

**Okmulgee County Rural Water District No. 1
Schulter, 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. 1
Schulter, Oklahoma
Board of Directors
December 31, 2011

BOARD OF DIRECTORS

Chairman

Elmer “Butch” Burgess

Vice-Chairman

Ken Bevan

Secretary/Treasurer

John Macaluso

Members

Frank Needham

vacant

MANAGER

Ken Holloway

BOOKKEEPER

Debbie Stidman

Okmulgee County Rural Water District No. 1
Schulter, Oklahoma
December 31, 2011

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Okmulgee County Rural Water District No. 1
Schulter, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Okmulgee County Rural Water District No. 1 (the District), Schulter, 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 accounting principals generally accepted in the United States.

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 our report dated May 8, 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. That 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

May 8, 2012

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2011

Our discussion and analysis of the Rural Water District No. 1, 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 \$41,482. Overall, the District's cash and cash equivalents increased by \$36,241 in the current fiscal year.
- The District continued to increase membership numbers.
- The District earned \$2,163 less in interest in 2010 due to falling interest rates.

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 \$1,410,296 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. 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 is indebted to the Office of Rural Development on a note obtained for previously extensive water system extensions. The outstanding principal balance owed on this note decreased from \$1,103,646 to \$1,083,500 during the 2011 fiscal year. The \$1,273,000 note, payable in \$5,783 monthly installments, is scheduled to be paid off in 2039.

Economic Factors and Next Year's Budget and Rates

The District has absorbed many of the City of Okmulgee's rate increases, but may be forced to again 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. The 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 205, Schuler, OK 74460 or call (918) 652-9546.



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. 1
Schulter, Oklahoma

We have audited the financial statements of the Okmulgee County Rural Water District No. 1 (the District), Schulter, Oklahoma, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 8, 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.

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

May 8, 2012

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1
Disposition of Prior Year's Reportable Conditions
December 31, 2011

There were no prior year audit exceptions.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1
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

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1
Schulter, Oklahoma
Statement of Net Assets
December 31, 2011

ASSETS

Current Assets:

Cash	\$ 68,813
Investments	607,855
Current portion of receivables	<u>33,946</u>
Total current assets	<u>710,614</u>

Noncurrent Assets:

Restricted cash -Reserve account	74,249
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Capital Assets:

Land	7,300
Building, plant and water systems, net	1,369,327
Other capital assets, net	<u>33,669</u>
Total noncurrent assets	<u>1,484,545</u>

Total Assets	<u>2,195,159</u>
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LIABILITIES

Current Liabilities:

Accounts payable	12,735
Accrued liabilities	<u>1,470</u>
Total current liabilities	<u>14,205</u>

Noncurrent Liabilities:

Due within one year	21,069
Due in more than one year	<u>1,062,431</u>
Total noncurrent liabilities	<u>1,083,500</u>

Total Liabilities	<u>1,097,705</u>
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NET ASSETS

Invested in capital assets, net of related debt	401,045
Membership equity	81,000
Unrestricted assets	<u>615,409</u>
Total Net Assets	<u>\$ 1,097,454</u>

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

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1
Shulter, Oklahoma
Statement of Activities
For The Year Ended December 31, 2011

Operating Revenues:	
Water sales	\$ 404,942
Fees and fines	22,048
Miscellaneous	<u>1,018</u>
Total revenue from operations	<u>428,008</u>
Operating Expenses:	
Water purchases	140,546
Salaries	111,536
Payroll taxes	10,080
Maintenance parts and supplies	7,416
Insurance	20,227
Professional fees	2,800
Contract services	625
Office expense and postage	8,576
Telephone and communication	1,824
Equipment repairs and operations	1,349
Vehicles expense	8,556
Water testing	575
Retirement plan	3,700
Utilities	6,808
Depreciation	58,108
Miscellaneous	<u>3,800</u>
Total expenses from operations	<u>386,526</u>
Operating Income (Loss)	41,482
Non-Operating Revenues (Expenses):	
Interest income	10,941
Interest paid on long-term debt	(49,197)
Memberships	<u>8,000</u>
Total non-operating revenues (expenses)	<u>(30,256)</u>
Change in Net Assets	11,226
Total Net Assets, beginning of period	<u>1,086,228</u>
Total Net Assets, end of period	<u>\$ 1,097,454</u>

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

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1
Schulter, Oklahoma
Statement of Cash Flows
For The Year Ended December 31, 2011

