

SPERRY UTILITY SERVICES AUTHORITY

SPERRY, OKLAHOMA

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities and Changes in Retained Earnings	4
Statement of Cash Flows	5
Notes to Financial Statements	6-9
Report on Compliance and Internal Control – Government	
Auditing Standards	10-11

JIM RUSH

CERTIFIED PUBLIC ACCOUNTANT
9726 East 42nd Street, Suite 230
Tulsa, Oklahoma 74146-3674
Telephone (918) 664-9190

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Sperry Utility Services Authority
Sperry, Oklahoma

We have audited the accompanying basic financial statements of Sperry Utility Services Authority of the Town of Sperry, Oklahoma, a Component Unit of the Town of Sperry, Oklahoma, as of June 30, 2012 and 2011, and for the years then ended, as listed in the table of contents. These financial statements are the responsibility of Sperry Utility Services Authority, Sperry, Oklahoma, management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 amounts 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 audits provide a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial positions of the Sperry Utility Services Authority, Sperry, Oklahoma, as of June 30, 2012 and 2011, and the statement of activities and changes in retained earnings and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 24, 2012, on our consideration of the Sperry Utility Services Authority'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 the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Trustees
Sperry Utility Services Authority
Sperry, Oklahoma

Sperry Utility Services Authority 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 part of, the basic financial statements.

Certified Public Accountant
Tulsa, Oklahoma

July 24, 2012

SPERRY UTILITY SERVICES AUTHORITY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

<u>ASSETS</u>		
	<u>2012</u>	<u>2011</u>
<u>Current Assets:</u>		
Cash	\$ 222,575	\$ 229,101
Certificate of Deposit	140,000	140,000
Accounts receivable, less allowance for bad debts of \$6,312 in 2012 and \$6,728 in 2011	70,454	63,581
Prepaid expenses	8,963	6,441
Accrued interest receivable	231	473
Total Current Assets	<u>\$ 442,223</u>	<u>\$ 439,596</u>
 <u>Restricted Assets (Notes 1 and 4): Cash with Fiscal Agents:</u>		
Debt service funds	\$ 39,637	\$ 27,298
 <u>Meter Deposits:</u>		
Cash	\$ 21,298	\$ 15,437
Certificates of Deposit	74,060	74,060
	<u>\$95,358</u>	<u>\$ 89,497</u>
 Total Restricted Assets	<u>\$ 134,995</u>	<u>\$ 116,795</u>
 Property and Equipment, pledged, less accumulated depreciation of \$1,461,630 in 2012 and \$1,366,793 in 2011 (Notes 4 and 6)	<u>\$ 877,001</u>	<u>\$ 962,339</u>
	<u>\$1,454,219</u>	<u>\$1,518,730</u>

LIABILITIES AND RETAINED EARNINGS

	<u>2012</u>	<u>2011</u>
<u>Current Liabilities:</u>		
Accounts payable	\$ 44,837	\$ 29,691
Payroll taxes and taxes payable	4,366	4,583
Accrued payroll and vacations payable	10,043	8,927
Current portion of Revenue Bonds and note payable (Notes 4 and 6)	140,872	135,360
Accrued interest payable	2,804	3,680
Meter deposits	93,315	88,055
Total Current Liabilities	<u>\$ 296,237</u>	<u>\$ 270,296</u>
 Long-term debt – Revenue Bonds (Note 4)	 374,590	 504,588
Note payable – OWRB (Note 6)	235,090	245,964
	<u>609,680</u>	<u>750,552</u>
 Retained earnings	 <u>\$ 548,302</u>	 <u>\$ 497,882</u>
	<u>\$1,454,219</u>	<u>\$1,518,730</u>

Notes to financial statements are an integral part of these statements.

