

**McCurtain County Rural Water District No. 8
Broken Bow, Oklahoma**

**Financial Statements
and Reports of Independent Auditor**

October 31, 2012

Audited by

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

Broken Arrow, OK

McCurtain County Rural Water District No. 8
Broken Bow, Oklahoma
October 31, 2012

BOARD OF DIRECTORS

Chairman

Leon Westbrook

Vice-Chairman

Homer Coleman

Secretary

Jerry Snider

Members

Loyce Swafford

Elvis McDaniel

MANAGER

Randy McMurl

BOOKKEEPERS

Debbie Aebischer

Beth Calvin

McCurtain County Rural Water District No. 8
Broken Bow, 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. 8
Broken Bow, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the McCurtain County Rural Water District No. 8 (the District), Broken Bow, 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 17, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis, located on pages 5 and 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.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The script is cursive and fluid, with the ampersand being particularly stylized.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

December 17, 2012

RURAL WATER DISTRICT NO. 8, McCURTAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
OCTOBER 31, 2012

Our discussion and analysis of the Rural Water District No. 8, McCurtain County's financial performance provides an overview of the District's financial activities for the fiscal year ended October 31, 2012. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS:

- The District's total operating revenues exceeded total operating expenses by \$58,960, an decrease of \$353,886 over the 2010-11 amount.
- The District's net assets decreased by \$97,691 in the current fiscal year.
- \$2,000,000 of ORWB loan principal was forgiven by the federal government with ARRA Stimulus Funds in 2010-11.
- The micro-filtration plant and a water treatment facility was completed in 2010-11 using additional OWRB loan proceeds and some liquidated investments.

Using This Report

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

Basis of Accounting

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets, the Statement of Activities and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net assets and the changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to

measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Fixed Assets

At October 31, 2012, the District had \$8,756,621 invested in fixed assets, net of depreciation, including land, the water plant and system, vehicles and equipment. Capital assets of \$197,640 were added in 2011-12, as the water treatment plant project was completed and a few other items were purchased.

Long-Term Debt

The promissory note with the Oklahoma Water Resources Board was approved in 2008-09. The note was for \$7,038,410, and will be paid back in bi-annual payments over 30 years, at an interest rate of 3.29%. Through October 31, 2012, \$5,817,402 of these loan proceeds were received, and \$2,000,000 of the loan was forgiven by ARRA funds. The outstanding principal balance at October 31, 2012 was \$3,541,799.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending October 31, 2013, the District's budget is fairly consistent with the prior fiscal year. The normal cost of operation continues to increase for all areas of the economy, and rural water is not exempt from these increases.

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 Rt. 4 Box 7, Broken Bow, OK 74728 or call (580) 584-2918.



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. 8
Broken Bow, Oklahoma

We have audited the financial statements of the McCurtain County Rural Water District No. 8 (the District), Broken Bow, Oklahoma, as of and for the year ended October 31, 2012, and have issued our report thereon dated December 17, 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.

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. 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 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 or other matters that are required to be reported under auditing standards generally accepted in the United States.

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 script is cursive and fluid, with the company name written in a single line.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

December 17, 2012

McCurtain County Rural Water District No. 8
Broken Bow, Oklahoma
Disposition of Prior Year's Reportable Conditions
October 31, 2012

There were no prior year reportable conditions.

McCurtain County Rural Water District No. 8
Broken Bow, 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. 8

Broken Bow, Oklahoma

Statement of Net Assets

October 31, 2012

ASSETS

Current Assets:

Cash and cash equivalents	\$ 402,184
Current portion of receivables	116,080
Inventory of supplies	142,056
Prepaid assets	34,488
Total current assets	<u>694,808</u>

Non-current Assets:

Investments with fiscal agents	544,330
Capital Assets-	
Land and easements, net	44,416
Building, plant and water systems, net	8,413,780
Equipment and vehicles, net	298,425
Total non-current assets	<u>9,300,951</u>

Total Assets	<u>9,995,759</u>
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LIABILITIES

Current Liabilities:

Customer deposits	<u>20,961</u>
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Non-current Liabilities:

Notes payable	<u>3,541,799</u>
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Total Liabilities	<u>3,562,760</u>
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NET ASSETS

Invested in capital assets, net of related debt	5,214,822
Unrestricted assets	<u>1,218,177</u>
Total Net Assets	<u>\$ 6,432,999</u>

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

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 8
Broken Bow, Oklahoma
Statement of Activities
For The Year Ended October 31, 2012

Operating Revenues:	
Water sales	\$ 1,243,149
Miscellaneous	<u>34,063</u>
Total revenue from operations	<u>1,277,212</u>
Operating Expenses:	
Salaries and benefits	474,495
Water purchases	24,607
Repairs and maintenance	214,104
Vehicle expense	24,213
Utilities and telephone	105,896
Testing fees	12,603
Insurance	59,329
Office expense and postage	27,624
Depreciation	267,039
Dues and fees	6,587
Other expenses	<u>1,755</u>
Total expenses from operations	<u>1,218,252</u>
Operating Income (Loss)	58,960
Non-Operating Revenues (Expenses):	
Interest income	7,250
Sale of fixed assets	9,105
Interest paid on long-term debt	<u>(173,006)</u>
Total Non-Operating Revenues (Expenses)	<u>(156,651)</u>
Change in Net Assets	(97,691)
Total Net Assets, beginning of period	<u>6,530,690</u>
Total Net Assets, end of period	<u><u>\$ 6,432,999</u></u>

