

**Okmulgee County Rural Water District No. 4
Morris, Oklahoma**

FINANCIAL STATEMENTS
AND REPORTS OF INDEPENDENT AUDITOR

DECEMBER 31, 2012

Audited by

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

BROKEN ARROW, OK

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
BOARD OF DIRECTORS
DECEMBER 31, 2012

BOARD OF DIRECTORS

Chairman

Johnnie Mae Fox

Vice-Chairman

Steve Finch

Secretary/Treasurer

Maxine Gresham

Members

Bill Brown
Kimberly Donathan
Joseph Payne
Rick Sturman

BOOKKEEPER

Athena Sturman

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
DECEMBER 31, 2012

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Okmulgee County Rural Water District No. 4
Morris, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Okmulgee County Rural Water District No. 4 (the District), Morris, Oklahoma, as of and for the year ended December 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by 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, 2012, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting generally accepted by the United States of America.

The Management Discussion and Analysis on pages 5-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which

consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 14, 2013, 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 and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

February 14, 2013

RURAL WATER DISTRICT NO. 4, OKMULGEE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2012

Our discussion and analysis of the Rural Water District No. 4, Okmulgee County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 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 expenses exceeded total operating revenues by \$9,946. Overall, the District's cash and cash equivalents decreased by \$7,556 in the current fiscal year.
- The District purchased 54.9 million gallons of water in 2012, a decrease of 4.1 million gallons from 2011. However, the District sold approximately 44.6 million gallons of water in 2012, a 1,800,000 gallon decrease over the 2011 amount sold. These numbers indicate that water losses decreased in the District during 2012.
- The District was forced to increase water rates in 2012. These new rates are effective February 1, 2013, and were deemed necessary to meet the demands of increasing operational costs.

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 Assets, Liabilities and Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, 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, 2012, the District had \$1,012,978 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. The District made small additions during 2012, but no large investments in the water system or equipment.

Long-Term Debt

The District is indebted to the Office of Rural Development on a note obtained for previously extensive extensions and payment of other debts. The outstanding principal balance owed on the notes decreased from \$706,571 to \$692,391 during the 2012 fiscal year. The \$846,000 note, at 4.50% interest, is scheduled to be paid off in 2038.

Economic Factors and Next Year's Budget and Rates

The District has absorbed some of the City of Okmulgee's rate increases, but may be forced to further increase our customer rates if additional increases are made by the City.

The District's budget for fiscal year 2013 will remain much like previous years budgets. Your Board of Directors does anticipate small budget changes made primarily to better allow for office and field personnel operations, without the necessity of hiring additional part-time or permanent employees.

Contacting the District's Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at P.O. Box 125, Morris, OK 74445 or call (918) 733-2441.



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
Okmulgee County Rural Water District No. 4
Morris, Oklahoma

We have audited the financial statements of the Okmulgee County Rural Water District (the District) No. 4, Morris, Oklahoma, as of and for the year ended December 31, 2012, and have issued our report thereon dated February 14, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under generally accepted auditing standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. This reportable condition is described in the accompanying schedule of audit results as item 12-1.

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. However, we believe that item 12-1 is not a material weakness.

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

February 14, 2013

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
Morris, Oklahoma
Disposition of Prior Year's Reportable Conditions
December 31, 2012

Lack of Segregation of Duties

The exception that there were inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available which prevented a proper segregation of accounting functions which is necessary to assure adequate internal accounting controls continued in the current fiscal year.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
Morris, Oklahoma
Schedule of Audit Results
December 31, 2012

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a reportable condition in the internal controls, which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

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

12-1 – Lack of Segregation of Duties

Condition-

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.

Okmulgee County Rural Water District No. 4

Morris, Oklahoma

Statement of Net Assets

December 31, 2012

ASSETS

Current assets:

Cash	\$ 141,641
Current portion of receivables	49,570
Prepaid assets	7,025
Investments with fiscal agents	71,087
Total current assets	<u>269,323</u>

Non-current assets:

Restricted investment with fiscal agents	21,033
Capital assets	991,945
Total non-current assets	<u>1,012,978</u>

Total Assets	<u>1,282,301</u>
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LIABILITIES

Current liabilities:

Accounts payable	<u>18,878</u>
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Non-current liabilities:

Due within one year	14,830
Due in more than one year	677,561
Total non-current liabilities	<u>692,391</u>

Total Liabilities	<u>711,269</u>
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NET ASSETS

Invested in capital assets, net of related debt	299,554
Restricted for debt service and construction	21,033
Unrestricted assets	<u>250,445</u>
Total Net Assets	<u>\$ 571,032</u>

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

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Statement of Activities
For the Years Ended December 31, 2012

Operating Revenues:

