

**Muskogee County Rural Water District No. 1  
Oktaha, Oklahoma**

Financial Statements and Auditors Reports

Year Ended December 31, 2011

Audited by

**SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

BROKEN ARROW, OK

**Muskogee County Rural Water District No. 1**  
**Oktaha, Oklahoma**  
Board of Directors  
December 31, 2011

**BOARD OF DIRECTORS**

**Chairman**

Jimmy Roper

**Vice-Chairman**

John Standridge

**Secretary/Treasurer**

Ron Wood

**Member**

Keith Weant

**Member**

Jim Neely

**MANAGER**

Mike Hogner

**BOOKKEEPER**

Katherine Grace

**Muskogee County Rural Water District No. 1**  
**Oktaha, Oklahoma**  
December 31, 2011

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# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Muskogee County Rural Water District No. 1  
Oktaha, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Muskogee County Rural Water District No. 1 (the District), Oktaha, Oklahoma, as of and for the year ended December 31, 2011, which collectively 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. 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 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting generally accepted in the United States of America.

The Management Discussion and Analysis on pages 5-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 20, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting generally accepted in the United States of America.

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Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

June 20, 2012

# RURAL WATER DISTRICT NO. 1, MUSKOGEE COUNTY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011

Our discussion and analysis of the Rural Water District No. 1, Muskogee County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the District's financial statements that begin on page 11.

### **FINANCIAL HIGHLIGHTS**

- The District's total operating expenses exceeded total operating revenues by \$16,893. Overall, the District's cash and cash equivalents decreased by \$1,331 in the current fiscal year.
- The District did not increase water rates to its users in 2011.
- The District is indebted by one note only to Oklahoma Water Resources Board.

### **Using This Report**

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

### **Basis of Accounting**

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

### **The Financial Statements**

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The statement of Assets, Liabilities and Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net assets and the changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases

in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

### **Fixed Assets**

At December 31, 2011, the District had \$684,459 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. The District did not make any large improvements to the water system during the 2011 fiscal year.

### **Long-Term Debt**

The District is indebted to Oklahoma Water Resources Board on one note obtained for previously extensive extensions and payment of other debts. The outstanding principal balance owed on the note decreased from \$314,700 to \$296,050 during the 2011 fiscal year. The \$430,000 note is scheduled to be paid off in 2024.

### **Economic Factors and Next Year's Budget and Rates**

The District has absorbed some of the City of Muskogee's rate increases, but may be forced to again increase customer rates if additional increases are made by the City of Muskogee.

The District's budget for fiscal year 2012 will remain much like previous years budgets. Your Board of Directors does anticipate small budget changes made primarily to better allow for office and field personnel operations, without the necessity of hiring additional part-time or permanent employees.

### **Contacting the District's Management**

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at P.O. Box 156, Oktaha, OK 74450 or call (918) 682-7903.



**SANDERS, BLEDSOE & HEWETT**  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

**Report on Compliance and on Internal Control Over  
Financial Reporting Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Muskogee County Rural Water District No. 1  
Oktaha, Oklahoma

We have audited the financial statements of the Muskogee County Rural Water District (the District) No. 1, Oktaha, Oklahoma, as of and for the year ended December 31, 2011, and have issued our report thereon dated June 20, 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.

**Compliance**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we 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 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 that are required to be reported under generally accepted auditing standards.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of



management in the financial statements. This reportable condition is described in the accompanying schedule of audit results as item 11-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that item 11-1 is not a material weakness.

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

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

June 20, 2012

**MUSKOGEE COUNTY RURAL DISTRICT NO. 1**  
**Disposition of Prior Year's Reportable Conditions**  
**December 31, 2011**

Lack of Segregation of Functional Responsibilities

The exception that there were inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available which prevented a proper segregation of accounting functions which is necessary to assure adequate internal accounting controls continued in the current fiscal year.

**MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1**  
**Schedule of Audit Results**  
**December 31, 2011**

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a reportable condition in the internal controls, which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

11-1 – Lack of Segregation of Duties

Condition-

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.

# MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1

## Statement of Net Assets

December 31, 2011

### **ASSETS:**

#### Current Assets:

Cash and cash equivalents	\$ 200,174
Investments	173,481
Current portion of receivables	51,691
Prepaid assets	4,706
Total current assets	<u>430,052</u>

#### Noncurrent Assets:

Restricted cash-	
ORWB project trust funds - Debt service	9,507
ORWB project trust funds - Debt service reserve	39,319
Capital Assets-	
Land	20,635
Building, plant and water systems, net	615,813
Other capital assets, net	48,011
Total noncurrent assets	<u>733,285</u>

Total Assets 1,163,337

### **LIABILITIES:**

#### Current Liabilities:

Accounts payable	19,494
Accrued liabilities	912
Current portion of long-term debt	10,950
Total current liabilities	<u>31,356</u>

#### Noncurrent Liabilities:

Long-term debt	<u>285,100</u>
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Total Liabilities 316,456

### **NET ASSETS:**

Invested in capital assets, net of related debt	388,409
Restricted for debt service	39,319
Unrestricted assets	419,153
Total Net Assets	<u>\$ 846,881</u>

The accompanying notes to the financial statements are an integral part of this statement

# MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1

## Statement of Activities

For The Year Ended December 31, 2011

### Operating Revenues:

Water sales	\$ 365,415
Fees and fines	5,800
Benefit unit sales	<u>50</u>
Total revenue from operations	<u>371,265</u>

### Operating Expenses:

Salaries and benefits	107,880
Water purchases	144,523
Repairs and maintenance	9,709
Supplies and materials	9,384
Vehicle expense	6,221
Utilities and telephone	6,768
Insurance	43,380
Office expense and postage	6,313
Depreciation	43,837
Professional fees	3,325
Dues and fees	2,637
Miscellaneous	<u>4,181</u>
Total expenses from operations	<u>388,158</u>

Operating Income (Loss) (16,893)

### Non-Operating Revenues (Expenses):

Interest income	3,287
Interest paid on long-term debt	<u>(4,222)</u>
Total Non-Operating Revenues (Expenses)	<u>(935)</u>

Change in Net Assets (17,828)

Total Net Assets, beginning of period 864,709

Total Net Assets, end of period \$ 846,881

The accompanying notes to the financial statements are an integral part of this statement

# MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1

## Statement of Cash Flows For the Year Ended December 31, 2011

### Cash Flows from Operating Activities:

Receipts from customers	\$ 360,185
Payments to employees	(107,492)
Payments to vendors	<u>(234,286)</u>
Net Cash Provided by Operating Activities	<u>18,407</u>

### Cash Flows from Investing Activities:

Interest earned on investments	<u>3,287</u>
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### Cash Flows from Financing Activities:

Principal paid on long-term debt	(18,650)
Interest paid on long-term debt	<u>(4,375)</u>
Net Cash Provided by (used in) Financing Activities	<u>(23,025)</u>

Net Increase (Decrease) in Cash	(1,331)
Cash and cash equivalents, beginning of period	<u>423,812</u>
Cash and cash equivalents, end of period	<u>\$ 422,481</u>

### Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating Income	\$ (16,893)
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	43,837
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(11,080)
(Increase) decrease in prepaid insurance	2,750
Increase (decrease) in accounts payable	<u>(207)</u>
Net cash provided by operating activities	<u>\$ 18,407</u>

The accompanying notes to the financial statements are an integral part of this statement

# MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1

## Oktaha, Oklahoma

### Notes to the Financial Statements

December 31, 2011

#### Note A – Significant Accounting Policies

##### Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

##### New Reporting Standard

In June 1999, the GASB issued Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes new financial reporting requirements for state and local governments throughout the United States. It creates new information and restructures much of the information that governments have presented in the past. Comparability with reports issued in all prior years is affected. The District has elected to implement this standard.

##### Cash

The District’s cash accounts at December 31<sup>st</sup>, are detailed as follows:

	December 31,	
	2011	2010
Cash on hand	\$ 300	300
Armstrong Bank, Checotah, Ok-		
Revenue account	189,366	179,981
Operation & Maintenance account	17,529	25,888
Add: Deposits in transit	0	1,170
Less: Outstanding checks	(7,022)	(2,612)
Bank of Oklahoma-		
ORWB Trust Accounts-		
Debt Service account	9,507	8,529
Debt Service Reserve account	39,319	39,318
Total	<u>\$ 248,999</u>	<u>252,574</u>

# MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1

Oktaha, Oklahoma

Notes to the Financial Statements

December 31, 2011

## Note A – Significant Accounting Policies – cont'd

### Investments

The District's investments are detailed as follows:

