

KETCHUM PUBLIC WORKS AUTHORITY
KETCHUM, OKLAHOMA
ANNUAL FINANCIAL REPORT
JUNE 30, 2011 AND 2010

RALPH OSBORN
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Ketchum Public Works Authority
Ketchum, Oklahoma

I have audited the accompanying financial statements of the business-type activities of Ketchum Public Works Authority, Ketchum, Oklahoma as of and for the year ended June 30, 2011 and 2010, which collectively comprise Ketchum Public Works Authority's basic financial statements. These financial statements are the responsibility of Ketchum Public Works Authority'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 management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Ketchum Public Works Authority as of June 30, 2011 and 2010, and the respective changes in financial position and cash flows where appropriate, thereof, in conformity with accounting principles generally accepted in the United States of America.

Ketchum Public Works Authority has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statement.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 11, 2011, on my consideration of Ketchum Public Works Authority's internal control over financial reporting and my 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 my audit.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
October 11, 2011

KETCHUM PUBLIC WORKS AUTHORITY
KETCHUM, OKLAHOMA
STATEMENT OF NET ASSETS
JUNE 30, 2011 AND 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 407,693	\$ 266,169
Investments	284,995	284,994
Accrued Interest Receivable	450	451
Prepaid expense	4,013	4,226
Accounts receivable, net	142,633	124,671
Total current assets	839,784	680,511
Restricted assets:		
Restricted cash and cash equivalents	-	109,901
Restricted investments	274,324	114,324
Utility Deposits	65	65
Total restricted assets	274,389	224,290
Non-current assets:		
Capital assets:		
Land	306,659	306,659
Other capital assets, net of accumulated depreciation	3,482,266	2,831,550
Total non-current assets	3,788,925	3,138,209
Total assets	4,903,098	4,043,010
LIABILITIES		
Current liabilities:		
Accounts payable	6,253	16,935
Payroll liabilities	63,617	72,966
Accrued interest payable	1,444	1,444
Meter deposits payable	156,219	145,726
Due to volunteer fire department	2,270	2,091
Sportsman cottages deposits payable	14,750	13,750
Notes payable, current	70,695	60,980
Total current liabilities	315,248	313,892
Non-current liabilities:		
Notes payable, non-current	1,433,837	1,308,657
Total non-current liabilities	1,433,837	1,308,657
Total liabilities	1,749,085	1,622,549
NET ASSETS		
Nonspendable	2,187,001	1,645,073
Restricted for debt service	114,324	114,324
Assigned	160,000	109,901
Unassigned	692,688	551,163
Net assets	\$ 3,154,013	\$ 2,420,461

See accompanying notes to financial statements.

KETCHUM PUBLIC WORKS AUTHORITY
KETCHUM, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011 AND 2010

	2011	2010
<u>OPERATING REVENUES</u>		
Water revenue	\$ 1,208,387	\$ 1,074,256
Sewer revenue	77,664	78,137
Taps and penalties	41,060	40,216
Other revenue	3,768	6,707
Total operating revenues	1,330,879	1,199,316
<u>OPERATING EXPENSES</u>		
Auto, Truck and Equipment Expenses	31,769	17,946
Chemicals	75,121	78,887
Depreciation Expense	212,330	204,933
Engineering Fees	16,876	13,398
Insurance	19,866	22,128
Laboratory tests, permits and dues	28,321	30,848
Legal and accounting	8,370	11,538
Office supplies and expenses	17,568	16,685
Operating supplies	-	859
Taps and bores	6,851	9,539
Repairs and replacements	49,076	53,360
Taxes	27,981	29,916
Health Insurance	58,864	65,991
Retirement	48,857	46,400
Salaries	339,396	332,121
Training	160	1,352
Uniforms	3,663	3,625
Utilities and telephone	102,224	98,483
Water purchases	26,666	19,299
Total operating expenses	1,073,959	1,057,308
Operating income (loss)	256,920	142,008
<u>NON-OPERATING REVENUE (EXPENSES)</u>		
Donations	542,000	-
Investment income	9,775	12,154
Interest on notes payable and fiscal fees	(75,143)	(67,864)
Total non-operating revenue (expenses)	476,632	(55,710)
Net income (loss)	733,552	86,298
Total net assets, beginning	2,420,461	2,334,163
Total net assets, ending	\$ 3,154,013	\$ 2,420,461

See accompanying notes to financial statements.

