

**CITY OF SULPHUR
Sulphur, Oklahoma**

**FINANCIAL STATEMENTS
June 30, 2017**

AUDITED BY

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

**CITY OF SULPHUR
Sulphur, Oklahoma**

CONTENTS

	<u>Page No.</u>
Independent Auditors' Report	1-3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	4
Statement of Activities and Changes in Net Assets	5
Fund Financial Statements:	
Balance Sheet – Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Government-Wide Statement of Activities and Changes in Net Assets	9
Statement of Net Assets – Proprietary Funds	10
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	11
Statement of Cash Flows – Proprietary Funds	12
Notes to the Basic Financial Statements	13-27
Required Supplemental Information:	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (GAAP Budgetary Basis) and Actual – Governmental Funds	28

**CITY OF SULPHUR
Sulphur, Oklahoma**

CONTENTS

	<u>Page No.</u>
Supplemental Information	
Combining Balance Sheet – Non-Major Governmental Funds	29
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Non-Major Governmental	30
Reports Required by <i>Government Auditing Standards</i>:	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	31-32
Schedule of Findings and Responses	33-34
Summary Schedule of Prior Audit Findings	35

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 24, 2019

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Sulphur, Oklahoma (City) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Adverse Opinion on Non-Implementation of GASB 68 and Qualified Opinion on the City's Capital Assets

The financial statements referred to above do not include the City's pension information and obligations as defined and required by Governmental Accounting Standards Board (GASB) 68, *Accounting and Financial Reporting for Pensions*. Accounting principles generally accepted in the United States of America requires this information be included in the City's financial statements. The amount by which this departure would affect the assets, net position, and expenses of the governmental and business-type activities as not been determined.

As discussed in Note 1 to the financial statements, the City has not maintained complete 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. The amount by which this departure would affect the assets, net position, and expenses of the governmental and business-type activities is not readily determinable.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on Non-Implementation of GASB 68 and Qualified Opinion on the City's Capital Assets" paragraph, the financial statements referred to above do not present fairly the financial position of the City of Sulphur, Oklahoma, as of June 30, 2017, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinions

In our opinion, except for the effects of the matter described in the "Basis for Adverse Opinion on Non-Implementation of GASB 68 and Qualified Opinion on the City's Capital Assets" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental and business-type activities of the City of Sulphur, Oklahoma, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

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, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that budgetary comparison information on pages 28 through 30 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 financial reporting

City of Sulphur
January 24, 2019

for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining statements and the schedule of expenditures of federal awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2019, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and 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* in considering the City's internal control over financial reporting and compliance.

Wilson Dotson & Associates

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

CITY OF SULPHUR
STATEMENT OF NET POSITION
JUNE 30, 2017

	PRIMARY GOVERNMENT		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and investments			
Cash and cash equivalents	\$ 3,096,227	4,118,020	7,214,247
Investments, at cost	775,000	625,000	1,400,000
Receivables			
Accounts receivable	436,209	533,862	970,071
CAPITAL ASSETS			
Depreciable buildings, property and equipment net of depreciation	5,250,588	-	5,250,588
Depreciable buildings, property and equipment	-	27,171,812	27,171,812
TOTAL ASSETS	\$ 9,558,024	32,448,694	42,006,718
LIABILITIES			
Accounts payable	\$ 53,710	64,515	118,225
Accrued compensated absences	65,465	32,167	97,632
Reserve for depositors	-	296,437	296,437
Notes payable	-	7,127,109	7,127,109
Total Liabilities	119,175	7,520,228	7,639,403
NET ASSETS			
Invested in capital assets, net of related debt	5,250,588	20,044,000	25,294,588
Restricted	2,613,194	-	2,613,194
Unassigned	1,575,067	4,884,466	6,459,533
TOTAL NET ASSETS	\$ 9,438,849	24,928,466	34,367,315

