

State Auditor
& Inspector

FILED

JAN 03 2012

State Auditor & Inspector

DELAWARE COUNTY
RURAL WATER DISTRICT NO. 9
GROVE, OKLAHOMA

RECEIPT #
30099

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2011

Audited by

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

BROKEN ARROW, OK

DELAWARE COUNTY RURAL WATER DISTRICT NO. 9
BOARD OF DIRECTORS
JUNE 30, 2011

BOARD OF DIRECTORS

Chairman

Bob Daggett

Secretary

Dennis Fenlon

Treasurer

David Kane

Members

Doug Grimes

Larry Harris

Bookkeeper

Barbara Harrison

DELAWARE COUNTY RURAL WATER DISTRICT NO. 9
JUNE 30, 2011

TABLE OF CONTENTS

	<u>Page</u>
Board of Directors	1
Table of Contents	2
Independent Auditor's Report	3
Management Discussion and Analysis	5
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	7
Disposition of Prior Year's Reportable Conditions	9
Schedule of Audit Results	10
<u>COMBINED FINANCIAL STATEMENTS:</u>	
Statement of Net Assets	11
Statement of Revenues, Expenses and Changes in Net Assets	12
Statement of Cash Flows	13
Notes to the Financial Statements	14
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	
Balance Sheet	18
Income Statement	19



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
Delaware County Rural Water District No. 9
Grove, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Delaware County Rural Water District No. 9 (the District), Grove, Oklahoma, as of and for the year ended June 30, 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 District as of June 30, 2011, 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 on pages 5-6 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 September 19, 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 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 generally accepted in the United States.

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

September 19, 2011

RURAL WATER DISTRICT NO. 9, DELAWARE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

Our discussion and analysis of the Rural Water District No. 9, Delaware County's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS

- The District's water sales continued to increase, exceeding \$165,000 for the 2010-11 fiscal year.
- Investments yielded interest income of \$1,438 in 2010-11, the District also increased its certificates of deposit balance by \$1,482.
- The District received a \$9,000 grant from Grand Gateway for the installation of fire hydrants.
- The District's operating revenues exceeded operating expenses by \$48,463. During the 2010-11 fiscal year, the District was able to pay an additional \$15,000 of principal off their existing long-term 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. 94, 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 June 30, 2011, the District had \$628,021 invested in fixed assets, net of depreciation, including land, the water system, hydrants, meters and equipment.

Long-Term Debt

The District has one outstanding note with the Oklahoma Water Resources Board (OWRB). The note was incurred to construct the water system. At June 30, 2011 the District had outstanding long-term debt of \$209,400 on this note.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending June 30, 2012, the District's operating budget is fairly consistent with prior years.

Customer water rates were not increased in 2010-11. However, if the current economic conditions continue and expenses continue to increase, a rate increase 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 450418, Grove, OK 74345 or call (918) 786-9320.



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 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
Delaware County Rural Water District No. 9
Grove, Oklahoma

We have audited the financial statements of the Delaware County Rural Water District No. 9 (the District), Grove, Oklahoma, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 19, 2011. 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 *Government Auditing Standards*.

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. We noted no matters involving the internal control over financial reporting and its operation that we would consider to be reportable conditions. 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.

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 caused by error or fraud 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.

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.

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

September 19, 2011

DELAWARE COUNTY RURAL WATER DISTRICT NO. 9
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS
JUNE 30, 2011

There were no prior year reportable conditions.

DELAWARE COUNTY RURAL WATER DISTRICT NO. 9
SCHEDULE OF AUDIT RESULTS
JUNE 30, 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

COMBINED FINANCIAL STATEMENTS

DELAWARE COUNTY RURAL WATER DISTRICT NO. 9
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

Current assets:

Cash	\$ 29,968
Investments	122,204
Accounts receivable	6,620
Interest receivable	177
Prepaid insurance	1,911
Total current assets	<u>160,880</u>

Noncurrent assets:

Investment in debt service reserves	57,159
Capital assets:	
Fixed assets-property, plant & equipment	895,071
Less: Accumulated depreciation	<u>(267,050)</u>
Total noncurrent assets	<u>685,180</u>

Total Assets	<u>846,060</u>
--------------	----------------

LIABILITIES

Current liabilities:

Accrued interest payable	250
Current portion of long-term debt	<u>20,800</u>
Total current liabilities	<u>21,050</u>

Noncurrent liabilities:

Refundable deposits	8,750
Long-term notes payable	<u>188,600</u>
Total noncurrent liabilities	<u>197,350</u>

Total Liabilities	<u>218,400</u>
-------------------	----------------

NET ASSETS

Invested in capital assets, net of related debt	418,621
Restricted for debt service	57,159
Unrestricted	<u>151,880</u>
Total Net Assets	<u>\$ 627,660</u>

The accompanying notes are an integral part of these financial statements.

