

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

Financial Statements and
Reports of Independent Auditor

October 31, 2013

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, 2013

Chairman

James Green

Vice Chairman

vacant

Secretary/Treasurer

Cary Leonard

Members

Bernie Allensworth
Matt Kallsen

Bookkeeper

Phallis Taylor

**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, 2013

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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, 2013, 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, 2013, 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 2, 2015, 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 2, 2015



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, 2013, 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 2, 2015. 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.

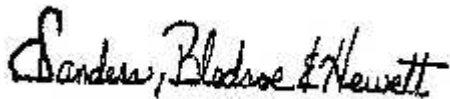
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

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

January 2, 2015

Rural Water, Sewer and Solid Waste
Management District No. 3, Seminole County
Cromwell, Oklahoma
Schedule of Audit Results
October 31, 2013

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, 2013

ASSETS

Current assets:	
Cash in bank	\$ 34,629
Investments	14,040
Accounts receivable	23,086
Prepaid insurance	2,945
Total current assets	<u>74,700</u>
Noncurrent assets:	
Restricted cash and cash equivalents	74,775
Capital assets:	
Water system	1,275,502
Equipment	9,853
Less: accumulated depreciation	<u>(545,940)</u>
Total noncurrent assets	<u>814,190</u>
Total Assets	<u>888,890</u>

LIABILITIES

Current liabilities:	
Accounts payable	12,377
Refundable deposits	<u>21,552</u>
Total Liabilities	<u>33,929</u>

NET ASSETS

Invested in capital assets, net of related debt	739,415
Unrestricted assets	<u>115,546</u>
Total Net Assets	<u>\$ 854,961</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, 2013

Operating Revenues:	
Water and sewer sales	\$ 173,322
Sewer services	42,050
Fees and fines	23,326
Total revenues from operations	<u>238,698</u>
Operating Expenses:	
Water purchases	79,859
Sewer costs	32,618
Depreciation	28,068
Salary and contract management services	62,272
Repairs & maintenance	8,003
Office and phone	1,963
Insurance	4,419
Water supplies, samples and testing	4,657
Professional fees	2,000
Dues and fees	669
Utilities	14,490
Total expenses from operations	<u>239,018</u>
Operating Income (Loss)	(320)
Non-Operating Revenues (Expenses):	
Interest income	686
Interest expense on debt	(215)
Total non-operating revenues (expenses)	<u>471</u>
Change in Net Assets	151
Total Net Assets, beginning of period	<u>854,810</u>
Total Net Assets, end of period	<u>\$ 854,961</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, 2013

Cash flows from operating activities:

Receipts from customers	\$ 241,122
Payments to vendors	<u>(210,329)</u>
Net cash (used in) provided by operating activities	<u>30,793</u>

Cash flows from capital and related financing activities:

Capital assets purchased	(354,596)
Interest paid on debt	(317)
Principal payments on debt	<u>(62,031)</u>
Net cash used in capital and related financing activities	<u>(416,944)</u>

Cash flows from investing activities:

Interest on investments	<u>686</u>
-------------------------	------------

Net increase (decrease) in cash and cash equivalents (385,465)

Cash & cash equivalents, beginning of period 508,909

Cash & cash equivalents, end of period \$ 123,444

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

Operating Income	\$ (320)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	28,068
(Increase) decrease in current assets-	
Accounts receivable, net	(1,734)
Prepaid expenses	(651)
Increase (decrease) in current liabilities-	
Accounts payable	1,445
Refundable deposits	<u>3,985</u>
Net Cash Provided by Operating Activities	<u><u>\$ 30,793</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, 2013**

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, 2013 and are comprised as follows:

First United Bank, Holdenville, OK	
Operating Revenue	<u>\$ 34,629</u>

Investments

The District had the following investments at October 31, 2013:

Security State Bank, Wewoka, OK-	
Certificate of deposit no. 2965	<u>\$ 14,040</u>

Accounts Receivable

Billings for accounts receivable at October 31, 2013 were \$23,086. No computation was made for allowance for doubtful accounts, which is not considered to be material 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, 2013**

Note 1 – Significant Accounting Policies – cont'd

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 2012-13 fiscal year is as follows:

	Balance at Oct. 31, 2012	Additions	Deductions	Balance at Oct. 31, 2013
Water distribution system	\$ 920,906	354,596		1,275,502
Equipment	9,853	-		9,853
Total depreciated capital assets	930,759	354,596	-	1,285,355
Less accumulated depreciation for:				
Water distribution system	512,478	27,455		539,933
Equipment	5,394	613		6,007
Total accumulated depreciation	517,872	28,068	-	545,940
Capital assets, net	<u>\$ 412,887</u>	<u>326,528</u>	<u>-</u>	<u>739,415</u>

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, 2013 was \$14,040.

