

**CHOCTAW COUNTY RURAL WATER
AND SEWER DISTRICT NO. 1**

GRANT, OKLAHOMA

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEAR ENDED OCTOBER 31, 2012

Audited by

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

BROKEN ARROW, OK

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1
BOARD OF DIRECTORS
OCTOBER 31, 2012

BOARD OF DIRECTORS

Chairperson	Thomas Hadley
Vice-Chairperson	R. W. Nored
Secretary/Treasurer	Odis Brewer
Member	Dennis Trantham
Member	Kevin Waugh

USERS

Water	847
Sewer	104

MANAGER

James W. Bailey

BOOKKEEPER

Jo Ann Wheeler

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Board of Directors

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Choctaw County Rural Water and Sewer District No. 1
Grant, Oklahoma 74738

We have audited the accompanying financial statements of the business-type activities of the Choctaw County Rural Water and Sewer District No. 1 (the "District"), Grant, Oklahoma, as of and for the years ended October 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 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 Choctaw County Rural Water and Sewer District No. 1 as of October 31, 2012, 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 28, 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 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.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

November 28, 2012

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

Board of Directors
Choctaw County Rural Water and
Sewer District No. 1
Grant, Oklahoma 74738

We have audited the financial statements of the business-type activities of Choctaw County Rural Water and Sewer District No. 1, Grant, Oklahoma, as of and for the year ended October 31, 2012, which, did not include the management discussion and analysis, and have issued our report thereon dated November 28, 2012. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 accepting 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.

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

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. 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 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 28, 2012

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO.1
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS
OCTOBER 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 that prevent a proper segregation of accounting functions which is necessary in order to assure adequate internal accounting controls continued, but improved, in the current fiscal year.

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO.1
SCHEDULE OF AUDIT RESULTS
OCTOBER 31, 2012

Section 1 – Summary of Auditor’s Results

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.

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

NONE

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1
STATEMENT OF NET ASSETS
OCTOBER 31, 2012

ASSETS

Cash on hand	\$	100
Cash in bank (Note A)		95,876
Investments (Note A)		173,111
Accounts receivable (Note A)		72,500
Supplies Inventory (Note A)		26,836
Prepaid insurance		16,374
Bond trustee accounts (Note E)		110,357
Bond issuance costs		62,128
Capital Assets (Note A)		
Office furniture and fixtures		38,585
Equipment and tools		161,473
Transportation equipment		86,770
Water and sewer system		3,283,613
Buildings		55,941
Land and water rights		93,745
Total capital assets		3,720,127
Less accumulated depreciation		(1,616,029)
Total capital assets (net)		2,104,098
Total Assets		2,661,380

LIABILITIES

Accounts payable		8,018
Loans payable		59,755
Bonds payable-		
Current portion due within one year (Note D)		20,000
Non current portion due after one year (Note D)		950,000
Total bonds payable		970,000
Total Liabilities		1,037,773

NET ASSETS

Invested in capital assets, net of related debt		1,134,098
Restricted for debt service		70,605
Unrestricted		418,905
		489,610
Total Net Assets	\$	1,623,608

The accompanying notes are an integral part of the financial statements

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED OCTOBER 31, 2012

Expenses:

Personal services	\$ 283,998
Material and supplies	178,455
Depreciation	97,540
Amortization	2,519
Interest	<u>53,159</u>
Total expenses	<u>615,671</u>

Program Revenues:

Charges for services	<u>587,295</u>
Total program revenues	<u>587,295</u>
Net program income	<u>(28,376)</u>

General Revenues:

Interest and dividends	1,284
Miscellaneous	<u>14,521</u>
Total general revenues	<u>15,805</u>

Increase in net assets (12,571)

Net Assets - beginning of year 1,636,179

Net Assets - end of year \$ 1,623,608

The accompanying notes are an integral part of the financial statements

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1
STATEMENT OF CASH FLOWS
FOR YEAR ENDED OCTOBER 31, 2012

Cash Flows from Operating Activities:

Receipts from water and sewer sales	\$ 577,345
Receipts from installation and reconnect fees	9,950
Receipts from miscellaneous sources	14,521
Payments for salaries	(200,416)
Payments for maintainance and operations	<u>(241,791)</u>
Net Cash Provided by Operating Activities	<u>159,609</u>

Cash Flows from Investing Activities:

Capital assets purchased	(212,753)
Membership units	450
Interest and dividends	<u>1,284</u>
Net Cash Provided by Investing Activities	<u>(211,019)</u>

Cash Flows from Financing Activities:

Loan proceeds - short-term	70,094
Interest payments on debt	(53,611)
Principal payments on debt	<u>(30,339)</u>
Net Cash Provided by Financing Activities	<u>(13,856)</u>

Net increase (decrease) in cash and cash equivalents	(65,266)
Cash & cash equivalents, beginning of period	<u>444,710</u>
Cash & cash equivalents, end of period	<u><u>\$ 379,444</u></u>

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

Operating income (loss)	\$ 39,304
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization expense	100,060
(Increase) decrease in accounts receivable	12,399
(Increase) decrease in prepaid expenses	(303)
(Increase) decrease in supplies inventory	4,423
(Decrease) increase in accounts payable	<u>3,726</u>
Net cash provided by operating activities	<u><u>\$ 159,609</u></u>

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
OCTOBER 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.

