

# State Auditor & Inspector

## FILED

JAN 03 2012

State Auditor & Inspector

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

GRANT, OKLAHOMA

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEAR ENDED OCTOBER 31, 2011

RECEIPT #

30099

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, 2011

BOARD OF DIRECTORS

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

USERS

Water	845
Sewer	104

MANAGER

James W. Bailey

BOOKKEEPER

Donna Holton

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
TABLE OF CONTENTS

Board of Directors

Table of Contents

Independent Auditor's Report

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

Disposition of Prior Year's Reportable Conditions

Schedule of Audit Results

**FINANCIAL STATEMENTS**

PAGE

Statement of Net Assets	1
Statement of Activities	2
Statement of Cash Flows	3
Notes to Financial Statements	4-7

**OTHER SUPPLEMENTARY INFORMATION**

Balance Sheets	8
Statements of Income and Changes in Retained Earnings	9
Statements of Cash Flows	10



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

Stephen H. Sanders, CPA  
Eric M. Bledsoe, CPA  
Jeffrey D. Hewett, CPA

P. O. BOX 1310 • 112 W. DALLAS ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

**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, 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 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, 2011, 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 22, 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.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

November 22, 2011



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

Stephen H. Sanders, CPA  
Eric M. Bledsoe, CPA  
Jeffrey D. Hewett, CPA

P. O. BOX 1310 • 112 W. DALLAS ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

**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  
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, 2011, which, did not include the management discussion and analysis, and have issued our report thereon dated November 22, 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 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 22, 2011

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO.1  
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS  
OCTOBER 31, 2011

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, 2011

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

**FINANCIAL STATEMENTS**

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
STATEMENT OF NET ASSETS  
OCTOBER 31, 2011

ASSETS

Cash on hand	\$	100
Cash in bank (Note A)		161,993
Investments (Note A)		171,882
Accounts receivable (Note A)		84,899
Supplies Inventory (Note A)		31,259
Prepaid insurance		16,071
Bond trustee accounts (Note E)		110,735
Bond issuance costs		64,647
Capital Assets (Note A)		
Office furniture and fixtures		38,585
Equipment and tools		161,001
Transportation equipment		86,770
Water and sewer system		3,071,332
Buildings		55,941
Land and water rights		93,745
Total capital assets		3,507,374
Less accumulated depreciation		(1,518,489)
Total capital assets (net)		1,988,885
Total Assets		2,630,471

LIABILITIES

Accounts payable		4,292
Bonds payable		
Current portion due within one year (Note D)		20,000
Non current portion due after one year (Note D)		970,000
Total bonds payable		990,000
Total Liabilities		994,292

NET ASSETS

Invested in capital assets, net of related debt		998,885
Restricted for debt service		73,535
Unrestricted		563,759
		1,636,179
Total Net Assets	\$	1,636,179

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, 2011

Expenses:

Personal services	\$ 286,064
Material and supplies	151,902
Depreciation	92,357
Amortization	2,519
Interest	<u>52,621</u>
Total expenses	<u>585,463</u>

Program Revenues:

Charges for services	<u>601,605</u>
Total program revenues	<u>601,605</u>
Net program income	<u>16,142</u>

General Revenues:

Interest and dividends	910
Miscellaneous	<u>11,230</u>
Total general revenues	<u>12,140</u>

Increase in net assets	28,282
------------------------	--------

Net Assets - beginning of year	<u>1,607,897</u>
--------------------------------	------------------

Net Assets - end of year	<u><u>\$ 1,636,179</u></u>
--------------------------	----------------------------

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, 2011

**Cash Flows from Operating Activities:**

Receipts from water and sewer sales	\$ 593,130
Receipts from installation and reconnect fees	7,850
Receipts from miscellaneous sources	11,230
Payments for salaries	(199,568)
Payments for maintainance and operations	<u>(263,873)</u>
Net Cash Provided by Operating Activities	<u>148,769</u>

**Cash Flows from Investing Activities:**

Capital assets purchased	(292)
Membership units	910
Interest and dividends	<u>625</u>
Net Cash Provided by Investing Activities	<u>1,243</u>

**Cash Flows from Financing Activities:**

Interest payments on debt	(52,621)
Principal payments on debt	<u>(20,796)</u>
Net Cash Provided by Financing Activities	<u>(73,417)</u>

Net increase (decrease) in cash and cash equivalents	76,595
Cash & cash equivalents, beginning of period	<u>368,115</u>
Cash & cash equivalents, end of period	<u><u>\$ 444,710</u></u>

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

Operating income (loss)	\$ 79,368
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization expense	94,876
(Increase) decrease in accounts receivable	(17,025)
(Increase) decrease in prepaid expenses	(1,311)
(Increase) decrease in supplies inventory	(4,988)
(Decrease) increase in accounts payable	<u>(2,151)</u>
Net cash provided by operating activities	<u><u>\$ 148,769</u></u>

The accompanying notes are an integral part of the financial statements

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 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 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, 2011, are detailed as follows:

Savings account	\$ 968
Water and Sewer account	183,742
Less: outstanding checks	<u>(22,717)</u>
Total	<u>\$ 161,993</u>

Investments

All investments are recorded at cost. Investments at October 31, 2011, are detailed as follows:

Bancfirst, Hugo, Oklahoma Certificate of Deposit No. 180553879, dated 11-16-10, due 11-16-11, @ 1.50%	<u>171,882</u>
Total	<u>\$ 171,882</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, 2011

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

Accounts Receivable

Billings for accounts receivable at October 31, 2011, were \$84,899. 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, 2011

