

SPERRY UTILITY SERVICES AUTHORITY

SPERRY, OKLAHOMA

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Sperry Utility Services Authority, a component unit of the Town of Sperry, Oklahoma, as of and for the years ended June 30, 2015 and June 30, 2014, and the related notes to the 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 State 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 audits. We conducted our audits 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 opinion.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sperry Utility Services Authority, a component unit of the Town of Sperry, Oklahoma, as of June 30, 2015 and June 30, 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Sperry Utility Services Authority and do not purport to, and do not present fairly the financial position of the Town of Sperry, Oklahoma as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The Sperry Utility Services Authority has not presented a management's discussion and analysis or an annual budget 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2015, on our consideration of the Sperry Utility Services Authority, Sperry, Oklahoma'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 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 Sperry Utility Services Authority, Sperry, Oklahoma's internal control over financial reporting and compliance



Certified Public Accountant
Tulsa, Oklahoma

July 25, 2015

SPERRY UTILITY SERVICES AUTHORITY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

<u>ASSETS</u>		
	<u>2015</u>	<u>2014</u>
<u>Current Assets:</u>		
Cash	\$ 234,927	\$ 188,394
Certificate of Deposit	40,000	40,000
Accounts receivable, less allowance for bad debts of \$8,691 in 2015 and \$8,379 in 2014	64,755	71,305
Prepaid expenses	2,002	11,249
Accrued interest receivable	111	111
Total Current Assets	<u>\$ 341,795</u>	<u>\$ 311,059</u>
<u>Restricted Assets (Notes 4 and 5): Cash with Fiscal Agents:</u>		
Debt service funds	\$ 44,128	\$ 39,638
<u>Meter Deposits:</u>		
Cash	\$ 18,791	\$ 18,773
Certificates of Deposit	74,060	74,060
	<u>92,851</u>	<u>92,833</u>
Total Restricted Assets	<u>\$ 136,979</u>	<u>\$ 132,471</u>
Property and Equipment, pledged, less accumulated depreciation of \$1,653,785 in 2015 and \$1,557,912 in 2014 (Notes 3, 4 and 6)	<u>\$ 723,728</u>	<u>\$ 809,951</u>
	<u>\$1,202,502</u>	<u>\$1,253,481</u>