Cash Flows from Operating Activities:	
Receipts from customers	\$ 427,686
Payments to employees	(111,536)
Payments to vendors	<u>(227,089)</u>
Net Cash Provided by Operating Activities	<u>89,061</u>
Cash Flows from Investing Activities:	
Interest revenue	10,941
Sale (purchase) of fixed assets	<u>(2,419)</u>
Total cash flows from investing activities	<u>8,522</u>
Cash Flows from Financing Activities:	
Memberships	8,000
Interest expense on debt	(49,197)
Principal payments on debt	<u>(20,146)</u>
Total cash flows from financing activities	<u>(61,343)</u>
Net Increase (Decrease) in Cash	36,240
Cash and cash equivalents, beginning of period	<u>714,676</u>
Cash and cash equivalents, end of period	<u><u>\$ 750,916</u></u>

<u>Reconciliation of operating income (loss) to net cash provided by operating activities:</u>	
Operating Income	\$ 41,482
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	58,108
(Increase) decrease in accounts receivable	975
(Increase) decrease in accrued interest	(725)
Increase (decrease) in accounts payable	(10,751)
Increase (decrease) in accrued liabilities	<u>(28)</u>
Net cash provided by operating activities	<u><u>\$ 89,061</u></u>

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

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1

Schulter, 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. The District has elected to implement this standard.

Cash

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

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Cash on hand	\$ 500	<u>500</u>
Citizens Security Bank:		
Operation & maint. account	58,979	28,979
Less: Outstanding checks	(14,796)	(1,794)
First Family Federal Credit Union,		
Depreciation account	<u>24,130</u>	<u>23,962</u>
Total	<u>\$ 68,813</u>	<u>51,647</u>

The District’s cash deposits at December 31, 2011 were properly covered by the \$250,000 FDIC coverage and other collateral pledged.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1

Schulter, Oklahoma

Notes to the Financial Statements

December 31, 2011

Note A – Significant Accounting Policies – cont'd

Investments

The District had the following investments at December 31:

	<u>2011</u>	<u>2010</u>
First National Bank:		
Cert. of deposit no. 73492, dated 11/19/10, matures 11/19/11 at 1.64%	\$ 85,121	76,389
American Exchange Bank:		
Cert. of deposit no. 20572, dated 4/17/11, matures 4/17/12 at 1.55%	63,712	-
Cert. of deposit no. 20571, dated 4/17/11, matures 4/17/12 at 1.55%	127,425	-
Cert. of deposit no. 20570, dated 4/17/11, matures 4/17/12 at 1.55%	127,425	-
Cert. of deposit no. 20778, dated 12/31/11, matures 12/31/12 at 0.95%	130,000	-
Cert. of deposit no. 20455, dated 12/31/10, matures 12/31/11 at 1.55%	-	127,392
Cert. of deposit no. 20246, dated 4/17/10, matures 4/17/11 at 1.9%	-	125,251
Cert. of deposit no. 20247, dated 4/17/10, matures 4/17/11 at 1.9%	-	125,251
Cert. of deposit no. 20248, dated 4/17/10, matures 4/17/11 at 1.9%	-	62,625
Cert. of deposit no. 13838, dated 7/13/11, matures 7/13/12 at 1.3%	74,172	73,076
	<u>74,172</u>	<u>73,076</u>
Totals	<u>\$ 607,855</u>	<u>589,984</u>

Restricted Cash

In compliance with Rural Development regulations, cash reserves have been established to collect up to one year's' payment on the note payable, or \$69,396, at which time deposits may be suspended. When necessary, funds may be utilized with prior approval of the Rural Development. The reserve account funds have been deposited in a certificate of deposit, number 20489, dated 1/21/11, due 1/21/12 at 1.55%, at American

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1

Schulter, Oklahoma

Notes to the Financial Statements

December 31, 2011

Note A – Significant Accounting Policies – cont’d

Restricted Cash – cont’d

Exchange Bank which is insured by the federal government. Monthly deposit requirements have been met using the monthly interest earnings.

All restricted assets are nevertheless liquid and have been included as cash and cash equivalents for the purpose of the cash flow statement. The total in cash reserves at December 31, 2011 was \$74,249.

Accounts Receivable

Billings for accounts receivable at December 31, 2011, were \$33,078. An allowance for doubtful accounts amount was estimated at \$2,000 for the fiscal year.

Fixed Assets

Fixed assets are valued at cost, depreciation is computed by use of the straight-line method. The estimated useful lives of these assets are as follows:

Land	N/A
Office furniture & fixtures	5-10 years
Equipment & tools	10-15 years
Transportation equipment	5 years
Water & sewer system	40 years
Buildings	20 years
Computer equipment	5-7 years

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1
Schulter, 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
Land	\$ 7,300	-	-	7,300
Building, plant and water systems	2,277,568	1,215	-	2,278,783
Other capital assets	232,021	1,204	-	233,225
Total Fixed Assets	2,516,889	2,419	-	2,519,308
Less: Accumulated Depreciation	(1,050,904)	(58,108)	-	(1,109,012)
Total	<u>\$ 1,465,985</u>	<u>(55,689)</u>	<u>-</u>	<u>1,410,296</u>

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.

