

**CITY OF SULPHUR
Sulphur, Oklahoma**

**FINANCIAL STATEMENTS
June 30, 2011**

AUDITED BY

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

**CITY OF SULPHUR
Sulphur, Oklahoma**

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**CITY OF SULPHUR
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

January 23, 2012

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, 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, 2011, 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 an opinion 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 opinion.

As discussed more fully 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 and Business-Type Activities are not readily determinable.

As also discussed in Note 1, the City has not included the value of land in its capital assets. The amount by which this departure would affect the assets, net assets and expenses of the Government and Business-Type activities is not readily determinable.

In our opinion, except for the effects, if any, on the financial statements of improper capital asset record and depreciation keeping described in the preceding paragraphs, the government wide and proprietary funds financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities, of the City of Sulphur, Oklahoma, as of June 30, 2011, 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.

City of Sulphur
January 23, 2012

In our opinion, the remaining financial statements referred to above present fairly, in all material respects, the respective financial position of government activities, each major fund, and the aggregate remaining fund information of the City of Sulphur, Oklahoma, as of June 30, 2011, 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. Further, the City of Sulphur, Oklahoma has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2012, 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 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.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City of Sulphur's 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 not a required part of the financial statements. The combining and individual non-major governmental fund statements listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements.

Wilson, Dotson & Associates

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

CITY OF SULPHUR
STATEMENT OF NET ASSETS
JUNE 30, 2011

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and investments			
Cash and cash equivalents	\$ 1,824,999	2,526,799	4,351,798
Investments, at cost	775,000	616,413	1,391,413
Receivables			
Accounts receivable	308,695	1,193,781	1,502,476
CAPITAL ASSETS			
Depreciable buildings, property and equipment net of depreciation	3,987,570	-	3,987,570
Depreciable buildings, property and equipment	-	23,789,762	23,789,762
TOTAL ASSETS	\$ 6,896,264	28,126,755	35,023,019
LIABILITIES			
Accounts payable	\$ 60,490	754,820	815,310
Accrued compensated absences	65,465	32,167	97,632
Deferred revenue	-	315,796	315,796
Reserve for depositors	-	238,314	238,314
Interest payable	-	67,430	67,430
Notes payable	-	8,420,693	8,420,693
Total Liabilities	125,955	9,829,220	9,955,175
NET ASSETS			
Invested in capital assets, net of related debt	-	15,369,069	15,369,069
Restricted	-	-	-
Unassigned	6,770,309	2,928,466	9,698,775
	\$ 6,770,309	18,297,535	25,067,844

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

CITY OF SULPHUR
STATEMENT OF NET ASSETS
JUNE 30, 2010

PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
			ASSETS
			Cash and investments
\$ 1,633,327	2,296,138	3,929,465	Cash and cash equivalents
775,000	616,600	1,391,600	Investments, at cost
			Receivables
322,513	473,542	796,055	Accounts receivable
			CAPITAL ASSETS
			Depreciable buildings, property and equipment net of depreciation
3,827,040	-	3,827,040	Depreciable buildings, property and equipment
-	16,589,613	16,589,613	
<u>\$ 6,557,880</u>	<u>19,975,893</u>	<u>26,533,773</u>	TOTAL ASSETS
			LIABILITIES
\$ 63,358	162,655	226,013	Accounts payable
65,465	32,167	97,632	Accrued compensated absences
-	451,454	451,454	Deferred revenue
-	231,859	231,859	Reserve for depositors
-	20,980	20,980	Interest payable
-	2,366,988	2,366,988	Notes payable
<u>128,823</u>	<u>3,266,103</u>	<u>3,394,926</u>	Total Liabilities
			NET ASSETS
3,827,040	14,438,790	18,265,830	Invested in capital assets, net of related debt
1,242,792	-	1,242,792	Restricted
<u>1,359,225</u>	<u>2,271,000</u>	<u>3,630,225</u>	Unassigned
<u>\$ 6,429,057</u>	<u>16,709,790</u>	<u>23,138,847</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, 2011

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

	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Net (Expense)/Revenue	\$ (2,268,843)	1,127,538	(1,141,305)
General Revenues			
Taxes:			
Sales tax	1,881,166	352,225	2,233,391
Franchise taxes	198,499	-	198,499
Intergovernmental	209,582	-	209,582
Licenses and permits	26,670	-	26,670
Investment earnings	18,285	12,743	31,028
Miscellaneous	219,434	95,239	314,673
In lieu of taxes	56,459	-	56,459
Total general revenues and transfers	<u>2,610,095</u>	<u>460,207</u>	<u>3,070,302</u>
Change in Net Assets	341,252	1,587,745	1,928,997
Net Assets-beginning of year	<u>6,429,057</u>	<u>16,709,790</u>	<u>23,138,847</u>
Net Assets-end of year	<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, 2010

EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUE	FUNCTIONS/PROGRAMS
	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS		
\$ 462,745	24,160	-	217,703	(220,882)	Governmental Activities:
1,071,944	50,000	-	-	(1,021,944)	General government
161,427	-	-	-	(161,427)	Public safety and judiciary
67,917	-	-	-	(67,917)	Highway, roads and airport
<u>1,764,033</u>	<u>74,160</u>	<u>-</u>	<u>217,703</u>	<u>(1,472,170)</u>	Cultural, parks and recreation
					Total governmental activities
295,818	-	-	-	(295,818)	Unallocated Depreciation
<u>2,059,851</u>	<u>74,160</u>	<u>-</u>	<u>217,703</u>	<u>(1,767,988)</u>	Total Governmental Activities
					Business-Type Activities:
442,836	-	-	-	(442,836)	General administration
331,040	952,860	-	-	621,820	Water & sewer service
216,581	955,854	-	-	739,273	Wastewater
65,808	-	-	-	(65,808)	Water plant
34,926	-	-	-	(34,926)	Maintenance
554,750	740,553	-	-	185,803	Sanitation service
<u>1,645,941</u>	<u>2,649,267</u>	<u>-</u>	<u>-</u>	<u>1,003,326</u>	Total business-type activities
<u>\$ 3,705,792</u>	<u>2,723,427</u>	<u>-</u>	<u>217,703</u>	<u>(764,662)</u>	Totals

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	
\$ (1,767,988)	1,003,326	(764,662)	Net (Expense)/Revenue
			General Revenues
			Taxes:
1,802,112	341,018	2,143,130	Sales tax
211,783	-	211,783	Franchise taxes
99,412	1,850,011	1,949,423	Intergovernmental
11,939	-	11,939	Licenses and permits
16,765	11,460	28,225	Investment earnings
135,133	160,839	295,972	Miscellaneous
62,135	-	62,135	In lieu of taxes
<u>2,339,279</u>	<u>2,363,328</u>	<u>4,702,607</u>	Total general revenues and transfers
571,291	3,366,654	3,937,945	Change in Net Assets
<u>5,857,766</u>	<u>13,343,136</u>	<u>19,200,902</u>	Net Assets-beginning of year
<u>\$ 6,429,057</u>	<u>16,709,790</u>	<u>23,138,847</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, 2011

	GENERAL FUND	1/6 SALES TAX FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
ASSETS				
Cash and investments				
Cash & cash equivalents	\$ 719,474	1,022,532	82,993	1,824,999
Investments	475,000	300,000	-	775,000
Receivables				
Accounts receivable	<u>244,023</u>	<u>61,006</u>	<u>3,666</u>	<u>308,695</u>
TOTAL ASSETS	<u>\$ 1,438,497</u>	<u>1,383,538</u>	<u>86,659</u>	<u>2,908,694</u>
LIABILITIES				
Accounts payable	<u>48,821</u>	<u>10,147</u>	<u>1,522</u>	<u>60,490</u>
Total Liabilities	<u>48,821</u>	<u>10,147</u>	<u>1,522</u>	<u>60,490</u>
FUND EQUITY				
Fund balances				
Reserved	-	1,373,391	85,137	1,458,528
Unassigned	<u>1,389,676</u>	<u>-</u>	<u>-</u>	<u>1,389,676</u>
Total Fund Equity	<u>1,389,676</u>	<u>1,373,391</u>	<u>85,137</u>	<u>2,848,204</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 1,438,497</u>	<u>1,383,538</u>	<u>86,659</u>	<u>2,908,694</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, 2011

Total Fund Balances - Total Governmental Funds	\$ 2,848,204
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Amounts reported for governmental activities in the statement of net assets are different because:

Compensated absences are not reported in the funds	(65,465)
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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	<u>3,987,570</u>
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Net Assets of Governmental Activities	<u>\$ 6,770,309</u>
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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, 2011

