

**CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1
FORT GIBSON, OKLAHOMA**

**FINANCIAL STATEMENTS
AND REPORTS OF INDEPENDENT AUDITOR**

DECEMBER 31, 2012

Audited by

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

BROKEN ARROW, OK

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1
BOARD OF DIRECTORS
DECEMBER 31, 2012

BOARD OF DIRECTORS

Chairman

Dianne Barker-Harrold

Vice-Chairman

Robert Hutchins

Secretary/Treasurer

Danny Shoemaker

Members

Ethan Kaopio

Jeff Delmedico

Plant Manager

Bobby Gassaway

Office Manager

Diane McKinzie

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1
FORT GIBSON, OKLAHOMA
DECEMBER 31, 2012

TABLE OF CONTENTS

	<u>Page</u>
Board of Directors	1
Table of Contents	2
Independent Auditor's Report	3
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	5
Disposition of Prior Year's Reportable Conditions	7
Schedule of Audit Results	8
 <u>COMBINED FINANCIAL STATEMENTS:</u>	
Statement of Net Assets	9
Statement of Activities	10
Statement of Cash Flows	11
Notes to Financial Statements	12
 <u>OTHER SUPPLEMENTARY INFORMATION:</u>	
Balance Sheet	16
Statement of Revenue, Expenses and Changes in Retained Earnings	17



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Cherokee County Rural Water District No. 1
Fort Gibson, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Cherokee County Rural Water District No. 1 (the District), Fort Gibson, Oklahoma, as of and for the year ended December 31, 2012, 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, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 a report dated March 28, 2013, 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. This 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.

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.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

March 28, 2013



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
Cherokee County Rural Water District No. 1
Fort Gibson, Oklahoma

We have audited the financial statements of the Cherokee County Rural Water District (the District) No. 1, Fort Gibson, Oklahoma, as of and for the year ended December 31, 2012, and have issued our report thereon dated March 28, 2013. 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

Management of the District is responsible for establishing and maintaining effective 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 12-1.

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 12-1 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.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

March 28, 2013

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1
FORT GIBSON, OKLAHOMA
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS
DECEMBER 31, 2012

Lack of Segregation of Duties

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.

CHEROKEE COUNTY RURAL WATER DISTRICT NO. 1
FORT GIBSON, OKLAHOMA
SCHEDULE OF AUDIT RESULTS
DECEMBER 31, 2012

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:

12-1 – 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.

Cherokee County Rural Water District No. 1
Statement of Net Assets
December 31, 2012

ASSETS:

Current assets:

Cash	\$	42,667
Current portion of receivables		12,081
Prepaid assets		4,981
Total current assets		59,729

Noncurrent assets:

Restricted cash with fiscal agent		1,348
Restricted investment with fiscal agents		33,592
Capital assets, net		624,603
Other assets, net		12,349
Total noncurrent assets		671,892

Total Assets		731,621
--------------	--	---------

LIABILITIES:

Accounts payables		1,337
Notes payable - current portion		8,400
Notes payable - long-term portion		303,250
Total Liabilities		312,987

NET ASSETS:

Invested in capital assets, net of related debt		312,953
Restricted for debt service and deposits		34,940
Unrestricted assets		70,741
Total Net Assets	\$	418,634

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

Cherokee County Rural Water District No. 1
Statement of Activities
For The Year Ended December 31, 2012

Operating Revenues:	
Water sales and other sales	<u>\$ 161,633</u>
Operating Expenses:	
Chemicals	6,013
Professional fees	37,675
Supplies and parts	19,541
Insurance and bonds	8,160
Office equipment	400
Miscellaneous	324
Office supplies and postage	3,696
Dues and memberships	6,732
Repair labor	12,852
Salaries	55,776
Payroll taxes	5,183
Utilities and telephone	17,381
Vehicles	11,182
Water testing	3,603
Depreciation	30,906
Amortization	631
Total expenses from operations	<u>220,055</u>
Operating Income (Loss)	(58,422)
Non-Operating Revenues (Expenses):	
Interest income	16
Interest paid on long-term debt	<u>(5,045)</u>
Total non-operating revenues (expenses)	<u>(5,029)</u>
Change in Net Assets	(63,451)
Total Net Assets, beginning of period	<u>482,085</u>
Total Net Assets, end of period	<u><u>\$ 418,634</u></u>

