capital outlay	146,715	146,715	270,666	(123,951)
Total expenditures	<u>2,372,355</u>	<u>2,372,355</u>	<u>2,159,419</u>	<u>212,936</u>
Excess of revenues over (under) expenditures	(530,905)	(530,905)	190,066	720,971
Fund balance at beginning of year	<u>530,905</u>	<u>530,905</u>	<u>1,145,653</u>	<u>614,748</u>
Fund balance at end of year	<u>\$ -</u>	<u>-</u>	<u>1,335,719</u>	<u>1,335,719</u>
Reconciliation to GAAP Basis				
Accounts Receivable			<u>350,958</u>	
Fund Balance at the end of year, GAAP Basis			<u>\$ 1,686,677</u>	

CITY OF SULPHUR
 REQUIRED SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL GOVERNMENTAL FUNDS
 Year Ended June 30, 2012

SPECIAL REVENUE FUNDS

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues				
Intergovernmental	\$ 40,500	40,500	35,206	(5,294)
Interest	375	375	96	(279)
Miscellaneous	<u>18,000</u>	<u>18,000</u>	<u>19,083</u>	<u>1,083</u>
Total revenues	<u>58,875</u>	<u>58,875</u>	<u>54,385</u>	<u>(4,490)</u>
Expenditures:				
Cultural & recreational	10,600	10,600	6,583	
Capital outlay	<u>30,000</u>	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Total expenditures	<u>40,600</u>	<u>40,600</u>	<u>6,583</u>	<u>30,000</u>
Net changes in fund balance	18,275	18,275	47,802	25,510
Fund balance at beginning of year	<u>-</u>	<u>-</u>	<u>85,137</u>	<u>85,137</u>
Fund balance at end of year	<u>\$ 18,275</u>	<u>18,275</u>	<u>132,939</u>	<u>110,647</u>

CITY OF SULPHUR
 REQUIRED SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (GAAP BUDGETARY BASIS) AND ACTUAL GOVERNMENTAL FUNDS
 Year Ended June 30, 2012

CAPITAL PROJECTS FUND

	Original	Final	Actual	Variance with Final Budget Over (Under)
Revenues				
Sales tax	\$ 300,000	300,000	396,561	96,561
Interest	4,000	4,000	2,710	(1,290)
Total revenues	304,000	304,000	399,271	95,271
Expenditures:				
Current				
Highways, roads, & airport	20,000	20,000	19,161	839
Capital outlay	440,000	440,000	340,650	99,350
Total expenditures	460,000	460,000	359,811	100,189
Net changes in fund balance	(156,000)	(156,000)	39,460	195,460
Fund balance at beginning of year	156,000	156,000	1,312,385	1,156,385
Fund balance at end of year	\$ -	-	1,351,845	1,351,845
Adjustments to GAAP Basis				
Accounts Receivable			84,691	
Fund balance at the end of year GAAP Basis			\$ 1,436,536	

CITY OF SULPHUR
Sulphur, Oklahoma

SUPPLEMENTAL INFORMATION
June 30, 2012

CITY OF SULPHUR
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2012

	<u>STREET CASH</u>	<u>LIBRARY CASH</u>	<u>CEMETERY CASH</u>	<u>AIRPORT GRANT</u>	<u>CDBG SEWER</u>	<u>TOTAL NON-MAJOR GOVERNMENTAL FUNDS</u>
<u>ASSETS</u>						
Cash	\$ 68,799	16,026	48,647	1	1	133,474
Accounts receivable	<u>3,666</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,666</u>
Total Assets	<u>\$ 72,465</u>	<u>16,026</u>	<u>48,647</u>	<u>1</u>	<u>1</u>	<u>137,140</u>
<u>LIABILITIES AND FUND EQUITY</u>						
Liabilities						
Accounts payable	<u>\$ -</u>	<u>389</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>389</u>
Fund Equity						
Fund balance:						
Restricted	<u>72,465</u>	<u>15,637</u>	<u>48,647</u>	<u>1</u>	<u>1</u>	<u>136,751</u>
Total fund equity	<u>72,465</u>	<u>15,637</u>	<u>48,647</u>	<u>1</u>	<u>1</u>	<u>136,751</u>
Total Liabilities and Fund Equity	<u>\$ 72,465</u>	<u>16,026</u>	<u>48,647</u>	<u>1</u>	<u>1</u>	<u>137,140</u>

