

**Choctaw County Rural Water, Sewer, Gas
and Solid Waste Management District No. 3
Sawyer, Oklahoma**

Financial Statements and
Reports of Independent Auditor

July 31, 2012

Audited by

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

Broken Arrow, Oklahoma

**Choctaw County Rural Water, Sewer, Gas
and Solid Waste Management District No. 3
Sawyer, Oklahoma**

Board of Directors
July 31, 2012

Chairman

Janalene Eaton

Vice Chairman

Kent Grimes

Secretary

Paul Yoder

Treasurer

Donna Moos

Bookkeeper

Karen Wilcox

**P.O. Box 309
Sawyer, Oklahoma 74756
(580) 326-5102**

**Choctaw County Rural Water, Sewer, Gas
and Solid Waste Management District No. 3
Sawyer, Oklahoma**

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Choctaw County Rural Water, Sewer, Gas
and Solid Waste Management District No. 3
Sawyer, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3 (the District), Sawyer, Oklahoma, as of and for the year ended July 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 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.

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 July 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.

The Management Discussion and Analysis 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 our report dated January 14, 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 and grant agreements and other matters. 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.

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 described in Note 1.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

January 14, 2013

**RURAL WATER , SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 3, CHOCTAW COUNTY**

MANAGEMENT’S DISCUSSION AND ANALYSIS

JULY 31, 2012

Our discussion and analysis of the Rural Water, Sewer, Gas and Solid Waste Management District No. 3, Choctaw County’s financial performance provides an overview of the District’s financial activities for the fiscal year ended July 31, 2012. Please read it in conjunction with the District’s financial statements that begin on page seven.

FINANCIAL HIGHLIGHTS

- The District’s operating revenue exceeded operating expenses by \$23,579 in the 2011-12 year.
- Investments yielded interest income of \$275 in 2011-12.
- The District was able to perform some system additions without having to obtain any additional debt.

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 Net Assets, the Statement of Activities, 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 July 31, 2012, the District had \$576,381 invested in fixed assets, net of depreciation, including land, the water system, equipment and buildings. The District purchased \$10,867 in additional fixed assets in 2011-12, including some line improvements and office items.

Long-Term Debt

The District continued to make payments on the \$126,500 loan with Rural Development. Current monthly payments are \$581. The outstanding loan balance at July 31, 2012 was \$103,307.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending July 31, 2013, the District's budget is fairly consistent with prior years.

As the current economic conditions continue and expenses continue to increase, additional rate increases may become necessary.

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 309, Sawyer, OK 74756 or call (580) 326-5102.



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

Board of Directors
Choctaw County Rural Water, Sewer, Gas
and Solid Waste Management District No. 3
Sawyer, Oklahoma

We have audited the combined financial statements of Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3 (the District), Sawyer, Oklahoma, as of and for the year ended July 31, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 14, 2013. 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 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

January 14, 2013

**Choctaw County Rural Water , Sewer, Gas
and Solid Waste Management District No. 3
Sawyer, Oklahoma**
Schedule of Audit Results
July 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, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 3
Statement of Net Assets
July 31, 2012

ASSETS

Current assets:	
Cash in bank	\$ 18,844
Receivables	5,349
Prepaid insurance	1,823
Total current assets	<u>26,016</u>
Non-current assets:	
Restricted assets:	
Cash - Reserve account	7,323
Capital assets:	
Water system and improvements, net of depreciation	576,381
Total noncurrent assets	<u>583,704</u>
Total Assets	<u>609,720</u>

LIABILITIES

Current liabilities:	
Payables	5,528
Accrued interest	319
Current maturities of long-term debt	2,372
Total current liabilities	<u>8,219</u>
Noncurrent liabilities:	
Notes payable, less current maturities	<u>100,935</u>
Total Liabilities	<u>109,154</u>

NET ASSETS

Invested in capital assets, net of related debt	473,074
Unrestricted assets	<u>27,492</u>
Total Net Assets	<u>\$ 500,566</u>

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

CHOCTAW COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 3
Statement of Activities
For The Year Ended July 31, 2012