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

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 8

Broken Bow, Oklahoma

Statement of Cash Flows

For the Year Ended October 31, 2012

Cash Flows from Operating Activities:

Receipts from customers	\$ 1,385,278
Payments to employees	(474,495)
Payments to vendors	(545,395)
Net Cash Provided by Operating Activities	<u>365,388</u>

Cash Flows from Financing Activities:

Capital asset (additions) sale	(197,640)
Net Cash Provided by (used in) Financing Activities	<u>(197,640)</u>

Cash Flows from Investing Activities:

Proceeds from sale of fixed asset	9,105
Principal paid on long-term debt	(87,912)
Interest paid on long-term debt	(173,006)
Interest earned on investments	7,250
Net Cash Provided by (used in) Investing Activities	<u>(244,563)</u>

Net Increase (Decrease) in Cash (76,815)

Cash and cash equivalents, beginning of period 1,023,329

Cash and cash equivalents, end of period \$ 946,514

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

Operating Income	\$ 58,960
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	267,039
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	51,281
(Increase) decrease in supplies inventory	(10,174)
(Increase) decrease in prepaid insurance	(1,618)
Increase (decrease) in customer deposits	(100)
Net cash provided by operating activities	<u><u>\$ 365,388</u></u>

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

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 8

Broken Bow, Oklahoma

Notes to the Financial Statements

October 31, 2012

Note A – Significant Accounting Policies

Organization

McCurtain County Rural Water District No. 8 (the District) is an Oklahoma non-profit water district organized under Title 82 of Oklahoma Statutes to provide water service to rural residents of McCurtain County, Oklahoma. The District is considered a subdivision of the State of Oklahoma.

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 First Bank and Trust in Broken Bow, Oklahoma, and at October 31st, are detailed as follows:

	October 31,	
	2012	2011
Operating account	\$ 472,207	494,163
Rental account	20,104	20,195
Office account	1,342	1,381
Cash on hand	400	400
Less: Outstanding checks	(91,869)	(30,089)
Total	<u>\$ 402,184</u>	<u>486,050</u>

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 8

Broken Bow, Oklahoma

Notes to the Financial Statements

October 31, 2012

Note A – Significant Accounting Policies – cont'd

Investments

The District's investments at October 31, 2012 are detailed as follows:

First Bank and Trust, Broken Bow, OK:	
CD no. 30125, due 1-28-13, .50%	\$ 121,068
Diamond State Bank, DeQueen, AR:	
CD no. 12779, due 4-26-13, .45%	137,776
Horatio State Bank, Horatio, AR:	
CD no. 79737121, due 5-26-13, 2.10%	137,500
CD no. 79737120, due 5-21-13, 1.90%	142,986
Oklahoma Rural Water Association Assurance Group	
Insurance certificate	<u>5,000</u>
Total Investments	<u><u>\$ 544,330</u></u>

The District's cash deposits and investments 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

	Category			Bank Balance	Carrying Amount
	(A)	(B)	(C)		
Cash	\$ 250,000	243,602		493,602	402,184
Investments	513,844	30,486		544,330	544,330
Totals	<u><u>\$ 763,844</u></u>	<u><u>274,088</u></u>	<u><u>0</u></u>	<u><u>1,037,932</u></u>	<u><u>946,514</u></u>

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 8

Broken Bow, Oklahoma

Notes to the Financial Statements

October 31, 2012

Note A – Significant Accounting Policies – cont'd

Accounts Receivable

Billings for accounts receivable at October 31, 2012 were \$119,057. Allowance for doubtful accounts was computed at 2.5% (\$2,977) based upon historical collection rates.

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.

Prior Year Information

Prior year financial statement information is included in the other supplementary information section for comparative purposes only. No opinions are issued on these amounts, and are included as memorandum.

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

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 8**Broken Bow, Oklahoma**

Notes to the Financial Statements

October 31, 2012

Note A – Significant Accounting Policies – cont'd

The fixed asset information for the District is shown below:

	11/1/2011 Amount	Additions	Deletions	10/31/2012 Amount
Land & easements	\$ 51,716	-	-	51,716
Buildings & improv.	176,023	2,375	-	178,398
Water system	8,976,606	185,180	-	9,161,786
Equipment	2,656,022	10,085	-	2,666,107
Total Fixed Assets	11,860,367	197,640	-	12,058,007
Less: Accumulated Depreciation	(3,034,347)	(267,039)	-	(3,301,386)
Total	<u>\$ 8,826,020</u>	<u>(69,399)</u>	<u>-</u>	<u>8,756,621</u>

Note B – Long-Term Debt

The District acquired a promissory note from the Oklahoma Water Resources Board. The approved note is in the amount of \$7,038,410 and will be used for drinking water treatment system improvements. The District received \$366,794 of the loan proceeds in 2008-09, \$4,059,007 in 2009-10, and \$1,391,601 in 2010-11 for a total loan of \$5,817,402. In the 2010-11 fiscal year, the ARRA Stimulus funds forgave \$2,000,000 of the principal balance of this note. The note will bear interest at a rate of 3.29%, and payments will be made bi-annually for 30 years.

