

Financial Statements

of

**PITTSBURG COUNTY
WATER AUTHORITY**

Pittsburg County, Oklahoma

June 30, 2013



Clothier & Company CPA's P.C.

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PITTSBURG COUNTY WATER AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Pittsburg County Water Authority
Pittsburg County, Oklahoma

We have audited the accompanying statements of net assets and the revenue, expense, and changes in net assets - modified cash basis as described in Note 1, of Pittsburg County Water Authority, Pittsburg County, Oklahoma, as of and for the year ended June 30, 2013 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets – modified cash basis of Pittsburg County Water Authority, as of June 30, 2013, and the revenues, expenses, and changes in net assets – modified cash basis and cash flows thereof for the year then ended, on the basis of accounting described in Note 1.

Other-Matters

Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on page I be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards general accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2014, on our consideration of Pittsburg County Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pittsburg County Water Authority's internal control over financial reporting and compliance.



Clothier & Company, CPA's, P.C.
February 3, 2014

Management Discussion and Analysis For Year Ended June 30, 2013

For Pittsburg County Water Authority, Pittsburg County, Oklahoma, this is our presentation of Management's Discussion and Analysis (MD&A). This analysis serves as an introduction to the financial statements for users to facilitate whether overall financial health has improved or deteriorated as a result of the past year's operation. A required component of MD&A is to briefly describe the reasons for change in our revenue, liability, asset, and expenditure balances compared to the previous (2012) year.

Business Activities:

During the year the Pittsburg County Water Authority emphasized improved maintenance of plant and customer waterlines. The customers of the Authority are two small cities and one rural water district who distribute water to business and residential customers. The improved maintenance on existing infrastructure was also emphasized by the Authority's institutional customers, resulting in a decrease of water loss. The decrease in water loss resulted in an increase in net assets. The Authority's total revenue increased by \$59,182 compared to 2012 revenue and the cost of sales, which is closely related to the volume of water produced, is up \$20,737 as compared to 2012. Operating expenses increased as a result of increases in salaries and tax, benefits and liability insurance. Net income of the Authority is up from a loss of \$116,672 in 2012 to a loss of \$77,732 in 2013, a net increase of \$38,940.

Utilities increased from \$84,611 in 2012 to \$99,412 in 2013.

The Authority currently has plant and equipment with a net book value of \$2,186,940, a decrease of \$55,058 from last year. The Authority purchased five motors during the current year.

For the year ended June 30, 2013, total assets exceeded liabilities by \$1,773,259. The Authority has a note payable to Oklahoma Water Resources Board in the amount of \$756,589. The balance sheet has a net decrease of \$126,532 from 2012 to 2013.

The Authority holds three Certificates of Deposit \$100,000 each; including capitalized interest they are valued at \$310,433 on June 30, 2013.

Future Activities of Pittsburg County Water Authority:

The Authority is currently in the process of updating its water system through a Phase II project that includes applying for grants and loans to assist in the system updates. These new updates will insure that the Authority is in compliance with new DEQ regulations and requirements and enhance overall water production and energy efficiency.

Overall Outlook:

The quality of the water continues to be superb and we continue working to improve the distribution system, the Authority remains financially strong as we make improvements throughout the system, meeting the DEQ/EPA standards, and paying our bills.

The economy still affects our efforts, the cost of chemicals, pipe, fuel, etc. continues to fluctuate. This is all out of our control; however it has not stopped our progress.

Financial Statements

PITTSBURG COUNTY WATER AUTHORITY
Statement of Net Assets
June 30, 2013

ASSETS

Current Assets

Cash & Equivalents \$ 32,475.00

Total Current Assets \$ 32,475.00

Fixed Assets

Fixed Assets, net Depreciation 2,186,940.00

Total Fixed Assets 2,186,940.00

Other Assets

Certificate of Deposits 310,433.00

Total Other Assets 310,433.00

Total Assets \$ 2,529,848.00

LIABILITIES AND FUND BALANCE

Current Liabilities

Accrued Payroll Taxes \$ 6,113.00

Current Maturities 61,580.00

Total Current Liabilities \$ 67,693.00

Long Term Liabilities

Notes Payable - OWRB \$ 688,896.00

Total Long Term Liabilities \$ 688,896.00

Fund Balance

Invested in Capital Assets 1,436,465.00

Unrestricted 414,526.00

Increase (Decrease) in Net Assets (77,732.00)

Total Fund Balance 1,773,259.00

Total Liabilities & Fund Balance \$ 2,529,848.00

See notes and independent auditor's report.