	GENERAL FUND	1/6 SALES TAX FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
REVENUES				
Charges for services	\$ 26,483	-	-	26,483
Licenses and permits	26,670	-	-	26,670
Interest	14,099	3,972	214	18,285
Franchise fees	198,499	-	-	198,499
Fines and forfeitures	50,000	-	-	50,000
Sales tax	1,530,012	351,154	-	1,881,166
Intergovernmental	30,311	-	179,271	209,582
In lieu of taxes	56,459	-	-	56,459
Miscellaneous revenue	194,482	-	24,952	219,434
Total Revenues	<u>2,127,015</u>	<u>355,126</u>	<u>204,437</u>	<u>2,686,578</u>
EXPENDITURES				
Current				
General government	623,459	-	-	623,459
Public safety	1,117,242	-	-	1,117,242
Highways, roads and airport	79,924	19,115	29,559	128,598
Cultural and recreational	168,119	-	6,320	174,439
Capital outlay	173,285	140,284	148,549	462,118
Total Expenditures	<u>2,162,029</u>	<u>159,399</u>	<u>184,428</u>	<u>2,505,856</u>
Excess of revenues over (under) expenditures	(35,014)	195,727	20,009	180,722
Fund Balance - beginning of year	<u>1,424,690</u>	<u>1,177,664</u>	<u>65,128</u>	<u>2,667,482</u>
Fund Balance - end of year	<u>\$ 1,389,676</u>	<u>1,373,391</u>	<u>85,137</u>	<u>2,848,204</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, 2011

Net Change in Fund Balances - Total Governmental Funds	\$	180,722
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.		462,118
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>(301,588)</u>
Change in Net Assets of Governmental Activities	\$	<u>341,252</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, 2011 AND 2010

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	
	MUNICIPAL AUTHORITY	
	2011	2010
ASSETS		
Cash and investments		
Cash & cash equivalents	\$ 2,526,799	2,296,138
Investments	616,413	616,600
Receivables		
Accounts receivable	1,193,781	473,542
CAPITAL ASSETS		
Depreciable buildings, property and equipment	23,789,762	16,589,613
TOTAL ASSETS	\$ 28,126,755	19,975,893
LIABILITIES		
Accounts payable	\$ 754,820	162,655
Accrued interest payable	67,430	20,980
Accrued compensated absences	32,167	32,167
Deferred revenue	315,796	451,454
Reserve for depositors	238,314	231,859
Notes payable	8,420,693	2,366,988
Total Liabilities	9,829,220	3,266,103
NET ASSETS		
Retained earnings:		
Invested in capital assets, net of related debt	15,369,069	14,438,790
Unrestricted	2,928,466	2,271,000
Unassigned		
TOTAL NET ASSETS	\$ 18,297,535	16,709,790

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, 2011 AND 2010

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	
	MUNICIPAL AUTHORITY	
	2011	2010
REVENUES		
Water revenue	\$ 1,154,003	952,860
Sewer revenue	967,747	955,854
Sanitation revenue	754,380	740,553
Other revenue	95,239	160,839
Total Revenues	2,971,369	2,810,106
UTILITY OPERATIONS EXPENSE		
General administration	433,066	362,258
Water & sewer service	383,255	331,040
Wastewater	227,640	216,581
Water plant	66,195	65,808
Maintenance	30,740	34,926
Sanitation service	591,709	554,750
Total Utility Operations Expense	1,732,605	1,565,363
INCOME BEFORE NON-OPERATING REVENUES EXPENSES AND TRANSFERS	1,238,764	1,244,743
Non-operating revenues (expenses)		
Interest revenue	12,743	11,460
Sales tax	352,225	341,018
Interest expense	(165,976)	(80,578)
Grant	149,989	1,850,011
Total non-operating revenues (expenses)	348,981	2,121,911
NET INCOME	1,587,745	3,366,654
RETAINED EARNINGS, BEGINNING OF THE YEAR	16,709,790	13,343,136
RETAINED EARNINGS, END OF THE YEAR	\$ 18,297,535	16,709,790