KETCHUM PUBLIC WORKS AUTHORITY
KETCHUM, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Cash received from customers	\$ 1,324,624	\$ 1,181,539
Cash paid to employees	(484,447)	(464,369)
Cash payments to suppliers for goods and services	<u>(397,034)</u>	<u>(386,988)</u>
Net cash provided (used) by operating activities	<u>443,143</u>	<u>330,182</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	(321,046)	(208,672)
Proceeds from notes payable	201,655	-
Interest paid on notes payable	(75,143)	(67,864)
Principal paid on notes payable	<u>(66,760)</u>	<u>(58,840)</u>
Net cash (used) by capital and related financing activities	<u>(261,294)</u>	<u>(335,376)</u>
Cash flows from investing activities		
Receipt of interest and dividends	9,775	12,154
Transferred (to)/from investments	<u>(160,001)</u>	<u>98,956</u>
Net cash provided (used) by investing activities	<u>(150,226)</u>	<u>111,110</u>
Net increase in cash and cash equivalents	31,623	105,916
Cash and cash equivalents, beginning	<u>376,070</u>	<u>270,154</u>
Cash and cash equivalents, ending	<u>\$ 407,693</u>	<u>\$ 376,070</u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities		
Operating income (loss)	\$ 256,920	\$ 142,008
Depreciation	212,330	204,933
(Increase)/Decrease in Current Assets		
Accounts receivables, net	(17,961)	(24,600)
Prepaid expenses	213	1,097
Increase/(Decrease) in Current Liabilities		
Accounts payable	(10,682)	(8,452)
Accrued payroll liabilities	(9,349)	10,059
Accrued interest payable	-	(227)
Due to volunteer fire dept	179	(362)
Sportsman cottages deposits	1,000	750
Meter deposits	<u>10,493</u>	<u>4,976</u>
Net cash provided by operating activities	<u>\$ 443,143</u>	<u>\$ 330,182</u>

See accompanying notes to financial statements.

KETCHUM PUBLIC WORKS AUTHORITY
KETCHUM, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ketchum Public Works Authority, Town of Ketchum, Oklahoma (the "Authority") was established as a public trust on behalf of the Town of Ketchum, Oklahoma as the beneficiary. The trust is to furnish and supply to the inhabitants, owners, and occupants of property, and to industrial, commercial and mercantile establishments and enterprises within the corporate proximity thereto, and to the beneficiary and other governmental agencies, utility services and facilities for all purposes. The trust is to conduct all business related to providing necessary physical facilities; to fix and collect fees for the services provided, to arrange financing for the required fund and to conduct all business necessary for normal operations to the Authority. The Authority has provided and is currently operating a water works and distribution system and a sewer system.

Government-Wide and Fund Financial Statements

The Authority is a special purpose governmental entity engaged only in business type activities. The Authority prepares financial statements required for enterprise funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Authority are prepared in accordance with generally accepted accounting principles (GAAP). The Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Authority's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The financial statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported in financial statements include revenues and expenses related to the primary, continuing operations of the Authority. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

FUND TYPES AND MAJOR FUNDS

The Authority reports all activity within a single fund.

Accounts Receivable

Accounts receivable consists of primarily of charges for water sales and sewer services. Management considers the accounts to be fully collectible.

KETCHUM PUBLIC WORKS AUTHORITY
KETCHUM, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

Prepaid Expenses

Prepaid expenses represent the unexpired premiums on general liability and workman's compensation insurance policies.

Investments

The Authority follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The Authority considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Investment reported in the financial statements are certificate of deposits.

Capital Assets, Depreciation, and Amortization

The Authority's property, plant, equipment, and infrastructure with useful lives of more than one year and costing more than \$500 are stated at historical cost or at estimated historical cost for those items not previously reported. The Authority maintains infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The Authority generally capitalizes assets with as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method with one-half year depreciation in the year acquired and one-half in the year of disposal. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	20 - 50 years
Water and sewer system	20 - 50 years
Machinery, and equipment	5 - 10 years
Improvements	10 - 20 years

Compensated Absences

Full-time employees receive twenty-five days of paid time off per year. Paid time off can be accumulated up to a maximum of sixty days.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Restricted net assets represent tentative plans for future use of financial resources.

KETCHUM PUBLIC WORKS AUTHORITY
KETCHUM, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the Authority will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Authority, and are held by counterparty or the counterparty's trust department but not in the name of the Authority. The Authority's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2011, all of the Authority's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The Authority had deposits at financial institutions with a carrying amount of approximately \$957,012 at June 30, 2011. The bank balance of the deposits at June 30, 2011 was approximately \$993,495.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Authority did not have fixed income securities at June 30, 2011.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the Authority's interest rate risk. As of June 30, 2011, the Authority's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - CAPITAL ASSETS

The following table provides a summary of changes in capital assets:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Water Distribution System	\$ 6,860,069	\$ 863,046	\$ -	\$ 7,723,115
Buildings	59,431	-	-	59,431
Equipment & Fixtures	346,531	-	-	346,531
Land	306,659	-	-	306,659
Total Capital Assets	<u>\$ 7,572,690</u>	<u>\$ 863,046</u>	<u>\$ -</u>	<u>\$ 8,435,736</u>
Depreciation	<u>(4,434,481)</u>	<u>(212,330)</u>	<u>-</u>	<u>(4,646,811)</u>
Total Net Capital Assets	<u>\$ 3,138,209</u>	<u>\$ 650,716</u>	<u>\$ -</u>	<u>\$ 3,788,925</u>

KETCHUM PUBLIC WORKS AUTHORITY
 KETCHUM, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011 AND 2010

NOTE D - NOTES PAYABLE PROPRIETARY FUND

A brief description of the outstanding notes payable at June 30, 2011 is set forth below:

