

FINANCIAL STATEMENTS

OF

***PITTSBURG COUNTY
WATER AUTHORITY
PITTSBURG COUNTY, OKLAHOMA***

June 30, 2011



Clothier & Company CPA's P.C.

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Management Discussion and Analysis
For Year Ended June 30, 2011

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 (2010) 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 Rural Water Districts 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 decreased by \$3,152 compared to 2010 revenue and the cost of sales, which is closely related to the volume of water produced, is up \$33,450 as compared to 2010. Operating expenses increased as a result of increases in salaries and tax, benefits and liability insurance. Net income of the Authority is down from \$67,562 in 2010 to a loss of \$14,006 in 2011, a net decrease of \$81,568.

Utilities increased from \$81,815 in 2010 to \$85,847 in 2011.

The Authority currently has plant and equipment with a net book value of \$2,319,646, a decrease of \$69,392 from last year. The Authority added cabinets and a water pump during the current year.

For the year ended June 30, 2011, total assets exceeded liabilities by \$1,889,176. The Authority has a note payable to Oklahoma Water Resources Board in the amount of \$858,325. The balance sheet has a net decrease of \$63,037 from 2010 to 2011.

The Authority holds three Certificates of Deposit \$100,000 each; including capitalized interest they are valued at \$309,695 on June 30, 2011.

Future Activities of Pittsburg County Water Authority:

The Authority participates in a pilot program with the Department of Environmental Quality for the use of ozone in the water production process. Personnel attended training programs with the department in the new procedures for water sampling and testing. The DEQ has not implemented the use of ozone however participation of the Authority is ongoing.

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 through out the system, meeting the 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.



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Pittsburg County Water Authority, Pittsburg County, Oklahoma, for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Pittsburg County Water Authority's management. Our responsibility is to express an opinion 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 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 we 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. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Pittsburg County Water Authority, Pittsburg County, Oklahoma, as of June 30, 2011, and the results of operations and the cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June, 12, 2012 on our consideration of Pittsburg County Water Authority's internal control over financial reporting and our 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 our audit.

The Management Discussion and Analysis on page I is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clothier & Company CPA's

Clothier & Company, CPA's, P.C.

June 12, 2012

PITTSBURG CO. WATER AUTHORITY
PITTSBURG COUNTY, OKLAHOMA
Statement of Net Assets
June 30, 2011

Current Assets		
Cash & Equivalents	\$	506,342
Prepaid Expenses		<u>11,430</u>
Total Current Assets		<u>517,772</u>
 Fixed Assets		
Water Systems		3,689,026
Office Equipment		8,152
Trucks and Equipment		71,175
Land		2,879
Less: Accum. Depreciation		<u>(1,451,586)</u>
Total Fixed Assets		<u>2,319,646</u>
 Total Assets	\$	<u><u>2,837,418</u></u>

See accompanying notes and accountant's report.

PITTSBURG CO. WATER AUTHORITY
PITTSBURG COUNTY, OKLAHOMA
Statement of Net Assets
June 30, 2011

Current Liabilities		
Accounts Payable	\$	49,897
Accrued Expenses		40,020
Current Maturities (Note 2)		<u>52,937</u>
Total Current Liabilities		<u>142,854</u>
Long Term Liabilities		
Notes Payable (Note 2)		<u>805,388</u>
Total Long Term Liabilities		<u>805,388</u>
Fund Balance		
Invested in Capital Assets		1,461,321
Unrestricted		465,203
Current Income (Loss)		<u>(37,348)</u>
Total Fund Balance		<u>1,889,176</u>
Total Liabilities & Fund Balance	\$	<u><u>2,837,418</u></u>

See accompanying notes and auditors' report.