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, 2011 AND 2010

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS	
	MUNICIPAL AUTHORITY	
	2011	2010
Cash flows from operating activities:		
Cash received from customers & service users	\$ 2,251,130	2,819,393
Cash payments for goods & services & employees	<u>(1,223,193)</u>	<u>(1,476,685)</u>
Net cash provided by operating activities	<u>1,027,937</u>	<u>1,342,708</u>
Cash flows from noncapital financing activities:		
Sales tax	352,225	341,018
Operating transfers out to other funds	<u>-</u>	<u>-</u>
Net cash provided (used) for noncapital financing activities	<u>352,225</u>	<u>341,018</u>
Cash flows from capital and related financing activities:		
Acquisition & construction of capital assets	(7,200,149)	(2,345,991)
Principal paid on debt	(819,546)	(1,961,047)
Interest paid on debt	(165,976)	(80,578)
Note proceeds	6,873,251	2,030,037
Grant	<u>149,989</u>	<u>1,850,011</u>
Net cash provided (used) for capital & related financing activities	<u>(1,162,431)</u>	<u>(507,568)</u>
Cash flows from investing activities:		
(Purchase) liquidation of investments	187	8,400
Interest on investments	<u>12,743</u>	<u>11,460</u>
Net cash provided by investing activities	<u>12,930</u>	<u>19,860</u>
Net increase (decrease) in cash & cash equivalents	230,661	1,196,018
Cash & cash equivalents - beginning of year	<u>2,296,138</u>	<u>1,100,120</u>
Cash & cash equivalents - end of year	<u>\$ 2,526,799</u>	<u>2,296,138</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	<u>\$ 1,238,764</u>	<u>1,244,743</u>
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets and liabilities:		
(Increase) decrease in accounts receivable	(720,239)	9,287
Increase (decrease) in accounts payable	592,165	128,471
Increase (decrease) in accrued interest payable	46,450	(801)
Increase (decrease) in deferred revenue	(135,658)	(48,546)
Increase (decrease) in reserve for depositors	<u>6,455</u>	<u>9,554</u>
Total adjustments	<u>(210,827)</u>	<u>97,965</u>
Net cash provided by operating activities	<u>\$ 1,027,937</u>	<u>1,342,708</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, 2011**

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, 2011**

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, 2011**

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

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011**

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, 2011**

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:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>	<u>Business-Type Activities 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, 2011**

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, 2011**

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, 2011**

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

A. Deposits and Investments (Continued)

At June 30, 2011 the City held deposits of approximately \$4,351,798 and investments of \$1,391,413 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.

Investment Credit Risk (Continued)

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

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 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, 2011**

3. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments (Continued)

The City had no investment credit risk as of June 30, 2011, 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, 2011, 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>\$ 1,391,413</u>	<u>\$ 1,391,413</u>
Total Investments		<u>1,391,413</u>	<u>1,391,413</u>
Reconciliation to Statement of Net Assets			
Governmental activities		\$ 775,000	
Business activities		<u>616,413</u>	
		<u>\$ 1,391,413</u>	

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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	2,333,022	132,297	2,465,319
Equipment	2,269,583	329,821	2,599,404
Other	92,191	-	92,191
	<u>6,411,735</u>	<u>462,118</u>	<u>6,873,853</u>
Less: Accumulated depreciation	<u>(2,584,695)</u>	<u>(301,588)</u>	<u>(2,886,283)</u>
Total	<u>\$ 3,827,040</u>	<u>160,530</u>	<u>3,987,570</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 7/1/2010	Issued	Retired	Balance Outstanding 6/30/2011
Sulphur Municipal Authority						
Notes payable						
Utility system (Interest @2.316%)	3/15/2024	1,013,651	600,154	-	600,154	-
Utility system (Interest @3.55%)	3/15/2007	1,750,000	1,586,808	-	69,403	1,517,405
Utility system (Interest @2.73%)	12/4/2009	10,200,000	<u>180,026</u>	<u>6,873,251</u>	<u>149,989</u>	<u>6,903,288</u>
Total			<u>\$ 2,366,988</u>	<u>6,873,251</u>	<u>819,546</u>	<u>8,420,693</u>

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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
2012	\$ 309,833	141,798	451,631
2013	548,775	229,363	778,138
2014	564,480	213,657	778,137
2015	580,640	197,497	778,137
2016	597,267	180,870	778,137
2017-20	3,253,071	637,615	3,890,686
2021-27	2,566,627	90,817	2,657,444
Total	<u>\$ 8,420,693</u>	<u>1,691,617</u>	<u>10,112,310</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, 2011**

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.

A. Employment Retirement Systems and Pension Plans

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, 2011 for employees and employer were \$22,907 and \$37,224, respectively, on covered payroll of \$286,337.

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>
2010-2011	\$37,224	\$37,224
2009-2010	37,174	37,174
2008-2009	32,722	32,722

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011 for employees and employer were \$23,271 and \$37,815, respectively, on covered payroll of \$290,887.