Operating Revenues:	
Water sales	\$ 70,819
Reimbursements	<u>2,583</u>
Total revenues from operations	<u>73,402</u>
Operating Expenses:	
Advertising	107
Audit	1,850
Auto and truck	1,858
Contract labor	605
Dues and fees	905
Insurance	2,576
Office	323
Postage	938
Purchase of water	12,761
Repairs and maintenance	2,669
Salaries and taxes	16,171
Security	481
Taxes, licences and permits	3,981
Telephone and internet	2,769
Travel and meetings	85
Utilities	876
Water tests and lab fees	<u>868</u>
Total expenses from operations	<u>49,823</u>
Operating Income (Loss)	23,579
Non-Operating Revenues (Expenses):	
Interest income	275
Depreciation	(20,513)
Interest paid on debt	<u>(4,647)</u>
Total non-operating revenues (expenses)	<u>(24,885)</u>
Change in Net Assets	(1,306)
Total Net Assets, beginning of period	<u>501,872</u>
Total Net Assets, end of period	<u><u>\$ 500,566</u></u>

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

CHOCTAW COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 3
Statement of Cash Flows
For the Year Ended July 31, 2012

Cash flows from operating activities:	
Receipts from customers	\$ 71,665
Payments to employees	(16,114)
Payments to vendors	<u>(33,904)</u>
Net cash (used in) provided by operating activities	<u>21,647</u>
Cash flows from capital and related financing activities:	
Construction project payments	<u>(10,867)</u>
Cash flows from investing activities:	
Principal paid on debt	(2,267)
Interest paid on debt	(4,705)
Interest on investments	<u>275</u>
Net cash used in investing activities	<u>(6,697)</u>
Net increase (decrease) in cash and cash equivalents	4,083
Cash & cash equivalents, beginning of period	<u>22,084</u>
Cash & cash equivalents, end of period	<u><u>\$ 26,167</u></u>

Reconciliation of operating income (loss) to net cash provided	
by operating activities:	
Operating Income	\$ 23,579
Adjustments to reconcile operating income to net cash provided	
(used) by operating activities:	
(Increase) decrease in current assets-	
Accounts receivable, net	(1,887)
Prepaid expenses	(100)
Increase (decrease) in current liabilities-	
Accounts payable	<u>55</u>
Net Cash Provided by Operating Activities	<u><u>\$ 21,647</u></u>

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

CHOCTAW COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JULY 31, 2012

Note 1 – Significant Accounting Policies

Choctaw County Rural Water, Sewer, Gas and Solid Waste Management District No. 3 (the “District”) was created under the provisions of Title 82, Oklahoma Statutes, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members of the District it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

Basis of Accounting

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

Cash

The District’s accounts at July 31, 2012, and are comprised as follows:

First United Bank, Hugo, OK	
Operating & Maintenance Checking	\$ 18,844
Edward Jones, Hugo, OK	
Rural Development Reserve CD	<u>7,323</u>
Total Cash	<u>\$ 26,167</u>

The District’s cash deposits at July 31, 2012, are categorized to give an indication of the level of risk assumed by the district at year-end. No bank used by the District exceeded the \$250,000 FDIC maximum allowable limit.

Restricted Assets

The USDA Rural Development requires an amount equal to the note payments for one year be set aside. That amount has been invested in a certificate of deposit (see above). The required reserve amount is \$6,972. The balance at July 31, 2012 is \$7,323.

CHOCTAW COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JULY 31, 2012

Note 1 – Significant Accounting Policies – cont’d

Accounts Receivable

Billings for accounts receivable at July 31, 2012 were \$5,630. Allowance for doubtful accounts was computed at five percent, which totaled \$281.

Capital Assets

Capital (fixed) assets are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets range from five to 40 years. Included in these assets are the leases, rights and organization expenses of the District, which are being amortized over a 40 year period. Capital (fixed) asset information for the 2011-12 fiscal year is as follows:

	Balance at Aug. 1, 2011	Additions	Deductions	Balance at July 31, 2012
Water distribution system	\$ 692,150	10,452		702,602
Tools and equipment	3,749			3,749
Trucks and tractors	14,000			14,000
Office building	37,250			37,250
Office furniture and equipment	4,787	415		5,202
Total depreciated capital assets	<u>751,936</u>	<u>10,867</u>	<u>-</u>	<u>762,803</u>
Less accumulated depreciation for:				
Water distribution system	(144,728)	(17,435)		(162,163)
Tools and equipment	(2,018)	(294)		(2,312)
Trucks and tractors	(9,917)	(1,400)		(11,317)
Office building	(6,339)	(931)		(7,270)
Office furniture and equipment	(2,907)	(453)		(3,360)
Total accumulated depreciation	<u>(165,909)</u>	<u>(20,513)</u>	<u>-</u>	<u>(186,422)</u>
Capital assets, net	<u>\$ 586,027</u>	<u>(9,646)</u>	<u>-</u>	<u>576,381</u>

CHOCTAW COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JULY 31, 2012

Note 1 – Significant Accounting Policies – cont'd

Inventories

The District does not include an inventory amount on its financial statements. All items purchased for inventory are expensed immediately.

