

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

**Financial Statements  
and Reports of Independent Auditors**

**October 31, 2011**

Audited by

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

Broken Arrow, OK

**McCurtain County Rural Water District No. 1**  
**Haworth, Oklahoma**  
October 31, 2011

**BOARD OF DIRECTORS**

**Chairman**

Jay Lundry

**Vice-Chairman**

Charles Lewis

**Secretary/Treasurer**

Kent Smith

**Member**

David Mowdy

**Member**

Lahoma Whitehead

**Member**

Jerry Galloway

**Member**

Derek Wiggins

**MANAGER**

A.D. Roberts, Jr.

**BOOKKEEPER**

Lisa Nichols

**McCurtain County Rural Water District No. 1**  
**Haworth, Oklahoma**  
October 31, 2011

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**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  
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, 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 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, 2011, 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 November 21, 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.

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.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

November 21, 2011

# McCurtain County Rural Water District #1 Management's Discussion and Analysis October 31, 2011

Our analysis of McCurtain County Rural Water District #1 financial performance provides an overview for the fiscal year ended October 31, 2011

## Financial Highlights

- The District's total operating revenues exceeded total operating expenses by \$98,670.
- The District has implemented a maintenance program on water meters; this year the District changed out 168 meters on the program.
- The District added additional water lines, repainted the water tank and built a metal building during 2010-11 with the loan proceeds.
- The District's water loss for the year totaled 21.29%.

## 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, 2011 the District had \$2,072,341 invested in fixed assets including land, water system, vehicles and equipment, net of depreciation. During the 2010-11 fiscal years, the District set approximately 51 meters and completed 15,416 work orders.

### **Long Term Debt**

The District is indebted to Rural Economic & Community Development \$923,574. The main debt was obtained originally to build the water system. An additional \$115,051 of Rural Development loan proceeds were added in 2010-11, at a rate of 4.25% to be paid over 25 years. Our debt to the Oklahoma Department of Commerce was to update the current system. The outstanding CDBG principal balance totals \$46,354. 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, 2012, 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



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**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, 2011, and have issued our report thereon dated November 21, 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.

**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.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

November 21, 2011

**McCurtain County Rural Water District No. 1**  
**Haworth, Oklahoma**  
Disposition of Prior Year's Reportable Conditions  
October 31, 2011

There were no prior year reportable conditions.

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

**COMBINED FINANCIAL STATEMENTS**

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1  
Haworth, Oklahoma  
Statement of Net Assets  
October 31, 2011

**ASSETS**

Current Assets:

Cash and cash equivalents	\$ 642,771
Current portion of receivables	91,117
Inventory of supplies	40,382
Prepaid assets	11,226
Total current assets	785,496

Noncurrent Assets:

Restricted cash-	
Reserve account	105,883
Investments with fiscal agents	2,000
Capital Assets-	
Land	31,225
Building, plant and water systems, net	1,930,103
Other capital assets, net	111,013
Total noncurrent assets	2,180,224

Total Assets	2,965,720
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**LIABILITIES**

Current Liabilities:

Accounts payable	44,645
Accrued liabilities	6,778
Current portion of long-term debt	24,939
Total current liabilities	76,362

Noncurrent Liabilities:

Long-term debt	944,989
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Total Liabilities	1,021,351
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**NET ASSETS**

Invested in capital assets, net of related debt	1,102,413
Restricted for debt service	65,856
Unrestricted assets	776,100
Total Net Assets	\$ 1,944,369

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, 2011**

Operating Revenues:	
Water sales	\$ 930,253
Fees and fines	58,994
Miscellaneous	24,170
Total revenue from operations	1,013,417
Operating Expenses:	
Salaries and benefits	235,236
Water purchases	355,593
Repairs and maintenance	49,962
Vehicle expense	30,247
Utilities and telephone	9,078
Insurance	62,620
Office expense and postage	21,883
Employee retirement	19,621
Depreciation	94,324
Dues and fees	15,273
Uniforms	5,329
Fire protection fees	15,581
Total expenses from operations	914,747
Operating Income (Loss)	98,670
Non-Operating Revenues (Expenses):	
Interest income	1,786
Interest paid on long-term debt	(39,585)
Total Non-Operating Revenues (Expenses)	(37,799)
Change in Net Assets	60,871
Total Net Assets, beginning of period	1,883,498
Total Net Assets, end of period	\$ 1,944,369

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, 2011**

<b>Cash Flows from Operating Activities:</b>	
Receipts from customers	\$ 1,010,661
Payments to employees	(234,996)
Payments to vendors	(587,823)
	187,842
<b>Net Cash Provided by Operating Activities</b>	
	187,842
<b>Cash Flows from Financing Activities:</b>	
Additions (sale) of fixed assets	(166,139)
Loan proceeds received	115,051
Principal paid on long-term debt	(37,075)
Interest paid on long-term debt	(39,356)
	(127,519)
<b>Net Cash Provided by (used in) Financing Activities</b>	
	(127,519)
<b>Cash Flows from Investing Activities:</b>	
Interest earned on investments	1,786
	1,786
<b>Net Increase (Decrease) in Cash</b>	
	62,109
<b>Cash and cash equivalents, beginning of period</b>	
	686,545
<b>Cash and cash equivalents, end of period</b>	
	\$ 748,654
 <b><u>Reconciliation of operating income (loss) to net cash provided by operating activities:</u></b>	
Operating Income	\$ 98,670
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	94,324
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(2,756)
(Increase) decrease in supplies inventory	(272)
(Increase) decrease in prepaid insurance	93
Increase (decrease) in accounts payable	(2,217)
	(4,852)
<b>Net cash provided by operating activities</b>	
	\$ 187,842

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, 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 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,	
	2011	2010
Revenue account	\$ 235,573	149,768
Office account	1,934	1,895
Rural Development account	-	21,276
Less: Outstanding checks	(9,223)	(5,459)
Replacement account	414,488	413,447
Reserve account	105,883	105,617
 Total	 \$ 748,655	 686,544

The District's cash deposits 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

**McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1**  
**Haworth, Oklahoma**  
Notes to the Financial Statements  
October 31, 2011

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

Cash – cont’d

	Category			Bank Balance	Carrying Amount
	(A)	(B)	(C)		
Cash	\$ 250,000	507,878	0	757,878	748,654

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, 2011 was \$105,883.