PITTSBURG CO. WATER AUTHORITY
PITTSBURG COUNTY, OKLAHOMA
Stmt. of Revenue Expense and Change in Net Assets
June 30, 2011

	12 Months Ended <u>Jun. 30, 2011</u>
Revenue	
Water Sales	\$ 682,424
Interest Income	<u>750</u>
Total Revenue	<u>683,174</u>
Cost of Sales	
Repairs and Supplies	144,512
Contract Labor	<u>350</u>
Total Cost of Sales	<u>144,862</u>
Gross Profit	<u>538,312</u>
Operating Expenses	
Salaries	219,813
Employee Benefits	75,725
Payroll Taxes	23,483
Insurance	26,053
Accounting	7,820
DEQ Fees	2,114
Advertising	174
Office Supplies	18,989
Directors Fees	525
Rent	3,485
Travel	6,783
Utilities	85,847
Depreciation	76,224
Trustee Fees	<u>5,283</u>
Total Expenses	<u>552,318</u>
Operating Income	<u>(14,006)</u>
Other Revenue (Expenses)	
Interest Expense	(26,741)
Interest Income	<u>3,399</u>
Total Other Income	<u>(23,342)</u>
Net Income (Loss)	\$ <u><u>(37,348)</u></u>

See accompanying notes and auditors' report.

PITTSBURG COUNTY WATER AUTHORITY
PITTSBURG COUNTY, OKLAHOMA

Statement of Cash Flows

As of June 30, 2011

	12 Months Ended June 30, 2011
Cash Flows From Operating Activities:	
Cash received from customers	\$ 738,188
Cash received from other sources	0
Cash paid to employees	(219,813)
Cash paid to suppliers	(115,267)
Other operating payments	(260,381)
Net Cash Flows from Operating Activities	<u>142,727</u>
Cash Flows From Capital and Related Financing Activities:	
Proceeds from issuance of debt	0
Payment of debt	(51,184)
Acquisition and construction of capital assets	(6,832)
Payment of Interest	(26,741)
Net Cash (Used) By Capital and Related Financing Activities	<u>(84,757)</u>
Cash Flows From Investing Activities:	
Decrease (Increase) in restricted cash	0
Receipt of interest and dividends	3,399
Net Cash Provided (Used) By Investing Activities	<u>3,399</u>
Net Increase (Decrease) In Cash	61,369
Cash Beginning of Year	444,973
Cash End of Year	<u>\$ 506,342</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Operating income (loss)	\$ (14,006)
Add depreciation expense	76,224
(Increase)/Decrease in Current Assets:	
Accounts receivables, net	55,014
Prepaid expenses	0
Increase/(Decrease) in Current Liabilities:	
Accounts payable	29,594
Accrued expenses	(4,099)
Customer deposits	0
Net Cash Flows from Operating Activities	<u>\$ 142,727</u>

See accompanying notes and accountant's report.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2011

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. The Authority is an agency of the county of Pittsburg County, Oklahoma.

Measurement Focus and Basis of Accounting

The economic resources measurement focus and the accrual method of accounting are utilized in reporting financial information in accordance with U.S. generally accepted accounting principles. The accrual basis of accounting records revenue in the period in which earned rather than when received and records expenses in the period incurred rather than when paid.

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.

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, 2011.

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.

Income Tax

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

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

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 2011 were Hartshorne RWD 38%, Haileyville RWD 14% and Adamson RWD 48%. 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 has been obtained. 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 - ACCOUNTS RECEIVABLE

All receivables are reported at their gross value and, where appropriate, are reduced by the amount directly written off as uncollectible. Therefore an allowance for doubtful accounts is considered unnecessary. The accounts receivable for June 2011 water billings are \$0.

NOTE 3 - PROPERTY AND EQUIPMENT

The Authority purchased a heating unit for plant buildings and installed cabinetry in the lab. The net price paid for the equipment and fixtures was \$6,833.