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

Cherokee County Rural Water District No. 1
Statement of Cash Flows
For the Year Ended December 31, 2012

Cash Flows from Operating Activities:	
Receipts from customers	\$ 162,311
Payments to employees	(61,006)
Payments to vendors	<u>(132,361)</u>
Net Cash Provided by Operating Activities	<u>(31,056)</u>
Cash Flows from Investing Activities:	
Interest revenue	<u>16</u>
Cash Flows from Financing Activities:	
Interest expense on debt	(5,045)
Principal payments on debt	<u>(7,950)</u>
Net Cash Provided by (used in) Financing Activities	<u>(12,995)</u>
Net Increase (Decrease) in Cash	(44,035)
Cash and cash equivalents, beginning of period	<u>121,642</u>
Cash and cash equivalents, end of period	<u><u>\$ 77,607</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating Income	\$ (58,422)
Adjustments to reconcile operating income to net cash provided (used by operating activities):	
Depreciation Expense	30,906
Amortization Expense	631
(Increase) decrease in accounts receivable	678
(Increase) decrease in prepaid expenses	(719)
Increase (decrease) in accounts payables	<u>(4,130)</u>
Net Cash Provided by Operating Activities	<u><u>\$ (31,056)</u></u>

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

Cherokee County Rural Water District No. 1
Fort Gibson, Oklahoma
Notes to Financial Statements
December 31, 2012

Note A – Significant Accounting Policies

Basis of Accounting

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

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.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

Cash

The District’s accounts are with Fort Gibson State Bank, Fort Gibson, Oklahoma, and are detailed as follows:

	December 31,	
	2012	2011
Cash on hand	\$ -	86,943
Operating account	42,667	(343)
Less: outstanding checks	-	-
	\$ 42,667	86,600

Investments

The bookkeeper is authorized by the Board of Directors to invest certain amounts of money from available funds. The types of investments available are specified in and limited by Oklahoma Statutes, which includes certificates of deposit and governmental securities. Investments are recorded on the financial records and in the financial statements at cost. Income from investments is recorded when collected.

Cherokee County Rural Water District No. 1
Fort Gibson, Oklahoma
Notes to Financial Statements
December 31, 2012

Restricted Asset – Investment Reserves

In compliance with Oklahoma Water Resources Board Loan Agreement, the district is required to establish, fund and maintain a Debt Service Reserve Account. These funds can only be used by the Local Trustee to pay the principal or, premium, if any, and interest on the note and any other indebtedness issued therewith as the same become due and payable. The account is fully funded as stipulated by Article 1.11 of the Loan Agreement. The reserve account funds have been deposited in an interest-bearing money market account at the Bank of Oklahoma, Oklahoma City, Oklahoma, which is insured by the federal government. At December 31, 2012, the restricted asset is detailed as follows:

Bank of Oklahoma, Tulsa, Oklahoma	
Money Market account No. 83-6084-06-1, @.90%	<u>\$ 33,592</u>

Collateral Pledged

It appears that all funds were adequately insured by the \$250,000 FDIC coverage per banking institution as of December 31, 2012.

Accounts Receivable

Billings for accounts receivable at December 31, 2012 were \$12,081. The amount of allowance for doubtful accounts was not material to this amount, and was not computed on this balance.

Federal Income Tax

The District is exempt from Federal and State income taxes.

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 years
Equipment & tools	5 years
Water & sewer system	40 years
Buildings	20-40 years
Computer equipment	3 years

Cherokee County Rural Water District No. 1
Fort Gibson, Oklahoma
Notes to Financial Statements
December 31, 2012

The fixed asset information for the District is shown below:

	12/31/2011 Amount	Additions	Deletions	12/31/2012 Amount
Land	\$ 16,647	-	-	16,647
Water System	1,090,954	-	-	1,090,954
Bldg & Equip.	28,722	-	-	28,722
Less: Accumulated Depreciation	(480,814)	(30,906)	-	(511,720)
Total	\$ 655,509	(30,906)	-	624,603

Note B – Long-term Debt

Long-term debt as of December 31 is summarized as follows:

	<u>2012</u>	<u>2011</u>
Note FAP-98-0029-L, variable interest rate, mortgage payable to the Oklahoma Water Resource Board, required semi-annual installments, through August 15, 2030	\$ 311,650	319,600
Less: current maturities	(8,400)	(7,800)
Total	\$ 303,250	311,800

The maturities for the next five years plus the total amount due thereafter are detailed as follows:

Oklahoma Water Resources Board

2013	\$ 8,400
2014	9,000
2015	9,800
2016-20	62,300
2021-25	92,400
2026-30	<u>129,350</u>
Total	<u>\$319,600</u>

Cherokee County Rural Water District No. 1
Fort Gibson, Oklahoma
Notes to Financial Statements
December 31, 2012

Note C – Insurance and Surety Bond Coverage

At December 31, 2012, the District had appropriate coverage against all major perils.