**Note B – Cash and Investments – cont'd**

Cash and investments – The District’s cash deposits and investments at October 31, 2011, 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	\$ 184,710			184,710	161,993
Investments	171,882			171,882	171,882
Total	<u>\$ 356,592</u>	<u>0</u>	<u>0</u>	<u>356,592</u>	<u>333,875</u>

**Note C – Accumulated Unpaid Vacation and Sick Pay**

At October 31, 2011, 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, 2011, 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>\$ 990,000</u>
---	-------------------

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 2011

**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:

<u>Year Ending October 31,</u>	<u>Principal</u>	<u>Interest*</u>	<u>Total</u>
2012	20,000	51,535	71,535
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
Thereafter	<u>890,000</u>	<u>603,785</u>	<u>1,493,785</u>
Total	<u>\$ 990,000</u>	<u>852,160</u>	<u>1,842,160</u>

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

**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, 2011 are as follows:

Debt reserve fund	\$ 71,556
Debt service fund	30,648
Construction fund	<u>8,531</u>
Total	<u>\$ 110,735</u>

**OTHER SUPPLEMENTARY INFORMATION**

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
BALANCE SHEETS  
FOR YEARS ENDED OCTOBER 31, 2011 AND 2010

<u>ASSETS</u>	October 31,	
	2011	2010
Current Assets:		
Cash on hand	\$ 100	100
Cash in bank (Note A)	161,993	87,883
Investments (Note A)	171,882	171,201
Accounts receivable (Note A)	84,899	67,874
Supplies Inventory (Note A)	31,259	26,271
Prepaid insurance	16,071	14,760
Total current assets	466,204	368,089
Restricted Assets:		
Bond trustee accounts (Note E)	110,735	108,931
Fixed Assets (Note A):		
Office furniture and fixtures	38,585	38,585
Equipment and tools	161,001	160,710
Transportation equipment	86,770	86,770
Water and sewer system	3,071,332	3,071,332
Buildings	55,941	55,941
Land and water rights	93,745	93,745
Total fixed assets	3,507,374	3,507,083
Less accumulated depreciation	(1,518,489)	(1,426,132)
Total fixed assets (net)	1,988,885	2,080,951
Other Assets:		
Bond issuance costs	64,647	67,165
Total Assets	\$ 2,630,471	2,625,136
<u>LIABILITIES AND MEMBER EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 4,292	5,473
Taxes payable	-	970
Notes payable (Note D)	20,000	15,000
Loan payable	-	5,796
Total current liabilities	24,292	27,239
Long-term Liabilities:		
Note payable (Note D)	970,000	990,000
Member Equity:		
Members investment - discounted notes	191,564	191,564
Member benefit units - water	47,595	47,045
Member benefit units - sewer	10,307	10,232
Donated assets - grants	620,332	620,332
Donated assets - members and others	82,751	82,751
Retained earnings:		
Unrestricted	683,630	655,973
Total member equity	1,636,179	1,607,897
Total Liabilities and Member Equity	\$ 2,630,471	2,625,136

The accompanying notes are an integral part of the financial statements

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS  
FOR YEARS ENDED OCTOBER 31, 2011 AND 2010

	October 31,	
	2011	2010
Revenue from Operations:		
Water sales	\$ 564,608	494,988
Sewer sales	28,522	25,581
Installation	4,500	9,525
Reconnect fees	3,350	1,775
Miscellaneous	2,793	174,259
Late charges	8,437	6,361
Total revenue from operations	612,210	712,489
Expenses from Operations:		
Salaries	184,005	185,823
Taxes	15,563	15,687
Professional fees	5,738	6,368
Contract labor	20,855	16,260
Utilities	21,726	16,610
Insurance	59,903	50,429
Repairs and maintenance	63,193	78,508
Gas and oil	11,087	8,601
Membership fees, dues and permits	4,206	1,193
Telephone	3,299	3,118
Office materials and supplies	6,407	6,046
Water purchases	24,732	26,986
Depreciation	92,357	92,947
Amortization	2,519	2,519
Vehicle maintenance	3,765	2,680
Postage	4,266	4,968
Bad debts	2,626	5,250
Miscellaneous	1,673	14,247
Uniforms	4,922	4,895
Total expenses from operations	532,842	543,135
Net Income (Loss) from Operations	79,368	169,354
Non-Operating Income/Expense:		
Interest revenue	910	3,586
Interest expense	(52,621)	(53,361)
Total non-operating income/expense	(51,711)	(49,775)
Net Income (Loss)	27,657	119,579
Retained Earnings, beginning of period	655,973	536,394
Retained Earnings, end of period	\$ 683,630	655,973

The accompanying notes are an integral part of the financial statements

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
 STATEMENTS OF CASH FLOWS  
 FOR YEARS ENDED OCTOBER 31, 2011 AND 2010

	October 31,	
	2011	2010
Cash Flows from Operating Activities:		
Net Income (Loss)	\$ 79,368	169,354
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization (net)	94,876	95,466
(Increase) decrease in accounts receivable	(17,025)	(16,374)
(Increase) decrease in prepaid expenses	(1,311)	(2,346)
(Increase) decrease in supplies inventory	(4,988)	4,306
(Decrease) increase in accounts payable	(2,151)	1,005
	148,769	251,411
Cash Flows from Investing Activities:		
Capital expenditures - net	(292)	(211,349)
Interest income	910	3,586
Membership units	625	2,000
	1,243	(205,763)
Cash Flows from Financing Activities:		
Interest payments on debt	(52,621)	(53,361)
Principal payments on debt	(20,796)	(38,211)
	(73,417)	(91,572)
Net Increase (Decrease) in Cash	76,595	(45,924)
Cash and Cash Equivalents, beginning of period	368,115	414,039
Cash and Cash Equivalents, end of period	\$ 444,710	368,115

The accompanying notes are an integral part of the financial statements