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>
2010-2011	\$37,815	\$37,815
2009-2010	34,147	34,147
2008-2009	36,416	36,416

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, 2011**

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, 2011 for employees and employer were \$45,520 and \$127,837 respectively, on the covered payroll of \$930,398.

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>
2010-2011	\$127,837	\$127,837
2009-2010	119,414	119,414
2008-2009	81,696	81,696

CITY OF SULPHUR
Sulphur, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2011

CITY OF SULPHUR
 REQUIRED SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (BUDGETARY BASIS) AND ACTUAL GOVERNMENTAL FUNDS
 Year Ended June 30, 2011

GENERAL FUND

	Original	Final	Actual	Variance with Final Budget Over (Under)
Revenues				
Charges for services	\$ 23,720	23,720	26,483	2,763
Licenses & permits	8,100	8,100	26,670	18,570
Interest	9,000	9,000	14,099	5,099
Franchise fees	200,000	200,000	198,499	(1,501)
Fines & forfeitures	50,000	50,000	50,000	-
Taxes	1,480,000	1,480,000	1,573,069	93,069
In lieu of taxes	50,000	50,000	56,459	6,459
Miscellaneous	25,000	25,000	194,482	169,482
Total revenues	1,845,820	1,845,820	2,139,761	293,941
Expenditures:				
Current				
General government	624,905	624,905	623,459	1,446
Public safety	1,151,832	1,151,832	1,117,242	34,590
Highways, roads, & airport	82,278	82,278	79,924	2,354
Cultural & recreational	199,156	199,156	168,119	31,037
Capital outlay	175,500	175,500	173,285	2,215
Total expenditures	2,233,671	2,233,671	2,162,029	71,642
Excess of revenues over (under) expenditures	(387,851)	(387,851)	(22,268)	365,583
Fund balance at beginning of year	387,851	387,851	1,167,921	780,070
Fund balance at end of year	\$ -	-	1,145,653	1,145,653
Reconciliation to GAAP Basis				
Accounts Receivable			244,023	
Fund Balance at the end of year, GAAP Basis			\$ 1,389,676	

CITY OF SULPHUR
 REQUIRED SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (BUDGETARY BASIS) AND ACTUAL GOVERNMENTAL FUNDS
 Year Ended June 30, 2011

SPECIAL REVENUE FUNDS

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues				
Intergovernmental	\$ 172,797	172,797	179,271	6,474
Interest	600	600	214	(386)
Miscellaneous	<u>17,500</u>	<u>17,500</u>	<u>24,952</u>	<u>7,452</u>
Total revenues	<u>190,897</u>	<u>190,897</u>	<u>204,437</u>	<u>13,540</u>
Expenditures:				
Current				
Highways, roads, & airport	65,400	65,400	29,559	35,841
Cultural & recreational	10,300	10,300	6,320	3,980
Capital outlay	<u>148,597</u>	<u>148,597</u>	<u>148,549</u>	<u>48</u>
Total expenditures	<u>224,297</u>	<u>224,297</u>	<u>184,428</u>	<u>39,869</u>
Net changes in fund balance	(33,400)	(33,400)	20,009	53,409
Fund balance at beginning of year	<u>33,400</u>	<u>33,400</u>	<u>65,128</u>	<u>31,728</u>
Fund balance at end of year	<u>\$ -</u>	<u>-</u>	<u>85,137</u>	<u>85,137</u>

CITY OF SULPHUR
 REQUIRED SUPPLEMENTAL INFORMATION
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET (BUDGETARY BASIS) AND ACTUAL GOVERNMENTAL FUNDS
 Year Ended June 30, 2011

CAPITAL PROJECTS FUND

	Original	Final	Actual	Variance with Final Budget Over (Under)
Revenues				
Interest	\$ 5,000	5,000	3,972	(1,028)
Taxes	300,000	300,000	352,226	52,226
Miscellaneous	-	-	-	-
Total revenues	305,000	305,000	356,198	51,198
Expenditures:				
Current				
Highways, roads, & airport	20,000	20,000	19,115	885
Capital outlay	440,000	440,000	140,284	299,716
Total expenditures	460,000	460,000	159,399	300,601
Net changes in fund balance	(155,000)	(155,000)	196,799	351,799
Fund balance at beginning of year	155,000	155,000	1,115,586	960,586
Fund balance at end of year	\$ -	-	1,312,385	1,312,385
Adjustments to GAAP Basis				
Accounts Receivable			61,006	
Fund balance at the end of year GAAP Basis			\$ 1,373,391	

