

Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma

Financial Statements and  
Reports of Independent Auditor

October 31, 2012

Audited by

SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Board of Directors  
October 31, 2012

**Chairman**

Steve Johnson

**Vice Chairman**

Robert Hassell

**Secretary/Treasurer**

Bernie Allensworth

**Members**

Tim Russell

**Bookkeeper**

Jen Mack

**P.O. Box 142  
Cromwell, Oklahoma 74837  
(405) 257-3727**

Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
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October 31, 2012

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# SANDERS, BLEDSOE & HEWETT

## CERTIFIED PUBLIC ACCOUNTANTS, LLP

### Independent Auditor's Report

Board of Directors  
Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Rural Water, Sewer and Solid Waste Management District No. 3, Seminole County (the District), Cromwell, 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 December 22, 2014, 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

December 22, 2014



# 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  
Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma

We have audited the combined financial statements of Rural Water, Sewer and Solid Waste Management District No. 3, Seminole County (the District), Cromwell, 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 December 22, 2014. 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.

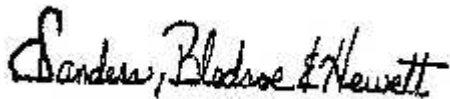
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

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.

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

December 22, 2014

Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
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 and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Statement of Net Assets  
October 31, 2012

ASSETS

Current assets:	
Cash in bank	\$ 72,425
Investments	110,624
Accounts receivable	21,352
Prepaid insurance	2,294
Total current assets	<u>206,695</u>
Noncurrent assets:	
Restricted cash and cash equivalents	325,860
Capital assets:	
Water system	920,906
Equipment	9,853
Less: accumulated depreciation	<u>(517,872)</u>
Total noncurrent assets	<u>738,747</u>
Total Assets	<u>945,442</u>

LIABILITIES

Current liabilities:	
Accounts payable	10,932
Accrued interest	102
Refundable deposits	17,567
Current portion of long-term debt	6,390
Total current liabilities	<u>34,991</u>
Noncurrent liabilities:	
Notes payable	<u>55,641</u>
Total Liabilities	<u>90,632</u>

NET ASSETS

Invested in capital assets, net of related debt	341,510
Restricted for debt service	9,346
Unrestricted assets	<u>503,954</u>
Total Net Assets	<u><u>\$ 854,810</u></u>

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



Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Statement of Activities  
For The Year Ended October 31, 2012

Operating Revenues:	
Water and sewer sales	\$ 204,830
Operating Expenses:	
Water purchases	61,132
Sewer costs	17,916
Depreciation	23,526
Contract management services	85,602
Repairs & maintenance	6,358
Office and phone	1,461
Insurance	4,115
Water samples and testing	2,878
Professional fees	6,975
Dues and fees	424
Utilities	12,790
Miscellaneous	404
Total expenses from operations	<u>223,581</u>
Operating Income (Loss)	(18,751)
Non-Operating Revenues (Expenses):	
Muscogee-Creek Nation donation	203,944
Interest income	3,126
Interest expense on debt	<u>(3,355)</u>
Total non-operating revenues (expenses)	<u>203,715</u>
Change in Net Assets	184,964
Total Net Assets, beginning of period	<u>669,846</u>
Total Net Assets, end of period	<u><u>\$ 854,810</u></u>

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

Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Statement of Cash Flows  
For the Year Ended October 31, 2012

**Cash flows from operating activities:**

Receipts from customers	\$ 211,883
Payments to vendors	<u>(203,816)</u>
Net cash (used in) provided by operating activities	<u>8,067</u>

**Cash flows from capital and related financing activities:**

Capital assets purchased	(8,690)
Donation from Muscogee-Creek Nation	203,944
Interest paid on debt	(3,372)
Principal payments on debt	<u>(10,286)</u>
Net cash used in capital and related financing activities	<u>181,596</u>

**Cash flows from investing activities:**

Interest on investments	<u>3,126</u>
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Net increase (decrease) in cash and cash equivalents 192,789

