

**Muskogee County Rural Water District No. 6
Wainwright, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2011

Audited by

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

BROKEN ARROW, OK
SHAWNEE, OK

Muskogee County Rural Water District No. 6
Wainwright, Oklahoma
Board of Directors
December 31, 2011

BOARD OF DIRECTORS

Chairman

Kenneth Lane

Vice-Chairman

B. P. Sudberry

Secretary/Treasurer

Mike Withrow

Members

Kenneth Holdridge

Danny Isbell

MANAGER

Kurtis Rowan

BOOKKEEPERS

Stacy Barnard
Sheryl Vanderpool

Muskogee County Rural Water District No. 6
Wainwright, Oklahoma
December 31, 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Muskogee County Rural Water District No. 6
Wainwright, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Muskogee County Rural Water District No. 6 (the District), Wainwright, Oklahoma, as of and for the year ended December 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 December 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting generally accepted in the United States of America.

The Management Discussion and Analysis 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 a report dated January 23, 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.

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 of America.

Sanders, Bledsoe & Hewett

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

January 23, 2012

RURAL WATER DISTRICT NO. 6, MUSKOGEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

Our discussion and analysis of the Rural Water District No. 6, Muskogee County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2011. 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 \$106,609. Overall, the District's total net assets increased by \$111,400 in the current fiscal year.
- The District earned over \$4,700 in interest earnings during 2011, and was able to invest \$133,000 more in certificates of deposit.
- The District had no outstanding debt in 2011, thus paid no interest.
- The District is applying for a \$200,000 matching grant from EODD to extend water lines for three miles.
- No rate increases were made on customers in 2011.

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 December 31, 2011 the District had \$653,551 invested in fixed assets, net of depreciation, including land, the water system, pump station and lines. The District purchased a new truck during the 2011 fiscal year, but no large additions were made to the water system.

Long-Term Debt

No outstanding loans exist for the District at December 31, 2011.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2012, the District's projected budget is fairly consistent with the 2011 fiscal year.

For the fiscal year 2012, the District may have to consider an increase rates to users to meet the demands of the City of Muskogee if the cost of water purchases is substantially increased. If demand is increased on existing lines and equipment, or additional memberships are substantially increased, it may be necessary for the District to incur some long-term debt to meet these demands. As of the date of this report, none of these situations are probable for the 2012 year.

Contacting the District

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 135, Wainwright, OK 74468, or call (918) 474-3545.



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**REPORT ON COMPLAINE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Muskogee County Rural Water District No. 6
Wainwright, Oklahoma

We have audited the financial statements of the Muskogee County Rural Water District No. 6 (the District), Wainwright, Oklahoma, as of and for the year ended December 31, 2011, and have issued our report thereon dated January 23, 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. We noted no certain matters involving the internal control over financial reporting and its operation that we 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 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 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

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

January 23, 2012

MUSKOGEE COUNTY RURAL DISTRICT NO. 6
Disposition of Prior Year's Reportable Conditions
December 31, 2011

There were no prior year instances of noncompliance.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Schedule of Audit Results
December 31, 2011

Section 1 – Summary of Auditor’s Results

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.

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

NONE

COMBINED FINANCIAL STATEMENTS

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Statement of Net Assets
December 31, 2011

ASSETS

Current assets:

Cash	\$	154,027
Current portion of receivables		33,460
Investments with fiscal agents		351,175
Prepaid expenses		5,862
Total current assets		544,524

Noncurrent assets:

Fixed assets-		
Water system and improvements, net of depreciation		653,551

Total Assets		1,198,075
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LIABILITIES

Current liabilities:

Accounts payable		13,053
Payroll taxes payable		1,343
Total current liabilities		14,396

NET ASSETS

Invested in capital assets, net of related debt		653,551
Unrestricted assets		530,128
Total Net Assets	\$	1,183,679

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

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Statement of Activities
For The Year Ended December 31, 2011