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

CITY OF SULPHUR
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSES) REVENUE
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
General government	\$ (781,081)	4,354	-	-	(776,727)
Public safety and judiciary	(1,388,092)	-	-	-	(1,388,092)
Highway, roads and airport	(164,418)	-	-	-	(164,418)
Cultural, parks and recreation	(94,429)	-	-	-	(94,429)
Total governmental activities	(2,428,020)	4,354	-	-	(2,423,666)
Unallocated Depreciation	(440,943)	-	-	-	(440,943)
Total governmental activities	(2,868,963)	4,354	-	-	(2,864,609)
Business-Type Activities:					
General administration	(444,988)	-	-	-	(444,988)
Water & sewer service	(574,840)	2,019,029	-	-	1,444,189
Wastewater	(456,302)	-	-	-	(456,302)
Water plant	(59,202)	-	-	-	(59,202)
Maintenance	(96,397)	-	-	-	(96,397)
Sanitation service	(559,377)	886,587	-	-	327,210
Total business-type activities	(2,191,106)	2,905,616	-	-	714,510
Totals	\$ (5,060,069)	2,909,970	-	-	(2,150,099)

	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Net (Expense)/Revenue	\$ (2,864,609)	714,510	(2,150,099)
General Revenues			
Taxes:			
Sales tax	2,311,975	457,458	2,769,433
All other taxes	192,767	-	192,767
Licenses and permits	16,582	-	16,582
Franchise fees	192,924	-	192,924
Fines and forfeitures	50,000	-	50,000
Investment earnings	3,806	3,605	7,411
Intergovernmental	65,655	-	65,655
Miscellaneous	176,060	67,414	243,474
In lieu of taxes	68,300	-	68,300
Total general revenues and transfers	3,078,069	528,477	3,606,546
Change in net assets	213,460	1,242,987	1,456,447
Net Asset - beginning of year	9,225,389	23,685,479	32,910,868
Net Asset - end of year	\$ 9,438,849	24,928,466	34,367,315

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

CITY OF SULPHUR
BALANCE SHEET - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017

	GENERAL FUND	1/6 SALES TAX FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
ASSETS				
Cash and investments				
Cash & cash equivalents	\$ 870,319	1,912,234	313,674	3,096,227
Investments	475,000	300,000	-	775,000
Receivables				
Accounts receivable	346,533	86,632	3,044	436,209
TOTAL ASSETS	\$ 1,691,852	2,298,866	316,718	4,307,436
 LIABILITIES				
Accounts payable	\$ 51,320	2,064	326	53,710
 FUND EQUITY				
Fund balances				
Reserved	-	2,296,802	316,392	2,613,194
Unassigned	1,640,532	-	-	1,640,532
Total Fund Equity	1,640,532	2,296,802	316,392	4,253,726
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,691,852	2,298,866	316,718	4,307,436

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 STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2017

Total Fund Balances - Total Governmental Funds	\$ 4,253,726
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	<u>5,250,588</u>
Net Assets of Governmental Activities	<u>\$ 9,438,849</u>

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, 2017

	GENERAL FUND	1/6 SALES TAX FUND	OTHER GOVERNMENTAL FUNDS	TOTAL
REVENUES				
Charges for services	\$ 4,354	-	-	4,354
Licenses and permits	16,582	-	-	16,582
Interest	1,904	1,763	139	3,806
Franchise fees	192,924	-	-	192,924
Fines and forfeitures	50,000	-	-	50,000
Sales tax	1,849,482	462,493	-	2,311,975
Use tax	118,850	-	-	118,850
Alcoholic beverage tax	41,260	-	-	41,260
Cigarette tax	32,657	-	-	32,657
Intergovernmental	-	-	65,655	65,655
Lot sales	12,575	-	12,775	25,350
In lieu of taxes	68,300	-	-	68,300
Miscellaneous revenue	150,710	-	-	150,710
Total Revenues	<u>2,539,598</u>	<u>464,256</u>	<u>78,569</u>	<u>3,082,423</u>
EXPENDITURES				
Current				
General government	781,081	-	-	781,081
Public safety	1,388,092	-	-	1,388,092
Highways, roads and airport	147,603	16,815	-	164,418
Cultural and recreational	86,444	-	7,985	94,429
Capital outlay	142,047	103,207	-	245,254
Total Expenditures	<u>2,545,267</u>	<u>120,022</u>	<u>7,985</u>	<u>2,673,274</u>
Excess of revenues over (under) expenditures	(5,669)	344,234	70,584	409,149
Fund Balance - beginning of year	<u>1,646,201</u>	<u>1,952,568</u>	<u>245,808</u>	<u>3,844,577</u>
Fund Balance - end of year	<u>\$ 1,640,532</u>	<u>2,296,802</u>	<u>316,392</u>	<u>4,253,726</u>