All the notes were paid off in the 2012-13 fiscal year, so these funds will be converted on the future financial statements as unrestricted cash and investments.

**Rural Water, Sewer and Solid
Waste Management District No. 3, Seminole County
Cromwell, Oklahoma
Notes to Financial Statements
For Year Ended October 31, 2013**

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	\$ 109,404			109,404	109,404
Investments	14,040			14,040	14,040
Totals	<u>\$ 123,444</u>	<u>0</u>	<u>0</u>	<u>123,444</u>	<u>123,444</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 January 2, 2015, 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, 2013**

Note 2 – Long-Term Debt

Long-term debt at October 31, 2013 is detailed as follows:

	October 31,	
	2013	2012
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
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
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
Total Long-Term Debt	<u>\$ -</u>	<u>62,031</u>

The District liquidated their investments and paid off all outstanding long-term debt. Therefore, there was no outstanding debt at October 31, 2013.

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At October 31, 2013, 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, 2013**

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, 2013

	October 31,	
	2013	(Memo only) 2012
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 34,629	72,425
Investments	14,040	110,624
Accounts receivable	23,086	21,352
Prepaid Insurance	2,945	2,294
Total current assets	<u>74,700</u>	<u>206,695</u>
Fixed Assets:		
Water system	1,275,502	920,906
Equipment	9,853	9,853
Less: accumulated depreciation	(545,940)	(517,872)
Total fixed assets (net)	<u>739,415</u>	<u>412,887</u>
Restricted Assets:		
Cash and investments	<u>74,775</u>	<u>325,860</u>
Total Assets	<u>\$ 888,890</u>	<u>945,442</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 12,377	10,932
Accrued interest	0	102
Refundable deposits	21,552	17,567
Current maturities of long-term debt	<u>0</u>	<u>6,390</u>
Total current liabilities	<u>33,929</u>	<u>34,991</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>0</u>	<u>55,641</u>
Total Liabilities	<u>33,929</u>	<u>90,632</u>
Fund Equity:		
Contributed capital	203,944	203,944
Retained earnings - unrestricted	651,017	650,866
Total fund equity	<u>854,961</u>	<u>854,810</u>
Total Liabilities and Fund Equity	<u>\$ 888,890</u>	<u>945,442</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, 2013

	2012-13	(Memo only) 2011-12
Revenue from Operations:		
Water sales	\$ 173,322	204,830
Sewer services	42,050	0
Late charges	11,339	0
Membership	3,720	0
Reconnects	7,719	0
Refunds and reimbursements	548	0
Total revenue from operations	<u>238,698</u>	<u>204,830</u>
Expenses from Operations:		
Water purchases	79,859	61,132
Sewer costs	32,618	17,916
Depreciation	28,068	23,526
Salary and contract services	62,272	85,602
Repairs & maintenance	8,003	6,358
Office and phone	1,963	1,461
Insurance	4,419	4,115
Water supplies, samples and testing	4,657	2,878
Professional fees	2,000	6,975
Dues and fees	669	424
Utilities	14,490	12,790
Miscellaneous	0	404
Total expenses from operations	<u>239,018</u>	<u>223,581</u>
Net Income (Loss) from Operations	(320)	(18,751)
Other Income:		
Interest earnings	<u>686</u>	<u>3,126</u>
Other Expenses:		
Interest on debt	<u>(215)</u>	<u>(3,355)</u>
Net Income (Loss)	151	(18,980)
Retained earnings, beginning of period	<u>650,866</u>	<u>669,846</u>
Retained earnings, end of period	<u><u>\$ 651,017</u></u>	<u><u>650,866</u></u>