USDA, Rural Development loan #91-06 in the original loan amount of \$301,500, interest rate of 5.00%, term of 40 years, monthly installment of \$1,481.00.	\$ 108,191
USDA, Rural Development loan #91-08 in the original loan amount of \$170,000, interest rate of 5.00%, term of 40 years, monthly installment of \$835.00.	60,456
USDA, Rural Development loan #91-10 in the original loan amount of \$40,000, interest rate of 5.00%, term of 40 years, monthly installment of \$197.00.	13,935
USDA, Rural Development loan #91-14 in the original loan amount of \$94,400, interest rate of 5.00%, term of 40 years, monthly installment of \$464.00.	64,689
USDA, Rural Development loan #91-16 in the original loan amount of \$572,000, interest rate of 5.00%, term of 40 years, monthly installment of \$2,809.00.	461,510
USDA, Rural Development loan #91-18 in the original loan amount of \$214,000, interest rate of 5.25%, term of 40 years, monthly installment of \$1,085.00.	174,575
USDA, Rural Development loan #91-20 in the original loan amount of \$244,200, interest rate of 4.50%, term of 40 years, monthly installment of \$1,099.00.	192,685
USDA, Rural Development loan #92-02 in the original loan amount of \$113,300, interest rate of 5.00%, term of 40 years, monthly installment of \$559.70.	12,614
USDA, Rural Development loan #92-04 in the original loan amount of \$48,000, interest rate of 5.00%, term of 40 years, monthly installment of \$237.12.	5,025
USDA, Rural Development loan #92-12 in the original loan amount of \$51,900, interest rate of 5.00%, term of 40 years, monthly installment of \$255.00.	30,230
USDA, Rural Development loan #92-21 in the original loan amount of \$133,600, interest rate of 3.25%, term of 40 years, monthly installment of \$505.00.	111,728
1 st State Bank mortgage note in the original amount of \$110,861 to purchase a building, interest rate of 6.25%, term of 180 months, monthly installment of \$950.78. On March 14, 2009, the payments were increased to \$1050.78.	73,320
Oklahoma State Bank mortgage note in the original amount of \$201,655 to finance a water line extension, interest rate of 4.7%, term of 239 months, monthly installments of \$1305.39.	195,574
TOTAL	<u>\$ 1,504,532</u>

KETCHUM PUBLIC WORKS AUTHORITY
KETCHUM, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

Changes in long-term debt is as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>
Rural Development	\$ 1,289,224	\$ -	\$ 53,585	\$ 1,235,639
First State Bank	80,413	-	7,094	73,319
Oklahoma State Bank	<u>-</u>	<u>201,655</u>	<u>6,081</u>	<u>195,574</u>
	<u>\$ 1,369,637</u>	<u>\$ 201,655</u>	<u>\$ 66,760</u>	<u>\$ 1,504,532</u>

Following is the anticipated annual debt service amounts for principal payments.

<u>Year Ended October 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2012	\$ 70,695	\$ 71,901	\$ 142,596
2013	73,916	68,443	142,359
2014	68,448	53,786	122,234
2015	71,993	50,241	122,234
2016	75,703	46,531	122,234
2017-2021	315,120	212,130	527,250
2022-2027	282,240	165,280	447,520
2027-2031	316,382	92,688	409,070
2032-2036	211,258	23,646	234,904
2037-2040	<u>18,777</u>	<u>918</u>	<u>19,695</u>
Total	<u>\$ 1,504,532</u>	<u>\$ 785,564</u>	<u>\$ 2,290,096</u>

NOTE E - RESTRICTED ASSETS

USDA RURAL DEVELOPMENT

The Loan Resolution Security Agreements with the USDA Rural Development requires a reserve fund to be funded at 10% of the monthly installment until the balance is equal to the annual installment amount (\$9,527 X 12 = \$114,324). At June 30, 2011, the total balance in the debt service reserve accounts at Oklahoma State Bank, Langley, Oklahoma was \$124,000.

Debt Service Reserve Account	\$124,000
Less: Excess Funds	<u>(9,676)</u>
Net Required Reserve	<u>\$114,324</u>

NOTE F - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority carries commercial insurance for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

KETCHUM PUBLIC WORKS AUTHORITY
KETCHUM, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010

NOTE G - PENSION

Plan Description

The Authority contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Section 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information.

Funding Policy

The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. Authority employees are required to contribute 3.5% of earned compensation. The Authority contributes 15.5% of earned compensation. The Authority's contributions to the Plan for the years ending June 30, 2011, 2010 and 2009 were \$49,681, \$45,766 and \$41,228, respectively, equal to the required contributions for each year

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*

To the Board of Directors
Ketchum Public Works Authority
Ketchum, Oklahoma

I have audited the financial statements of the business-type activities of Ketchum Public Works Authority as of and for the year ended June 30, 2011 and 2010, which collectively comprise Ketchum Public Works Authority's basic financial statements and have issued my report thereon dated August 3, 2010. 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 Ketchum Public Works Authority'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 Ketchum Public Works Authority's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Ketchum Public Works Authority'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 first paragraph of this section 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 Ketchum Public Works Authority's financial statements are free of material misstatement, I 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 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*.

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Ralph Osborn

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
October 11, 2011