PITTSBURG COUNTY WATER AUTHORITY
Statement of Revenue, Expense and Change in
Net Assets - Modified Cash Basis
For the Period Ended June 30, 2013

	12 Months Ended Jun. 30, 2013
UNRESTRICTED NET ASSETS	
Revenue	
Water Revenue	\$ <u>733,814.00</u>
Total Revenue	<u>733,814.00</u>
Expenses	
Repairs and Supplies	186,831.00
Contract Labor	650.00
Salaries	233,960.00
Employee Benefits	79,396.00
Payroll Taxes	23,240.00
Insurance	25,922.00
Accounting	16,786.00
DEQ Fees	4,731.00
Advertising	1,513.00
Office Supplies	19,238.00
Rent	4,436.00
Travel	8,777.00
Utilities	99,412.00
Depreciation	78,628.00
Trustee Fees	<u>5,445.00</u>
Total Expenses	<u>788,965.00</u>
Operating Income (Loss)	<u>(55,151.00)</u>
Other Revenue/Expenses	
Interest Expense	23,672.00
Interest Income	<u>1,091.00</u>
Total Other Income	<u>(22,581.00)</u>
Increase (Decrease) in Net Assets	\$ <u><u>(77,732.00)</u></u>

See notes and independent auditor's report.

PITTSBURG COUNTY WATER AUTHORITY

Statement of Cash Flows

As of June 30, 2013

	12 Months Ended June 30, 2013
Cash Flows From Operating Activities:	
Cash received from customers	\$ 733,814
Cash received from other sources	0
Cash paid to employees	(233,960)
Cash paid to suppliers	(181,368)
Other operating payments	(288,896)
Net Cash Flows from Operating Activities	29,590
Cash Flows From Capital and Related Financing Activities:	
Proceeds from issuance of debt	0
Payment of debt	(54,913)
Acquisition and construction of capital assets	(23,570)
Payment of Interest	(23,672)
Net Cash (Used) By Capital and Related Financing Activities	(102,155)
Cash Flows From Investing Activities:	
Decrease (Increase) in restricted cash	0
Receipt of interest and dividends	853
Net Cash Provided (Used) By Investing Activities	853
Net Increase (Decrease) In Cash	(71,712)
Cash Beginning of Year	104,187
Cash End of Year	\$ 32,475
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Operating income (loss)	\$ (55,151)
Add depreciation expense	78,628
(Increase)/Decrease in Current Assets:	
Accounts receivables, net	0
Prepaid expenses	0
Increase/(Decrease) in Current Liabilities:	
Accounts payable	6,113
Accrued expenses	0
Customer deposits	0
Net Cash Flows from Operating Activities	\$ 29,590

See accompanying notes and accountant's report.

Rural Water District No. 9
Wagoner County, Oklahoma

BALANCE SHEET

December 31, 2007 and 2006

LIABILITIES

	<u>2007</u>	<u>2006</u>
Current Liabilities:		
Accounts payable.....	\$13,358	\$15,089
Accrued expenses	48,130	33,534
Customers deposits	19,712	10,756
Current maturities (Note 2)	<u>103,009</u>	<u>95,847</u>
 Total Current Liabilities.....	 184,209	 155,226
Long Term Liabilities:		
Notes payable (Note 2)	2,493,808	2,589,656
Less: Current maturities	<u>(103,009)</u>	<u>(95,847)</u>
 Total Long Term Liabilities	 <u>2,390,799</u>	 <u>2,493,809</u>
Fund Balance:		
Invested in Capital Assets, net debt	\$146,015	\$114,052
Restricted for Debt Service	371,339	343,243
Unrestricted	306,635	398,589
Current income	<u>65,307</u>	<u>(31,895)</u>
 Total Fund Balance.....	 <u>889,296</u>	 <u>823,989</u>
 Total Liabilities and Fund Balance.....	 <u><u>\$3,464,304</u></u>	 <u><u>\$3,473,024</u></u>

DRAFT FOR DISCUSSION PURPOSES ONLY, SUBJECT TO CHANGE

See accompanying notes and accountants' report.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pittsburg County Water Authority is a public trust created and presently existing under the terms of a declaration of trust dated January 20, 1965 pursuant to the laws of the State of Oklahoma. The major purpose of the authority is providing adequate water supplies to area water districts. The beneficiary of the public trust is Pittsburg County, Oklahoma.

Basis of Accounting

The financial statements of the Authority are prepared using the modified cash basis of accounting where revenues are recognized when received and expenses are recognized when paid. Other modifications to the cash basis of accounting include recording depreciation on property and equipment and accruing for payroll taxes. This is a comprehensive basis of accounting other than generally accepted accounting principles.

Cash and Cash Equivalents

For the purposes of preparing the statement of cash flows, cash on hand, cash in savings and checking, and certificates of deposit with an original maturity of three months or less, are considered cash equivalents. The Authority does not have a reserve account for its long term debt.

Funds on Deposit

The Authority maintains the following accounts for funds deposited with a fully insured bank.

