

**STICK ROSS MOUNTAIN  
WATER COMPANY, INC.  
Tahlequah, Oklahoma**

**Financial Statements  
&  
Audit Report**

**June 30, 2009**

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INDEPENDENT AUDITOR'S REPORT  
ON FINANCIAL STATEMENTS

Board of Directors  
Stick Ross Mt. Water Co., Inc.  
Tahlequah, OK 74464

I have audited the accompanying financial statements of the business-type activities of the Stick Ross Mt. Water Co., Inc. (the District), as of and for the year ended June 30, 2009, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit 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 the management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

The District did not include a Management Discussion and Analysis report that accounting principles generally accepted in the United States of America require 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, 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.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the District as of June 30, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued a report dated September 26, 2012, on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 read in conjunction with this report in considering the results of my audit.



Michael Green  
Certified Public Accountant

September 26, 2012

**STICK ROSS MT. WATER CO., INC.**  
**Statement of Net Assets**  
**June 30, 2009**

**ASSETS**

**CURRENT ASSETS:**

Cash - Operations	\$ 24,734
Investments	110,360
Accounts Receivable	77,904
Miscellaneous Receivable	-
Inventories	25,959
Deposits	90
Prepaid Insurance	<u>5,425</u>

**TOTAL CURRENT ASSETS** 244,472

**NONCURRENT ASSETS:**

Land	77,990
Equipment	142,604
Water Distribution System	2,239,035
Water Storage Rights	92,041
Accumulated Depreciation	<u>(855,070)</u>

**TOTAL NONCURRENT ASSETS** 1,696,600

**TOTAL ASSETS** \$ 1,941,072

**LIABILITIES**

**CURRENT LIABILITIES**

Accounts Payable	23,858
Payroll Taxes Payable	14,563
Customer Funds Payable	
Current Portion of Long-Term Debt	<u>\$ 54,941</u>

**TOTAL CURRENT LIABILITIES** 93,362

**NONCURRENT LIABILITIES**

Notes Payable Armstrong - Less Current Portion	444,714
Notes Payable USCE - Less Current Portion	<u>85,794</u>

**TOTAL NONCURRENT LIABILITIES** 530,508

**TOTAL LIABILITIES** 623,870

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	1,111,151
Net Assets: Unrestricted	<u>206,051</u>

**TOTAL NET ASSETS** \$ 1,317,202

The notes are an integral component of the financial statements.

**STICK ROSS MT WATER CO., INC.**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**For the Year Ended June 30, 2009**

**OPERATING REVENUE:**

**Charges for Services:**

Water Sales	\$ 492,226
Late Charges	24,590
Reconnect Fees	11,050
Returned Check Charges	900
Other Fees & Charges	-

<b>TOTAL OPERATING REVENUE</b>	<u>528,766</u>
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**OPERATING EXPENSES:**

Water Purchased	201,691
Employee Expense	121,701
Contract Labor	250
Depreciation	66,690
Repairs & Maintenance	7,943
Insurance and Bonds	12,840
Supplies	64,017
Legal & Professional	26,055
Bank Charges	2,840
Telephone	7,920
Utilities	12,398
Fuel Charges	10,435
Advertising	629
Water Storage Rights	279
Postage	6,905
Engineering Services	-
Meals	1,032
Licenses	190
Water Testing Fees	1,130
Equipment Rental	8,843
Dues & Subscriptions	4,889
Vehicle Expense	3,346
Rent	25
Office Expense	4,057
Miscellaneous Expense	2,106
Bad Debts	6,553

<b>TOTAL OPERATING EXPENSES</b>	<u>574,764</u>
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<b>NET INCOME FROM OPERATIONS</b>	<u>(45,998)</u>
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**NONOPERATING REVENUE (EXPENSE):**

Interest Income	3,242
Miscellaneous Income	-
Membership/Connect Income	23,404
Interest Expense	(29,571)

<b>TOTAL NONOPERATING REVENUE &amp; EXPENSE</b>	<u>(2,925)</u>
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<b>NET INCOME</b>	(48,923)
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<b>NET ASSETS, BEGINNING OF YEAR</b>	1,366,125
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<b>NET ASSETS, END OF YEAR</b>	<u>\$ 1,317,202</u>
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The notes are an integral component of the financial statements.

**STICK ROSS MT WATER CO., INC.**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2009**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from Customers	\$ 523,842
Payments to Suppliers	(384,906)
Payments to Employees	(121,701)
	<u>17,235</u>
<b>Net Cash Provided (used) by Operating Activities</b>	
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Additions to Capital Assets	(58,773)
Proceeds from long-term Debt	
Principal Paid on Capital Debt	(55,923)
Interest Paid on Capital Debt	(29,571)
	<u>(144,267)</u>
<b>Net Cash Provided (used) by Capital and Related Financing Activities</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Membership Income	23,404
Miscellaneous Income	-
Interest Income	3,242
	<u>26,646</u>
<b>Net Cash Provided (used) by Investing Activities</b>	
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	
	(100,386)
<b>CASH &amp; CASH EQUIVALENTS - BEGINNING OF THE YEAR</b>	
	235,480
<b>CASH &amp; CASH EQUIVALENTS - END OF THE YEAR</b>	
	<u>\$ 135,094</u>

The notes are an integral component of the financial statements.