	October 31,	
	2012	2011
Principal Balance, beginning	\$ 3,629,711	4,425,801
Additions	-	1,391,601
Debt Forgiven	-	(2,000,000)
Less: Principal Paid	(87,912)	(187,691)
Principal Balance, end	<u>\$ 3,541,799</u>	<u>3,629,711</u>

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 8

Broken Bow, Oklahoma

Notes to the Financial Statements

October 31, 2012

Note B – Long-Term Debt – cont'd

Future principal payments on the outstanding loan are as follows:

<u>October 31,</u>		
2013	\$	72,638
2014		75,456
2015		78,383
2016		81,066
2017		84,570
2018-23		580,588
2024-28		595,835
2029-33		721,112
2034-38		872,341
2039-40		379,810
		<hr/>
Total	\$	<u>3,541,799</u>

Note C – Insurance Coverage

The District maintained adequate insurance coverage through the Oklahoma Rural Water Association Group. Coverage includes auto liability and damage, property, inland/marine, comprehensive general liability, errors and omissions, employment liability and employment dishonesty and crime.

Note D – Employee Pension Plan

In January 1992, the District established a defined contribution pension plan for its employees. The plan is non-contributory and is administered by Edward D. Jones Company. Under the plan, a predetermined contribution is made to the account of each individual employee, based upon the annual compensation levels, and accrued for their benefit. An employee must have one year of service with the District before they can participate in the plan.

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 8
Broken Bow, Oklahoma
Balance Sheet
October 31, 2012

	October 31,	
	2012	(memo only) 2011
<u>ASSETS</u>		
Current Assets:		
Cash	\$ 402,184	486,050
Investments	539,330	532,279
Accounts receivable	116,080	167,361
Inventory	142,056	131,882
Prepaid insurance	34,488	32,870
Total current assets	<u>1,234,138</u>	<u>1,350,442</u>
Fixed Assets:		
Land and easements	51,716	51,716
Buildings and improvements	178,398	176,023
Equipment and vehicles	2,666,107	2,656,022
Plant and water systems	<u>9,161,786</u>	<u>8,976,606</u>
Total fixed assets	12,058,007	11,860,367
Less: accumulated depreciation	<u>(3,301,386)</u>	<u>(3,034,347)</u>
Total fixed assets (net)	<u>8,756,621</u>	<u>8,826,020</u>
Other Assets:		
Investments - ORWA	<u>5,000</u>	<u>5,000</u>
Total Assets	<u><u>\$ 9,995,759</u></u>	<u><u>10,181,462</u></u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Customer deposits	<u>\$ 20,961</u>	<u>21,061</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>3,541,799</u>	<u>3,629,711</u>
Total Liabilities	<u>3,562,760</u>	<u>3,650,772</u>
Fund Equity:		
Contributed capital	2,000,000	2,000,000
Retained earnings	<u>4,432,999</u>	<u>4,530,690</u>
Total fund equity	<u>6,432,999</u>	<u>6,530,690</u>
Total Liabilities and Fund Equity	<u><u>\$ 9,995,759</u></u>	<u><u>10,181,462</u></u>

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 8
Broken Bow, Oklahoma
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended October 31, 2012

	2011-12	(memo only) 2010-11
Revenue from Operations:		
Water sales	\$ 1,138,731	1,323,168
Sales adjustments	35,557	41,804
Connection and reconnect fees	3,530	3,100
Penalties	26,071	28,469
Meter reading fees	39,260	36,063
Other sales and services	34,063	24,998
Total revenue from operations	<u>1,277,212</u>	<u>1,457,602</u>
Expenses from Operations:		
Salaries and benefits	474,495	466,794
Water purchases	24,607	106,400
Repairs and maintenance	214,104	61,874
Vehicle expense	24,213	20,137
Utilities and telephone	105,896	93,952
Office expenses	27,624	30,061
Testing fees	12,603	-
Insurance	59,329	45,440
Depreciation	267,039	204,174
Dues and fees	6,587	6,455
Other expenses	1,755	9,469
Total expenses from operations	<u>1,218,252</u>	<u>1,044,756</u>
Net Income (Loss) from Operations	58,960	412,846
Non-operating income (expenses):		
Interest earnings	7,250	16,494
Sale of fixed assets	9,105	8,949
Interest paid on debt	(173,006)	(128,680)
Total non-operating income (expenses)	<u>(156,651)</u>	<u>(103,237)</u>
Net Income (Loss)	(97,691)	309,609
Retained earnings, beginning of period	<u>4,530,690</u>	<u>4,221,081</u>
Retained earnings, end of period	<u><u>\$ 4,432,999</u></u>	<u><u>4,530,690</u></u>