Cash & cash equivalents, beginning of period 316,120

Cash & cash equivalents, end of period \$ 508,909

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

Operating Income	\$ (18,751)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	23,526
(Increase) decrease in current assets-	
Accounts receivable, net	7,053
Prepaid expenses	22
Increase (decrease) in current liabilities-	
Accounts payable	(2,688)
Refundable deposits	<u>(1,095)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 8,067</u></u>

The accompanying notes are an integral part of the financial statements

**Rural Water, Sewer and Solid  
Waste Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Notes to Financial Statements  
For Year Ended October 31, 2012**

**Note 1 – Significant Accounting Policies**

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts at October 31, 2012 and are comprised as follows:

First United Bank, Holdenville, OK	
Operating Revenue	<u>\$ 72,425</u>

Investments

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

First United Bank, Holdenville, OK-	
Certificate of deposit no. 472018	\$ 49,877
Certificate of deposit no. 555649	11,422
Certificate of deposit no. 555606	22,816
Certificate of deposit no. 472034	12,469
Security State Bank, Wewoka, OK-	
Certificate of deposit no. 2965	<u>14,040</u>
Total Investments	<u>\$ 110,624</u>

**Rural Water, Sewer and Solid  
Waste Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Notes to Financial Statements  
For Year Ended October 31, 2012**

**Note 1 – Significant Accounting Policies – cont'd**

Accounts Receivable

Billings for accounts receivable at October 31, 2012 were \$21,352. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

Capital Assets

Capital (fixed) assets are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets range from five to 40 years. Included in these assets are the leases, rights and organization expenses of the District, which are being amortized over a 40 year period.

Capital (fixed) asset information for the 2011-12 fiscal year is as follows:

	Balance at Oct. 31, 2011	Additions	Deductions	Balance at Oct. 31, 2012
Water distribution system	\$ 912,216	8,690		920,906
Equipment	9,853	-		9,853
Total depreciated capital assets	922,069	8,690	-	930,759
Less accumulated depreciation for:				
Water distribution system	489,564	22,914		512,478
Equipment	4,782	612		5,394
Total accumulated depreciation	494,346	23,526	-	517,872
Capital assets, net	\$ 427,723	(14,836)	-	412,887

Restricted Assets

In accordance with the loan agreements with Rural Development, the District is required to maintain a Debt Service Reserve Fund with a balance of no less than \$14,040 as per the Trust Agreement. The total amount of the restricted assets represents all cash and investments held at Banc Trust for the purpose of making future principal and interest payments. The balance at the end of October 31, 2012 was \$14,040.

**Rural Water, Sewer and Solid  
Waste Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Notes to Financial Statements  
For Year Ended October 31, 2012**

**Note 1 – Significant Accounting Policies – cont'd**

Federal Income Tax

The District is exempt from federal and state income taxes.

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.

Deposit Categories of Credit Risk:

	<u>Category</u>			<u>Bank</u>	<u>Carrying</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>Balance</u>	<u>Amount</u>
Cash	\$ 343,231	54,054		398,285	398,285
Investments	110,624			110,624	110,624
Totals	<u>\$ 453,855</u>	<u>54,054</u>	<u>0</u>	<u>508,909</u>	<u>508,909</u>

Prior Year Information

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

Subsequent Events

Management has evaluated subsequent events through December 22, 2014, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

**Rural Water, Sewer and Solid  
Waste Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Notes to Financial Statements  
For Year Ended October 31, 2012**

**Note 2 – Long-Term Debt**

Long-term debt at October 31, 2012 is detailed as follows:

	October 31,	
	2012	2011
Note 02, Rural Development note, totaling \$61,200 dated Dec. 30, 1974, at 5.00%, due in monthly payments of \$303 until Dec. 2014	\$ -	3,176
Note 04, Rural Development note, totaling \$18,000 dated Mar. 6, 1975, at 5.00%, due in monthly payments of \$89 until Mar. 2015	10	1,050
Note 05, Rural Development note, totaling \$105,000 dated July 20, 1978, at 5.00%, due in monthly payments of \$516 until July 2018	27,190	31,894
Note 06, Rural Development note, totaling \$52,900 dated Feb. 21, 1992, at 5.00%, due in monthly payments of \$262 until Feb. 2032	34,831	36,197
Total Long-Term Debt	<u>\$ 62,031</u>	<u>72,317</u>