	Cost	Additions	Accumulated Depreciation	Book Value
Land	2,879	0	0	2,879
Water Authority Systems	3,684,994	4,033	(1,416,989)	2,272,038
Office Equipment	5,352	2,800	(5,431)	2,721
Trucks & Equipment	71,175	0	(29,167)	42,008
	<u>\$ 3,764,400</u>	<u>\$ 6,833</u>	<u>\$ (1,451,587)</u>	<u>\$ 2,319,646</u>

NOTE 4 - LONG TERM DEBT

Pittsburg County Water Authority

The current portion of long term debt is \$52,937 and the long term portion is \$805,388. The total note payable to Oklahoma Water Resources Board has a balance of \$858,325.

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
2012.....	52,937	83,016
2013.....	54,913	83,016
2014.....	56,879	83,016
2015.....	58,915	83,016
2016.....	60,965	83,016
5 yrs. 2021.....	339,453	415,080
5 yrs. 2025.....	234,263	249,046
	\$858,325	\$1,079,206

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, 2011 cash balances totaled \$505,366. Deposits are categorized for risk as insured by FDIC.

The Authority's deposits were categorized as follows at June 30, 2011:

Financial Institution	Balance	Insured
First National – Checking	\$196,646	\$250,000
First National – CD	209,696	250,000
Bancfirst - CD's	100,000	250,000
Total Cash and Investments	\$444,973	\$750,000



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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***

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

We have audited the financial statements of Pittsburg County Water Authority, Pittsburg County, Oklahoma, as of and for the year ended June 30, 2011, and have issued our report thereon dated June 12, 2012. We conducted our 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 our audit, we considered Pittsburg County Water Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses 2011-1, 2011-2, 2011-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items, 2011-1, 2011-2, 2011-3.

Pittsburg County Water Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Pittsburg County Water Authority's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors of Pittsburg County Water Authority, others within the organization, and the State of Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.



Clothier & Company, CPA's, P.C.
June 12, 2012

Pittsburg County Water Authority
Pittsburg County, Oklahoma
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Period Ended June 30, 2011

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued. – Unqualified

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Control deficiencies identified that are not considered to be material weaknesses? X Yes _____ No

Noncompliance material to financial statements noted? _____ Yes X No

Section II – Financial Statement Findings

2011-1 –Transaction timing

Condition – The client does not record checks when issued or revenue when it is deposited.

Effect – Expenses are not recorded into the month they are disbursed and revenue is not always recorded to the month deposited.

Cause – The design of the information system is to record fund activity from the bank statement.

Recommendation – The accounting system should record checks according to the date of issue and revenue by the month deposits are prepared.

Entity’s Response – Secretary will stamp invoices received by date and prepare the file of authorized transactions for the board with checks. Manager will prepare deposit slips and make the deposits as soon as revenue is received from customers.

2011-2 – Documentation of transaction approval

Condition – Transactions are not properly marked as approved for payment or marked as paid.

Effect – Nobody can tell if an invoice has been paid by looking at it and the risk of double payment is increased.

Cause – No procedure for documenting approval by the appropriate employee, and no procedure for documentation of payment.

Recommendation – Implement controls to document transaction approval. This can be done with a rubber stamp, or simply initialed by the manager upon approval for processing. After checks are run, the appropriate employee can write the check number and date on the document approved.

Pittsburg County Water Authority
Pittsburg County, Oklahoma

Entity's Response – Implementing the rubber stamps can be done right away and general ledger coding can be phased in working together with the accounting service.

2011-3 – Fund balance is out of balance with audit.

Condition – The books do not agree with the prior years audit report.

Effect – Non compliance with accounting standards generally accepted in the United States.

Cause – Audit journal entries have not been entered. Pittsburg Water Authority does not maintain its books on an accrual basis of accounting, which requires the recording of accrued and deferred revenue and expenses from time to time.

Recommendation – Switch to a cash basis of accounting and financial reporting in order to preserve the current system of maintaining the general ledger. A certain number of audit journal entries will still need to be done.

Entity's Response – Audit entries will be entered going forward.