DELAWARE COUNTY RURAL WATER DISTRICT NO. 9
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Operating Revenues:	
Water sales	\$ 165,819
Installations	7,580
GMSA fees	7,000
Membership and transfer fees	8,650
Total Operating Revenue	189,049
Operating Expenses:	
Water purchases	58,110
Billing services	57,442
Grove capital improvements	9,000
Installation costs	3,222
Rent	4,200
Professional fees	2,585
Dues and fees	1,961
Insurance and bonds	1,315
Repairs and maintenance	618
Trustee fees	750
Telephone	1,062
Office and postage	199
Miscellaneous expense	122
Total Operating Expenses	140,586
Operating income (loss)	48,463
Other Revenues (Expenses):	
Interest income	1,438
Grant proceeds	9,000
Interest expense	(3,554)
Depreciation expense	(22,807)
Total Other Revenues (Expenses)	(15,923)
Changes in Net Assets	32,540
Net Assets, Beginning of Year	595,120
Net Assets, End of Year	\$ 627,660

The accompanying notes are an integral part of these financial statements

DELAWARE COUNTY RURAL WATER DISTRICT NO. 9
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

Cash Flows from Operating Activities:	
Receipts from customers	\$ 190,743
Payments to suppliers	(138,502)
Net Cash Provided (Used) by Operating Activities	<u>52,241</u>
Cash Flows from Investing Activities:	
Net (increase) decrease in investments	(1,282)
Interest and dividends	1,555
Grant proceeds	9,000
Acquisition of fixed assets	(14,103)
Net Cash Provided (Used) by Investment Activities	<u>(3,548)</u>
Cash Flows from Financing Activities:	
Payments on long-term notes - principal	(34,600)
Interest paid	(3,552)
Prepaid rent paid	(2,100)
Net Cash Provided (Used) by Financing Activities	<u>(40,252)</u>
Net Increase (Decrease) in Cash	8,441
Cash and cash equivalents, beginning of year	<u>21,527</u>
Cash and cash equivalents, end of year	<u><u>\$ 29,968</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ 48,463
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Change in Assets and Liabilities:	
Accounts receivable	1,673
Prepaid insurance	2,005
Meter deposits	100
Net cash provided by operating activities	<u><u>\$ 52,241</u></u>

The accompanying notes are an integral part of these financial statements

DELAWARE COUNTY RURAL WATER DISTRICT NO. 9
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Note A – Summary of Significant Accounting Policies

Business Activity

Delaware County Rural Water District No. 9 (the District) was formed in 1994 under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of the Delaware County Rural Water District No. 9. The District's primary income is from the sale of water to its members in an area west of Grove, Oklahoma.

Basis of Accounting

The financial statements are prepared on an accrual basis of accounting, which is in compliance with accounting principles generally accepted in the United States of America and which recognizes revenues when earned and expenses as incurred. Interest earnings on certificates of deposit are recorded when such interest is actually received by the District.

Financial Statement Presentation

The financial statements are presented in accordance with Government Accounting Standard Board, Statement No. 94, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Inventories

The District does not carry a significant inventory of materials and supplies. The cost of such items is recorded as an expense when purchased.

Income Taxes

The District is recognized as a tax-exempt organization under the Internal Revenue Code. Because the District is exempt from federal income tax, no provision for taxes has been made in the financial statements.

Prior Year Information

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

DELAWARE COUNTY RURAL WATER DISTRICT NO. 9
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2011

Note B – Cash and Investments

At June 30, 2011, the District held the following balances of cash and investments:

First United Bank - Grove:			
Certif. of deposit 12036		\$	24,681
Arvest Bank - Grove:			
Savings account			2,011
Bank of Grove - Grove:			
Certif. of deposit 1329	32,632		
Certif. of deposit 1630	30,945		
	30,945		63,577
Grand Savings Bank - Grove:			
Certif. of deposit 3693130			33,947
Bank of Oklahoma - Gove:			
Operating checking account	27,956		
r) Debt Service	2		
r) Debt Service Reserve	57,157		
	57,157		85,115
Total Cash and Investments		\$	209,331

r) - indicates restricted funds

The District has the opportunity to obtain additional pledged collateral from the banks where they have funds. Such collateral provides additional security for the District's funds in excess of the \$250,000 Federal Deposit Insurance Corporation insurance limits at each institution. At June 30, 2011, no District funds at any bank exceeded the \$250,000 FDIC maximum coverage amount.

