

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

**FINANCIAL STATEMENTS
AND REPORTS OF INDEPENDENT AUDITOR**

DECEMBER 31, 2011

Audited by

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

BROKEN ARROW, OK

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
BOARD OF DIRECTORS
DECEMBER 31, 2011

BOARD OF DIRECTORS

Chairman

Jim Melton

Vice-Chairman

Johnnie Mae Fox

Secretary

Steve Finch

Treasurer

Maxine Gresham

Members

Bill Brown
Jack Crenshaw
Joseph Payne

BOOKKEEPER

Athena Sturman

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
DECEMBER 31, 2011

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SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

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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, 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 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, 2011, 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 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 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.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 23, 2012

RURAL WATER DISTRICT NO. 4, OKMULGEE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011

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, 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 \$24,959. Overall, the District's cash and cash equivalents decreased by \$17,711 in the current fiscal year.
- The District purchased 59 million gallons of water in 2011, an increase of 9,000,000 gallons from 2010. However, the District sold approximately 46.4 million gallons of water in 2011, a 1,900,000 gallon increase over the 2010 amount sold. These numbers indicate that water losses increased in the District.

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, 2011, the District had \$1,037,023 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. The District made improvements to the water system totaling \$35,135 during the 2011 fiscal year. The District also purchased new computers in 2011, totaling \$3,997.

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 \$720,127 to \$706,571 during the 2011 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 2012 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.



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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
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, 2011, and have issued our report thereon dated February 23, 2012. 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 11-1.

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 11-1 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.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 23, 2012

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
Morris, Oklahoma
Disposition of Prior Year's Reportable Conditions
December 31, 2011

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, 2011

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:

11-1 – 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, 2011

ASSETS

Current assets:

Cash	\$	149,644
Current portion of receivables		46,323
Prepaid assets		6,275
Investments with fiscal agents		70,777
Total current assets		<u>273,019</u>

Noncurrent assets:

Restricted investment with fiscal agents		20,896
Capital assets		1,037,023
Total noncurrent assets		<u>1,057,919</u>

Total Assets		<u>1,330,938</u>
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LIABILITIES

Current liabilities:

Accounts payable		<u>12,402</u>
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Noncurrent liabilities:

Due within one year		14,178
Due in more than one year		692,393
Total noncurrent liabilities		<u>706,571</u>

Total Liabilities		<u>718,973</u>
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NET ASSETS

Invested in capital assets, net of related debt		330,452
Restricted for debt service and construction		20,896
Unrestricted assets		260,617
Total Net Assets	\$	<u>611,965</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, 2011

Operating Revenues:	
Water sales and other sales	\$ 438,764
Benefit units	14,250
Total revenues	453,014
 Operating Expenses:	
Water purchases	182,401
Salaries	102,001
Depreciation	58,032
Contract Labor	2,599
Employee health insurance	17,734
Utilities and telephone	13,053
Professional services	5,087
Insurance	8,639
Repairs and maintenance	1,172
Office supplies and postage	9,507
Uniforms	2,746
Truck expense	5,822
Payroll taxes	8,831
Materials and supplies	7,329
Water testing	528
Miscellaneous	1,071
Administrative Fees	1,503
Total expenses from operations	428,055
Operating Income (Loss)	24,959
 Non-Operating Revenues (Expenses):	
Interest income	732
Interest paid on long-term debt	(32,123)
Total non-operating revenues (expenses)	(31,391)
Change in Net Assets	(6,432)
Total Net Assets, beginning of period	618,397
Total Net Assets, end of period	\$ 611,965

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, 2011

Cash Flows from Operating Activities:	
Receipts from customers	\$ 431,114
Payments to employees	(102,003)
Payments to vendors	<u>(262,743)</u>
Net Cash Provided by Operating Activities	<u>66,368</u>
Cash Flows from Investing Activities:	
Interest revenue	732
Sale (purchase) of fixed assets	<u>(39,132)</u>
Net cash flows from investing activities	<u>(38,400)</u>
Cash Flows from Financing Activities:	
Interest expense on debt	(32,123)
Principal payments on debt	<u>(13,556)</u>
Total cash flows from financing activities	<u>(45,679)</u>
Net Increase (Decrease) in Cash	(17,711)
Cash and cash equivalents, beginning of period	<u>259,028</u>
Cash and cash equivalents, end of period	<u><u>\$ 241,317</u></u>

Operating Income	\$ 24,959
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	58,032
(Increase) decrease in accounts receivable	(15,649)
(Increase) decrease in prepaid insurance	(916)
Increase (decrease) in accounts payable	<u>(58)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 66,368</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, 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.

