

State Auditor & Inspector

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BOWLEGS-LIMA RURAL WATER DISTRICT, INC.

BOWLEGS, OKLAHOMA

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEARS ENDED OCTOBER 31, 2011 AND 2010

RECEIPT #
30099

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

BROKEN ARROW, OK

BOWLEGS-LIMA RURAL WATER DISTRICT, INC.
Bowlegs, Oklahoma

BOARD OF DIRECTORS
OCTOBER 31, 2011

BOARD OF DIRECTORS

Chairperson	Ralph Morrison
Vice-Chairperson	Larry LeRay
Secretary/Treasurer	James Cook
Member	Richard Vickery
Member	Ron Phay

BOOKKEEPER

Cathy Werner

BOWLEGS-LIMA RURAL WATER DISTRICT, INC.
Bowlegs, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bowlegs-Lima Rural Water District, Inc.
Bowlegs, Oklahoma 74830

We have audited the accompanying financial statements of the business-type activities of the Bowlegs-Lima Rural Water District, Inc. (the "District"), Bowlegs, Oklahoma, as of and for the years ended October 31, 2011 and 2010, 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 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 Bowlegs-Lima Rural Water District, Inc., Bowlegs, Oklahoma, as of October 31, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States.

Management has elected to omit the Management Discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2011, 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 supplemental 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.

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

November 16, 2011

BASIC FINANCIAL STATEMENTS

BOWLEGS-LIMA RURAL WATER DISTRICT, INC.
Bowlegs, Oklahoma
STATEMENT OF NET ASSETS
October 31, 2011 and 2010

	October 31,	
	2011	2010
ASSETS		
Cash and investments		
Cash and cash equivalents	\$ 45,129	7,424
Investments, at cost	405,574	306,742
Receivables		
Accounts receivable	5,770	5,677
Inventory - parts and supplies	23,495	14,097
CAPIAL ASSETS		
Depreciable buildings, property and equipment - net of depreciation	752,429	803,501
OTHER ASSETS		
Insurance certificate	1,000	1,000
TOTAL ASSETS	\$ 1,233,397	1,138,441
 LIABILITIES		
Accounts payable	\$ 7,700	5,145
TOTAL LIABILITIES	\$ 7,700	5,145
 NET ASSETS		
Equity		
Unrestricted	1,225,697	1,133,296
TOTAL NET ASSETS	\$ 1,225,697	1,133,296

The accompanying notes are an integral part of the financial statements

BOWLEGS-LIMA RURAL WATER DISTRICT, INC.
Bowlegs, Oklahoma
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS FOR THE YEAR ENDED OCTOBER 31, 2011

<u>FUNCTIONS/PROGRAMS</u>	<u>EXPENSES</u>	<u>CHARGES FOR SERVICES</u>	<u>OPERATING GRANTS AND CONTRIBUTIONS</u>	<u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>NET (EXPENSES) REVENUE</u>
Water service	\$ 420,682	376,895	-	-	(43,787)
Net (Expense)/Revenue					
Other revenues (expenses)					
Interest income					5,060
Total other revenues (expenses)					5,060
Change in Net Assets					(38,727)
Prior period adjustment					131,128
Net Assets-beginning of year					1,133,296
Net Assets-end of year					\$ 1,225,697

The accompanying notes are an integral part of the financial statements

BOWLEGS-LIMA RURAL WATER DISTRICT, INC.
Bowlegs, Oklahoma
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED OCTOBER 31, 2011 AND 2010

	October 31,	
	2011	2010
REVENUES		
Water sales	\$ 344,351	321,062
Penalties	4,121	3,843
Memberships	7,151	4,688
Maintenance surcharge	6,869	6,155
Miscellaneous	4,466	4,843
Reconnect fees	4,200	2,850
Water test fees	5,737	5,756
	376,895	349,197
UTILITY OPERATIONS EXPENSE		
Water services		
Salaries	123,195	115,433
Utilities and telephone	51,458	44,888
Insurance	14,906	13,112
Field supplies	4,906	2,251
Professional services	15,103	12,929
Transportation	7,600	6,098
Office supplies	6,671	5,747
Repairs, maintenance and parts	98,588	71,496
Depreciation	51,072	51,072
Chemicals	13,257	11,535
Bad debts	616	744
Postage	5,322	4,302
Dues, fees, memberships & maintenance agreements	24,652	5,057
Miscellaneous	3,336	985
	420,682	345,649
INCOME (LOSS) BEFORE NON-OPERATING REVENUES EXPENSES AND TRANSFERS	(43,787)	3,548
Non-operating revenues (expenses):		
Interest revenue	5,060	2,730
	(38,727)	6,278
NET INCOME (LOSS)		
PRIOR PERIOD ADJUSTMENTS TRANSFER	131,128	(148,000)
RETAINED EARNINGS, BEGINNING OF THE YEAR	1,133,296	1,275,018
RETAINED EARNINGS, END OF THE YEAR	\$ 1,225,697	1,133,296

The accompanying notes are an integral part of the financial statements

BOWLEGS-LIMA RURAL WATER DISTRICT, INC.
Bowlegs, Oklahoma
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED OCTOBER 31, 2011 AND 2010