Operating Revenues:	
Water sales	\$ 424,776
Memberships	8,950
Refunds and reimbursements	2,763
Total revenues from operations	<u>436,489</u>
 Operating Expenses:	
Water purchases	160,144
Salaries and wages	51,827
Payroll taxes	5,381
Contract labor	10,220
Depreciation	33,810
Utilities and telephone	9,052
Automobile	10,203
Supplies and materials	9,786
Office and postage	6,916
Insurance	10,952
Repairs & maintenance	12,310
Testing fees	528
Professional fees	2,960
Leak rewards	225
Dues and fees	5,566
Total expenses from operations	<u>329,880</u>
 Operating Income (Loss)	 106,609
 Non-Operating Revenues (Expenses):	
Interest income	<u>4,791</u>
 Change in Net Assets	 111,400
Total Net Assets, beginning of period	<u>1,072,279</u>
Total Net Assets, end of period	<u><u>\$ 1,183,679</u></u>

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

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Statement of Cash Flows
For Year Ended December 31, 2011

Cash Flows from Operating Activities:

Receipts from customers	\$ 438,210
Payments to employees	(57,041)
Payments to vendors	(244,151)
Net Cash Provided by Operating Activities	137,018

Cash Flows from Financial Activities:

Purchase of fixed assets	(16,239)
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Cash Flows from Investing Activities:

Loan proceeds	0
Interest revenue	4,791
Net cash provided by (used in) investing activities	4,791

Net Increase (Decrease) in Cash and Equivalents	125,570
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Cash and cash equivalents, beginning of period	379,632
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Cash and cash equivalents, end of period	\$ 505,202
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505,202

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

Operating Income (loss)	\$ 106,609
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	33,810
(Increase) decrease in accounts receivable	(3,948)
(Increase) decrease in prepaid expenses	(80)
Increase (decrease) in accounts payable	461
Increase (decrease) in payroll taxes payable	166
Net Cash Provided by Operating Activities	\$ 137,018

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

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Notes to Financial Statements
December 31, 2011

Note A – Significant Accounting Policies

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Reporting Standard

In June 1999, the GASB issued Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes new financial reporting requirements for state and local governments throughout the United States. It creates new information and restructures much of the information that governments have presented in the past. The District complied with this requirement.

Cash

The District’s accounts are with the American Bank of Oklahoma, Muskogee, Oklahoma, and are detailed as follows:

	December 31,	
	2011	2010
Cash on hand	\$ 250	250
Revenue Account	92,822	122,186
Operation and Maint. Account	30,400	10,516
Tower Account	36,517	30,359
Add: Deposits in transit	-	-
Less: Outstanding checks	(5,962)	(1,865)
Total	\$ 154,027	161,446

Cash and Cash Equivalents

For the purposes of preparing the statement of cash flows, cash on hand, reconciled cash in savings and checking, and certificates of deposit that can be converted into cash (if necessary) are considered cash equivalents.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Notes to Financial Statements
December 31, 2011

Note A – Significant Accounting Policies – cont'd

Investments

The District had the following outstanding investments:

	<u>2011</u>	<u>2010</u>
Armstrong Bank-		
Certificate of Deposit no. 524077, dated 5/12/11, matures 5/12/13	\$ 101,024	55,356
Certificate of Deposit no. 524085, dated 5/10/11, matures 5/10/12	32,133	37,969
Certificate of Deposit no. 522228, dated 3/25/11, matures 3/25/13	126,724	37,969
Citizens Security Bank-		
Certificate of Deposit no. 21812, dated 5/26/11, matures 5/26/12	45,647	43,446
Certificate of Deposit no. 21812, dated 5/26/11, matures 5/26/12	<u>45,647</u>	<u>43,446</u>
Total Investments	<u>\$ 351,175</u>	<u>218,186</u>

Accounts Receivable

Billings for accounts receivable at December 31, 2011 were \$33,460. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Collateral Pledged

All District funds were adequately insured by FDIC or other secured collateral as of December 31, 2011.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Notes to Financial Statements
December 31, 2011

