

SPERRY UTILITY SERVICES AUTHORITY

SPERRY, OKLAHOMA

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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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, 2016 and June 30, 2015, 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, 2016 and June 30, 2015, 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, 2016 and 2015, 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, 2016, 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, 2016

SPERRY UTILITY SERVICES AUTHORITY
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

<u>ASSETS</u>		
	<u>2016</u>	<u>2015</u>
<u>Current Assets:</u>		
Cash	\$ 182,204	\$ 234,927
Certificate of Deposit	40,000	40,000
Accounts receivable, less allowance for bad debts of \$6,192 in 2016 and \$8,691 in 2015	69,374	64,755
Prepaid expenses	7,138	2,002
Accrued interest receivable	111	111
Total Current Assets	<u>\$ 298,827</u>	<u>\$ 341,795</u>
 <u>Restricted Assets (Notes 4 and 5): Cash with Fiscal Agents:</u>		
Debt service funds	\$ 4,490	\$ 44,128
 <u>Meter Deposits:</u>		
Cash	\$ 19,752	\$ 18,791
Certificates of Deposit	74,060	74,060
	<u>\$ 93,812</u>	<u>\$ 92,851</u>
 Total Restricted Assets	<u>\$ 98,302</u>	<u>\$ 136,979</u>
 Property and Equipment, pledged, less accumulated depreciation of \$1,746,446 in 2016 and \$1,653,785 in 2015 (Notes 2, 3, and 4)	<u>\$ 631,067</u>	<u>\$ 723,728</u>
	<u>\$1,028,196</u>	<u>\$1,202,502</u>

LIABILITIES AND RETAINED EARNINGS

	<u>2016</u>	<u>2015</u>
<u>Current Liabilities:</u>		
Accounts payable	\$ 42,815	\$ 34,361
Payroll taxes and taxes payable	6,228	5,219
Accrued payroll and vacations payable	13,616	12,100
Current portion of Revenue Bonds and note payable (Notes 4 and 5)	12,058	109,993
Accrued interest payable	1,295	1,851
Meter deposits	93,075	93,340
Total Current Liabilities	<u>\$ 169,087</u>	<u>\$ 256,864</u>
 <u>Long-term Debt :</u>		
Note payable – OWRB (Note 4)	<u>188,750</u>	<u>200,747</u>
	<u>188,750</u>	<u>200,747</u>
 Retained earnings	<u>670,359</u>	<u>744,891</u>
	<u>\$1,028,196</u>	<u>\$1,202,502</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<u>Revenues, Pledged (Note 4):</u>		
Gas	\$ 324,455	\$ 384,043
Water	342,148	342,023
Sewer	160,722	160,839
Trash	106,531	105,843
Penalties	13,694	14,305
Tap fees	2,250	600
Grant	102,297	27,325
Other	9,304	16,142
	<u>\$1,061,401</u>	<u>\$1,051,120</u>
<u>Expenses:</u>		
Gas purchases	\$ 137,326	\$ 174,154
Water purchases	216,243	174,884
Trash services	80,845	82,211
Utility lease	58,021	40,800
Salaries	209,846	167,468
Payroll taxes	16,503	14,434
Repairs and maintenance	93,402	57,498
Contract labor	11,575	12,325
Auto expense	4,029	8,260
Utilities	10,398	11,181
Telephone	9,312	8,222
Office supplies and expense	16,496	22,002
Legal and accounting	8,945	9,238
Insurance	47,422	41,941
Bad debts	1,269	4,288
Depreciation	92,661	95,873
Grant	102,297	9,567
Engineering, licenses, and fees	13,118	8,861
	<u>\$1,129,708</u>	<u>\$ 943,207</u>
Income (Loss) from Operations	<\$ 68,307>	\$ 107,913
Non-operating revenues (expense):		
Interest revenue	779	851
Interest expense	< 7,004>	< 12,671>
Transfer to General Fund	<\$ 6,225>	<\$ 11,820>
Net income (loss)	<\$ 74,532>	\$ 96,093
Retained earnings, beginning of year	\$ 744,891	648,798
Retained earnings, end of year	<u>\$ 670,359</u>	<u>\$ 744,891</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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash received from customers	\$1,056,782	\$1,056,437
Cash payment expenses	<1,031,964>	< 831,413>
Net cash provided by (used in) operating activities	<u>\$ 24,818</u>	<u>\$ 225,024</u>
Cash flows from capital and related financing activities:		
Capital expenditures	--	<\$ 9,750>
Principal payment on revenue bonds and note	< 109,993>	< 152,413>
Interest paid on revenue bonds	< 7,004>	< 12,671>
Net cash provided for (used in) financing activities	<u><\$ 116,997></u>	<u><\$ 174,834></u>
Cash flows from investing activities:		
Interest received	<u>\$ 779</u>	<u>\$ 851</u>
Net cash provided by investing	<u>\$ 779</u>	<u>\$ 851</u>
Net increase <decrease> in cash	<u><\$ 91,400></u>	<u>\$ 51,041</u>
Cash, beginning of year	<u>\$ 411,906</u>	<u>\$ 360,865</u>
Cash, end of year	<u><u>\$ 320,506</u></u>	<u><u>\$ 411,906</u></u>
Reconciliation of operating income to net cash provided by operating activities	<\$ 68,307>	\$ 107,913
Depreciation	92,661	95,873
Changes in operating assets and liabilities		
Accounts receivables	< 4,619>	6,550
Other assets	< 5,136>	9,247
Current liabilities	<u>10,219</u>	<u>5,441</u>
Net cash provided by operating activities	<u><u>\$ 24,818</u></u>	<u><u>\$ 225,024</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, 2016 AND 2015

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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, 2016 AND 2015

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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, 2016:

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	1,746,446
	<u><u>\$ 631,067</u></u>

The property and equipment is pledged to secure the note.

SPERRY UTILITY SERVICES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

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4. 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.

5. Annual Debt Service Requirements – 5 Years

	<u>NOTE</u>	<u>INTEREST</u>	<u>TOTAL</u>
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
2021	13,371	3,832	17,203
	<u>63,517</u>	<u>22,498</u>	<u>86,015</u>
2022-26	72,284	13,731	86,015
2027-30	<u>65,007</u>	<u>3,865</u>	<u>68,872</u>
	<u>\$200,808</u>	<u>\$40,094</u>	<u>\$240,902</u>

6. 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.

7. 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, 2016, were \$58,021.

*Member of the American Institute
of Certified Public Accountants*

*Member of the Oklahoma Society
of Certified Public Accountants*

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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, 2016 and 2015, and the related notes to the financial statements, and have issued our report thereon dated July 25, 2016. 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, 2016