

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

**Financial Statements
&
Audit Report**

June 30, 2010

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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, 2010, 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, 2010, 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, 2010

ASSETS

CURRENT ASSETS:

Cash - Operations	\$ 44,314
Investments	112,471
Accounts Receivable	95,179
Miscellaneous Receivable	-
Inventories	26,093
Deposits	90
Prepaid Insurance	<u>7,465</u>

TOTAL CURRENT ASSETS 285,612

NONCURRENT ASSETS:

Land	77,990
Equipment	150,290
Water Distribution System	2,239,036
Water Storage Rights	92,041
Accumulated Depreciation	<u>(924,863)</u>

TOTAL NONCURRENT ASSETS 1,634,494

TOTAL ASSETS \$ 1,920,106

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	28,673
Payroll Taxes Payable	13,161
Customer Funds Payable	
Current Portion of Long-Term Debt	<u>\$ 59,110</u>

TOTAL CURRENT LIABILITIES 100,944

NONCURRENT LIABILITIES

Notes Payable Armstrong - Less Current Portion	374,660
Notes Payable USCE - Less Current Portion	<u>81,659</u>

TOTAL NONCURRENT LIABILITIES 456,319

TOTAL LIABILITIES 557,263

NET ASSETS

Invested in Capital Assets, Net of Related Debt	1,119,065
Net Assets: Unrestricted	<u>243,778</u>

TOTAL NET ASSETS \$ 1,362,843

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, 2010

OPERATING REVENUE:

Charges for Services:

Water Sales	\$ 587,699
Late Charges	25,771
Reconnect Fees	14,700
Returned Check Charges	2,437
Other Fees & Charges	13,882

TOTAL OPERATING REVENUE	<u>644,489</u>
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OPERATING EXPENSES:

Water Purchased	212,119
Employee Expense	124,737
Payroll Tax	10,353
Depreciation	69,793
Repairs & Maintenance	7,118
Insurance and Bonds	17,508
Supplies	53,969
Legal & Professional	26,817
Bank Charges	3,109
Telephone	10,328
Utilities	21,307
Fuel Charges	11,258
Postage	7,091
Meals	623
Licenses	2,071
Water Testing Fees	4,980
Equipment Rental	5,112
Dues & Subscriptions	2,495
Vehicle Expense	2,155
Rent	300
Office Expense	7,133
Miscellaneous Expense	1,498
Civil Penalty	6,001

TOTAL OPERATING EXPENSES	<u>607,875</u>
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NET INCOME FROM OPERATIONS	<u>36,614</u>
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NONOPERATING REVENUE (EXPENSE):

Interest Income	2,189
Miscellaneous Income	365
Membership/Connect Income	27,501
Interest Expense	(21,028)

TOTAL NONOPERATING REVENUE & EXPENSE	<u>9,027</u>
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NET INCOME	45,641
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NET ASSETS, BEGINNING OF YEAR	1,317,202
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NET ASSETS, END OF YEAR	<u>\$ 1,362,843</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, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 627,214
Payments to Suppliers	(401,753)
Payments to Employees	(135,090)
	Net Cash Provided (used) by Operating Activities
	90,371
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions to Capital Assets	(7,686)
Proceeds from long-term Debt	
Principal Paid on Capital Debt	(70,020)
Interest Paid on Capital Debt	(21,028)
	Net Cash Provided (used) by Capital and Related Financing Activities
	(98,734)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Membership Income	27,501
Miscellaneous Income	364
Interest Income	2,189
	Net Cash Provided (used) by Investing Activities
	30,054
	 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
	 21,691
	 CASH & CASH EQUIVALENTS - BEGINNING OF THE YEAR
	 135,094
	CASH & CASH EQUIVALENTS - END OF THE YEAR
	\$ 156,785

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, 2010

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

Operating Income	\$ 36,614
Adjustments to Reconcile Operating Income to Net Cash Provided (used) by Operating Activities:	
Depreciation Expense	69,793
Change in Assets and Liabilities:	
Accounts Receivable	(17,275)
Prepaid Insurance & Inventories	(2,174)
Accounts Payable & Accrued Liabilities	3,413
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NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 90,371</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.

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, 2010 the principal balance is \$ 83,768.

Principal maturities are as follows:

	Armstrong Bank Principal	USACE Finance Center
2011	57,001	2,109
2012	60,216	2,196
2013	63,613	2,287
2014	67,201	2,381
2015	\$ 70,992	2,479
Thereafter	112,638	72,316
Total	431,661	83,768

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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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, 2010, 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.

A handwritten signature in black ink, appearing to read "Michael Green", is positioned above the typed name.

Michael Green, CPA
September 26, 2012