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

CITY OF SULPHUR
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES
 IN NET POSITION
 YEAR ENDED JUNE 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$	409,149
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.		245,254
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>(440,943)</u>
Change in Net Position of Governmental Activities	\$	<u>213,460</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
YEAR ENDED JUNE 30, 2017

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS MUNICIPAL AUTHORITY
	2017
ASSETS	
Cash and investments	
Cash & cash equivalents	\$ 4,118,020
Investments	625,000
Receivables	
Accounts receivable	533,862
CAPITAL ASSETS	
Depreciable buildings, property and equipment	27,171,812
TOTAL ASSETS	\$ 32,448,694
LIABILITIES	
Accounts payable	\$ 1,850
Accrued interest payable	62,665
Accrued compensated absences	32,167
Reserve for depositors	296,437
Notes payable	7,127,109
Total Liabilities	7,520,228
NET ASSETS	
Retained earnings:	
Invested in capital assets, net of related debt	20,044,000
Unassigned	4,884,466
TOTAL NET ASSETS	\$ 24,928,466

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
YEAR ENDED JUNE 30, 2017

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS
	MUNICIPAL AUTHORITY
	2017
REVENUES	
Water revenue	\$ 937,922
Sewer revenue	1,038,988
Sanitation revenue	851,594
Penalites	42,119
Poly cart sales and maintenance	34,993
Other revenue	53,384
Total Revenues	2,959,000
UTILITY OPERATIONS EXPENSE	
General administration	444,988
Water & sewer service	372,986
Wastewater	456,302
Water plant	59,202
Maintenance	96,397
Sanitation service	559,377
Total Utility Operations Expense	1,989,252
INCOME BEFORE NON-OPERATING REVENUES EXPENSES AND TRANSFERS	969,748
Non-operating revenues (expenses)	
Interest revenue	3,605
Rent	14,130
Sales tax	457,458
Interest expense	(201,854)
Total non-operating revenues (expenses)	273,339
NET INCOME	1,243,087
NET ASSETS - BEGINNING OF THE YEAR	23,685,479
NET ASSETS - END OF THE YEAR	\$ 24,928,566

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

CITY OF SULPHUR
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017

	BUSINESS-TYPE ACTIVITIES ENTERPRISE FUNDS MUNICIPAL AUTHORITY <hr/> 2017
Cash flows from operating activities:	
Cash received from customers & service users	\$ 3,079,769
Cash payments for goods & services & employees	<u>(2,406,162)</u>
Net cash provided by operating activities	<u>673,607</u>
Cash flows from noncapital financing activities:	
Sales tax	457,458
Rents	<u>14,130</u>
Net cash provided (used) for noncapital financing activities	<u>471,588</u>
Cash flows from capital and related financing activities:	
Acquisition & construction of capital assets	(351,428)
Principal paid on debt	(436,888)
Interest paid on debt	<u>(201,854)</u>
Net cash provided (used) for capital & related financing activities	<u>(990,170)</u>
Cash flows from investing activities:	
Interest on investments	<u>3,605</u>
Net cash provided by investing activities	<u>3,605</u>
Net increase (decrease) in cash & cash equivalents	158,630
Cash & cash equivalents - beginning of year	<u>3,959,930</u>
Cash & cash equivalents - end of year	<u>\$ 4,118,560</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 969,748</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(120,769)
Increase (decrease) in accounts payable	(184,000)
Increase (decrease) in accrued interest payable	-
Increase (decrease) in reserve for depositors	<u>8,088</u>
Total adjustments	<u>(296,681)</u>
Net cash provided by operating activities	<u>\$ 673,067</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, 2017**

