

**McCurtain County Rural Water District No. 1  
Haworth, Oklahoma**

**Financial Statements  
and Reports of Independent Auditors**

**October 31, 2012**

Audited by

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

Broken Arrow, OK

**McCurtain County Rural Water District No. 1**  
**Haworth, Oklahoma**  
October 31, 2012

**BOARD OF DIRECTORS**

**Chairman**

Jay Lundry

**Vice-Chairman**

Charles Lewis

**Secretary/Treasurer**

Kent Smith

**Member**

David Mowdy

**Member**

Lahoma Whitehead

**Member**

Jerry Galloway

**Member**

Jason Allen

**MANAGER**

A.D. Roberts, Jr.

**BOOKKEEPER**

Lisa Nichols

**McCurtain County Rural Water District No. 1**  
**Haworth, Oklahoma**  
October 31, 2012

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# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## Independent Auditor's Report

Board of Directors  
McCurtain County Rural Water District No. 1  
Haworth, Oklahoma

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 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.

The management's discussion and analysis on pages 5-6 is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

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 A.

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Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

December 14, 2012

# McCurtain County Rural Water District #1 Management's Discussion and Analysis October 31, 2012

Our analysis of McCurtain County Rural Water District #1 financial performance provides an overview for the fiscal year ended October 31, 2012

## Financial Highlights

- The District's total operating revenues exceeded total operating expenses by \$29,455.
- The District has implemented a maintenance program on water meters; this year the District changed out 145 meters on the program.
- The District's water loss for the year totaled 22.93%.

## Using This Report

This report is presented in a format consistent with the present requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

## The Financial Statements

One of the most important ways to see if the District is in good condition is the financial statements. The net assets versus liabilities show our District flourished under the management and staff. Over time if a water District increased productive while maintaining stable water rates, is a very good indicator of financial health. McCurtain County Rural Water District #1 has paid early two loans in recent years. Both loans have been on our books for excess of 30 years.

## Fixed Assets

As of October 31, 2012 the District had \$2,009,239 invested in fixed assets including land, water system, vehicles and equipment, net of depreciation. During the 2011-12 fiscal years, the District set approximately 39 meters and completed 18,957 work orders.

## **Long Term Debt**

The District is indebted to Rural Economic & Community Development \$904,897. The main debt was obtained originally to build the water system. Our debt to the Oklahoma Department of Commerce was to update the current system. The outstanding CDBG principal balance totals \$40,104. Please see page 17 of this report to see note balances and amounts due.

## **Economic Factors and Next Year's Budget and Rates**

For the upcoming fiscal year ending October 31, 2013, the budget is consistent with this year.

## **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 Hwy 3 and Elm, P.O. 70 Haworth, Ok 74740 or call (580) 245-1403



# 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  
McCurtain County Rural Water District No. 1  
Haworth, Oklahoma

We have audited the financial statements of the McCurtain County Rural Water District No. 1 (the District), Haworth, Oklahoma, as of and for the year ended October 31, 2012, and have issued our report thereon dated December 14, 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.

## **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 auditing standards generally accepted in the United States.

## **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. 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. 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. We noted no matters involving the internal control over financial reporting and its operations that we considered to be material weaknesses.

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.

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

December 14, 2012

**McCurtain County Rural Water District No. 1**  
**Haworth, Oklahoma**  
Disposition of Prior Year's Reportable Conditions  
October 31, 2012

There were no prior year reportable conditions.

**McCurtain County Rural Water District No. 1**  
**Haworth, Oklahoma**  
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 instances of noncompliance.
3. The audit disclosed no reportable conditions on the internal controls.