CITY OF SULPHUR
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2012

	STREET CASH	LIBRARY CASH	CEMETERY CASH	AIRPORT GRANT	CDBG SEWER	TOTALS NON-MAJOR GOVERNMENTAL FUNDS
Revenues						
Intergovernmental	\$ 38,679	-	-	-	-	38,679
Interest earnings	73	23	142	-	-	238
Miscellaneous						
Oil and gas royalties	-	6,081	-	-	-	6,081
Lot sales	-	-	13,202	-	-	13,202
Total revenues	<u>38,752</u>	<u>6,104</u>	<u>13,344</u>	<u>-</u>	<u>-</u>	<u>58,200</u>
Expenditures						
Cultural & recreational	-	6,586	-	-	-	6,586
Excess of revenues over (under) expenditures	38,752	(482)	13,344	-	-	51,614
Fund balances, beginning of period	<u>33,713</u>	<u>16,119</u>	<u>35,303</u>	<u>1</u>	<u>1</u>	<u>85,137</u>
Fund balances, end of period	<u>\$ 72,465</u>	<u>15,637</u>	<u>48,647</u>	<u>1</u>	<u>1</u>	<u>136,751</u>

CITY OF SULPHUR
 Sulphur, Oklahoma
 SCHEDULE OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA No.</u>	<u>Grant Number</u>	<u>Current Receipts</u>	<u>Current Expenditures</u>
U.S. Department of Agriculture/ Oklahoma Water Resources Board				
Safe Drinking Water State Revolving Fund	66.468	ORF-09-0030-CW/2787	\$ 1,264,822	1,264,822
U.S Department of Transportation Federal Aviation Administration- Air Improvement Program	20.106		<u>140,508</u>	<u>140,508</u>
Total Awards			<u>\$ 1,405,330</u>	<u>1,405,330</u>

WILSON, DOTSON & ASSOCIATES, P.L.L.C.
Certified Public Accountants

American Institute of Certified Public Accountants

Members

Oklahoma Society of Certified Public Accountants

**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**

June 30, 2013

Honorable Mayor and City Council Members
City of Sulphur
Sulphur, Oklahoma

We have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sulphur, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 30, 2013. The report on governmental, business-type and the discretely presented component unit was qualified because of the lack of fixed asset records and lack of depreciation. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The City did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

City of Sulphur
June 30, 2013

Compliance and Other Matters

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

This report is intended solely for the information and use of management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Wilson, Dotson & Associates".

Wilson, Dotson & Associates, PLLC
Certified Public Accountants

WILSON, DOTSON & ASSOCIATES, P.L.L.C.
Certified Public Accountants

American Institute of Certified Public Accountants

Members
Oklahoma Society of Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

June 30, 2013

Honorable Mayor and City Council Members
City of Sulphur
Sulphur, Oklahoma

Compliance

We have audited the compliance of the City of Sulphur, Oklahoma with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Sulphur's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City of Sulphur, Oklahoma, Oklahoma's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Sulphur, Oklahoma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, City of Sulphur, Oklahoma complied in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

City of Sulphur
June 30, 2013

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Sulphur, Oklahoma's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, others within the entity, federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Wilson, Dotson & Associates

Wilson, Dotson & Associates, PLLC
Certified Public Accountants

**CITY OF SULPHUR
Sulphur, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSE
For the Year Ended June 30, 2012**

None

**CITY OF SULPHUR
Sulphur, Oklahoma**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2012**

None