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, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. 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, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. 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 capital projects 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 Fund is used to account for One Sixth Sales Tax Fund.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. 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 do 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 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, 2017**

1. 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. Both 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, 2017**

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, 2017**

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

A. Budgetary Information (Continued)

Prior to July 1, the City Manager (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 funds, 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 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, 2017**

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

A. Deposits and Investments (Continued)

At June 30, 2017, the City held deposits of approximately \$3,201,201 and investments of \$1,440,000 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 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, 2017**

3. DETAILED NOTES CONCERNING THE FUNDS

A. Deposits and Investments (Continued)

The City had no investment credit risk as of June 30, 2017, 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, 2017, the City had 90% concentration of credit risk as defined above.

Concentration of Investment Credit Risk (Continued)

Type	Credit Rating	Market Value	Cost
Investments			
Certificate of Deposits	n/a	\$ 1,440,000	\$ 1,440,000
Total Investments		1,440,000	1,440,000
Reconciliation to Statement of Net Position			
Governmental activities		\$ 775,000	
Business activities		665,000	
		\$ 1,440,000	

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

3. DETAILED NOTES CONCERNING THE FUNDS (Continued)

B. Capital Assets

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

Governmental Activities:	Beginning Balance	Additions	Ending Balance
Buildings	\$ 1,676,939	-	1,676,939
Infrastructure	4,912,361	-	4,912,361
Equipment	3,515,042	245,254	3,760,296
Other	92,191	-	92,191
	<u>10,196,533</u>	<u>245,254</u>	<u>10,441,787</u>
Less: Accumulated depreciation	<u>(4,750,256)</u>	<u>(440,943)</u>	<u>(5,191,199)</u>
Total	<u>\$ 5,446,277</u>	<u>(195,689)</u>	<u>5,250,588</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 7/1/2016	Issued	Retired	Balance Outstanding 6/30/2017
Sulphur Municipal Authority						
Notes payable						
Utility system (Interest @3.55%)	3/15/2007	1,750,000	1,132,563	-	85,605	1,046,958
Utility system (Interest @2.73%)	12/4/2009	10,200,000	<u>6,431,434</u>	<u>-</u>	<u>351,283</u>	<u>6,080,151</u>
Total			<u>\$ 7,563,997</u>	<u>-</u>	<u>436,888</u>	<u>7,127,109</u>

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

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
2018	\$ 465,877	198,876	664,753
2019	479,454	185,299	664,753
2020	493,431	171,322	664,753
2021	507,822	156,932	664,754
2022	522,639	142,116	664,755
2023-25	1,817,518	333,010	2,150,528
2026-28	1,784,355	185,852	1,970,207
2029-31	<u>1,056,013</u>	<u>57,387</u>	<u>1,113,400</u>
Total	<u>\$ 7,127,109</u>	<u>1,430,794</u>	<u>8,557,903</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, 2017**

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 which 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, 2017, for employees and employer were \$24,633 and \$40,028, respectively, on covered payroll of \$307,905.

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>
2016-2017	\$40,028	\$40,028
2015-2016	39,469	39,469
2014-2015	42,599	42,599

**CITY OF SULPHUR
Sulphur, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

5. OTHER INFORMATION (Continued)

A. Employment Retirement Systems and Pension Plans (Continued)

Oklahoma State Firefighters' Pension and Retirement System (OFPRS)

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, 2017, for employees and employer were \$34,670 and \$53,930 respectively, on covered payroll of \$385,218.