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

None

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1  
 Haworth, Oklahoma  
 Statement of Net Assets  
 October 31, 2012

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 687,462
Current portion of receivables	75,871
Inventory of supplies	35,268
Prepaid assets	<u>11,410</u>
Total current assets	<u>810,011</u>

Noncurrent Assets:

Restricted cash-	
Reserve account	106,149
Investments with fiscal agents	2,000
Capital Assets-	
Land	31,225
Building, plant and water systems, net	1,861,174
Other capital assets, net	<u>116,840</u>
Total noncurrent assets	<u>2,117,388</u>

Total Assets	<u>2,927,399</u>
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**LIABILITIES**

Current Liabilities:

Accounts payable	40,677
Accrued liabilities	7,074
Current portion of long-term debt	<u>25,811</u>
Total current liabilities	<u>73,562</u>

Noncurrent Liabilities:

Long-term debt	<u>919,190</u>
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Total Liabilities	<u>992,752</u>
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**NET ASSETS**

Invested in capital assets, net of related debt	1,127,340
Restricted for debt service	65,856
Unrestricted assets	<u>741,451</u>
Total Net Assets	<u>\$ 1,934,647</u>

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

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1  
Haworth, Oklahoma  
Statement of Activities  
For The Year Ended October 31, 2012

Operating Revenues:	
Water sales	\$ 860,640
Fees and fines	65,023
Miscellaneous	<u>14,801</u>
Total revenue from operations	<u>940,464</u>
Operating Expenses:	
Salaries and benefits	234,805
Water purchases	346,320
Repairs and maintenance	40,892
Vehicle expense	31,054
Utilities and telephone	9,923
Insurance	65,847
Office expense and postage	29,315
Employee retirement	19,526
Depreciation	103,564
Dues and fees	9,106
Uniforms	4,982
Fire protection fees	<u>15,675</u>
Total expenses from operations	<u>911,009</u>
Operating Income (Loss)	29,455
Non-Operating Revenues (Expenses):	
Interest income	1,915
Interest paid on long-term debt	<u>(41,092)</u>
Total Non-Operating Revenues (Expenses)	<u>(39,177)</u>
Change in Net Assets	(9,722)
Total Net Assets, beginning of period	<u>1,994,369</u>
Total Net Assets, end of period	<u>\$ 1,984,647</u>

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

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1  
Haworth, Oklahoma  
Statement of Cash Flows  
For the Year Ended October 31, 2012

Cash Flows from Operating Activities:	
Receipts from customers	\$ 955,710
Payments to employees	(234,674)
Payments to vendors	<u>(571,678)</u>
Net Cash Provided by Operating Activities	<u>149,358</u>
Cash Flows from Financing Activities:	
Additions (sale) of fixed assets	(40,462)
Principal paid on long-term debt	(24,927)
Interest paid on long-term debt	<u>(40,927)</u>
Net Cash Provided by (used in) Financing Activities	<u>(106,316)</u>
Cash Flows from Investing Activities:	
Interest earned on investments	<u>1,915</u>
Net Increase (Decrease) in Cash	44,957
Cash and cash equivalents, beginning of period	<u>748,654</u>
Cash and cash equivalents, end of period	<u><u>\$ 793,611</u></u>
<u>Reconciliation of operating income (loss) to net cash provided by operating activities:</u>	
Operating Income	\$ 29,455
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	103,564
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	15,246
(Increase) decrease in supplies inventory	5,114
(Increase) decrease in prepaid insurance	(184)
Increase (decrease) in accounts payable	<u>(3,837)</u>
Net cash provided by operating activities	<u><u>\$ 149,358</u></u>

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

**McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1**  
**Haworth, Oklahoma**  
Notes to the 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 liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles. The District has also complied with GASB Statement No. 34 financial reporting requirements.

Cash

The District’s accounts are with the McCurtain County National Bank in Idabel, Oklahoma, and at October 31<sup>st</sup>, are detailed as follows:

	October 31,	
	2012	2011
Revenue account	\$ 279,334	235,573
Office account	3,467	1,934
Rural Development account	-	-
Less: Outstanding checks	(10,866)	(9,223)
Replacement account	415,528	414,488
Reserve account	106,149	105,883
	\$ 793,612	748,655
Total		

The District’s cash deposits 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

**McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1**

**Haworth, Oklahoma**

Notes to the Financial Statements

October 31, 2012

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

Cash – cont'd

	Category			Bank Balance	Carrying Amount
	(A)	(B)	(C)		
Cash	<u>\$ 250,000</u>	<u>554,478</u>	<u>0</u>	<u>804,478</u>	<u>793,612</u>

Restricted Cash

In compliance with Rural Economic and Community Development regulations, cash reserves have been established to collect up to one year's payment on the note payable, or \$59,604, at which time deposits may be suspended. When necessary, funds may be utilized with prior approval of the Rural Economic and Community Development. The reserve account funds have been deposited in an interest bearing account at a national bank which is insured by the federal government. Monthly deposit requirements have been met using the monthly interest earnings.