Prior Year Information

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

Federal Income Tax

The District is exempt from federal and state income taxes.

Note 2 – Accumulated Unpaid Vacation and Sick Pay

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

Note 3 – Long-Term Debt

Long-term debt for the District is a promissory note dated September 4, 1997, in the amount of \$126,500, payable to the USDA Rural Development Office, formally known as Farmers Home Administration. The note is secured by certain real property and all other net assets of the District. The monthly payments on this note are \$581, and the fixed interest rate is 4.5% for 40 years. The outstanding note balance at July 31, 2012 was \$103,307.

CHOCTAW COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 3
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JULY 31, 2012

Note 3 – Long-Term Debt – cont’d

The amounts of principal and interest to be paid in future fiscal years (based upon current interest rates) are as follows:

Year Ended			
July 31,	Principal	Interest	Total
2013	\$ 2,372	4,600	6,972
2014	2,481	4,491	6,972
2015	2,595	4,377	6,972
2016	2,714	4,258	6,972
2017	2,838	4,134	6,972
2018-22	16,272	18,588	34,860
2023-27	20,374	14,489	34,863
2028-32	25,499	9,360	34,859
2033-37	28,162	2,978	31,140
	<u>\$ 103,307</u>	<u>67,275</u>	<u>170,582</u>

CHOCTAW COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 3

Balance Sheet
July 31, 2012

	July 31,	
	2012	(Memo only) 2011
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 18,844	14,664
Accounts receivable	5,349	3,462
Prepaid Insurance	1,823	1,723
Total current assets	26,016	19,849
Restricted Assets:		
Cash - Reserve account	7,323	7,420
Fixed Assets:		
Water system	762,803	751,936
Less: accumulated depreciation	(186,422)	(165,909)
Total fixed assets (net)	576,381	586,027
Total Assets	\$ 609,720	613,296
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 1,905	2,044
Customer deposits	2,015	1,865
Payroll taxes payable	243	256
Accrued salaries	1,365	1,308
Accrued interest on debt	319	377
Current maturities of long-term debt	2,372	2,253
Total current liabilities	8,219	8,103
Long-Term Liabilities:		
Notes payable, less current maturities	100,935	103,321
Total Liabilities	109,154	111,424
Fund Equity:		
Retained earnings - unrestricted	500,566	501,872
Total Liabilities and Fund Equity	\$ 609,720	613,296

CHOCTAW COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 3
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended July 31, 2012

	2011-12	(Memo only) 2010-11
Revenue from Operations:		
Water sales and installation	\$ 70,819	53,659
Reconnect and meter fees	1,615	3,685
Other income	968	88
Total revenue from operations	<u>73,402</u>	<u>57,432</u>
Expenses from Operations:		
Advertising	107	232
Audit	1,850	1,640
Auto and truck	1,858	1,863
Contract labor	605	96
Dues and fees	905	485
Insurance	2,576	2,030
Office	323	1,611
Postage	938	1,008
Purchase of water	12,761	11,701
Repairs and maintenance	2,669	2,860
Salaries and taxes	16,171	16,468
Security	481	481
Taxes, licences and permits	3,981	3,393
Telephone and internet	2,769	1,868
Travel and meetings	85	267
Utilities	876	1,051
Water tests and lab fees	868	712
Total expenses from operations	<u>49,823</u>	<u>47,766</u>
Net Income (Loss) from Operations	23,579	9,666
Other Income:		
Interest earnings	<u>275</u>	<u>123</u>
Other Expenses:		
Depreciation	(20,513)	(20,206)
Interest on debt	(4,647)	(4,798)
Total other expenses	<u>(25,160)</u>	<u>(25,004)</u>
Net Income (Loss)	(1,306)	(15,215)
Retained earnings, beginning of period	<u>501,872</u>	<u>517,087</u>
Retained earnings, end of period	<u>\$ 500,566</u>	<u>501,872</u>