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>
2016-2017	\$53,930	\$53,930
2015-2016	54,455	54,455
2014-2015	46,408	46,408

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, 2017**

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, 2017 for employees and employer were \$52,208 and \$158,762 respectively, on the covered payroll of \$1,044,154.

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>
2016-2017	\$158,762	\$158,762
2015-2016	161,063	161,063
2014-2015	149,263	149,263

CITY OF SULPHUR
Sulphur, Oklahoma

REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2017

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, 2017

GENERAL FUND

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues				
Charges for services	\$ 3,200	3,200	4,354	1,154
Licenses & permits	10,450	10,450	16,582	6,132
Interest	1,200	1,200	1,904	704
Franchise fees	230,000	230,000	192,924	(37,076)
Fines and forfeitures	50,000	50,000	50,000	-
Sales tax	1,650,000	1,650,000	1,829,833	179,833
Use tax	93,000	93,000	118,850	25,850
Alcoholic beverage tax	35,000	35,000	41,260	6,260
Cigarette tax	28,000	28,000	32,657	4,657
Airport grant	-	-	-	-
Lot sales	12,000	12,000	12,575	575
In lieu of taxes	60,000	60,000	68,300	8,300
Miscellaneous	50,000	50,000	150,710	100,710
Total revenues	<u>2,222,850</u>	<u>2,222,850</u>	<u>2,519,949</u>	<u>297,099</u>
Expenditures:				
Current				
General government				
Administration	46,525	46,525	43,656	2,869
City Clerk and clerks	88,555	88,555	83,579	4,976
Attorney	16,575	16,575	15,780	795
Judge	10,825	10,825	10,429	396
General government	768,831	768,831	457,303	311,528
Treasurer	14,265	14,265	13,800	465
Grounds maintenance	180,870	180,870	156,534	24,336
Public safety				
Police	882,911	882,911	739,136	143,775
Fire	734,098	734,098	648,956	85,142
Office of emergency management	1,100	1,100	-	1,100
Highways, roads, & airport				
Streets	323,278	323,278	147,603	175,675
Cultural & recreational				
Cemetery	107,580	107,580	84,882	22,698
Library	5,000	5,000	1,241	3,759
Senior Citizen	8,100	8,100	321	7,779
Capital outlay	307,617	307,617	142,047	165,570
Total expenditures	<u>3,496,130</u>	<u>3,496,130</u>	<u>2,545,267</u>	<u>950,863</u>
Excess of revenues over (under) expenditures	(1,273,280)	(1,273,280)	(25,318)	1,247,962
Fund balance at beginning of year	<u>1,273,280</u>	<u>1,273,280</u>	<u>1,319,317</u>	<u>46,037</u>
Fund balance at end of year	<u>\$ -</u>	<u>-</u>	<u>1,293,999</u>	<u>1,293,999</u>
Reconciliation to GAAP Basis				
Accounts Receivable			<u>346,533</u>	
Fund Balance at the end of year, GAAP Basis			<u>\$ 1,640,532</u>	

CITY OF SULPHUR
Sulphur, Oklahoma

SUPPLEMENTAL INFORMATION
June 30, 2017

CITY OF SULPHUR
 COMBINING BALANCE SHEET NON-MAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2017

	STREET CASH	LIBRARY CASH	CEMETERY CASH	CDBG SEWER	TOTAL NON-MAJOR GOVERNMENTAL FUNDS
<u>ASSETS</u>					
Cash	\$ 112,054	130,697	70,922	1	313,674
Accounts receivable	3,044	-	-	-	3,044
Total Assets	\$ 115,098	130,697	70,922	1	316,718
<u>LIABILITIES AND FUND EQUITY</u>					
	-				
Liabilities					
Accounts payable	\$ -	326	-	-	326
Fund Equity					
Fund balance:					
Unassigned	115,098	130,371	70,922	1	316,392
Total fund equity	115,098	130,371	70,922	1	316,392
Total Liabilities and Fund Equity	\$ 115,098	130,697	70,922	1	316,718