Note A – Significant Accounting Policies – cont'd

Fixed Assets

Neither the District nor the previous auditors were able to provide us with the method of calculating depreciation used in prior years. Therefore, to remain consistent, the same provision for depreciation used in previous years continues to be used. The fixed asset information for the District is shown below:

	12/31/2010 Amount	Additions	Deletions	12/31/2011 Amount
Land	\$ 500	-	-	500
Water system	1,253,555	-	-	1,253,555
Buildings	43,270	-	-	43,270
Equipment and autos	77,873	16,239	-	94,112
Total Fixed Assets	1,375,198	16,239	-	1,391,437
Less: Accumulated Depreciation	(704,075)	(33,811)	-	(737,886)
Total	<u>\$ 671,123</u>	<u>(17,572)</u>	<u>-</u>	<u>653,551</u>

Federal Income Tax

The District is exempt from Federal and State income taxes.

Accumulated Unpaid Vacation and Sick Pay

At December 31, 2011, no determination of the aggregate dollar value of vacation or sick pay had been made.

Prior Year Information

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

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Notes to Financial Statements
December 31, 2011

Note B – Long-Term Debt

There was no outstanding debt at December 31, 2011.

Note C – Insurance and Surety Bond Coverage

The District appears to have had adequate insurance to cover all major perils at December 31, 2011.

OTHER SUPPLEMENTAL INFORMATION

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Balance Sheet
December 31, 2011

	DECEMBER 31,	
<u>ASSETS</u>	2011	(memo only) 2010
Current Assets:		
Cash in bank	\$ 154,027	161,446
Investments	351,175	218,186
Accounts receivable	33,460	29,512
Prepaid insurance	5,822	5,742
Total current assets	544,484	414,886
Fixed Assets:		
Land	500	500
Water system and improvements	1,253,555	1,253,555
Buildings and improvements	43,270	43,270
Equipment and automobiles	94,112	77,873
Total fixed assets	1,391,437	1,375,198
Less: accumulated depreciation	(737,886)	(704,076)
Total fixed assets (net)	653,551	671,122
Other Assets:		
Deposits	40	40
Total Assets	\$ 1,198,075	1,086,048
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 13,053	12,592
Payroll taxes payable	1,343	1,177
Total current liabilities	14,396	13,769
Fund Equity:		
Retained earnings	1,183,679	1,072,279
Total Liabilities and Fund Equity	\$ 1,198,075	1,086,048

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Statement of Revenue, Expenses and Changes in Retained Earnings
For Years Ended December 31, 2011

	2011	(memo only) 2010
	<u>2011</u>	<u>2010</u>
Revenue from Operations:		
Water sales	\$ 407,627	367,482
Late charges	17,149	18,790
Memberships	8,950	9,500
Collection and reconnect fees	1,025	980
Other income and fees	1,738	291
Total revenue from operations	<u>436,489</u>	<u>397,043</u>
Expenses from Operations:		
Water purchases	160,144	138,243
Salaries and wages	51,827	52,274
Payroll taxes	5,381	4,900
Contract labor	10,220	11,000
Depreciation	33,810	32,186
Utilities and telephone	9,052	9,202
Automobile	10,203	6,305
Supplies and materials	9,786	10,015
Office and postage	6,916	7,782
Insurance	10,952	17,887
Repairs & maintenance	12,310	10,387
Testing fees	528	2,060
Professional (engineering) fees	2,960	22,015
Leak rewards	225	300
Dues and fees	5,566	7,665
Total expenses from operations	<u>329,880</u>	<u>332,221</u>
Net Income (Loss) from Operations	106,609	64,822
Other Income:		
Interest earnings	<u>4,791</u>	<u>4,540</u>
Other Expenses:		
Interest on debt	<u>0</u>	<u>(655)</u>
Net Income (Loss)	111,400	68,707
Retained earnings, beginning of period	<u>1,072,279</u>	<u>1,003,572</u>
Retained earnings, end of period	<u>\$ 1,183,679</u>	<u>1,072,279</u>