SPERRY UTILITY SERVICES AUTHORITY
STATEMENT OF ACTIVITIES AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>Revenues, Pledged (Notes 4 and 6):</u>		
Gas	\$ 376,808	\$ 405,388
Water	320,528	314,046
Sewer	153,215	148,510
Trash	106,571	105,919
Penalties	16,439	14,998
Tap fees	1,200	2,550
Grant	50,127	76,143
Other	8,340	11,296
	<u>\$1,033,228</u>	<u>\$1,078,850</u>
<u>Expenses:</u>		
Gas purchases	\$ 189,069	\$ 186,697
Water purchases	144,185	159,605
Trash services	82,067	81,913
Utility lease	53,400	40,800
Salaries	153,938	160,382
Payroll taxes	12,815	13,055
Repairs and maintenance	64,117	80,657
Contract labor	5,890	6,855
Auto expense	4,431	3,585
Utilities	9,554	11,712
Telephone	6,198	5,827
Office supplies and expense	16,373	17,005
Legal and accounting	8,247	10,780
Insurance	23,988	17,810
Bad debts	7,633	4,957
Depreciation	94,838	101,146
Other and education	10,974	14,936
Engineering, licenses, fees and grants	66,746	58,422
	<u>\$ 954,463</u>	<u>\$ 976,144</u>
Income from Operations	\$ 78,765	\$ 102,706
Non-operating revenues (expense):		
Interest revenue	2,125	2,777
Interest expense	< 30,470>	< 44,701>
Amortization of bond discount and issue costs	--	< 19,124>
	<u><\$ 28,345></u>	<u><\$ 61,048></u>
Net income (loss)	\$ 50,420	\$ 41,658
Retained earnings, beginning of year	\$ 497,882	\$ 456,224
Retained earnings, end of year	<u>\$ 548,302</u>	<u>\$ 497,882</u>

Notes to financial statements are an integral part of these statements.

SPERRY UTILITY SERVICES AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers	\$1,026,355	\$1,079,424
Cash payment expenses	< 835,964>	< 847,408>
Net cash provided by (used in) operating activities	<u>\$ 190,391</u>	<u>\$ 232,016</u>
Cash flows from capital and related financing activities:		
Capital expenditures	<\$ 15,012>	<\$ 43,282>
Principal payment on revenue bonds and note	< 135,360>	< 233,742>
Interest paid on revenue bonds	< 30,470>	< 44,701>
Net cash provided for (used in) financing activities	<u>< 180,842></u>	<u><\$ 321,725></u>
Cash flows from investing activities:		
Interest received	<u>\$ 2,125</u>	<u>\$ 2,777</u>
Net cash provided by investing	<u>\$ 2,125</u>	<u>\$ 2,777</u>
Net increase <decrease> in cash	<u>\$ 11,674</u>	<u><\$ 86,932></u>
Cash, beginning of year	<u>\$ 485,896</u>	<u>\$ 572,828</u>
Cash, end of year	<u><u>\$ 497,570</u></u>	<u><u>\$ 485,896</u></u>
Reconciliation of operating income to net cash provided by operating activities	\$ 78,765	\$ 102,706
Depreciation	94,838	101,146
Changes in operating assets and liabilities		
Accounts receivables	< 6,873>	< 574>
Other assets	< 2,280>	< 2,329>
Current liabilities	<u>25,941</u>	<u>31,067</u>
Net cash provided by operating activities	<u><u>\$ 190,391</u></u>	<u><u>\$ 232,016</u></u>

Notes to financial statements are an integral part of these statements.

SPERRY UTILITY SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

-1-

1. Organization

Sperry Utility Services Authority is a public trust created October 12, 1970, for the benefit of the citizens of and around the Town of Sperry, Oklahoma. The purpose of the trust is to institute, furnish, provide, distribute and supply gaseous fuels, water, trash pickup services, garbage pickup services, and sewage treating and disposal services for the area of and around the Town of Sperry, Oklahoma. The Trustees of the Authority include the three members of the Town Board and two Trustees appointed by the Town Board. The Town of Sperry is the beneficiary of the Trust.

2. Summary of Significant Accounting Policies

Accounting policies of the Authority conform to generally accepted accounting principles. A summary of these accounting policies that affect the more significant elements of the Authority's financial statements are set forth below.

Basis of Presentation

The Authority accounts for operations that are financed and operated in a manner similar to a private business enterprise, with the intent of the governing body that the costs, including depreciation, of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The Authority utilizes the accrual basis of accounting, where revenues are recognized when they are earned and expenses when they are incurred.