Note C – Accounts Receivable

Receivables from water consumers at June 30, 2011 were \$6,620. These amounts consist primarily of charges for water services. No allowance for doubtful accounts or a related charge for bad debts has been recorded in these financial statements

DELAWARE COUNTY RURAL WATER DISTRICT NO. 9
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

Note F – Grant Revenue

In prior years, the District has received development grants from various institutions. These moneys were used to partially finance construction of the water distribution system and other water equipment. During the fiscal year ended June 30, 2011, \$9,000 of grant revenue was received from Grand Gateway for the installation of four fire hydrants within the District.

Note G – Commitments

The District contracts with the Grove Municipal Service Authority (GMSA) to provide water to the District, perform all maintenance of the District's water distribution system and provide installation of new services. The District's members pay the GMSA for the monthly water service. Members are billed a minimum of \$23 each month, plus \$3.42 per 1,000 gallons of water used. The GMSA keeps \$14 per user each month, plus \$2.54 per 1,000 gallons of water used by these customers for all services provided.

The agreement is for five years and contains options for seven consecutive terms of five year contracts.

OTHER SUPPLEMENTARY INFORMATION

DELAWARE COUNTY RURAL WATER DISTRICT NO. 9
BALANCE SHEET
JUNE 30, 2011

<u>ASSETS</u>	June 30,	
	2011	(memo only) 2010
Current Assets:		
Cash in banks	\$ 29,968	21,527
Investments	122,204	120,722
Accounts receivable	6,620	8,293
Interest receivable	177	294
Prepaid insurance	1,911	3,916
Total current assets	160,880	154,752
Restricted Assets:		
Debt service reserves - investments	57,159	57,359
Property, Plant, and Equipment:		
Water distribution system	794,662	784,396
Fire hydrants	85,513	81,076
Water meters	13,500	13,500
Equipment	1,396	1,396
Sub-total	895,071	880,368
Less: accumulated depreciation	(267,050)	(244,243)
Total property, plant, and equipment	628,021	636,125
Total Assets	\$ 846,060	848,236
<u>LIABILITIES AND MEMBER EQUITY</u>		
Current Liabilities:		
Meter deposits	\$ 8,750	8,650
Accrued interest on debt	250	466
Current portion of long-term debt	20,800	19,200
Total current liabilities	29,800	28,316
Long-term Debt, Less Current Maturities:		
Notes payable	188,600	224,800
Total Liabilities	218,400	253,116
Member Equity:		
Contributed capital	126,256	117,256
Retained earnings	501,404	477,864
Total member equity	627,660	595,120
Total Liabilities and Member Equity	\$ 846,060	848,236

DELAWARE COUNTY RURAL WATER DISTRICT NO. 9
 INCOME STATEMENT
 FOR THE YEAR ENDED JUNE 30, 2011

	2010-11	(memo only) 2009-10
Operating Revenues:		
Water sales	\$ 165,819	152,445
Installations	7,580	5,012
GMSA fees	7,000	14,000
Membership and transfer fees	8,650	12,200
Total Operating Revenue	189,049	183,657
Operating Expenses:		
Water purchases	58,110	50,747
Billing services	57,442	52,925
Grove capital improvements	9,000	14,000
Installation costs	3,222	5,012
Rent	4,200	4,200
Professional fees	2,585	2,000
Dues and fees	1,961	1,430
Insurance and bonds	1,315	1,417
Repairs and maintenance	618	608
Trustee fees	750	750
Telephone	1,062	1,115
Office and postage	199	116
Miscellaneous expense	122	47
Total Operating Expenses	140,586	134,367
Operating Revenues Over (Under) Operating Expenses	48,463	49,290
Other Revenues (Expenses):		
Interest income	1,438	1,551
Depreciation expense	(22,807)	(22,301)
Interest expense	(3,554)	(4,226)
Total Other Revenues (Expenses)	(24,923)	(24,976)
Increase (Decrease) in Retained Earnings	23,540	24,314
Retained Earnings, Beginning of Year	477,864	453,550
Retained Earnings, End of Year	\$ 501,404	477,864