

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 2, SEMINOLE COUNTY
WEWOKA, OKLAHOMA**

FINANCIAL STATEMENTS
AND REPORTS OF INDEPENDENT AUDITOR

OCTOBER 31, 2012

Audited by

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

BROKEN ARROW, OK

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, SEMINOLE COUNTY
OCTOBER 31, 2012

BOARD OF DIRECTORS

Chairman

Fred Argo

Vice-Chairman

Eddie Neill

Secretary/Treasurer

Ralph Morton

Members

Lewis Johnson

Ronald Stafford

BOOKKEEPER

Phallis Taylor

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, SEMINOLE COUNTY
OCTOBER 31, 2012

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| Board of Directors | 1 |
| Table of Contents | 2 |
| Independent Auditor's Report | 3 |
| Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 4-5 |
| Disposition of Prior Year's Reportable Conditions | 6 |
| Schedule of Audit Results | 7 |
| <u>COMBINED FINANCIAL STATEMENTS:</u> | |
| Statement of Net Assets | 8 |
| Statement of Activities | 9 |
| Statement of Cash Flows | 10 |
| Notes to Financial Statements | 11-13 |
| <u>OTHER SUPPLEMENTARY INFORMATION:</u> | |
| Balance Sheet | 14 |
| Statement of Revenue, Expenses and Changes in Retained Earnings | 15 |



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Seminole County Rural Water, Sewer, Gas
and Solid Waste Management District No. 2
Wewoka, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Seminole County Rural Water, Sewer, Gas and Solid Waste Management District No. 2 (the District), Wewoka, Oklahoma, as of and for the year ended October 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 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 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 October 31, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has elected to omit the Management Discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 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 grant agreements and other matters. 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 1.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

January 7, 2013



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Standards Performed in Accordance with Government Auditing Standards

Board of Directors
Seminole County Rural Water, Sewer, Gas
and Solid Waste Management District No. 2
Wewoka, Oklahoma

We have audited the combined financial statements of Seminole County Rural Water, Sewer, Gas and Solid Waste Management District No. 2 (the District), Wewoka, Oklahoma, as of and for the year ended October 31, 2012, which, except for the omission of the Management Discussion and Analysis, collectively comprise the District's basic financial statements and have issued our report thereon dated January 7, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepting accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement 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 *Government Auditing Standards*.

This report is intended solely for the information and use of management 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

January 7, 2013

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, SEMINOLE COUNTY
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS
OCTOBER 31, 2012

There were no prior year reportable conditions.

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, SEMINOLE COUNTY
SCHEDULE OF AUDIT RESULTS
OCTOBER 31, 2012

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

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Statement of Net Assets
October 31, 2012**

ASSETS

| | |
|--|----------------|
| Current assets: | |
| Cash | \$ 40,954 |
| Current portion of receivables | 9,673 |
| Prepaid assets | 968 |
| Investments with fiscal agents | 159,357 |
| Total current assets | <u>210,952</u> |
| Noncurrent assets: | |
| Restricted investment with fiscal agents | 1,030 |
| Capital assets: | |
| Water system and improvements, net of depreciation | 365,506 |
| Total noncurrent assets | <u>366,536</u> |
| Total Assets | <u>577,488</u> |

LIABILITIES

| | |
|----------------------|---------------|
| Current liabilities: | |
| Water Deposits | <u>16,054</u> |

NET ASSETS

| | |
|----------------------------|-------------------|
| Invested in capital assets | 365,506 |
| Unrestricted assets | 195,928 |
| Total Net Assets | <u>\$ 561,434</u> |

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

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Statement of Activities
For The Year Ended October 31, 2012**

| | |
|---|-------------------|
| Operating Revenues: | |
| Water sales | \$ 86,289 |
| Fees and fines | 6,365 |
| Total revenues from operations | <u>92,654</u> |
| Operating Expenses: | |
| Salaries, taxes and contract labor | 17,276 |
| Depreciation | 11,840 |
| Improvements | 11,800 |
| Water purchases | 56,166 |
| Office | 1,364 |
| Insurance and bonds | 2,105 |
| Repairs and maintenance | 6,596 |
| Postage and box rental | 1,001 |
| Professional fees | 775 |
| Contract computer services | 953 |
| Miscellaneous | 123 |
| Bank errors | 100 |
| Dues and fees | 230 |
| Total expenses from operations | <u>110,329</u> |
| Operating Income (Loss) | (17,675) |
| Non-Operating Revenues (Expenses): | |
| Interest income | <u>2,805</u> |
| Change in Net Assets | (14,870) |
| Total Net Assets, beginning of period | <u>576,304</u> |
| Total Net Assets, end of period | <u>\$ 561,434</u> |

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

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Statement of Cash Flows
For Year Ended October 31, 2012**

| | |
|--|------------------|
| Cash Flows from Operating Activities: | |
| Receipts from customers | \$ 97,356 |
| Payments to employees | (17,276) |
| Payments to vendors | <u>(81,419)</u> |
| Total cash flows from operating activities | <u>(1,339)</u> |
| Cash Flows from Investing Activities: | |
| Interest revenue | 2,805 |
| Investments (purchased) liquidated | <u>(2,245)</u> |
| Total cash flows from investing activities | <u>560</u> |
| Net increase (decrease) in cash | (779) |
| Cash and cash equivalents, beginning of period | <u>41,733</u> |
| Cash and cash equivalents, end of period | <u>\$ 40,954</u> |

| | |
|---|-------------------|
| <u>Reconciliation of operating income (loss) to net cash provided by operating activities:</u> | |
| Operating Income | \$ (17,675) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation Expense | 11,840 |
| (Increase) decrease in accounts receivable | 3,802 |
| (Increase) decrease in prepaid insurance | (15) |
| Increase (decrease) in meter deposits | <u>709</u> |
| Net Cash Provided by Operating Activities | <u>\$ (1,339)</u> |

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

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Notes to Financial Statements
October 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.

