

**Okmulgee County Rural Water District No. 6  
Mounds, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2011

Audited by

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

BROKEN ARROW, OK

**Okmulgee County Rural Water District No. 6**  
**Mounds, Oklahoma**  
Board of Directors  
December 31, 2011

**BOARD OF DIRECTORS**

**Chairman**

Mary Smith

**Vice-Chairman**

Stanley Allen

**Secretary/Treasurer**

Glenn Shoaf

**Members**

Phillip Ogden

Randy Fulbright

Daryl Fox

Mary Ann Seago

**MANAGER**

Rick Boone

**BOOKKEEPER**

Lisa Hull

**Okmulgee County Rural Water District No. 6**  
**Mounds, Oklahoma**  
**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. 6  
Mounds, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Okmulgee County Rural Water District No. 6 (the District), Mounds, 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 in 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 1, 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

February 1, 2012

## **RURAL WATER DISTRICT NO. 6, OKMULGEE COUNTY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**DECEMBER 31, 2011**

Our discussion and analysis of the Rural Water District No. 6, 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 \$154,806. Overall, the District's cash and cash equivalents decreased by \$89,50 in the current fiscal year.
- The District earned \$3,896 in interest in 2011, and liquidated some cd's to pay off the loan with the Oklahoma Water Resources Board.
- Membership numbers continued to increase in 2011, with total users reaching 3,252 at year-end.

#### **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 \$3,718,825 invested in fixed assets, net of depreciation, including buildings, the water system, vehicles and equipment. The District made some smaller water system improvements in 2011, increasing total fixed assets by \$45,174. The District did not purchase any major fixed assets or make any large improvements to the water system during the 2011 fiscal year.

### **Long-Term Debt**

The District was indebted to Oklahoma Water Resources Board for a \$750,000 note obtained for previously extensive extensions and payment of other debts. This note was scheduled to be paid off in 2018. However, the District was able to pay this note off in 2011 and end the year with no outstanding long-term debt.

### **Economic Factors and Next Year's Budget and Rates**

The District may be forced to make further increases if additional increases are made by their water sources.

The District has applied for a loan from the USDA to make further water system expansions and improvements, which will be needed by increased demands on the current system.

The District's budget for fiscal year 2012 will remain much like previous years budgets.

### **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 340, Mounds, OK 74047 or call (918) 827-6350.



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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. 6  
Mounds, Oklahoma

We have audited the financial statements of the Okmulgee County Rural Water District No. 6 (the District), Mounds, Oklahoma, as of and for the year ended December 31, 2011, and have issued our report thereon dated February 1, 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material

weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we considered to be material weaknesses.

This report is intended solely for the information of management and the Board of Directors, and is not intended to be, and should not be, used by anyone other than these specified parties.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

February 1, 2012

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

There were no prior year reportable conditions.

**OKMULGEE 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**

**OKMULGEE COUNTY RURAL WATER DISTRICT NO. 6**

Statement of Net Assets

December 31, 2011

**ASSETS:**

Current Assets:

Cash and cash equivalents	\$ 1,041,011
Investments	253,990
Current portion of receivables	115,186
Prepaid assets	18,454
Total current assets	<u>1,428,641</u>

Noncurrent Assets:

Restricted cash- ORWA reserve certificate	1,000
Capital Assets- Buildings, net	117,128
Plant and water systems, net	3,507,394
Other capital assets, net	94,303
Total noncurrent assets	<u>3,719,825</u>

Total Assets	<u>5,148,466</u>
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**LIABILITIES:**

Current Liabilities:

Accounts payable	74,080
Accrued liabilities	50,909
Total current liabilities	<u>124,989</u>

**NET ASSETS:**

Invested in capital assets, net of related debt	3,718,825
Unrestricted assets	<u>1,304,652</u>
Total Net Assets	<u>\$ 5,023,477</u>

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

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

**Operating Revenues:**

Water sales	\$ 1,666,860
Fees and fines	59,305
Benefit unit sales	28,000
Total revenue from operations	<u>1,754,165</u>

**Operating Expenses:**

Water purchases	766,302
Salaries and benefits	273,430
Payroll taxes	24,192
Employee retirement	14,122
Group health insurance	58,133
Repairs and maintenance	38,150
Vehicle expense	18,850
Telephone	10,550
Insurance	36,532
Dues and fees	8,677
Office expense and postage	30,796
Depreciation	176,880
Professional fees	5,090
Utilities	36,841
Contract labor	63,121
Miscellaneous	9,693
Total expenses from operations	<u>1,571,359</u>

Operating Income (Loss) 182,806

**Non-Operating Revenues (Expenses):**

Interest income	3,896
Interest paid on long-term debt	<u>(4,954)</u>
Total Non-Operating Revenues (Expenses)	<u>(1,058)</u>