Water sales and other sales	\$ 415,327
Benefit units	7,600
Total revenues	<u>422,927</u>

Operating Expenses:

Water purchases	195,946
Salaries	100,146
Depreciation	46,239
Contract Labor	1,492
Employee health insurance	20,354
Utilities and telephone	14,260
Professional services	4,013
Insurance	10,167
Repairs and maintenance	3,928
Office supplies and postage	7,720
Uniforms	2,836
Truck expense	7,349
Payroll taxes	8,258
Materials and supplies	4,267
Water testing	2,527
Miscellaneous	1,280
Administrative Fees	2,091
Total expenses from operations	<u>432,873</u>

Operating Income (Loss)	(9,946)
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Non-Operating Revenues (Expenses):

Interest income	517
Interest paid on long-term debt	(31,504)
Total non-operating revenues (expenses)	<u>(30,987)</u>

Change in Net Assets	(40,933)
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Total Net Assets, beginning of period	<u>611,965</u>
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Total Net Assets, end of period	<u><u>\$ 571,032</u></u>
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The accompanying notes to the financial statements are an integral part of this statement

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Statement of Cash Flows
December 31, 2012

Cash Flows from Operating Activities:

Receipts from customers	\$ 424,082
Payments to employees	(100,146)
Payments to vendors	<u>(284,564)</u>
Net Cash Provided by Operating Activities	<u>39,372</u>

Cash Flows from Investing Activities:

Interest revenue	517
Sale (purchase) of fixed assets	<u>(1,160)</u>
Net cash flows from investing activities	<u>(643)</u>

Cash Flows from Financing Activities:

Interest expense on debt	(32,105)
Principal payments on debt	<u>(14,180)</u>
Total cash flows from financing activities	<u>(46,285)</u>

Net Increase (Decrease) in Cash (7,556)

Cash and cash equivalents, beginning of period 241,317

Cash and cash equivalents, end of period \$ 233,761

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

Operating Income	\$ (9,946)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	46,239
(Increase) decrease in accounts receivable	(2,647)
(Increase) decrease in prepaid insurance	(750)
Increase (decrease) in accounts payable	<u>6,476</u>
Net Cash Provided by Operating Activities	<u><u>\$ 39,372</u></u>

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

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 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 accrued liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

New 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. Comparability with reports issued in all prior years is affected. The District has elected to implement this standard.

Cash

The District’s accounts are with The Morris State Bank, Morris, Oklahoma, and are detailed as follows:

	<u>2012</u>	<u>2011</u>
Revenue account	\$ 44,920	30,156
Benefit units account	50,491	77,847
Reserve account	<u>46,067</u>	<u>41,478</u>
Total	<u><u>\$ 141,478</u></u>	<u><u>149,481</u></u>

Investments

The bookkeeper is authorized by the Board of Directors to invest certain amounts of money from available funds. The types of investments available are specified in and limited by Oklahoma Statutes, which includes certificates of deposit and governmental securities. Investments are recorded on the financial records and in the financial statements at cost. Income from investments is recorded when collected.

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2012

Investments – cont'd

The District had the following outstanding investments at December 31, 2012:

The Morris State Bank, Morris, Oklahoma	
Certificate of deposit No. 9226,	
due 1-6-13, at .275%	\$42,019
Certificate of deposit No. 4840,	
due 7-7-13, at .50%	<u>29,068</u>
 Total	 <u>\$71,087</u>

Restricted Asset – Investment Reserves

In compliance with Rural Economic and Community Development regulations, cash reserves have been established to collect up to one year's payment on the notes payable at which time deposits in the reserve can be suspended. When necessary, these funds may be utilized with proper approval of the Rural Economic and Community Development. The reserve account funds have been deposited in an interest-bearing certificate of deposit at The Morris State Bank, Morris, Oklahoma, which is insured by the federal government. At December 31, 2012, the restricted asset – investment reserve is detailed as follows:

The Morris State Bank, Morris, Oklahoma	
Certificate of deposit No. 4195,	
due 11-12-13, at .45%	<u>\$21,033</u>

Accounts Receivable

Billings for accounts receivable at December 31, 2012, were \$49,571. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Prior Year Information

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

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2012

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
Water System & Improvements	40-50 years
Equipment & tools	4 years
Vehicles	3 years
Office Equipment	5 years
Buildings	40 years
Furniture & fixtures	7 years

The fixed asset information for the District is shown below:

	1/1/2012 Amount	Additions	Deletions	12/31/2012 Amount
Water System & Improvements	\$ 1,297,908	-	-	1,297,908
Equipment & Tools	56,678	-	-	56,678
Vehicles	111,077	489	-	111,566
Office Equipment	15,168	671	-	15,839
Buildings	195,073	-	-	195,073
Furniture & Fixtures	8,027	-	-	8,027
Total Fixed Assets	1,683,931	1,160	-	1,685,091
Less: Accumulated Depreciation	(646,908)	(46,238)	-	(693,146)
Total	\$ 1,037,023	(45,078)	-	991,945

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2012

Federal Income Tax

The District is exempt from Federal and State income taxes.