CITY OF SULPHUR
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NON-MAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2017

	STREET CASH	LIBRARY CASH	CEMETERY CASH	CDBG SEWER	TOTALS NON-MAJOR GOVERNMENTAL FUNDS
Revenues					
Intergovernmental	\$ 39,882	25,773	-	-	65,655
Interest earnings	48	58	33	-	139
Miscellaneous					
Oil and gas royalties	-	-	-	-	-
Lot sales	-	-	12,775	-	12,775
Total revenues	<u>39,930</u>	<u>25,831</u>	<u>12,808</u>	<u>-</u>	<u>78,569</u>
Expenditures					
Streets and highways	-	-	-	-	-
Cultural & recreational	-	7,985	-	-	7,985
Capital outlay	-	-	-	-	-
Total expenditures	<u>-</u>	<u>7,985</u>	<u>-</u>	<u>-</u>	<u>7,985</u>
Excess of revenues over (under) expenditures	39,930	17,846	12,808	-	70,584
Fund balances, beginning of period	<u>75,168</u>	<u>112,525</u>	<u>58,114</u>	<u>1</u>	<u>245,808</u>
Fund balances, end of period	<u>\$ 115,098</u>	<u>130,371</u>	<u>70,922</u>	<u>1</u>	<u>316,392</u>

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 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 24, 2019

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash 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, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Sulphur, Oklahoma's basic financial statements and have issued our report thereon dated January 24, 2019, which was qualified for improper capital asset recordkeeping.

Internal Control over Financial Reporting

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

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

907 EAST 35TH UNIT 4, SHAWNEE, OK 74804
(405) 273-4838 1-800-550-2948 FAX (405) 273-5846

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sulphur'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 several instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and are described in the accompanying schedule of findings and questioned costs as findings 2017-001, 2017-002 and 2017-003.

Purpose of this Report

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

Wilson, Dotson & Associates

Wilson, Dotson & Associates, PLLC
Certified Public Accountants

**CITY OF SULPHUR
Sulphur, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2017**

Finding 2017-001

Criteria: The City's municipal court records are required to be maintained in accordance with Oklahoma Statutes and City's ordinances.

Condition: The court records were not properly maintained.

Cause: The City uses the Murray County Jail to board offenders. If an offender chooses to pay a bond outside of normal working hours, a **cash** bond must be made to the County which are picked up by City personnel and place in a lock box. Some of the bonds and related tickets were not always entered into the City's municipal court records.

Effect: Bonds placed in lock box were not always deposited in the City's accounts.

Recommendation: The City needs to implement internal controls to ensure all tickets, fines and bonds are accounted for in the municipal court records.

Responsible Officials Comments and Plan of Action: The City's management is aware of this issue. Management is implementing procedures to ensure proper record keeping.

Finding 2017-002

Criteria: The City's municipal court records and related collections are required to be safeguarded against loss.

Condition: A City employee took municipal court tickets and collections out of City Hall.

Cause: Inaccurate court records prevented management from knowing in a timely manner that tickets and collections were missing.

Effect: Possible loss of City records and revenue,

Recommendation: The City needs to implement internal controls to ensure that all records and collections are safeguarded.

Responsible Officials Comments and Plan of Action: The City's management is aware of the situation. Management is implementing procedures to ensure records and collections are safeguarded.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2017**

Finding 2017-003

Criteria: Municipal court records are required to have internal controls to ensure all municipal tickets are recorded in the applicable record keeping system.

Condition: The City did not have sufficient internal controls to ensure that all municipal tickets issued were recorded in their municipal court records.

Cause: City personnel were unable to determine if **all** tickets were entered into the record keeping system.

Effect: The projected loss is unknown.

Responsible Officials Comments and Plan of Action: The City's management is aware of the issue. Management is implementing procedures to ensure proper accounting for tickets.

**CITY OF SULPHUR
Sulphur, Oklahoma**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2017**

None