Note B – Insurance

It appears the District had current insurance coverage for all major perils.

Note C – Notes Payable

Notes payable consist of a note to the Office of Rural Economic & Community Development (Rural Development).

The notes payable at December 31st, are detailed as follows:

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1

Schulter, Oklahoma

Notes to the Financial Statements

December 31, 2011

Note C – Notes Payable – cont'd

	<u>2011</u>	<u>2010</u>
Note No. 91-01, Rural Economic & Community Development, issued for \$1,273,700, dated 1-20-99, at 4.5% interest, due in monthly installments of \$5,783, until paid;	\$ 1,083,500	1,103,646
Less: Current maturities of long-term debt	<u>(21,069)</u>	<u>(20,144)</u>
Total Long-Term Debt	<u><u>\$ 1,062,431</u></u>	<u><u>1,083,502</u></u>

The scheduled maturities for the next five (5) years, and in total thereafter, are detailed as follows:

<u>Year</u>		
2012	\$	21,069
2013		22,037
2014		23,050
2015		24,109
2016		25,216
2017-21		144,559
2022-26		180,957
2027-31		226,522
2032-36		283,559
2037-39		<u>132,422</u>
Totals	\$	<u><u>1,083,500</u></u>

Note D – Contributed Capital

Contributed capital was provided by various grants of from the Office of Rural Economic and Community Development and other federal, state and local offices to assist in building and improving the water system.

Note E – 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. 1
Schulter, Oklahoma
Balance Sheet
December 31, 2011

<u>ASSETS</u>	DECEMBER 31,	
	2011	(memo only) 2010
Current Assets:		
Cash	\$ 44,683	27,685
Depreciation account	24,130	23,962
Investments	607,855	589,984
Accounts receivable	31,078	32,053
Accrued interest receivable	2,868	2,143
Total current assets	710,614	675,827
Restricted Assets:		
Reserve account	74,249	73,045
Fixed Assets:		
Land	7,300	7,300
Water distribution system	2,219,611	2,219,611
Field equipment and vehicles	198,734	196,327
Office building	49,514	49,502
Storage building	17,202	17,202
Office furniture and equipment	26,947	26,947
Total fixed assets	2,519,308	2,516,889
Less: accumulated depreciation	(1,109,012)	(1,050,904)
Total fixed assets (net)	1,410,296	1,465,985
Total Assets	\$ 2,195,159	2,214,857
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 12,735	23,486
Accrued interest payable	1,470	1,497
Current maturities of long-term debt	21,069	20,144
Total current liabilities	35,274	45,127
Long-Term Debt, less current maturities:		
Notes payable	1,062,431	1,083,502
Total Liabilities	1,097,705	1,128,629
Fund Equity:		
Contributed capital	732,500	732,500
Membership equity	81,000	73,000
Retained earnings	283,954	280,728
Total fund equity	1,097,454	1,086,228
Total Liabilities and Fund Equity	\$ 2,195,159	2,214,857

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1
Schulter, Oklahoma
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Year Ended December 31, 2011

	2011	(memo only) 2010
	<u>2011</u>	<u>2010</u>
Revenue from Operations:		
Water sales	\$ 404,942	360,853
Penalties and fees	22,048	19,326
Other sales and services	1,018	15,457
Total revenue from operations	<u>428,008</u>	<u>395,636</u>
Expenses from Operations:		
Water purchases	140,546	127,003
Salaries	111,536	101,948
Payroll taxes	10,080	8,762
Maintenance parts and supplies	7,416	12,560
Insurance	20,227	18,324
Professional fees	2,800	2,750
Contract services	625	2,520
Office expense and postage	8,576	8,059
Telephone and communication	1,824	1,758
Equipment repairs and operations	1,349	256
Vehicles expense	8,556	18,347
Water testing	575	1,026
Retirement plan	3,700	4,800
Utilities	6,808	6,683
Depreciation	58,108	62,733
Miscellaneous	3,800	3,180
Total expenses from operations	<u>386,526</u>	<u>380,709</u>
Net Income (Loss) from Operations	41,482	14,927
Non-operating income:		
Interest earnings	<u>10,941</u>	<u>13,104</u>
Non-operating expense:		
Interest paid on debt	<u>(49,197)</u>	<u>(50,108)</u>
Net Income (Loss)	3,226	(22,077)
Retained earnings, beginning of period	<u>280,728</u>	<u>302,805</u>
Retained earnings, end of period	<u>\$ 283,954</u>	<u>280,728</u>