Collateral Pledged

It appears that all funds were adequately insured by the \$250,000 FDIC coverage as of December 31, 2012.

Note B – Long-term Debt

Long-term debt as of December 31 is summarized as follows:

	<u>2012</u>	<u>2011</u>
Note 91-03, 4.5 percent, mortgage payable to the Office of Rural Development, required monthly installments of \$3,807. The loan is secured by a pledge of real estate and equipment.	\$ 692,391	706,571
Less: current maturities	<u>(14,830)</u>	<u>(14,178)</u>
Total	\$ <u>677,561</u>	<u>692,393</u>

The estimated maturities for the next five years plus the total amount due thereafter based on the \$3,087 current monthly payments being made are detailed as follows:

Office of Rural Development

2013	\$ 14,830
2014	15,511
2015	16,224
2016	16,969
2017	17,748
2018-22	101,748
2023-27	127,368
2028-32	159,439
2033-37	199,585
2038+	<u>22,969</u>
Total	\$ <u>692,391</u>

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2012

Note C -Insurance and Surety Bond Coverage

At December 31, 2012, the District had appropriate coverage against all major perils.

Note D – Accumulated Unpaid Vacation and Sick Pay

At December 31, 2012, no determination of the aggregate dollar value of vacation or sick pay had been made.

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Balance Sheet
December 31, 2012

	December 31	
	2012	(memo only) 2011
<u>ASSETS</u>		
Current Assets:		
Cash in bank-		
Operating fund	\$ 44,920	30,156
Reserve fund	46,067	41,478
Benefit units fund	50,491	77,847
Cash on hand (petty cash)	163	163
Investments- CD's	71,087	70,777
Prepaid insurance	7,025	6,275
Accounts receivable	49,570	46,323
Total current assets	<u>269,323</u>	<u>273,019</u>
Restricted assets:		
Investment - CD reserve	<u>21,033</u>	<u>20,896</u>
Fixed Assets	1,685,091	1,683,931
Less: accumulated depreciation	<u>(693,146)</u>	<u>(646,908)</u>
Total fixed assets (net)	<u>991,945</u>	<u>1,037,023</u>
Total Assets	<u>\$ 1,282,301</u>	<u>1,330,938</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 17,805	12,402
Employee benefits payable	1,073	0
Current portion long-term debt	14,830	14,178
Total current liabilities	<u>33,708</u>	<u>26,580</u>
Long-term Debt:		
Notes payable-Rural Development	<u>677,561</u>	<u>692,393</u>
Total Liabilities	<u>711,269</u>	<u>718,973</u>
Fund Equity:		
Retained earnings	<u>571,032</u>	<u>611,965</u>
Total Liabilities and Fund Equity	<u>\$ 1,282,301</u>	<u>1,330,938</u>

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Statement of Revenue, Expenses and Changes in Retained Earnings
For Year Ended December 31, 2012

	2012	(memo only) 2011
Revenue from Operations:		
Water sales and other sales	\$ 401,378	421,850
Benefit units	7,600	14,250
Late Charges	11,304	13,830
Other Sales and Services	2,645	3,084
Total revenue from operations	<u>422,927</u>	<u>453,014</u>
Expenses from Operations:		
Water purchases	195,946	182,401
Salaries	100,146	102,001
Depreciation	46,239	58,032
Contract labor	1,492	2,599
Employee health insurance	20,354	17,734
Utilities and telephone	14,260	13,053
Professional services	4,013	5,087
Insurance	10,167	8,639
Repairs and maintenance	3,928	1,172
Office supplies and postage	7,720	9,507
Uniforms	2,836	2,746
Truck expense	7,349	5,822
Payroll taxes	8,258	8,831
Materials and supplies	4,267	7,329
Water testing	2,527	528
Miscellaneous	1,280	1,071
Administrative Fees	2,091	1,503
Total expenses from operations	<u>432,873</u>	<u>428,055</u>
Net Income (Loss) from Operations	(9,946)	24,959
Other Income:		
Interest earnings	<u>517</u>	<u>732</u>
Other Expenses:		
Interest paid on debt	<u>(31,504)</u>	<u>(32,123)</u>
Net Income (Loss)	(40,933)	(6,432)
Retained earnings, beginning of period	<u>611,965</u>	<u>618,397</u>
Retained earnings, end of period	<u><u>\$ 571,032</u></u>	<u><u>611,965</u></u>