

FINANCIAL STATEMENTS

OF

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

June 30, 2012



Clothier & Company CPA's P.C.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of Assets, Liabilities and Fund Balances - modified cash basis of Pittsburg County Water Authority, Pittsburg County, Oklahoma, as of June 30, 2012 and the related statements of revenues and expenses - modified cash basis and cash flows for the year then ended. These financial statements are the responsibility of Pittsburg County Water Authorities 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 opinion.

As described in Note 1, the Authority prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012 and the changes in net assets for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2012, on our consideration of the Authority's internal control over financial reporting and on 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 read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Clothier & Company CPA's". The signature is written in black ink and is positioned above the printed name of the firm.

Clothier & Company, CPA's, P.C.
November 19, 2012

Management Discussion and Analysis For Year Ended June 30, 2012

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 (2011) year.

Business Activities:

During the year the Pittsburg County Water Authority continued emphasis on 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 Authority had a decrease in net assets for the year. The Authority's total revenue decreased by \$8,542 compared to 2011 revenue and the cost of sales, which is closely related to the volume of water produced, increased \$30,082 as compared to 2011. Operating expenses increased as a result of increases in DEQ fees, salaries and benefits. Insurance, accounting and office supplies decreased by a total of \$7,620 when compared to 2011. A one time change in accounting method also contributed a \$78,488 increase in fund balance. The Authority has a decrease in net income of \$64,366. \$116,672 in 2012 compared to 2011, with a loss of \$37,348.

The Authority currently has plant and equipment with a net book value of \$2,241,998, a decrease of \$77,648 from last year. The Authority updated computer equipment during the current year.

For the year ended June 30, 2012, total assets exceeded liabilities by \$1,850,991. The Authority has a note payable to Oklahoma Water Resources Board in the amount of \$805,389. The balance sheet has a net decrease of \$181,038 from 2011 to 2012.

The Authority purchased three Certificates of Deposit \$100,000 each; including capitalized interest they are valued at \$310,950 on June 30, 2012.

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.

PITTSBURG CO. WATER AUTHORITY
PITTSBURG COUNTY, OKLAHOMA
Statement of Net Assets
June 30, 2012

Current Assets

Cash & Equivalents \$ 414,382

Total Current Assets 414,382

Fixed Assets

Water Systems 3,696,849

Office Equipment 8,152

Trucks and Equipment 71,175

Land 2,879

Less: Accum. Depreciation (1,537,057)

Total Fixed Assets 2,241,998

Other Assets

Total Assets \$ 2,656,380

See accompanying notes and accountant's report.

PITTSBURG CO. WATER AUTHORITY
PITTSBURG COUNTY, OKLAHOMA
Statement of Net Assets
June 30, 2012

Current Liabilities

Current Maturities (Note 2) \$ 54,914

Total Current Liabilities 54,914

Long Term Liabilities

Notes Payable (Note 2) 750,475

Total Long Term Liabilities 750,475

Fund Balance

Invested in Capital Assets 1,436,612

Unrestricted 531,051

Current Income (Loss) (116,672)

Total Fund Balance 1,850,991

Total Liabilities & Fund Balance \$ 2,656,380

See accompanying notes and accountant's report.

PITTSBURG CO. WATER AUTHORITY
PITTSBURG COUNTY, OKLAHOMA
Stmnt of Revenue Expense and Change in Net Assets
June 30, 2012

	12 Months Ended Jun. 30, 2012
Revenue	
Water Sales	\$ <u>674,632</u>
Total Revenue	<u>674,632</u>
Cost of Sales	
Repairs and Supplies	174,864
Contract Labor	<u>80</u>
Total Cost of Sales	<u>174,944</u>
Gross Profit	<u>499,688</u>
Operating Expenses	
Salaries	235,135
Employee Benefits	83,763
Payroll Taxes	18,887
Insurance	23,167
Accounting	6,972
DEQ Fees	19,010
Advertising	616
Office Supplies	15,103
Rent	5,417
Travel	8,409
Utilities	84,611
Depreciation	85,471
Trustee Fees	<u>6,725</u>
Total Expenses	<u>593,286</u>
Operating Income	<u>(93,598)</u>
Other Revenue (Expenses)	
Interest Expense	(25,193)
Interest Income	<u>2,119</u>
Total Other Income	<u>(23,074)</u>
Net Income (Loss)	\$ <u><u>(116,672)</u></u>

See accompanying notes and accountant's report.