LIABILITIES AND RETAINED EARNINGS

	<u>2015</u>	<u>2014</u>
<u>Current Liabilities:</u>		
Accounts payable	\$ 34,361	\$ 30,923
Payroll taxes and taxes payable	5,219	5,053
Accrued payroll and vacations payable	12,100	10,859
Current portion of Revenue Bonds and note payable (Notes 4 and 6)	109,993	152,413
Accrued interest payable	1,851	2,059
Meter deposits	93,340	92,635
Total Current Liabilities	<u>\$ 256,864</u>	<u>\$ 293,942</u>
 Long-term debt – Revenue Bonds (Note 4)	 --	 98,258
Note payable – OWRB (Note 6)	200,747	212,483
	<u>200,747</u>	<u>310,741</u>
 Retained earnings	 744,891	 648,798
	<u>\$1,202,502</u>	<u>\$1,253,481</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>Revenues, Pledged (Notes 4 and 6):</u>		
Gas	\$ 384,043	\$ 431,272
Water	342,023	327,054
Sewer	160,839	157,211
Trash	105,843	105,732
Penalties	14,305	15,407
Tap fees	600	2,100
Grant	27,325	--
Other	16,142	12,626
	<u>\$1,051,120</u>	<u>\$1,051,402</u>
<u>Expenses:</u>		
Gas purchases	\$ 174,154	\$ 212,787
Water purchases	174,884	147,794
Trash services	82,211	82,196
Utility lease	40,800	40,800
Salaries	167,468	167,348
Payroll taxes	14,434	14,108
Repairs and maintenance	57,498	51,867
Contract labor	12,325	10,940
Auto expense	8,260	8,776
Utilities	11,181	11,542
Telephone	8,222	7,382
Office supplies and expense	22,002	16,113
Legal and accounting	9,238	9,038
Insurance	41,941	38,599
Bad debts	4,288	7,042
Depreciation	95,873	96,474
Other and education	9,567	19,248
Engineering, licenses, fees and grants	8,861	3,809
	<u>\$ 943,207</u>	<u>\$ 945,863</u>
Income from Operations	\$ 107,913	\$ 105,539
Non-operating revenues (expense):		
Interest revenue	851	876
Interest expense	< 12,671>	< 16,917>
	<u><\$ 11,820></u>	<u><\$ 16,041></u>
Net income (loss)	\$ 96,093	\$ 89,498
Retained earnings, beginning of year	648,798	\$ 559,300
Retained earnings, end of year	<u>\$ 744,891</u>	<u>\$ 648,798</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash received from customers	\$1,056,437	\$1,040,655
Cash payment expenses	< 831,413>	< 866,922>
Net cash provided by (used in) operating activities	<u>\$ 225,024</u>	<u>\$ 173,733</u>
Cash flows from capital and related financing activities:		
Capital expenditures	<\$ 9,750>	<\$ 70,658>
Principal payment on revenue bonds and note	< 152,413>	< 146,527>
Interest paid on revenue bonds	< 12,671>	< 16,917>
Net cash provided for (used in) financing activities	<u><\$ 174,834></u>	<u><\$ 234,102></u>
Cash flows from investing activities:		
Interest received	<u>\$ 851</u>	<u>\$ 876</u>
Net cash provided by investing	<u>\$ 851</u>	<u>\$ 876</u>
Net increase <decrease> in cash	<u>\$ 51,041</u>	<u><\$ 59,493></u>
Cash, beginning of year	<u>\$ 360,865</u>	<u>\$ 420,358</u>
Cash, end of year	<u><u>\$ 411,906</u></u>	<u><u>\$ 360,865</u></u>
Reconciliation of operating income to net cash provided by operating activities	\$ 107,913	\$ 105,539
Depreciation	95,873	96,474
Changes in operating assets and liabilities		
Accounts receivables	6,550	< 10,747>
Other assets	9,247	< 8,912>
Current liabilities	<u>5,441</u>	<u>< 8,621></u>
Net cash provided by operating activities	<u><u>\$ 225,024</u></u>	<u><u>\$ 173,733</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, 2015 AND 2014

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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 five 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, 2015 AND 2014

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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

Pension Plan

Employees of the Authority have no pension plan.

3. Property and Equipment

The following is a summary of property and equipment at June 30, 2015:

Land	\$ 89,531
Gas system	709,671
Sewer and water system	1,335,628
Equipment	183,348
Buildings	48,712
Building improvements	10,623
	<u>\$2,377,513</u>
Less accumulated depreciation	1,653,785
	<u><u>\$ 723,728</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, 2015 AND 2014

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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
2016	\$98,258	\$ 11,735	\$ 6,987	\$116,980
2017	--	12,058	5,145	17,203
2018	--	12,373	4,830	17,203
2019	--	12,697	4,506	17,203
2020	--	13,018	4,185	17,203
	98,258	61,881	25,653	185,792
2021-25	--	70,439	15,576	86,015
2026-30	--	80,162	5,703	85,865
	<u>\$98,258</u>	<u>\$212,482</u>	<u>\$46,932</u>	<u>\$357,672</u>

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, 2015 AND 2014

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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, 2015, were \$40,800.

*Member of the American Institute
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Trustees
Sperry Utility Services Authority
Town of Sperry, 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 financial statements of the Sperry Utility Services Authority, a component unit of the Town of Sperry, Oklahoma, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, and have issued our report thereon dated July 25, 2015. Sperry Utility Services Authority has not presented a management's discussion and analysis or an annual budget 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.

Internal Control Over Financial Reporting

In planning and performing our audits of the financial statements, we considered Sperry Utility Services Authority, Sperry, Oklahoma'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 Sperry Utility Services Authority, Sperry, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of Sperry Utility Services Authority, Sperry, Oklahoma'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.

Board of Trustees
Sperry Utility Services Authority
Town of Sperry, Oklahoma
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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 audits 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 Sperry Utility Services Authority, Sperry, Oklahoma's financial statements are free from 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 audits, 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*.

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.



Certified Public Accountant
Tulsa, Oklahoma

July 25, 2015