Change in Net Assets 181,748

Total Net Assets, beginning of period 4,841,729

Total Net Assets, end of period \$ 5,023,477

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

# OKMULGEE COUNTY RURAL WATER DISTRICT NO. 6

## Statement of Cash Flows

For the Year Ended December 31, 2011

### Cash Flows from Operating Activities:

Receipts from customers	\$ 1,671,273
Payments to employees	(261,191)
Payments to vendors	<u>(1,073,506)</u>
Net Cash Provided by Operating Activities	<u>336,576</u>

### Cash Flows from Financing Activities:

Acquisition of fixed assets	(45,174)
Principal paid on long-term debt	(407,850)
Interest paid on long-term debt	<u>(4,954)</u>
Net Cash Provided by (used in) Financing Activities	<u>(457,978)</u>

### Cash Flows from Investing Activities:

Memberships purchased	28,000
Interest earned on investments	<u>3,896</u>
Net Cash Provided by (used in) Investing Activities	<u>31,896</u>

Net Increase (Decrease) in Cash	(89,506)
Cash and cash equivalents, beginning of period	<u>1,384,507</u>
Cash and cash equivalents, end of period	<u>\$ 1,295,001</u>

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

Operating Income	\$ 154,806
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	176,880
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	4,274
(Increase) decrease in prepaid insurance	(1,267)
Increase (decrease) in accounts payable	1,823
Increase (decrease) in accruals	<u>60</u>
Net cash provided by operating activities	<u>\$ 336,576</u>

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

**OKMULGEE COUNTY RURAL WATER DISTRICT NO. 6**  
**Mounds, Oklahoma**  
Notes to the 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 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.

Cash and equivalents

The District’s cash accounts at December 31<sup>st</sup>, are detailed as follows:

	December 31,	
	2011	2010
Cash on hand	\$ 326	326
BancFirst, Jenks, Ok-		
Revenue account	115,492	126,680
Operation & Maintenance account	519,661	430,645
Special account	124,164	123,904
Construction account	45,240	31,296
Less: Outstanding checks	(20,967)	(20,416)
American Heritage Bank, Sapulpa, Ok-		
Deprecation account (money mkt)	257,095	196,033
Total	\$ 1,041,011	888,468

**OKMULGEE COUNTY RURAL WATER DISTRICT NO. 6**  
**Mounds, Oklahoma**  
Notes to the Financial Statements  
December 31, 2011

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

Investments

The District’s investments at December 31, 2011 are detailed as follows:

Grand Bank, Tulsa, Ok-		
Certificate of deposit no. 92197	\$	51,601
Certificate of deposit no. 92198		51,601
Triad Bank, Tulsa, Ok-		
Certificate of deposit no. 60072450		<u>150,788</u>
Total Investments	\$	<u><u>253,990</u></u>

Collateral Pledged

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	\$ 365,492	696,486		1,061,978	1,041,011
Investments	<u>253,990</u>			<u>253,990</u>	<u>253,990</u>
Total	<u><u>\$ 619,482</u></u>	<u><u>465,525</u></u>	<u><u>0</u></u>	<u><u>1,315,968</u></u>	<u><u>1,295,001</u></u>

**OKMULGEE COUNTY RURAL WATER DISTRICT NO. 6**  
**Mounds, Oklahoma**  
Notes to the Financial Statements  
December 31, 2011

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

Accounts Receivable

Billings for accounts receivable at December 31, 2011 were \$115,186. No allowance for doubtful accounts was computed because the effect of bad debts on the financial statements is not considered material.

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.

Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance, including workers compensation, for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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	5 years
Transportation equipment	5 years
Water & sewer system	50 years
Buildings	25 years
Computer equipment	3 years

**OKMULGEE COUNTY RURAL WATER DISTRICT NO. 6**  
**Mounds, Oklahoma**  
Notes to the Financial Statements  
December 31, 2011

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

The fixed asset information for the District is shown below:

	12/31/2010 Amount	Additions	Deletions	12/31/2011 Amount
Buildings	\$ 205,260	7,671	-	212,931
Plant and water sys.	5,444,107	37,201	-	5,481,308
Vehicles and equip.	406,554	302	-	406,856
Total Fixed Assets	6,055,921	45,174	-	6,101,095
Less: Accumulated Depreciation	<u>(2,205,390)</u>	<u>(176,880)</u>	-	<u>(2,382,270)</u>
Total	<u>\$ 3,850,531</u>	<u>(131,706)</u>	-	<u>3,718,825</u>

**Note B – Long-Term Debt**

Long-Term Debt consists of one note to the Oklahoma Water Resources Board.

The District has a promissory note in the amount of \$750,000 with the Oklahoma Water Resources Board (OWRB), dated June 2, 1998, for a period of 20 years. The District paid this note off in 2011. There is no outstanding long-term debt at December 31, 2011.

