

State Auditor & Inspector

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JAN 18 2012
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30153

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

Financial Statements and
Reports of Independent Auditor

October 31, 2011

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, 2011**

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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SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Stephen H. Sanders, CPA
Eric M. Bledsoe, CPA
Jeffrey D. Hewett, CPA

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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, 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 December 28, 2011, 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 28, 2011



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
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, 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 December 28, 2011. 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

December 28, 2011

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

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 and Solid Waste
Management District No. 3, Seminole County
Cromwell, Oklahoma
Statement of Net Assets
October 31, 2011**

ASSETS

Current assets:	
Cash in bank	\$ 119,472
Investments	146,799
Accounts receivable	28,405
Prepaid insurance	2,316
Total current assets	<u>296,992</u>
Noncurrent assets:	
Restricted cash and cash equivalents	49,849
Capital assets:	
Water system	912,216
Equipment	9,853
Less: accumulated depreciation	<u>(494,346)</u>
Total noncurrent assets	<u>477,572</u>
Total Assets	<u>774,564</u>

LIABILITIES

Current liabilities:	
Accounts payable	13,620
Accrued interest	119
Refundable deposits	18,662
Current portion of long-term debt	10,295
Total current liabilities	<u>42,696</u>
Noncurrent liabilities:	
Notes payable	<u>62,022</u>
Total Liabilities	<u>104,718</u>

NET ASSETS

Invested in capital assets, net of related debt	341,366
Restricted for debt service	14,040
Unrestricted assets	<u>314,440</u>
Total Net Assets	<u>\$ 669,846</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, 2011**

Operating Revenues:	
Water sales	\$ 198,321
Sewer services	28,575
Fees and fines	19,632
Total revenues from operations	<u>246,528</u>
Operating Expenses:	
Water purchases	73,528
Sewer costs	14,246
Depreciation	23,387
Contract management services	80,716
Repairs & maintenance	15,430
Office and phone	2,872
Insurance	3,870
Water samples and testing	971
Professional fees	1,075
Dues and fees	1,152
Utilities	9,572
Miscellaneous	1,625
Total expenses from operations	<u>228,444</u>
Operating Income (Loss)	18,084
Non-Operating Revenues (Expenses):	
FEMA reimbursements	105,255
Interest income	2,471
Interest expense on debt	<u>(3,875)</u>
Total non-operating revenues (expenses)	<u>103,851</u>
Change in Net Assets	121,935
Total Net Assets, beginning of period	<u>547,911</u>
Total Net Assets, end of period	<u>\$ 669,846</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, 2011**

Cash flows from operating activities:	
Receipts from customers	\$ 246,646
Payments to vendors	(204,496)
	<hr/>
Net cash (used in) provided by operating activities	42,150
	<hr/>
Cash flows from capital and related financing activities:	
Capital assets purchased	(14,891)
FEMA reimbursement	105,255
Loan proceeds received	-
Interest paid on debt	(3,893)
Principal payments on debt	(10,147)
	<hr/>
Net cash used in capital and related financing activities	76,324
	<hr/>
Cash flows from investing activities:	
Interest on investments	2,471
	<hr/>
Net increase (decrease) in cash and cash equivalents	120,945
Cash & cash equivalents, beginning of period	195,175
	<hr/>
Cash & cash equivalents, end of period	<u>\$ 316,120</u>
	<hr/>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating Income	\$ 18,084
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	23,387
(Increase) decrease in current assets-	
Accounts receivable, net	(3,453)
Prepaid expenses	(118)
Increase (decrease) in current liabilities-	
Accounts payable	1,040
Refundable deposits	3,210
	<hr/>
Net Cash Provided by Operating Activities	<u>\$ 42,150</u>
	<hr/>

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, 2011**

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, 2011 and are comprised as follows:

Security State Bank, Wewoka, OK Operating Revenue	\$ 143
First United Bank, Holdenville, OK Operating Revenue	<u>119,329</u>
Total	<u>\$ 119,472</u>

Investments

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

First United Bank, Holdenville, OK- Certificate of deposit no. 472018	\$ 48,547
Certificate of deposit no. 555649	11,335
Certificate of deposit no. 555606	22,681
Certificate of deposit no. 472034	12,137
Security State Bank, Wewoka, OK- Certificate of deposit no. 2965	14,040
Farm Bureau Bank Certificate of deposit	<u>38,059</u>
Total Investments	<u>\$ 146,799</u>

**Rural Water, Sewer and Solid
Waste Management District No. 3, Seminole County
Cromwell, Oklahoma
Notes to Financial Statements
For Year Ended October 31, 2011**

Note 1 – Significant Accounting Policies – cont'd

Accounts Receivable

Billings for accounts receivable at October 31, 2011 were \$28,405. 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 2010-11 fiscal year is as follows:

	<u>Balance at Oct. 31, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at Oct. 31, 2011</u>
Water distribution system	\$ 897,953	14,263		912,216
Equipment	9,225	628		9,853
Total depreciated capital assets	<u>907,178</u>	<u>14,891</u>	<u>-</u>	<u>922,069</u>
Less accumulated depreciation for:				
Water distribution system	466,759	22,805		489,564
Equipment	4,200	582		4,782
Total accumulated depreciation	<u>470,959</u>	<u>23,387</u>	<u>-</u>	<u>494,346</u>
Capital assets, net	<u>\$ 436,219</u>	<u>(8,496)</u>	<u>-</u>	<u>427,723</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, 2011 was \$49,795.