Accounts Receivable

Billings for accounts receivable at October 31, 2011 were \$91,117. 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, 2011 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, 2011

**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:

	11/1/2010 Amount	Additions	Deletions	10/31/2011 Amount
Land	\$ 31,225	-	-	31,225
Buildings	141,347	26,051	-	167,398
Office equipment	53,458	4,615	-	58,073
Plant and water sys.	3,172,395	98,601	-	3,270,996
Vehicles and equip.	453,665	36,872	-	490,537
Total Fixed Assets	3,852,090	166,139	-	4,018,229
Less: Accumulated Depreciation	(1,851,564)	(94,324)	-	(1,945,888)
Total	<u>\$ 2,000,526</u>	<u>71,815</u>	<u>-</u>	<u>2,072,341</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, 2011

**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>2011</u>	<u>2010</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;	\$ 235,412	243,707
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;	121,354	123,754
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;	566,808	471,887
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>46,354</u>	<u>52,604</u>
Total	969,928	891,952
Less: Current maturities of long-term debt	<u>(24,939)</u>	<u>(16,436)</u>
Total Long-Term Debt	<u>\$ 944,989</u>	<u>875,516</u>

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

<u>Note No.</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>Thereafter</u>	<u>Total</u>
91-08	\$ 8,719	9,166	9,635	10,127	10,645	187,120	235,412
91-10	2,522	2,639	2,760	2,886	3,019	107,528	121,354
91-12	7,447	7,769	8,106	8,457	8,824	526,205	566,808
8119	<u>6,250</u>	<u>6,250</u>	<u>6,250</u>	<u>6,250</u>	<u>6,250</u>	<u>15,104</u>	<u>46,354</u>
Totals	<u>\$ 24,938</u>	<u>25,824</u>	<u>26,751</u>	<u>27,720</u>	<u>28,738</u>	<u>835,957</u>	<u>969,928</u>

**McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1**  
**Haworth, Oklahoma**  
Notes to the Financial Statements  
October 31, 2011

**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, 2011 were \$19,511.

**OTHER SUPPLEMENTARY INFORMATION**

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1  
Haworth, Oklahoma  
Balance Sheet  
October 31, 2011

	OCTOBER 31,	
	2011	(memo only) 2010
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 228,283	167,481
Replacement cash	414,488	413,447
Accounts receivable	91,117	88,361
Inventory	40,382	40,110
Prepaid insurance	11,226	11,319
Total current assets	785,496	720,718
Restricted Assets:		
Reserve account	105,883	105,617
Fixed Assets:		
Land	31,225	31,225
Building	167,398	141,347
Office equipment	58,073	53,458
Plant and water systems	3,270,996	3,172,395
Vehicles and equipment	490,537	453,665
Total fixed assets	4,018,229	3,852,090
Less: accumulated depreciation	(1,945,888)	(1,851,564)
Total fixed assets (net)	2,072,341	2,000,526
Other Assets:		
Investments - ORWA	2,000	2,000
Total Assets	\$ 2,965,720	2,828,861
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 44,645	47,102
Taxes payable	4,012	3,772
Accrued interest	2,766	2,537
Current maturities of long-term debt	24,939	28,505
Total current liabilities	76,362	81,916
Long-Term Debt, less current maturities:		
Notes payable	944,989	863,447
Total Liabilities	1,021,351	945,363
Fund Equity:		
Contributed capital	978,744	978,744
Retained earnings	965,625	904,754
Total fund equity	1,944,369	1,883,498
Total Liabilities and Fund Equity	\$ 2,965,720	2,828,861

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 1  
Haworth, Oklahoma  
Statement of Revenue, Expenses and Changes in Retained Earnings  
For the Year Ended October 31, 2011

	2010-11	(memo only) 2009-10
Revenue from Operations:		
Water sales	\$ 930,253	864,506
Installation fees	13,000	14,000
Connection and reconnect fees	3,180	839
Penalties	16,881	16,144
Meter reading fees	10,352	11,217
Other sales and services	24,170	15,537
Fire protection fees	15,581	15,360
Total revenue from operations	<u>1,013,417</u>	<u>937,603</u>
Expenses from Operations:		
Salaries and benefits	235,236	218,745
Water purchases	355,593	357,496
Repairs and maintenance	49,962	46,437
Vehicle expense	30,247	22,897
Utilities and telephone	9,078	7,246
Insurance	62,620	57,456
Office expense and postage	21,883	34,823
Employee retirement	19,621	18,656
Depreciation	94,324	89,162
Dues and fees	15,273	9,875
Uniforms	5,329	4,225
Fire protection fees	15,581	15,360
Total expenses from operations	<u>914,747</u>	<u>882,378</u>
Net Income (Loss) from Operations	98,670	55,225
Non-operating income:		
Interest earnings	<u>1,786</u>	<u>1,531</u>
Non-operating expenses:		
Interest paid on debt	<u>(39,585)</u>	<u>(29,922)</u>
Net Income (Loss)	60,871	26,834
Retained earnings, beginning of period	<u>904,754</u>	<u>877,920</u>
Retained earnings, end of period	<u>\$ 965,625</u>	<u>904,754</u>