Note D – Pending Litigation and Subsequent Events

A property owner of 220 acres sued the District for the right to be supplied a large amount water, which could not be sustained by the current water system. In a jury trial in August, 2011, a judgment in excess of \$400,000 was rendered against the District. The District does not have enough funds to satisfy this judgment amount, so the plaintiff sought to garnish the District's bank accounts. In 2011, the District withdrew all available cash and began paying vendor obligations with this cash on hand via cashiers' checks, in order to keep supplying water to its customers. These funds were placed into Ft. Gibson State Bank in 2012, as was all revenue received and bills paid from this account.

In January, 2012, the District filed a petition under Chapter 9 of the U.S. Bankruptcy Code in order to preserve the use of all District assets. Under Chapter 9, operations of the District will continue uninterrupted, and customers of the District will see no change in their water service.

Cherokee County Rural Water District No. 1
Balance Sheet
December 31, 2012

	December 31,	
<u>ASSETS</u>	2012	(memo only) 2011
Current Assets:		
Cash on hand	\$ -	86,943
Cash in bank	42,667	(343)
Prepaid expenses	4,981	4,262
Accounts receivable	12,081	12,759
Total current assets	59,729	103,621
Restricted Assets:		
OWRB project fund	271	271
OWRB debt service reserve	33,592	33,592
OWRB debt service	1,077	1,179
Total restricted assets	34,940	35,042
Fixed Assets :		
Water system and lines	1,094,953	1,094,953
Office equipment	13,088	13,088
Building	11,635	11,635
Land	16,647	16,647
Fixed assets	1,136,323	1,136,323
Less: accumulated depreciation	(511,720)	(480,814)
Total fixed assets (net)	624,603	655,509
Other Assets:		
Bond - ORWA assurance group	1,000	1,000
OWRB loan costs (net of amortization)	11,349	11,980
Total other assets (net)	12,349	12,980
Total Assets	\$ 731,621	807,152
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 1,337	5,467
Current portion long-term debt	8,400	7,800
Total current liabilities	9,737	13,267
Long-term Debt:		
Notes payable-OWRB	303,250	311,800
Total Liabilities	312,987	325,067
Fund Equity:		
Retained earnings	418,634	482,085
Total Liabilities and Fund Equity	\$ 731,621	807,152

Cherokee County Rural Water District No. 1
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended December 31, 2012

	<u>2012</u>	<u>(memo only) 2011</u>
Revenue from Operations:		
Water sales and other sales	\$ 160,651	163,517
Miscellaneous	982	1,163
Total revenue from operations	<u>161,633</u>	<u>164,680</u>
Expenses from Operations:		
Chemicals	6,013	4,616
Professional fees	37,675	13,090
Engineering fees	0	221
Supplies and parts	19,541	26,315
Insurance and bonds	8,160	7,170
Meter repair	0	300
Office equipment	400	372
Miscellaneous	324	1,855
Office supplies and postage	3,696	3,521
Dues and memberships	6,732	6,835
Repair labor	12,852	16,390
Salaries	55,776	57,370
Payroll taxes	5,183	5,685
Utilities and telephone	17,381	21,122
Vehicles	11,182	1,671
Water testing	3,603	4,530
Depreciation	30,906	29,613
Amortization	631	631
Total expenses from operations	<u>220,055</u>	<u>201,307</u>
Net Income (Loss) from Operations	(58,422)	(36,627)
Other Income:		
Interest earnings	<u>16</u>	<u>1,391</u>
Other Expenses:		
Interest on long-term debt	<u>(5,045)</u>	<u>(6,320)</u>
Net Income (Loss)	(63,451)	(41,556)
Retained earnings, beginning of period	<u>482,085</u>	<u>523,641</u>
Retained earnings, end of period	<u>\$ 418,634</u>	<u>482,085</u>