**Rural Water, Sewer and Solid
Waste Management District No. 3, Seminole County
Cromwell, Oklahoma
Notes to Financial Statements
For Year Ended October 31, 2011**

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:

	Category			Bank Balance	Carrying Amount
	(A)	(B)	(C)		
Cash	\$ 169,721			169,721	169,321
Investments	146,799			146,799	146,799
Totals	\$ 316,520	0	0	316,520	316,120

Prior Year Information

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

**Rural Water, Sewer and Solid
Waste Management District No. 3, Seminole County
Cromwell, Oklahoma
Notes to Financial Statements
For Year Ended October 31, 2011**

Note 2 – Long-Term Debt

Long-term debt at October 31, 2011 is detailed as follows:

	October 31,	
	2011	2010
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	6,561
Note 04, Rural Development note, totaling \$18,000 dated Mar. 6, 1975, at 5.00%, due in monthly payments of \$89 until Mar. 2015	1,050	2,038
Note 05, Rural Development note, totaling \$105,000 dated July 20, 1978, at 5.00%, due in monthly payments of \$516 until July 2018	31,894	36,370
Note 06, Rural Development note, totaling \$52,900 dated Feb. 21, 1992, at 5.00%, due in monthly payments of \$262 until Feb. 2032	36,197	37,196
Total Long-Term Debt	<u>\$ 72,317</u>	<u>82,165</u>

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

2011-12	\$ 10,295
2012-13	6,380
2013-14	6,706
2014-15	7,050
2015-16	7,410
Thereafter	<u>34,476</u>
Totals	<u>\$ 72,317</u>

Note 3 – 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.

**Rural Water, Sewer and Solid
Waste Management District No. 3, Seminole County
Cromwell, Oklahoma
Notes to Financial Statements
For Year Ended October 31, 2011**

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.

OTHER SUPPLEMENTARY INFORMATION

Rural Water, Sewer and Solid Waste
Management District No. 3, Seminole County
Cromwell, Oklahoma
Balance Sheet
October 31, 2011

	October 31,	
<u>ASSETS</u>	2011	(Memo only) 2010
Current Assets:		
Cash in bank	\$ 119,472	11,894
Investments	146,799	145,047
Accounts receivable	28,405	24,952
Prepaid Insurance	2,316	2,198
Total current assets	296,992	184,091
Fixed Assets:		
Water system	912,216	897,953
Equipment	9,853	9,225
Less: accumulated depreciation	(494,346)	(470,959)
Total fixed assets (net)	427,723	436,219
Restricted Assets:		
Cash and investments	49,849	38,234
Total Assets	\$ 774,564	658,544
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 13,620	12,580
Accrued interest	119	136
Refundable deposits	18,662	15,452
Current maturities of long-term debt	10,295	10,147
Total current liabilities	42,696	38,315
Long-Term Debt, less current maturities:		
Notes payable	62,022	72,318
Total Liabilities	104,718	110,633
Fund Equity:		
Retained earnings - unrestricted	669,846	547,911
Total Liabilities and Fund Equity	\$ 774,564	658,544

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, 2011

	2010-11	(Memo only) 2009-10
Revenue from Operations:		
Water sales	\$ 198,321	183,854
Sewer services	28,575	28,523
Late charges	8,036	5,847
Membership	3,180	640
Reconnects	2,831	3,699
Refunds and reimbursements	5,585	4,162
Total revenue from operations	<u>246,528</u>	<u>226,725</u>
Expenses from Operations:		
Water purchases	73,528	71,669
Sewer costs	14,246	13,636
Depreciation	23,387	21,587
Contract management services	80,716	70,778
Repairs & maintenance	15,430	18,283
Office and phone	2,872	4,112
Insurance	3,870	3,967
Water samples and testing	971	929
Professional fees	1,075	1,300
Dues and fees	1,152	1,560
Utilities	9,572	9,963
Miscellaneous	1,625	1,451
Total expenses from operations	<u>228,444</u>	<u>219,235</u>
Net Income (Loss) from Operations	18,084	7,490
Other Income:		
FEMA payments	105,255	71,105
Interest earnings	2,471	4,650
Total other income	<u>107,726</u>	<u>75,755</u>
Other Expenses:		
Interest on debt	<u>(3,875)</u>	<u>(7,323)</u>
Net Income (Loss)	121,935	75,922
Retained earnings, beginning of period	<u>547,911</u>	<u>471,989</u>
Retained earnings, end of period	<u>\$ 669,846</u>	<u>547,911</u>