Cash

The District's accounts are with Bancfirst in Hugo, Oklahoma, and, at October 31, 2012, are detailed as follows:

Savings account	\$ 970
Water and Sewer account	112,765
Less: outstanding checks	<u>(16,888)</u>
Total	<u>\$ 96,847</u>

Investments

All investments are recorded at cost. Investments at October 31, 2012, are detailed as follows:

Bancfirst, Hugo, Oklahoma Certificate of Deposit No. 180553879, dated 11-16-11, due 11-16-12, @ 1.50%	<u>172,141</u>
Total	<u>\$ 172,141</u>

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments, such as certificates of deposit and savings accounts, as cash equivalents. Also included are the bond trustee accounts.

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012

Note A – Significant Accounting Policies – cont’d

Accounts Receivable

Billings for accounts receivable at October 31, 2012 were \$72,500. An allowance for doubtful accounts was not computed on this balance. The direct write-off method is used by the District for bad accounts, which is not materially different from computing an allowance.

Inventory

Supplies inventory is valued at the lower of cost or market, using the FIFO method (first in, first out).

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	-0-
Water rights	-0-
Office furniture & fixtures	5-10 years
Equipment & tools	5-10 years
Transportation equipment	3-10 years
Water system	40 years
Sewer system	40 years
Buildings	15-25 years

Federal Income Tax

The District is exempt from federal and state income taxes.

Note B – Cash and Investments

The District’s investment policies are governed by state statute. Permissible investments include direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, banks and trust companies; and warrants, bonds or judgments of the District.

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS
 OCTOBER 31, 2012

Note B – Cash and Investments – cont’d

Cash and investments – The District’s cash deposits and investments at October 31, 2012, 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.

	Category			Bank Balance	Carrying Balance
	(A)	(B)	(C)		
Cash	\$ 112,765			112,765	95,876
Investments	173,111			173,111	173,111
Total	\$ 285,876	0	0	285,876	268,987

Note C – Accumulated Unpaid Vacation and Sick Pay

At October 31, 2012, no determination of the aggregate dollar value of vacation or sick pay had been made.

Note D – Long-Term Debt

Long-term debt at October 31, 2012, is summarized as follows:

Oklahoma Refunding and Capital Improvement Revenue Bonds Series 2007 dated June 12, 2007, due June 1, 2037, payable in annual principal and interest installments	<u>\$ 970,000</u>
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CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS
 OCTOBER 31, 2012

Note D – Long-Term Debt – cont’d

The estimated maturities for long-term debt mortgages for the next five (5) years, and in total thereafter, are detailed as follows:

Year Ending October 31,	Principal	Interest*	Total
2013	20,000	50,605	70,605
2014	20,000	49,675	69,675
2015	20,000	48,745	68,745
2016	20,000	47,815	67,815
2017	20,000	46,885	66,885
Thereafter	<u>870,000</u>	<u>556,900</u>	<u>1,426,900</u>
Total	<u>\$ 970,000</u>	<u>800,625</u>	<u>1,770,625</u>

*The interest rate is variable, therefore this column represents estimates only.

During the 2011-12 fiscal year, the District approved a short-term note with BancFirst, Hugo, Ok, for \$70,094. The loan date for this note was May 11, 2012, and the original maturity date was September 15, 2012. However, the District extended the maturity date of this note to September 15, 2013. The District paid \$11,000 towards the principal balance of this note, and the principal amount owed at October 31, 2012 was \$59,755.