	<u>2011</u>	<u>2010</u>
Armstrong Bank, Checotah, Ok- Certificate of deposit no. 455571, dated 1-17-11, due 7-17-12	\$ 19,375	19,134
Certificate of deposit no. 432717, dated 5-15-11, due 11-15-12	89,823	88,575
Certificate of deposit no. 434205, dated 6-19-11, due 12-19-12	57,628	56,890
BancFirst, Muskogee, Ok- Certificate of deposit no. 300017189, dated 11-26-11, due 5-26-12	<u>6,655</u>	<u>6,639</u>
Total Investments	<u>\$ 173,481</u>	<u>171,238</u>

### Collateral Pledged

The District's cash deposits at December 31, 2011 are categorized to give an indication of the level of risk assumed by the District at year-end.

The District's investments at December 31, 2011 consisted of certificates of deposit, and are categorized to give an indication of the level of risk assumed by the District at year-end.

#### Deposit Categories of Credit Risk

- (A) Insured by Federal Deposit Insurance
- (B) Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name
- (C) Uncollateralized



**MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1**

**Oktaha, Oklahoma**

Notes to the Financial Statements

December 31, 2011

**Note A – Significant Accounting Policies – cont'd**

	Category			Bank Balance	Carrying Amount
	(A)	(B)	(C)		
Cash	\$ 249,721			249,721	248,699
Investments	173,481			173,481	173,481
Total	<u>\$ 423,202</u>	<u>0</u>	<u>0</u>	<u>423,202</u>	<u>422,180</u>

Accounts Receivable

Billings for accounts receivable at December 31, 2011 were \$51,691. No allowance for doubtful accounts was computed because the effect of bad debts on the financial statements is not considered material.

Prior Year Information

Prior year financial statement information is included in the other supplementary information section for comparative purposes only. No opinions are issued on these amounts, and are included as memorandum.

Fixed Assets

Fixed assets are valued at cost, depreciation is computed by use of the straight-line method. The estimated useful lives of these assets are as follows:

Land	N/A
Office furniture & fixtures	5-10 years
Equipment & tools	5 years
Transportation equipment	5 years
Water & sewer system	50 years
Buildings	25 years
Computer equipment	3 years

**MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1**

**Oktaha, Oklahoma**

Notes to the Financial Statements

December 31, 2011

**Note A – Significant Accounting Policies – cont'd**

The fixed asset information for the District is shown below:

	12/31/2010 Amount	Additions	Deletions	12/31/2011 Amount
Land	\$ 20,635	-	-	20,635
Building	62,212	-	-	62,212
Plant and water sys.	1,389,512	-	-	1,389,512
Vehicles and equip.	196,321	-	-	196,321
Total Fixed Assets	1,668,680	-	-	1,668,680
Less: Accumulated Depreciation	(940,384)	(43,837)	-	(984,221)
Total	\$ 728,296	(43,837)	-	684,459

Accumulated Unpaid Vacation and Sick Pay

At December 31, 2011 no determination of the aggregate dollar value of vacation or sick pay had been made.

**Note B – Notes Payable**

Notes payable consists of one note to the Oklahoma Water Resources Board.

The District has a promissory note in the amount of \$430,000 with the Oklahoma Water Resources Board (OWRB), dated March 31, 1998, for a period of 25 years. The District makes monthly deposits into the trust account at the Bank of Oklahoma. The trust account then makes the quarterly payments of principal and interest to the OWRB. The current interest rate on this note is 1.32%. The water system and future water revenues are used as security for this note.

**MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 1**

**Oktaha, Oklahoma**

Notes to the Financial Statements

December 31, 2011

**Note B – Notes Payable – cont'd**

	<u>2011</u>	<u>2010</u>
Oklahoma Water Resources Board note payable, issued for \$430,000, dated 3-31-98, at 1.32% interest, due in semi-annual installments, until paid;	\$ 296,050	314,700
Less: Current maturities of long-term debt	<u>(10,950)</u>	<u>(10,100)</u>
Total Long-Term Debt	<u><u>\$ 285,100</u></u>	<u><u>304,600</u></u>

The scheduled maturities for the next five (5) years, and in total thereafter, are detailed as follows:

2012	\$ 10,950
2013	15,700
2014	16,900
2015	18,300
2016	19,800
2017-21	126,200
2022-24	<u>88,200</u>
Total	<u><u>\$ 296,050</u></u>