	October 31,	
	2011	2010
Cash flows from operating activities:		
Cash received from customers & service users	\$ 376,895	335,165
Cash payments for goods & services & employees	(376,546)	(295,467)
Net cash provided by operating activities	349	39,698
Cash flows from capital and related financing activities		
Acquisition & construction of capital assets	-	(3,140)
Net cash provided (used) for capital & related financing activities	-	(3,140)
Cash flows from investing activities		
Interest on investments	5,060	2,730
Net cash provided from financing activities	5,060	2,730
Net increase (decrease) in cash	5,409	39,288
Prior period adjustment	131,128	(134,801)
Cash - beginning of year	314,166	409,679
Cash - end of year	\$ 450,703	314,166
Reconciliation of operating income to net cash provided by operating activities:		
Operating activities	(43,787)	3,548
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in assets and liabilities:		
Depreciation	51,072	51,072
(Increase) decrease in accounts receivable	(93)	(1,874)
(Increase) decrease in inventory	(9,398)	(463)
(Decrease) increase in accounts payable	2,555	(615)
Total adjustments	44,136	48,120
Net cash provided by operating activities	\$ 349	51,668

The accompanying notes are an integral part of the financial statements

BOWLEGS-LIMA RURAL WATER DISTRICT, INC.
Bowlegs, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bowlegs-Lima Rural Water District, Inc., Bowlegs, Oklahoma (the District) complies with accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District re discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. The significant changes in the Statement includes the Management’s Discussion and Analysis (MD&A) section providing an analysis of the District’s overall financial position and results of operations. This District determined not to include the MD&A.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements).

A. Reporting Entity

Bowlegs-Lima Rural Water District, Inc. (District), Seminole County, Oklahoma is a rural water district organized under the State of Oklahoma Statutes. The purpose of the District is to provide for the use and benefit of its members, and adequate water distribution system. Members are owners of land located within the district who have subscribed to the District’s services. Each member represents one vote of the governing body of the District without any direct ownership in assets.

The accompanying financial statements include all functions and activities over which the District exercises financial accountability. The District is considered a primary government as defined by the Governmental Accounting Standards Board and has no other component units within its reporting entity.

B. Basis of Accounting

The accrual basis of accounting is employed by the District. Under this basis, revenues and expenses, including interest on long-term debt since the last payment date, are recorded when incurred. This policy is in accordance with accounting principles generally accepted in the United States of America.

C. Accounts Receivable

Accounts receivable consists of revenues earned, but not yet received, at the balance sheet date. The direct write-off method is used for bad debt expense.

BOWLEGS-LIMA RURAL WATER DISTRICT, INC.
Bowlegs, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

D. Inventory

Inventory consists of unused pipe and small parts maintained for future expansion and repairs. Inventory is valued at cost using the first-in, first-out method.

E. Property, Plant and Equipment

Property, plant and equipment are valued at historical cost and are depreciated over their estimated useful lives on a straight-line basis. Major improvements and betterment are capitalized while normal maintenance and repairs are expensed. The estimated useful lives of depreciable assets are as follows:

	<u>Useful Lives</u>
Water/Sewer facilities	40 years
Buildings	10-40 years
Equipment	7 years
Vehicles	7 years

F. Tax Status

The District is a non-profit rural water district, and as such, is exempt from federal and state income taxes.

G. Estimates

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

2. Cash and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposits, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct securities of the United States unless law expressly prohibits such an investment.

3. Accounts Receivable

Billings for accounts receivable at October 31, 2011, are \$5,770. No allowance for doubtful accounts was computed which is not considered to be material to the financial statements.

BOWLEGS-LIMA RURAL WATER DISTRICT, INC.
Bowlegs, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
OCTOBER 31, 2011

4. Fixed Assets

Fixed assets are valued at cost, and are comprised of the water system. These assets are depreciated over their estimated useful lives, using the straight-line method.

Description	2011	2010
Water facility (40 yrs)	\$ 1,740,244	\$ 1,740,244
Land (N/A)	23,848	23,848
Building (40 yrs)	55,689	55,689
Equipment (5 yrs)	25,001	25,001
Vehicles (5 yrs)	14,704	14,704
Total	1,859,486	1,859,486
Less: Accumulated depreciation	(1,107,057)	(1,055,985)
Net Fixed Assets	<u>\$ 752,429</u>	<u>\$ 803,501</u>

2. FEDERAL INCOME TAX

The District is exempt from federal and state income taxes.

4. LITIGATION

Management had no knowledge of any pending or threatened litigation or of any asserted or unasserted claims against the District at October 31, 2011.

REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLAINTS AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STANDARDS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Bowlegs-Lima Rural Water District, Inc.
Bowlegs, Oklahoma 74830

We have audited the basic financial statements of the Bowlegs-Lima Rural Water District, Inc., and (District) as of and for the years ended October 31, 2011 and 2010, and have issued our report thereon dated November 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States, 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 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 judgement, could adversely affect the Bowlegs-Lima Rural Water District, Inc.'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 10-01.

A material weakness is a condition in which the design or operations 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 basic 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 internal control over financial reporting would not necessarily disclose all matter 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. We noted no matters involved the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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 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 and is not intended to be, and should not be, used by anyone other than these specified parties.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

November 16, 2011

BOWLEGS-LIMA RURAL WATER DISTRICT NO, INC.
Bowlegs, Oklahoma

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED OCTOBER 31, 2011

11-1 – Lack of Segregation of Duties

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.

BOWLEGS-LIMA RURAL WATER DISTRICT, INC.
Bowlegs, Oklahoma

DISPOSITION OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS'FOR
THE YEAR ENDED OCTOBER 31, 2011

REPORTABLE CONDITION 10-1

Lack of Segregation of Duties

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