Note E – Restricted Assets

Under the terms of the Revenue Bonds Series 2010 loan agreement, the Choctaw County Rural Water and Sewer District No. 1, Grant, Oklahoma, must maintain reserve funds. The loan agreement requires the District to maintain trustee accounts in the form of a debt service fund, a debt reserve fund and a construction fund. The balances of these accounts as of October 31, 2012 are as follows:

Debt reserve fund	\$ 71,564
Debt service fund	30,263
Construction fund	<u>8,531</u>
Total	<u>\$ 110,358</u>

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1
BALANCE SHEETS
FOR YEARS ENDED OCTOBER 31, 2012 AND 2011

ASSETS	October 31,	
	2012	2011
Current Assets:		
Cash on hand	\$ 100	100
Cash in bank (Note A)	95,876	161,993
Investments (Note A)	173,111	171,882
Accounts receivable (Note A)	72,500	84,899
Supplies Inventory (Note A)	26,836	31,259
Prepaid insurance	16,374	16,071
Total current assets	384,797	466,204
Restricted Assets:		
Bond trustee accounts (Note E)	110,357	110,735
Fixed Assets (Note A):		
Office furniture and fixtures	38,585	38,585
Equipment and tools	161,473	161,001
Transportation equipment	86,770	86,770
Water and sewer system	3,283,613	3,071,332
Buildings	55,941	55,941
Land and water rights	93,745	93,745
Total fixed assets	3,720,127	3,507,374
Less accumulated depreciation	(1,616,029)	(1,518,489)
Total fixed assets (net)	2,104,098	1,988,885
Other Assets:		
Bond issuance costs	62,128	64,647
Total Assets	\$ 2,661,380	2,630,471
LIABILITIES AND MEMBER EQUITY		
Current Liabilities:		
Accounts payable	\$ 8,018	4,292
Notes payable (Note D)	20,000	20,000
Loan payable	59,755	-
Total current liabilities	87,773	24,292
Long-term Liabilities:		
Note payable (Note D)	950,000	970,000
Member Equity:		
Members investment - discounted notes	191,564	191,564
Member benefit units - water	48,045	47,595
Member benefit units - sewer	10,307	10,307
Donated assets - grants	620,332	620,332
Donated assets - members and others	82,751	82,751
Retained earnings:		
Unrestricted	670,608	683,630
Total member equity	1,623,607	1,636,179
Total Liabilities and Member Equity	\$ 2,661,380	2,630,471

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1
STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS
FOR YEARS ENDED OCTOBER 31, 2012 AND 2011

	October 31,	
	2012	2011
Revenue from Operations:		
Water sales	\$ 550,669	564,608
Sewer sales	26,676	28,522
Installation	6,975	4,500
Reconnect fees	2,975	3,350
Miscellaneous	6,062	2,793
Late charges	8,459	8,437
Total revenue from operations	601,816	612,210
Expenses from Operations:		
Salaries	183,882	184,005
Taxes	16,534	15,563
Professional fees	10,745	5,738
Contract labor	10,588	20,855
Utilities	18,811	21,726
Insurance	56,511	59,903
Repairs and maintenance	82,860	63,193
Gas and oil	10,991	11,087
Membership fees, dues and permits	4,548	4,206
Telephone	2,976	3,299
Office materials and supplies	8,223	6,407
Water purchases	36,917	24,732
Depreciation	97,541	92,357
Amortization	2,519	2,519
Vehicle maintenance	3,721	3,765
Postage	4,534	4,266
Bad debts	-	2,626
Miscellaneous	5,400	1,673
Uniforms	5,211	4,922
Total expenses from operations	562,512	532,842
Net Income (Loss) from Operations	39,304	79,368
Non-Operating Income/Expense:		
Interest revenue	1,284	910
Interest expense	(53,610)	(52,621)
Total non-operating income/expense	(52,326)	(51,711)
Net Income (Loss)	(13,022)	27,657
Retained Earnings, beginning of period	683,630	655,973
Retained Earnings, end of period	\$ 670,608	683,630

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1
STATEMENTS OF CASH FLOWS
FOR YEARS ENDED OCTOBER 31, 2012 AND 2011

	October 31,	
	2012	2011
Cash Flows from Operating Activities:		
Net Income (Loss)	\$ 39,304	79,368
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization (net)	100,060	94,876
(Increase) decrease in accounts receivable	12,399	(17,025)
(Increase) decrease in prepaid expenses	(303)	(1,311)
(Increase) decrease in supplies inventory	4,423	(4,988)
(Decrease) increase in accounts payable	3,726	(2,151)
	159,609	148,769
Cash Flows from Investing Activities:		
Capital expenditures - net	(212,753)	(292)
Interest income	1,284	910
Membership units	450	625
	(211,019)	1,243
Cash Flows from Financing Activities:		
Loan proceeds - short-term	70,094	-
Interest payments on debt	(53,611)	(52,621)
Principal payments on debt	(30,339)	(20,796)
	(13,856)	(73,417)
Net Increase (Decrease) in Cash	(65,266)	76,595
Cash and Cash Equivalents, beginning of period	444,710	368,115
Cash and Cash Equivalents, end of period	\$ 379,444	444,710