All restricted assets are nevertheless liquid and have been included as cash and cash equivalents for the purpose of the cash flow statement. The total in cash reserves at October 31, 2012 was \$106,149.

Accounts Receivable

Billings for accounts receivable at October 31, 2012 were \$75,871. Allowance for doubtful accounts was not computed because the effects of bad debt on the financial statements are not considered material.

Inventory

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

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.

**McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1**  
**Haworth, Oklahoma**  
Notes to the Financial Statements  
October 31, 2012

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

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	5-10 years
Equipment & tools	10-15 years
Transportation equipment	5 years
Water & sewer system	50 years
Buildings	40 years
Computer equipment	5-7 years

The fixed asset information for the District is shown below:

	11/1/2011 Amount	Additions	Deletions	10/31/2012 Amount
Land	\$ 31,225	-	-	31,225
Buildings	167,398	-	-	167,398
Office equipment	58,073	8,773	-	66,846
Plant and water sys.	3,270,996	-	-	3,270,996
Vehicles and equip.	490,537	31,689	-	522,226
Total Fixed Assets	4,018,229	40,462	-	4,058,691
Less: Accumulated Depreciation	(1,945,888)	(103,564)	-	(2,049,452)
Total	<u>\$ 2,072,341</u>	<u>(63,102)</u>	<u>-</u>	<u>2,009,239</u>

Other Assets

The District invested \$2,000 in an insurance certificate with the Oklahoma Rural Water Association Assurance Group. This investment will be returned to the District in future years, along with dividends, as they become available.

**McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1**

**Haworth, Oklahoma**

Notes to the Financial Statements

October 31, 2012

**Note B – Notes Payable**

Notes payable consist of three notes to the Office of Rural Economic & Community Development and one note to the Oklahoma Department of Commerce.

The notes payable at October 31<sup>st</sup>, are detailed as follows:

	<u>2012</u>	<u>2011</u>
Note No. 91-08, Rural Economic & Community Development, issued for \$350,000, dated 02-16-90, at 5.00% interest due in monthly installments of \$1,691, until paid;	\$ 226,692	235,412
Note No. 91-10, Rural Economic & Community Development, issued for \$145,300, dated 12-02-97, at 4.50% interest, due in monthly installments of \$660, until paid;	118,844	121,354
Note No. 91-12, Rural Economic & Community Development, issued for \$602,650, dated 3-19-08, at 4.25% interest, due in monthly installments of \$2,616, until paid;	559,361	566,808
Note No. 8119 CDBG, Oklahoma Department of Commerce, issued for \$125,000, dated 02-09-98, at 0% interest, due in monthly installments of \$521, until paid;	<u>40,104</u>	<u>46,354</u>
Total	945,001	969,928
Less: Current maturities of long-term debt	<u>(25,811)</u>	<u>(24,939)</u>
Total Long-Term Debt	<u>\$ 919,190</u>	<u>944,989</u>

The scheduled maturities for the next five (5) years, and in total thereafter, are detailed as follows:

<u>Note No.</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>Thereafter</u>	<u>Total</u>
91-08	\$ 9,166	9,635	10,127	10,645	11,190	175,929	226,692
91-10	2,626	2,746	2,873	3,004	3,142	104,453	118,844
91-12	7,769	8,106	8,457	8,824	9,206	516,999	559,361
8119	<u>6,250</u>	<u>6,250</u>	<u>6,250</u>	<u>6,250</u>	<u>6,250</u>	<u>8,854</u>	<u>40,104</u>
Totals	<u>\$ 25,811</u>	<u>26,737</u>	<u>27,707</u>	<u>28,723</u>	<u>29,788</u>	<u>806,235</u>	<u>945,001</u>

**McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1**  
**Haworth, Oklahoma**  
Notes to the Financial Statements  
October 31, 2012

**Note C – Contributed Capital**

Contributed capital was provided by grants of \$798,450 from the Rural Economic and Community Development, \$125,000 from the Oklahoma Department of Commerce, \$50,000 from the Oklahoma Water Resources Board, and \$5,294 in local funds to assist in building and improving the water system.