The estimated maturities for the next five (5) years are as follows:

2012-13	\$ 6,390
2013-14	6,706
2014-15	7,050
2015-16	7,410
Thereafter	<u>34,475</u>
Totals	<u>\$ 62,031</u>

**Note 3 – 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.

**Rural Water, Sewer and Solid  
Waste Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Notes to Financial Statements  
For Year Ended October 31, 2012**

**Note 4 – Contracts**

The District entered into a water purchase contract with Okfuskee County Rural Water District No. 2 on February 22, 1990. The contract extends until January 1, 2029. The District purchases water for resale to its members. The contract may be terminated sooner by the District giving the seller a one year written notice of cancellation.

This contract provides the sole source of water for the District. Thus, an interruption of this source would adversely affect the District.

**Note 5 – Contributed Capital**

The District received a donation from the Muscogee Creek Nation in 2011-12, in the amount of \$203,944, for water system improvements.

Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Balance Sheet  
October 31, 2012

	October 31,	
	2012	(Memo only) 2011
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 72,425	119,472
Investments	110,624	146,799
Accounts receivable	21,352	28,405
Prepaid Insurance	2,294	2,316
Total current assets	<u>206,695</u>	<u>296,992</u>
Fixed Assets:		
Water system	920,906	912,216
Equipment	9,853	9,853
Less: accumulated depreciation	(517,872)	(494,346)
Total fixed assets (net)	<u>412,887</u>	<u>427,723</u>
Restricted Assets:		
Cash and investments	<u>325,860</u>	<u>49,849</u>
Total Assets	<u>\$ 945,442</u>	<u>774,564</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 10,932	13,620
Accrued interest	102	119
Refundable deposits	17,567	18,662
Current maturities of long-term debt	<u>6,390</u>	<u>10,295</u>
Total current liabilities	<u>34,991</u>	<u>42,696</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>55,641</u>	<u>62,022</u>
Total Liabilities	<u>90,632</u>	<u>104,718</u>
Fund Equity:		
Contributed capital	203,944	0
Retained earnings - unrestricted	<u>650,866</u>	<u>669,846</u>
Total fund equity	<u>854,810</u>	<u>669,846</u>
Total Liabilities and Fund Equity	<u>\$ 945,442</u>	<u>774,564</u>



Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
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	\$ 204,830	198,321
Sewer services	-	28,575
Late charges	-	8,036
Membership	-	3,180
Reconnects	-	2,831
Refunds and reimbursements	-	5,585
Total revenue from operations	<u>204,830</u>	<u>246,528</u>
Expenses from Operations:		
Water purchases	61,132	73,528
Sewer costs	17,916	14,246
Depreciation	23,526	23,387
Contract management services	85,602	80,716
Repairs & maintenance	6,358	15,430
Office and phone	1,461	2,872
Insurance	4,115	3,870
Water samples and testing	2,878	971
Professional fees	6,975	1,075
Dues and fees	424	1,152
Utilities	12,790	9,572
Miscellaneous	404	1,625
Total expenses from operations	<u>223,581</u>	<u>228,444</u>
Net Income (Loss) from Operations	(18,751)	18,084
Other Income:		
FEMA payments	-	105,255
Interest earnings	3,126	2,471
Total other income	<u>3,126</u>	<u>107,726</u>
Other Expenses:		
Interest on debt	<u>(3,355)</u>	<u>(3,875)</u>
Net Income (Loss)	(18,980)	121,935
Retained earnings, beginning of period	<u>669,846</u>	<u>547,911</u>
Retained earnings, end of period	<u><u>\$ 650,866</u></u>	<u><u>669,846</u></u>