**Note C – Employee Retirement Plan**

The District has adopted a simplified employee pension (SEP) plan, which is self-directed and noncontributory. The District contributes 4% of the employee gross pay of each qualifying employee. Employees are eligible for the plan after two years of full-time employment and have attained the age of twenty-one years. The contribution by the District is computed and paid once a year, normally in December. For the 2011 fiscal year, the District contributed \$7,493.

**OTHER SUPPLEMENTARY INFORMATION**

**OKMULGEE COUNTY RURAL WATER DISTRICT NO. 6**

Balance Sheet  
December 31, 2011

<u>ASSETS</u>	<u>DECEMBER 31,</u>	
	<u>2011</u>	<u>(memo only) 2010</u>
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,041,011	888,468
Investments	253,990	398,131
Accounts receivable	115,186	119,460
Prepaid insurance	18,454	17,187
<b>Total current assets</b>	<u>1,428,641</u>	<u>1,423,246</u>
<b>Restricted Assets:</b>		
ORWA reserve certificate	1,000	1,000
ORWB Project trust funds-		
Debt service account	0	22,908
Debt service reserve account	0	75,000
<b>Total restricted assets</b>	<u>1,000</u>	<u>98,908</u>
<b>Fixed Assets:</b>		
Building	212,931	205,260
Plant and water systems	5,481,308	5,444,107
Vehicles and equipment	406,856	406,554
<b>Total fixed assets</b>	<u>6,101,095</u>	<u>6,055,921</u>
Less: accumulated depreciation	<u>(2,382,270)</u>	<u>(2,205,390)</u>
<b>Total fixed assets (net)</b>	<u>3,718,825</u>	<u>3,850,531</u>
<b>Total Assets</b>	<u><u>\$ 5,148,466</u></u>	<u><u>5,372,685</u></u>
 <u>LIABILITIES AND FUND EQUITY</u>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 73,755	71,986
Payroll and taxes payable	325	271
Accrued vacation and sick leave	50,909	49,795
Accrued interest on long-term debt	0	1,054
Current maturities of long-term debt	0	43,100
<b>Total current liabilities</b>	<u>124,989</u>	<u>166,206</u>
<b>Long-Term Debt, less current maturities:</b>		
Notes payable	<u>0</u>	<u>364,750</u>
<b>Total Liabilities</b>	<u>124,989</u>	<u>530,956</u>
<b>Fund Equity:</b>		
Member capital	1,576,544	1,548,544
Retained earnings	<u>3,446,933</u>	<u>3,293,185</u>
<b>Total fund equity</b>	<u>5,023,477</u>	<u>4,841,729</u>
<b>Total Liabilities and Fund Equity</b>	<u><u>\$ 5,148,466</u></u>	<u><u>5,372,685</u></u>

**OKMULGEE COUNTY RURAL WATER DISTRICT NO. 6**  
**Statements of Revenue, Expenses and Changes in Retained Earnings**  
**For The Years Ended December 31, 2011**

	2011	(memo only) 2010
<b>Revenue from Operations:</b>		
Water sales	\$ 1,666,860	1,510,526
Membership fees/taps	14,500	26,175
Late fees	43,705	43,570
Construction fees	1,100	800
Other income	0	350
<b>Total revenue from operations</b>	<u>1,726,165</u>	<u>1,581,421</u>
<b>Expenses from Operations:</b>		
Water purchases	766,302	650,111
Salaries and benefits	273,430	259,637
Payroll taxes	24,192	23,733
Employee retirement	14,122	17,509
Group health insurance	58,133	56,971
Repairs and maintenance	38,150	34,945
Vehicle expense	18,850	19,619
Telephone	10,550	10,469
Insurance	36,532	35,661
Dues and fees	8,677	7,909
Office expense and postage	30,796	21,073
Depreciation	176,880	178,050
Professional fees	5,090	4,795
Utilities	36,841	36,208
Contract labor	63,121	59,913
Miscellaneous	9,693	9,899
<b>Total expenses from operations</b>	<u>1,571,359</u>	<u>1,426,502</u>
<b>Net Income (Loss) from Operations</b>	154,806	154,919
<b>Non-operating revenues:</b>		
Interest earnings	<u>3,896</u>	<u>7,284</u>
<b>Non-operating expenses:</b>		
Interest on long-term debt	<u>(4,954)</u>	<u>(7,213)</u>
<b>Net Income (Loss)</b>	153,748	154,990
<b>Retained earnings, beginning of period</b>	<u>3,293,185</u>	<u>3,138,195</u>
<b>Retained earnings, end of period</b>	<u><u>\$ 3,446,933</u></u>	<u><u>3,293,185</u></u>