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State Auditor & Inspector

SPERRY UTILITY SERVICES AUTHORITY

RECEIPT #  
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SPERRY, OKLAHOMA

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

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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, 2011 and 2010, 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.

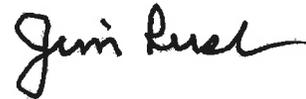
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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, 2011 and 2010, 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 20, 2011, 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 20, 2011

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LIABILITIES AND RETAINED EARNINGS

	<u>2011</u>	<u>2010</u>
<u>Current Liabilities:</u>		
Accounts payable	\$ 29,691	\$ 38,197
Payroll taxes payable	4,124	4,171
Sales taxes payable	459	501
Accrued payroll and vacations payable	8,927	6,010
Current portion of Revenue Bonds and note payable (Notes 4 and 6)	135,360	80,000
Accrued interest payable	3,680	22,525
Meter deposits	88,055	87,825
Total Current Liabilities	<u>\$ 270,296</u>	<u>\$ 239,229</u>
Long-term debt – Revenue Bonds (Note 4)	504,588	700,000
Note payable – OWRB (Note 6)	245,964	284,295
	<u>750,552</u>	<u>984,295</u>
Retained earnings	<u>\$ 497,882</u>	<u>\$ 456,224</u>
	 <u>\$1,518,730</u>	 <u>\$1,679,748</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>Revenues, Pledged (Notes 4 and 6):</u>		
Gas	\$ 405,388	\$ 480,495
Water	314,046	279,768
Sewer	148,510	130,871
Trash	105,919	102,697
Penalties	14,998	17,755
Tap fees	2,550	3,000
Grant	76,143	44,289
Other	11,296	25,903
	<u>\$1,078,850</u>	<u>\$1,084,778</u>
<u>Expenses:</u>		
Gas purchases	\$ 186,697	\$ 263,239
Water purchases	159,605	135,720
Trash services	81,913	80,393
Utility lease	40,800	60,800
Salaries	160,382	128,573
Payroll taxes	13,055	10,458
Repairs and maintenance	80,657	86,517
Contract labor	6,855	15,376
Auto expense	3,585	5,337
Utilities	11,712	10,055
Telephone	5,827	5,682
Office supplies and expense	17,005	14,882
Legal and accounting	10,780	7,783
Insurance	17,810	11,820
Bad debts	4,957	14,473
Depreciation	101,146	74,135
Other and education	14,936	5,799
Engineering, licenses and fees	58,422	27,824
	<u>\$ 976,144</u>	<u>\$ 958,866</u>
Income from Operations	\$ 102,706	\$ 125,912
<u>Non-operating revenues (expense):</u>		
Interest revenue	2,777	3,790
Interest expense	< 44,701>	< 52,915>
Amortization of bond discount and issue costs	< 19,124>	< 4,154>
	<u>&lt;\$ 61,048&gt;</u>	<u>&lt;\$ 53,279&gt;</u>
Net income (loss)	\$ 41,658	\$ 72,633
Retained earnings, beginning of year	\$ 456,224	\$ 383,591
Retained earnings, end of year	<u>\$ 497,882</u>	<u>\$ 456,224</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, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$1,079,424	\$1,092,323
Cash payment expenses	< 847,408>	< 872,900>
Net cash provided by (used in) operating activities	<u>\$ 232,016</u>	<u>\$ 219,423</u>
Cash flows from capital and related financing activities:		
Capital expenditures	<\$ 43,282>	<\$ 358,347>
Principal payment on revenue bonds and note	< 233,742>	< 45,000>
Interest paid on revenue bonds	< 44,701>	< 52,915>
Net cash provided for (used in) financing activities	<u>&lt;\$ 321,725&gt;</u>	<u>&lt;\$ 456,262&gt;</u>
Cash flows from investing activities:		
Interest received	\$ 2,777	\$ 3,790
Note advances	0	284,295
Net cash provided by investing	<u>\$ 2,777</u>	<u>\$ 288,085</u>
Net increase <decrease> in cash	<u>&lt;\$ 86,932&gt;</u>	<u>\$ 51,246</u>
Cash, beginning of year	<u>\$ 572,828</u>	<u>\$ 521,582</u>
Cash, end of year	<u>\$ 485,896</u>	<u>\$ 572,828</u>
Reconciliation of operating income to net cash provided by operating activities	\$ 102,706	\$ 125,912
Depreciation	101,146	74,135
Changes in operating assets and liabilities		
Accounts receivables	< 574>	7,545
Other assets	< 2,329>	3,507
Current liabilities	31,067	8,324
Net cash provided by operating activities	<u>\$ 232,016</u>	<u>\$ 219,423</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, 2011 AND 2010

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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 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, 2011 AND 2010

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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

Bond Discount and Issue Costs

The 1994 and 1997 Revenue Bonds discount and issue costs are stated at cost. Amortization is computed using the straight-line method over the term of the bonds which ended this year.

3. Property and Equipment

The following is a summary of property and equipment at June 30, 2011:

Land	\$ 89,531
Gas system	719,297
Sewer and water system	1,263,170
Equipment	196,674
Buildings	48,712
Building improvements	11,748
	<u>\$2,329,132</u>
Less accumulated depreciation	1,366,793
	<u>\$ 962,339</u>

SPERRY UTILITY SERVICES AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

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3. Property and Equipment Continued

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

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

	<u>BONDS</u>	<u>NOTES</u>	<u>COMBINED INTEREST</u>	<u>TOTAL</u>
2012	\$124,781	\$ 10,579	\$ 29,911	\$ 165,271
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
	629,369	55,796	92,898	778,063
2017-21	--	63,517	22,498	86,015
2022-26	--	72,284	13,731	86,015
2027-30	--	64,946	3,716	68,662
	<u>\$629,369</u>	<u>\$256,543</u>	<u>\$132,843</u>	<u>\$1,018,755</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, 2011 AND 2010

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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, 2011, were \$40,800.

**JIM RUSH**  
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REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE 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, 2011, and have issued our report thereon dated July 20, 2011. 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

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Sperry Utility Services Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Sperry Utility Services Authority's financial statements that is more than inconsequential will not be prevented or detected by Sperry Utility Services Authority's internal control.

Board of Trustees  
Sperry Utility Services Authority  
July 20, 2011  
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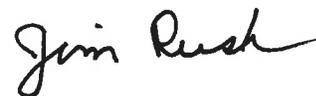
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Sperry Utility Services Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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

As part of obtaining reasonable assurance about whether Sperry Utility Services 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 the Board of Trustees, management 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 20, 2011

TOWN OF SPERRY, OKLAHOMA  
SPERRY UTILITY SERVICES AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011

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QUESTIONED COSTS

None