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:

	2011	2010
Revenue account	\$ 30,156	67,548
Benefit units account	77,847	63,597
Reserve account	41,478	36,888
Total	\$ 149,481	168,033

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, 2011

Investments – cont'd

The District had the following outstanding investments at December 31, 2011:

The Morris State Bank, Morris, Oklahoma	
Certificate of deposit No. 5509, due 3-27-12, at .35%	\$41,887
Certificate of deposit No. 4840, due 7-7-17, at .70%	<u>28,890</u>
Total	<u>\$70,777</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, 2011, the restricted asset – investment reserve is detailed as follows:

The Morris State Bank, Morris, Oklahoma	
Certificate of deposit No. 4195, due 11-12-12, at .65%	<u>\$20,896</u>

Accounts Receivable

Billings for accounts receivable at December 31, 2011, were \$46,323. 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, 2011

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:

	1/1/2011 Amount	Additions	Deletions	12/31/2011 Amount
Water System & Improvements	\$ 1,262,773	35,135	-	1,297,908
Equipment & Tools	52,681	3,997	-	56,678
Vehicles	111,077	-	-	111,077
Office Equipment	15,168	-	-	15,168
Buildings	195,073	-	-	195,073
Furniture & Fixtures	8,027	-	-	8,027
Total Fixed Assets	1,644,799	39,132	-	1,683,931
Less: Accumulated Depreciation	(588,876)	(58,032)	-	(646,908)
Total	<u>\$ 1,055,923</u>	<u>(18,900)</u>	<u>-</u>	<u>1,037,023</u>

Okmulgee County Rural Water District No. 4
 Morris, Oklahoma
 Notes to Financial Statements
 December 31, 2011

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, 2011.

Note B – Long-term Debt

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

	<u>2011</u>	<u>2010</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.	\$ 706,571	720,127
Less: current maturities	<u>(14,178)</u>	<u>(13,355)</u>
Total	\$ <u>692,393</u>	<u>706,772</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

2012	\$	14,178
2013		14,830
2014		15,511
2015-19		88,920
2020-24		111,310
2025-29		139,337
2030-34		174,422
2035-38		<u>148,063</u>
Total	\$	<u>706,571</u>

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2011

Note C -Insurance and Surety Bond Coverage

At December 31, 2011, the District had appropriate coverage against all major perils.

Note D – 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.

Okmulgee County Rural Water District No. 4
 Morris, Oklahoma
 Balance Sheet
 December 31, 2011

	December 31	
	2011	(memo only) 2010
<u>ASSETS</u>		
Current Assets:		
Cash in bank-		
Operating fund	\$ 30,156	67,548
Reserve fund	41,478	36,888
Benefit units fund	77,847	63,597
Cash on hand (petty cash)	163	0
Investments- CD's	70,777	70,296
Prepaid insurance	6,275	5,359
Accounts receivable	46,323	30,674
Total current assets	273,019	274,362
Restricted assets:		
Investment - CD reserve	20,896	20,699
Fixed Assets		
Less: accumulated depreciation	1,683,931	1,644,799
Total fixed assets (net)	(646,908)	(588,876)
	1,037,023	1,055,923
Total Assets	\$ 1,330,938	1,350,984
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 12,402	12,460
Current portion long-term debt	14,178	13,555
Total current liabilities	26,580	26,015
Long-term Debt:		
Notes payable-Rural Development	692,393	706,572
Total Liabilities	718,973	732,587
Fund Equity:		
Retained earnings	611,965	618,397
Total Liabilities and Fund Equity	\$ 1,330,938	1,350,984

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Statement of Revenue, Expenses and Changes in Retained Earnings
For Year Ended December 31, 2011

	2011	(memo only) 2010
	<u>2011</u>	<u>2010</u>
Revenue from Operations:		
Water sales and other sales	\$ 421,850	367,277
Benefit units	14,250	12,350
Late Charges	13,830	15,233
Other Sales and Services	3,084	4,486
Total revenue from operations	<u>453,014</u>	<u>399,346</u>
Expenses from Operations:		
Water purchases	182,401	132,331
Salaries	102,001	103,972
Depreciation	58,032	54,544
Contract labor	2,599	642
Employee health insurance	17,734	19,583
Utilities and telephone	13,053	11,899
Professional services	5,087	3,867
Insurance	8,639	8,395
Repairs and maintenance	1,172	11,551
Office supplies and postage	9,507	6,722
Uniforms	2,746	2,178
Truck expense	5,822	6,805
Payroll taxes	8,831	8,403
Materials and supplies	7,329	7,694
Water testing	528	528
Miscellaneous	1,071	611
Administrative Fees	1,503	2,195
Total expenses from operations	<u>428,055</u>	<u>381,920</u>
Net Income (Loss) from Operations	24,959	17,426
Other Income:		
Interest earnings	<u>732</u>	<u>1,271</u>
Other Expenses:		
Interest paid on debt	<u>(32,123)</u>	<u>(32,723)</u>
Net Income (Loss)	(6,432)	(14,026)
Retained earnings, beginning of period	<u>618,397</u>	<u>632,423</u>
Retained earnings, end of period	<u>\$ 611,965</u>	<u>618,397</u>