PITTSBURG COUNTY WATER AUTHORITY
PITTSBURG COUNTY, OKLAHOMA
Statement of Cash Flows
As of June 30, 2012

	12 Months Ended June 30, 2012
Cash Flows From Operating Activities:	
Cash received from customers	\$ 674,632
Cash received from other sources	
Cash paid to employees	(235,135)
Cash paid to suppliers	(272,680)
Other operating payments	(174,944)
Net Cash Flows from Operating Activities	<u>(8,127)</u>
Cash Flows From Capital and Related Financing Activities:	
Proceeds from issuance of debt	0
Payment of debt	(52,936)
Acquisition and construction of capital assets	(7,823)
Payment of Interest	(25,193)
Net Cash (Used) By Capital and Related Financing Activities	<u>(85,952)</u>
Cash Flows From Investing Activities:	
Decrease (Increase) in restricted cash	0
Receipt of interest and dividends	2,119
Net Cash Provided (Used) By Investing Activities	<u>2,119</u>
Net Increase (Decrease) In Cash	(91,960)
Cash Beginning of Year	506,342
Cash End of Year	<u>\$ 414,382</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Operating income (loss)	\$ (93,598)
Add depreciation expense	85,471
Net Cash Flows from Operating Activities	<u>\$ (8,127)</u>

See accompanying notes and accountant's report.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2012

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 Authority changed its method of preparing the financial statements for 2012. The Authority began using the modified cash basis of accounting where revenues are recognized when received and expenses are recognized when paid. The modified cash basis used includes the deduction for depreciation. The change of method resulted in a one-time increase in net assets of \$78,488. 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.

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, 2012.

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.

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 2012 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 - 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 \$7,823.

	Cost	Additions	Accumulated Depreciation	Book Value
Land	2,879	0	0	2,879
Water Authority Systems	3,689,027	7,822	(1,474,604)	2,222,245
Office Equipment	8,152	0	(5,617)	2,535
Trucks & Equipment	71,175	0	(56,836)	14,339
	<hr/>			
	\$ 3,771,233	\$ 7,822	\$ (1,537,057)	\$ 2,241,998

NOTE 4 - LONG TERM DEBT

The current portion of long term debt is \$54,914 and the long term portion is \$750,475. The total note payable to Oklahoma Water Resources Board has a balance of \$805,389.

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

Pittsburg County Water Authority

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

	Maturities	Debt Service
2013.....	54,913	83,016
2014.....	56,879	83,016
2015.....	58,915	83,016
2016.....	60,965	83,016
2017.....	63,207	83,016
5 yrs. 2022.....	351,605	415,080
5 yrs. 2024.....	158,905	166,031
	<u>\$805,389</u>	<u>\$996,191</u>

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, 2012 cash balances totaled \$414,382. Deposits are categorized for risk as insured by FDIC.

The Authority's deposits were categorized as follows at June 30, 2012:

Financial Institution	Balance	Insured
First National – Checking	\$104,187	\$250,000
Bancfirst – CD's	210,950	250,000
First National – CD	100,000	250,000
Total Cash and Investments	<u>\$414,382</u>	<u>\$750,000</u>

NOTE 6 - SUBSEQUENT EVENTS

Pittsburg County Water Authority has plans for continued repair and improvements of the existing water plant facilities over the next several years. The work is consistent with Department of Environmental Quality guidelines. Disinfection System Improvements are planned to be performed with Mehlburger Brawley Engineering as the primary contractor.

Subsequent Events have been evaluated through November 19, 2012, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.



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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- modified cash basis of Pittsburg County Water Authority, Pittsburg County, Oklahoma, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 19, 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

Management of Pittsburg County Water Authority is responsible for establishing and maintaining effective 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.

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 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.

Our 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, 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 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*.

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

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

Clothier & Company, CPA's, P.C.
November 19, 2012