Operations and Maintenance - The gross revenues of the Authority are deposited to this account and the bills of the Authority are generally paid from this account. Excess revenues are transferred to CD's as needed.

Project account - This account is used to manage funds allocated to special projects as needed. The account was inactive during the year ended June 30, 2013.

Certificates of Deposit - Cash is invested in interest bearing certificates of deposit with an original maturity date greater than 90 days. The CD's may be used for planned projects, extensions and improvements to the water system however the CD's bear no restrictions other than those imposed by the bank for early redemption. CD's are reported at fair value.

Property and Equipment

Property and equipment are recorded at cost, with depreciated on the straight-line method over the estimated useful lives of the assets.

Inventory

The policy of the Authority is to record inventory at original cost using the first-in, first-out method. The Authority is not currently carrying any inventory.

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax

As a state agency for the State of Oklahoma, the Authority is exempt from filing income taxes.

Concentration of Revenue Risk

Annually 99% of the revenue for each year is from three local rural water districts. The water sales to each for 2013 were Hartshorne RWD 40%, Haileyville RWD 17% and Adamson RWD 43%. If any of these sources of revenue were lost and other sources could not be found quickly, management would be able to eliminate the variable costs of water production, however fixed costs and capital invested in the distribution system would be lost and create a severe risk to the Authority.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Vacation, Sick Leave, and Other Compensated Absences

The Authority has written policies for full-time employees to be entitled to annual leave which may not be carried over from one year to the next. The first working day after six months employment, the employee shall earn a total of (8) eight hours sick leave per month up to a maximum of 240 hours. Sick leave may be carried over from year to year but 240 hours is the total accruable amount. When terminating employment with the Authority, an employee may not collect payment of the accrued sick leave.

NOTE 2 - PROPERTY AND EQUIPMENT

	Cost	Additions	Accumulated Depreciation	Book Value
Land	2,879	0	0	2,879
Water Authority Systems	3,696,849	23,570	(1,550,305)	2,170,114
Office Equipment	8,152	0	(5,804)	2,348
Trucks & Equipment	71,175	0	(59,576)	11,599
	<hr/>			
	\$ 3,779,055	\$ 23,570	\$ (1,615,685)	\$ 2,186,940

NOTE 3 - LONG TERM DEBT

The current portion of long term debt is \$61,580 and the long term portion is \$688,896. The total note payable to Oklahoma Water Resources Board has a balance of \$750,476.

Semi-annual payments are made to the OWRB. The current interest rate is 3.5%.

The following are the maturities and debt service requirements of Long-Term Debt at current interest rates:

	Maturities	Debt Service
2014.....	61,580	82,965
2015.....	68,340	82,933
2016.....	70,425	82,881
2017.....	79,821	82,837
2018.....	80,509	82,760
5 yrs. 2023.....	389,801	394,978
	<u>\$750,476</u>	<u>\$809,354</u>

NOTE 4 – WATER RATE INCREASE

The Authority increased its water rates by 7% during its December 2012 board meeting to be effective January 1, 2013.

NOTE 5 - CONCENTRATION OF RISK

The Authority maintains deposits at financial institutions located in Oklahoma. The Federal Deposit Insurance Corporation insures deposits up to \$250,000 at each institution for all time and savings accounts and up to \$250,000 for all demand deposits. As of June 30, 2013 cash balances totaled \$342,908. Deposits are categorized for risk as insured by FDIC.

The Authority's deposits were as follows at June 30, 2013:

Financial Institution	Balance	Insured
First National – Checking	\$32,475	\$250,000
First National – CD	100,000	250,000
BancFirst - CD's	210,433	250,000
Total Cash and Investments	<u>\$342,908</u>	<u>\$750,000</u>

NOTE 6 – PRIOR PERIOD ADJUSTMENT

The accompanying financial statements for the year ended June 30, 2013 have adjusted the classification of certificates of deposits at July 1, 2012. The result of the reclassification increased “other assets” and decreased “cash and cash equivalents” by \$310,195 each. The reclassification had no net effect on the total net assets.

NOTE 7 – SUBSEQUENT EVENTS

At the November 4, 2013 board meeting the board of directors for Pittsburg County Water Authority voted to move the two certificates of deposits at BancFirst into a project bank account in order to begin work on the Phase II project.

Compliance Reports



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**INDEPENDENT AUDITOR'S 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
Pittsburg County Water Authority
Pittsburg County, Oklahoma

We have audited, 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, the financial statements of Pittsburg County Water Authority, Pittsburg County, Oklahoma, as of and for the year ended June 30, 2013 and the related notes to the financial statements, and have issued our report thereon dated February 3, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pittsburg County Water Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those in charge of governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pittsburg County Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Clothier & Company CPAs".

Clothier & Company, CPA's, P.C.
February 3, 2014