**STICK ROSS MT WATER CO., INC.**  
**Statement of Cash Flows -Cont.**  
**For the Year Ended June 30, 2009**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH  
PROVIDED (USED) BY OPERATING ACTIVITIES**

Operating Income	\$ (45,998)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided (used) by Operating Activities:</b>	
Depreciation Expense	66,690
<b>Change in Assets and Liabilities:</b>	
Accounts Receivable	(4,925)
Prepaid Insurance & Inventories	(13,346)
Accounts Payable & Accrued Liabilities	14,814
	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 17,235</u>

The notes are an integral component of the financial statements.



**Stick Ross Mountain Water Company, Inc.**  
**Notes to the Financial Statements**

The Stick Ross Mountain Water Company, Inc. (the District) was organized under the Rural Water District Act of Oklahoma for the purpose of acquiring water and water rights, and to build and acquire pipelines and other facilities and to operate the same for the purpose of furnishing water to serve the need of owners and occupants of land located within the district.

Note 1.: Summary of Significant Accounting Policies

Basis of Presentation

*Government-wide Financial Statements:*

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Since the water district is engaged only in business type activities it is not required to present government-wide statements.

*Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the water district or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the water district are described below:

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the cost (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 (b) where the governing body has decided

that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The water district believes that its fund is in this category since it relates to or provides for a business type activity.

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

### Measurement Focus and Basis of Accounting

#### *Measurement Focus*

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities would be presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

#### A. Basis Of Accounting

The financial statements of the District, have been prepared on the accrual basis of accounting. The accrual basis of accounting recognizes revenue when it is earned rather than received, and recognizes expenditures when they are incurred rather than paid.

#### B. Accounts Receivable

Accounts receivable consist of trade receivables. An allowance for bad debts has not been established, however, bad debts that appear to be uncollectible are written off at the end of the year. The direct write-off method is used for this purpose.

C. Cash & Cash Equivalents

The Water District has a policy of recognizing investments in CDs or savings that mature within 90 days of the financial statement date as cash or cash equivalents. For the purposes of the cash flows statements, any reserve cash, is considered to be a cash equivalent. At year end the balance of cash was \$135,094 all of which was secured by FDIC.

D. Income Taxes

The Water District is exempt from paying income taxes under the Internal Revenue Code Section 115.

E. Inventories

The Water District maintains a small inventory of field supplies valued at \$ 25,959. All other materials are expensed when they are purchased.

F. Additions & Deletions to Fixed Assets

During the course of the year the Water District added the following fixed assets:

Distribution System-Fence	\$ 33,524.00
Equipment	\$ 25,250.00

G. Fixed Assets

Property, plant and equipment are stated at their historical cost. Depreciation is recorded using the straight-line method over the useful life of the asset.

	Balance at June 20, 2008	Additions	Deletions	Balance at June 20, 2009
Land	\$ 77,990			77,990
Equipment	117,354	25250		142,604
Water Storage Rights	92,041			92,041
Water Distribution System	2,205,512	33524		2,239,036
Accumulated Depreciation	(788,381)	(66,690)		(855,071)
Net Fixed Assets	\$ 1,704,516	(7,916)	-	1,696,600

H. Long-Term Debt

The District has established a loan with Armstrong Bank for the construction of a water tower and improvements. The total loan amount will be \$ 701,300.00. As of June 30, 2009, the District had a principal balance of \$ 497,974.35.

The District has established a loan agreement with USACE Finance Center for the reallocation of water storage space in Tenkiller Ferry Lake, Oklahoma. The total loan is for 92,041.00 and is to be repaid in annual payments at the interest rate of 5.125. As of June 30, 2009 the principal balance is \$ 87,474.74

Principal maturities are as follows:

	Armstrong Bank Principal	USACE Finance Center
2010	53,260	1,681
2011	56,265	1,767
2012	59,439	1,858
2013	62,791	1,953
2014	\$ 66,333	2,053
Thereafter	199,886	78,163
Total	497,974	87,475

I. Claims and Judgements

From time to time the District participates in federal and state programs that may be fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to non-compliance with grant program regulations, the District may be required to reimburse the grantor government. No provision is made in the financial statements for these possible contingencies.

J. Pension Plans

The Water District does not provide retirement benefits to its employees other than the payroll payments to the social security retirement system.

K. Compensated absences

The Water district has no material compensated absence amounts.

L. Subsequent Events

Subsequent events have been evaluated through September 26, 2012, which is the date the financial statements were available to be issued.

**MICHAEL W. GREEN**  
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(918) 696-6298

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 Directors  
Stick Ross Mt. Water Co., Inc.  
Tahlequah, OK 74464

I have audited the financial statements of the business-type activities of the Stick Ross Mt. Water Co., Inc. (the District), as of and for the year ended June 30, 2009, which collectively comprise the Water District's basic financial statements and have issued my report thereon dated September 26, 2012. My report included a paragraph stating that the District did not include the management discussion and analysis report that accounting principles generally accepted in the United States of America require to be presented. I conducted my 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 my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Water District'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.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws,

regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of the District, in a separate letter dated September 26, 2012.

This report is intended for the information of the Board of directors, management and federal and state awarding agencies and is not intended to be used by anyone other than these specified parties.



Michael Green, CPA  
September 26, 2012