CITY OF SULPHUR
Sulphur, Oklahoma

SUPPLEMENTAL INFORMATION
June 30, 2011

CITY OF SULPHUR
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2011

	<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	\$ 31,221	16,467	35,303	1	1	82,993
Accounts receivable	<u>3,666</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,666</u>
Total Assets	<u>\$ 34,887</u>	<u>16,467</u>	<u>35,303</u>	<u>1</u>	<u>1</u>	<u>86,659</u>
<u>LIABILITIES AND FUND EQUITY</u>						
Liabilities						
Accounts payable	<u>\$ 1,174</u>	<u>348</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,522</u>
Fund Equity						
Fund balance:						
Unreserved						
Designated for specific fund purposes	<u>33,713</u>	<u>16,119</u>	<u>35,303</u>	<u>1</u>	<u>1</u>	<u>85,137</u>
Total fund equity	<u>33,713</u>	<u>16,119</u>	<u>35,303</u>	<u>1</u>	<u>1</u>	<u>85,137</u>
Total Liabilities and Fund Equity	<u>\$ 34,887</u>	<u>16,467</u>	<u>35,303</u>	<u>1</u>	<u>1</u>	<u>86,659</u>

CITY OF SULPHUR
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2011

	STREET CASH	LIBRARY CASH	CEMETERY CASH	AIRPORT GRANT	CDBG SEWER	TOTALS NON-MAJOR GOVERNMENTAL FUNDS
Revenues						
Intergovernmental	\$ 46,974	-	-	-	132,297	179,271
Interest earnings	37	33	144	-	-	214
Miscellaneous	-	-	200	-	-	200
Oil and gas royalties	-	6,902	-	-	-	6,902
Lot sales	-	-	17,850	-	-	17,850
Total revenues	<u>47,011</u>	<u>6,935</u>	<u>18,194</u>	<u>-</u>	<u>132,297</u>	<u>204,437</u>
Expenditures						
Streets and highways	29,559	-	-	-	-	29,559
Cultural & recreational	-	6,320	-	-	-	6,320
Capital expenditures	-	-	16,252	-	132,297	148,549
Total expenditures	<u>29,559</u>	<u>6,320</u>	<u>16,252</u>	<u>-</u>	<u>132,297</u>	<u>184,428</u>
Excess of revenues over (under) expenditures	17,452	615	1,942	-	-	20,009
Fund balances, beginning of period	<u>16,261</u>	<u>15,504</u>	<u>33,361</u>	<u>1</u>	<u>1</u>	<u>65,128</u>
Fund balances, end of period	<u>\$ 33,713</u>	<u>16,119</u>	<u>35,303</u>	<u>1</u>	<u>1</u>	<u>85,137</u>

CITY OF SULPHUR
Sulphur, Oklahoma
SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

<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	\$ 6,873,251	6,873,251
Safe Drinking Water State Revolving Fund American Recovery and Reinstatement Act of 2009	66.458	ORF-09-0030-CW	149,989	149,989
U. S. Department of Housing and Urban Development Department of Commerce				
Community Development Block Grant	14.228	13771 CDBG 09	<u>132,297</u>	<u>132,297</u>
Total Awards			<u>\$ 7,155,537</u>	<u>7,155,537</u>

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**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**

January 23, 2012

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, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 23, 2012. The report on governmental and business-type was qualified because of the lack of fixed asset records and for the omission of the management discussion and analysis. 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.

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 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 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.

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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.

Wilson, Dotson & Associates

Wilson, Dotson & Associates, PLLC
Certified Public Accountants

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

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

January 23, 2012

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

Compliance

We have audited the City of Sulphur, Oklahoma's (City) compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's federal programs for the year ended June 30, 2011. 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, 2011.

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City of Sulphur
January 23, 2012

Internal Control Over Compliance

Management of the City of Sulphur, Oklahoma 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance, 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 the City Council and management, others within the entity, all federal and state 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 QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
• Significant deficiency(ies) identified?	No
• Significant deficiency(ies) identified that are considered to be material weakness(es)?	No
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Reportable condition(s) identified?	No
• Reportable condition(s) identified that are considered to be material weakness(es)?	No
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No

Identification of major programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>
66.468	Safe Drinking Water State Revolving Fund

Dollar threshold used to distinguish between type A and type B programs:	\$300,000
Auditee qualified as low-risk auditee?	No

**CITY OF SULPHUR
Sulphur, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSE
For the Year Ended June 30, 2011**

None.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2011**

None.