**Note D – Retirement Plan**

The District adopted an employee retirement plan on January 1, 1993, with Capital Guardian Trust Company, which is made available through Edward D. Jones Company, Idabel, Oklahoma. This plan is a SAR-SEP plan.

The District based its contribution on 10% of each employee's annual gross pay. The participation requirements of the employees are detailed as follows:

1. Eligibility begins on the first day of the plan year following the year in which the employee has been in service with the District for one year;
2. The employee must be 18 years of age.

Contributions to the plan for the year ended October 31, 2012 were \$19,753.

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1

Haworth, Oklahoma

Balance Sheet

October 31, 2012

	<u>OCTOBER 31,</u>	
	<u>2012</u>	<u>(memo only)</u> <u>2011</u>
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 271,934	228,283
Replacement cash	415,528	414,488
Accounts receivable	75,871	91,117
Inventory	35,268	40,382
Prepaid insurance	11,410	11,226
Total current assets	<u>810,011</u>	<u>785,496</u>
Restricted Assets:		
Reserve account	<u>106,149</u>	<u>105,883</u>
Fixed Assets:		
Land	31,225	31,225
Building	167,398	167,398
Office equipment	66,846	58,073
Plant and water systems	3,270,996	3,270,996
Vehicles and equipment	522,226	490,537
Total fixed assets	<u>4,058,691</u>	<u>4,018,229</u>
Less: accumulated depreciation	<u>(2,049,452)</u>	<u>(1,945,888)</u>
Total fixed assets (net)	<u>2,009,239</u>	<u>2,072,341</u>
Other Assets:		
Investments - ORWA	<u>2,000</u>	<u>2,000</u>
Total Assets	<u>\$ 2,927,399</u>	<u>2,965,720</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 40,677	44,645
Taxes payable	4,143	4,012
Accrued interest	2,931	2,766
Current maturities of long-term debt	25,811	24,939
Total current liabilities	<u>73,562</u>	<u>76,362</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>919,190</u>	<u>944,989</u>
Total Liabilities	<u>992,752</u>	<u>1,021,351</u>
Fund Equity:		
Contributed capital	978,744	978,744
Retained earnings	955,903	965,625
Total fund equity	<u>1,934,647</u>	<u>1,944,369</u>
Total Liabilities and Fund Equity	<u>\$ 2,927,399</u>	<u>2,965,720</u>

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1  
Haworth, Oklahoma  
Statement of Revenue, Expenses and Changes in Retained Earnings  
For the Year Ended October 31, 2012

	2011-12	(memo only) 2010-11
	<u>2011-12</u>	<u>2010-11</u>
Revenue from Operations:		
Water sales	\$ 860,640	930,253
Installation fees	9,000	13,000
Connection and reconnect fees	3,274	3,180
Penalties	13,739	16,881
Meter reading fees	23,335	10,352
Other sales and services	14,801	24,170
Fire protection fees	15,675	15,581
Total revenue from operations	<u>940,464</u>	<u>1,013,417</u>
Expenses from Operations:		
Salaries and benefits	234,805	235,236
Water purchases	346,320	355,593
Repairs and maintenance	40,892	49,962
Vehicle expense	31,054	30,247
Utilities and telephone	9,923	9,078
Insurance	65,847	62,620
Office expense and postage	29,315	21,883
Employee retirement	19,526	19,621
Depreciation	103,564	94,324
Dues and fees	9,106	15,273
Uniforms	4,982	5,329
Fire protection fees	15,675	15,581
Total expenses from operations	<u>911,009</u>	<u>914,747</u>
Net Income (Loss) from Operations	29,455	98,670
Non-operating income:		
Interest earnings	<u>1,915</u>	<u>1,786</u>
Non-operating expenses:		
Interest paid on debt	<u>(41,092)</u>	<u>(39,585)</u>
Net Income (Loss)	(9,722)	60,871
Retained earnings, beginning of period	<u>965,625</u>	<u>904,754</u>
Retained earnings, end of period	<u><u>\$ 955,903</u></u>	<u><u>965,625</u></u>