

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

**Financial Statements
&
Audit Report**

June 30, 2011

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MICHAEL W. GREEN
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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, 2011, 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, 2011, 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.

A handwritten signature in black ink, appearing to read "Michael Green". The signature is stylized with a large, looped "G" and a cursive "Green".

Michael Green
Certified Public Accountant

September 26, 2012

STICK ROSS MT. WATER CO., INC.
Statement of Net Assets
June 30, 2011

ASSETS

CURRENT ASSETS:

Cash - Operations	\$ 36,100
Investments	88,859
Accounts Receivable	121,150
Miscellaneous Receivable	17,095
Inventories	9,485
Deposits	90
Prepaid Insurance	6,268

TOTAL CURRENT ASSETS 279,047

NONCURRENT ASSETS:

Land	77,990
Equipment	293,256
Water Distribution System	2,326,357
Water Storage Rights	92,041
Accumulated Depreciation	(1,012,642)

TOTAL NONCURRENT ASSETS 1,777,002

TOTAL ASSETS \$ 2,056,049

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	\$ 30,295
Payroll Taxes Payable	13,953
Customer Funds Payable	
Current Portion of Long-Term Debt	95,880

TOTAL CURRENT LIABILITIES 140,128

NONCURRENT LIABILITIES

Notes Payable Armstrong - Less Current Portion	302,664
Notes Payable Welch Bank-Less Current Portion	85,428
Notes Payable USCE - Less Current Portion	81,659

TOTAL NONCURRENT LIABILITIES 469,751

TOTAL LIABILITIES 609,879

NET ASSETS

Invested in Capital Assets, Net of Related Debt	1,211,371
Net Assets: Unrestricted	234,799

TOTAL NET ASSETS \$ 1,446,170

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, 2011

OPERATING REVENUE:

Charges for Services:

Water Sales	\$ 720,178
Late Charges	33,744
Reconnect Fees	30,400
Returned Check Charges	1,590
Other Fees & Charges	1,650
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TOTAL OPERATING REVENUE 787,562

OPERATING EXPENSES:

Water Purchased	297,774
Employee Expense	137,383
Payroll Tax	16,657
Depreciation	87,778
Repairs & Maintenance	9,711
Insurance and Bonds	21,134
Supplies	39,699
Legal & Professional	30,409
Bank Charges	3,477
Telephone	5,871
Utilities	9,256
Fuel Charges	15,889
Postage	8,821
Meals	975
Licenses	1,018
Water Testing Fees	1,333
Dues & Subscriptions	3,382
Vehicle Expense	12,085
Rent	205
Office Expense	7,477
Miscellaneous Expense	1,313
	<hr/>

TOTAL OPERATING EXPENSES 711,647

NET INCOME FROM OPERATIONS 75,915

NONOPERATING REVENUE (EXPENSE):

Interest Income	1,397
Miscellaneous Income	1,449
Membership/Connect Income	21,202
Interest Expense	(16,636)
	<hr/>

TOTAL NONOPERATING REVENUE & EXPENSE 7,412

NET INCOME 83,327

NET ASSETS, BEGINNING OF YEAR 1,362,843

NET ASSETS, END OF YEAR \$ 1,446,170

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, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 744,496
Payments to Suppliers	(466,267)
Payments to Employees	(137,383)
	Net Cash Provided (used) by Operating Activities
	140,846
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions to Capital Assets	(230,287)
Proceeds from long-term Debt	139,000
Principal Paid on Capital Debt	(88,797)
Interest Paid on Capital Debt	(16,636)
	Net Cash Provided (used) by Capital and Related Financing Activities
	(196,720)
 CASH FLOWS FROM INVESTING ACTIVITIES	
Membership Income	21,202
Miscellaneous Income	1,449
Interest Income	1,397
	Net Cash Provided (used) by Investing Activities
	24,048
	 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
	 (31,826)
	 CASH & CASH EQUIVALENTS - BEGINNING OF THE YEAR
	 156,785
	CASH & CASH EQUIVALENTS - END OF THE YEAR
	\$ 124,959

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, 2011

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

Operating Income	\$ 75,915
Adjustments to Reconcile Operating Income to Net Cash Provided (used) by Operating Activities:	
Depreciation Expense	87,778
Change in Assets and Liabilities:	
Accounts Receivable	(43,066)
Prepaid Insurance & Inventories	17,805
Accounts Payable & Accrued Liabilities	2,414
	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 140,846</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 \$124,959 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 \$ 9,485.00. 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:

Equipment	\$142,966.00
Water Line Extension	\$ 87,320.00

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			Balance at
	June 20, 2010	Additions	Deletions	June 20, 2011
Land	\$ 77,990			77,990
Equipment	150,290	142966		293,256
Water Storage Rights	92,041			92,041
Water Distribution System	2,239,036	87320		2,326,356
Accumulated Depreciation	(924,863)	(87,778)		(1,012,641)
Net Fixed Assets	\$ 1,634,494	142,508	-	1,777,002

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, 2011, the District had a principal balance of \$ 363,509.

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, 2011 the principal balance is \$ 83,768.

The District has established a loan agreement with Welch State Bank for the purchase of a 1996 Track Trencher. The total loan is \$ 139,200.00 and is to be repaid in monthly payments of \$ 3289.21 at an interest rate of 6.309% for a term of 48 months. As of June 30, 2011 the principal balance is \$ 118,354.

Principal maturities are as follows:

	Armstrong Bank Principal	USACE Finance Center	Welch State Bank
2012	60845	2109	32926
2013	64278	2196	35082
2014	67903	2287	37360
2015	71734	2381	12986
2016	75780	2479	
Thereafter	22969	72316	
Total	363509	83768	118354

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, 2011, 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". The signature is stylized with a large, looped "G" and a cursive "Green" following it.

Michael Green, CPA
September 26, 2012