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

FINANCIAL STATEMENTS
AND REPORTS OF INDEPENDENT AUDITOR

OCTOBER 31, 2011

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, 2011

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, 2011

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SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Stephen H. Sanders, CPA
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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, 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 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, 2011, 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 3, 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 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 3, 2012



SANDERS, BLEDSOE & HEWETT
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**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, 2011, 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 3, 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.

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 3, 2012

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, SEMINOLE COUNTY
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS
OCTOBER 31, 2011

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, 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

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Statement of Net Assets
October 31, 2011**

ASSETS

Current assets:

Cash	\$	41,733
Current portion of receivables		13,475
Prepaid assets		953
Investments with fiscal agents		157,142
Total current assets		213,303

Noncurrent assets:

Restricted investment with fiscal agents		1,000
Capital assets:		
Water system and improvements, net of depreciation		377,346
Total noncurrent assets		378,346

Total Assets		591,649
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LIABILITIES

Current liabilities:

Water Deposits		15,345
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NET ASSETS

Invested in capital assets		377,346
Unrestricted assets		198,958
Total Net Assets	\$	576,304

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, 2011**

Operating Revenues:	
Water sales	\$ 93,736
Fees and fines	7,626
Total revenues from operations	<u>101,362</u>
Operating Expenses:	
Salaries, taxes and contract labor	16,659
Depreciation	12,188
Water purchases	54,778
Office	950
Insurance and bonds	1,643
Rent	325
Repairs and maintenance	5,145
Postage and box rental	116
Professional fees	925
Contract computer services	1,667
Miscellaneous	2,269
Bank errors	502
Dues and fees	831
Total expenses from operations	<u>97,998</u>
Operating Income (Loss)	3,364
Non-Operating Revenues (Expenses):	
Interest income	<u>3,764</u>
Change in Net Assets	7,128
Total Net Assets, beginning of period	<u>569,176</u>
Total Net Assets, end of period	<u>\$ 576,304</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, 2011**

Cash Flows from Operating Activities:	
Receipts from customers	\$ 97,231
Payments to employees	(16,659)
Payments to vendors	(69,496)
Total cash flows from operating activities	<u>11,076</u>
Cash Flows from Investing Activities:	
Interest revenue	3,764
Investments (purchased) liquidated	(3,663)
Total cash flows from investing activities	<u>101</u>
Net increase (decrease) in cash	11,177
Cash and cash equivalents, beginning of period	<u>30,556</u>
Cash and cash equivalents, end of period	<u><u>\$ 41,733</u></u>

<u>Reconciliation of operating income (loss) to net cash provided by operating activities:</u>	
Operating Income	\$ 3,364
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	12,188
(Increase) decrease in accounts receivable	(5,232)
(Increase) decrease in prepaid insurance	3
Increase (decrease) in meter deposits	753
Net Cash Provided by Operating Activities	<u><u>\$ 11,076</u></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, 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 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,	
	2011	2010
Revenue account	\$ 42,773	21,514
Improvement account	9,088	8,941
Savings account		101
Less: outstanding checks	(10,128)	0
Total	\$ 41,733	30,556

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, 2011**

Investments – cont'd

The District had the following outstanding investments at October 31, 2011:

Security State Bank, Wewoka, Oklahoma	
Certificate of deposit no. 23056	\$54,209
Certificate of deposit no. 23058	33,475
Certificate of deposit no. 2387	36,234
Certificate of deposit no. 2918	11,004
First National Bank, Wewoka, Oklahoma	
Certificate of deposit no. 1693	<u>22,220</u>
Total	<u>\$157,142</u>

Other Assets

The District purchased a security deposit with ORWAAG of \$1,000. 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, 2011 were \$13,475. 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, 2011**

Collateral Pledged

It appears that all funds were adequately insured by the \$250,000 FDIC coverage as of October 31, 2011.

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, 2011.

Note B – Insurance and Surety Bond Coverage

At October 31, 2011, the District had appropriate coverage against all major perils.

Note C – Accumulated Unpaid Vacation and Sick Pay

At October 31, 2011, 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.

OTHER SUPPLEMENTARY INFORMATION

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Balance Sheet
October 31, 2011**

	October 31,	
<u>ASSETS</u>	2011	(memo only) 2010
Current Assets:		
Cash in bank	\$ 41,733	30,556
Investments	157,142	153,479
Prepaid insurance	953	956
Accounts receivable	13,475	8,243
Total current assets	213,303	193,234
Fixed Assets:		
Water system & improvements	608,250	608,250
Less: accumulated depreciation	(230,904)	(218,716)
Total fixed assets (net)	377,346	389,534
Other Assets		
Security deposit - ORWAAG	1,000	1,000
Total Assets	\$ 591,649	583,768
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Meter deposits	\$ 15,345	14,592
Fund Equity:		
Contributed capital	350,047	350,047
Retained earnings	226,257	219,129
Total fund equity	576,304	569,176
Total Liabilities and Fund Equity	\$ 591,649	583,768

**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, 2011**

	2010-11	(memo only) 2009-10
Revenue from Operations:		
Water sales	\$ 93,736	74,102
Late charges	3,784	2,811
Meter set fees	775	1,350
Reconnect fees	550	290
Benefit units	75	150
Bank corrections	2,185	0
Miscellaneous	257	139
Total revenue from operations	<u>101,362</u>	<u>78,842</u>
Expenses from Operations:		
Salaries, taxes and contract labor	16,659	16,135
Depreciation	12,188	11,777
Water purchases	54,778	39,004
Office	950	1,204
Insurance and bonds	1,643	1,673
Rent	325	0
Repairs and maintenance	5,145	12,639
Postage and box rental	116	145
Professional fees	925	800
Contract computer services	1,667	1,641
Miscellaneous	2,269	372
Bank errors	502	0
Dues and fees	831	1,031
Total expenses from operations	<u>97,998</u>	<u>86,421</u>
Net Income (Loss) from Operations	3,364	(7,579)
Other Income:		
Interest earnings	<u>3,764</u>	<u>3,183</u>
Net Income (Loss)	7,128	(4,396)
Retained earnings, beginning of period	<u>219,129</u>	<u>223,525</u>
Retained earnings, end of period	<u>\$ 226,257</u>	<u>219,129</u>