Cash

The District’s accounts are with the Security State Bank, Wewoka, Oklahoma and First United Bank, Wewoka, Oklahoma, and are detailed as follows:

| | October 31, | |
|--------------------------|-------------|----------|
| | 2012 | 2011 |
| Revenue account | \$ 31,820 | 42,773 |
| Improvement account | 9,134 | 9,088 |
| Less: outstanding checks | 0 | (10,128) |
| Total | \$ 40,954 | 41,733 |

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.

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Notes to Financial Statements
October 31, 2012**

Investments – cont'd

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

| | |
|---------------------------------------|------------------|
| Security State Bank, Wewoka, Oklahoma | |
| Certificate of deposit no. 23056 | \$54,741 |
| Certificate of deposit no. 23058 | 33,804 |
| Certificate of deposit no. 2387 | 36,557 |
| Certificate of deposit no. 2918 | 11,105 |
| First National Bank, Wewoka, Oklahoma | |
| Certificate of deposit no. 1693 | <u>23,150</u> |
| Total | <u>\$159,357</u> |

Other Assets

The District purchased a security deposit with ORWAAG of \$1,030. The District made the deposit in lieu of an annual fee of \$25 for membership with ORWAAG. The deposit is interest bearing and will pay at the T-bill plus 3% interest rate one time per year.

Accounts Receivable

Billings for accounts receivable at October 31, 2012 were \$9,673. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

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:

| | |
|--------------|-----------|
| Water system | 40 years |
| Water meters | 10 years |
| Equipment | 5-7 years |

Federal Income Tax

The District is exempt from Federal and State income taxes.

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Notes to Financial Statements
October 31, 2012**

Collateral Pledged

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

Prior Year Information

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

Long-Term Debt

There was no long-term debt at October 31, 2012.

Note B – Insurance and Surety Bond Coverage

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

Note C – Accumulated Unpaid Vacation and Sick Pay

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

Note D – Contributed Capital

In the 2000-01 fiscal year, the District was awarded a REAP grant from the Oklahoma Water Resources Board in the amount of \$99,900. These funds were used for system expansion and improvements.

In the 2002-03 fiscal year, the District was awarded a REAP grant in the amount of \$100,147 and a \$150,000 CDBG grant in the amount of \$150,000. These funds were administered and paid out by Seminole County. These proceeds, along with applicable local matching funds, were used to construct a new standpipe and line extensions.

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Balance Sheet
October 31, 2012**

| | October 31, | |
|------------------------------------|-------------|---------------------|
| | 2012 | (memo only) 2011 |
| <u>ASSETS</u> | | |
| Current Assets: | | |
| Cash in bank | \$ 40,954 | 41,733 |
| Investments | 159,357 | 157,142 |
| Prepaid insurance | 968 | 953 |
| Accounts receivable | 9,673 | 13,475 |
| Total current assets | 210,952 | 213,303 |
| Fixed Assets: | | |
| Water system & improvements | 608,250 | 608,250 |
| Less: accumulated depreciation | (242,744) | (230,904) |
| Total fixed assets (net) | 365,506 | 377,346 |
| Other Assets | | |
| Security deposit - ORWAAG | 1,030 | 1,000 |
| Total Assets | \$ 577,488 | 591,649 |
| <u>LIABILITIES AND FUND EQUITY</u> | | |
| Current Liabilities: | | |
| Meter deposits | \$ 16,054 | 15,345 |
| Fund Equity: | | |
| Contributed capital | 350,047 | 350,047 |
| Retained earnings | 211,387 | 226,257 |
| Total fund equity | 561,434 | 576,304 |
| Total Liabilities and Fund Equity | \$ 577,488 | 591,649 |

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Year Ended October 31, 2012**

| | 2011-12 | (memo only) 2010-11 |
|--|-------------------|------------------------|
| Revenue from Operations: | | |
| Water sales | \$ 86,289 | 93,736 |
| Late charges | 3,888 | 3,784 |
| Meter set fees | 0 | 775 |
| Reconnect fees | 2,320 | 550 |
| Benefit units | 0 | 75 |
| Bank corrections | 157 | 2,185 |
| Miscellaneous | 0 | 257 |
| Total revenue from operations | <u>92,654</u> | <u>101,362</u> |
| Expenses from Operations: | | |
| Salaries, taxes and contract labor | 17,276 | 16,659 |
| Depreciation | 11,840 | 12,188 |
| Improvements | 11,800 | 0 |
| Water purchases | 56,166 | 54,778 |
| Office | 1,364 | 950 |
| Insurance and bonds | 2,105 | 1,643 |
| Rent | 0 | 325 |
| Repairs and maintenance | 6,596 | 5,145 |
| Postage and box rental | 1,001 | 116 |
| Professional fees | 775 | 925 |
| Contract computer services | 953 | 1,667 |
| Miscellaneous | 123 | 2,269 |
| Bank errors | 100 | 502 |
| Dues and fees | 230 | 831 |
| Total expenses from operations | <u>110,329</u> | <u>97,998</u> |
| Net Income (Loss) from Operations | (17,675) | 3,364 |
| Other Income: | | |
| Interest earnings | <u>2,805</u> | <u>3,764</u> |
| Net Income (Loss) | (14,870) | 7,128 |
| Retained earnings, beginning of period | <u>226,257</u> | <u>219,129</u> |
| Retained earnings, end of period | <u>\$ 211,387</u> | <u>226,257</u> |