Cash

For the purposes of the balance sheet and statement of cash flows, cash includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three-months or less. All deposits are collateralized or in Trust Funds.

Allowance for Bad Debts

The allowance for bad debts is calculated by multiplying a ratio, computed by dividing actual bad debts for the current year and previous four years by billed revenues for the previous five years, times the current year billed revenues.

SPERRY UTILITY SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

-2-

2. Summary of Significant Accounting Policies Continued

Inventories

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

Property, Equipment and Depreciation

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over the useful lives of the assets which have been estimated as follows:

Gas, water and sewer	24 years
Building	25 years
Building improvements	10 years
Equipment	5 to 10 years

3. Property and Equipment

The following is a summary of property and equipment at June 30, 2012:

Land	\$ 89,531
Gas system	719,297
Sewer and water system	1,263,170
Equipment	206,173
Buildings	48,712
Building improvements	11,748
	<u>\$2,338,631</u>
Less accumulated depreciation	1,461,630
	<u><u>\$ 877,001</u></u>

The property and equipment is pledged to secure the Revenue Bonds and note.

SPERRY UTILITY SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

-3-

4. Revenue Bonds Payable

On February 7, 2011, the Authority renegotiated the 1994 and 1997 bonds issued into one issue. The remaining terms are for sixty monthly payments of \$12,339.00 including the interest at four percent. The amount of bonds outstanding was \$670,000.00.

The Revenue Bonds are secured by a pledge of the gross revenues derived from the Authority's operation of the Utility system, all rights, titles and interest of the Authority in and to the Utility system, the interest of the Authority in the lease agreement with the Town of Sperry and all funds and accounts created by the bond indenture.

5. Annual Debt Service Requirements – 5 Years

	BONDS	NOTES	COMBINED INTEREST	TOTAL
2013	\$129,998	\$10,874	\$24,399	\$165,271
2014	135,369	11,158	18,743	165,270
2015	140,963	11,450	12,858	165,271
2016	98,258	11,735	6,987	116,980
2017	--	12,058	5,145	17,203
	504,588	57,275	68,132	629,995
2018-22	--	65,180	20,835	86,015
2023-27	--	74,176	11,689	85,865
2028-30	--	49,333	2,276	51,609
	\$504,588	\$245,964	\$102,932	\$853,484

6. Note-Payable

The town has secured an Oklahoma Water Resources Board loan to upgrade the sewer system. The amount of the loan is \$269,568 to be repaid in semi-annual installments for twenty years, at 2.58% interest rate. The note is secured by a security agreement pledging the System revenue.

SPERRY UTILITY SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

-4-

7. Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the period. Actual results could differ from those estimates.

8. Lease Agreements

On October 1, 1974, the Town of Sperry leased to the Authority its then existing and thereafter-acquired water, sewer and solid waste disposal systems for a term ending November 20, 1999, or until such date as all indebtedness incurred by the Authority has been paid or provisions for payment has been made. Also, on February 1, 1994, the Town of Sperry leased to the Authority its then existing and thereafter-acquired gas system for a term ending January 19, 2044, or until such date as all indebtedness payable from the revenues of the gas system has been paid or provision for payment has been made. Lease payments paid to the Town of Sperry for the year ended June 30, 2012, were \$53,400.

JIM RUSH

CERTIFIED PUBLIC ACCOUNTANT
9726 East 42nd Street, Suite 230
Tulsa, Oklahoma 74146-3674
Telephone (918) 664-9190

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

Board of Trustees
Sperry Utility Services Authority
Sperry, Oklahoma

We have audited the component unit financial statements of Sperry Utility Services Authority, Town of Sperry, Oklahoma, for the year ended June 30, 2012, and have issued our report thereon dated July 24, 2012. Sperry Utility Services Authority 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 part of, the basic financial statements. 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.

Internal Control over Financial Reporting

Management of Sperry Utility Service Authority, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Sperry Utility Service Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 Sperry Utility Service Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sperry Utility Service Authority'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sperry Utility Service Authority'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, Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant
Tulsa, Oklahoma

July 24, 2012