

**SEQUOYAH COUNTY RURAL WATER DISTRICT #4**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2011 AND 2010**



# SEQUOYAH COUNTY RURAL WATER DISTRICT #4

DECEMBER 31, 2011 AND 2010

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PRZYBYSZ

& ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A Professional Corporation

## Independent Auditor's Report

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To the Board of Directors  
Sequoyah County Rural Water District #4  
Sallisaw, Oklahoma

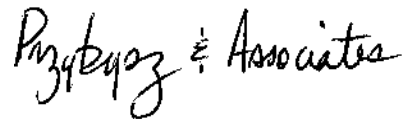
We have audited the accompanying financial statements of Sequoyah County Rural Water District #4 (the District), as of and for the year ended December 31, 2011. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Sequoyah County Rural Water District #4 as of December 31, 2010, were audited by another auditor whose report dated June 6, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sequoyah County Rural Water District #4 as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principals generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2012 on our consideration of Sequoyah County Rural Water District #4 internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide and opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

A handwritten signature in black ink that reads "Przybysz & Associates". The signature is written in a cursive, flowing style.

**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**February 8, 2012**

***FINANCIAL STATEMENTS***

# SEQUOYAH COUNTY RURAL WATER DISTRICT #4

## Statements of Net Assets

AS OF DECEMBER 31,	2011	2010
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 76,166	\$ 68,636
Certificates of deposit	138,202	137,016
Accounts receivable, net of allowance for doubtful accounts	34,076	32,816
Other receivable	10,319	-
Interest receivable	156	177
Prepaid expenses	2,835	4,052
Inventory	15,614	13,270
<b>Total Current Assets</b>	<b>277,368</b>	<b>255,967</b>
<b>Noncurrent Assets</b>		
<b>Capital Assets</b>		
Land	28,888	28,888
Building	64,794	64,794
Equipment	27,052	27,052
Water system and towers	2,124,277	2,055,464
<b>Total Capital Assets</b>	<b>2,245,011</b>	<b>2,176,198</b>
Less: accumulated depreciation	731,996	651,557
<b>Net Capital Assets</b>	<b>1,513,015</b>	<b>1,524,641</b>
<b>Total Assets</b>	<b>1,790,383</b>	<b>1,780,608</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable	13,884	20,099
Payroll taxes payable	1,040	253
Accrued interest	1,367	745
Current maturity of long-term debt	48,255	32,865
<b>Total Current Liabilities</b>	<b>64,546</b>	<b>53,962</b>
<b>Long-Term Debt</b>	<b>336,880</b>	<b>368,883</b>
<b>Total Liabilities</b>	<b>401,426</b>	<b>422,845</b>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,127,880	1,122,893
Unrestricted	261,077	234,870
<b>Total Net Assets</b>	<b>\$ 1,388,957</b>	<b>\$ 1,357,763</b>

See accompanying notes.

# SEQUOYAH COUNTY RURAL WATER DISTRICT #4

## Statements of Revenue, Expenses and Changes in Net Assets

FOR THE YEARS ENDED DECEMBER 31,	2011	2010
<b>Operating Revenue</b>		
Metered water sales, net of bad debts	\$ 416,750	\$ 414,414
Membership fees	8,156	5,172
Penalties	9,848	7,834
Other	1,966	2,182
<b>Total Operating Revenue</b>	<b>436,720</b>	<b>429,602</b>
<b>Operating Expenses</b>		
Water purchases	154,560	152,718
Line maintenance	79,320	69,885
Salaries and wages	21,500	17,822
Insurance	6,729	5,577
Lab fees	3,442	5,737
Payroll taxes	1,655	2,945
Utilities and telephone	14,280	14,613
Office supplies	6,768	4,343
Postage	2,057	2,257
Professional fees	9,795	3,298
Dues and permits	314	852
Repairs and maintenance	175	1,186
Travel	713	-
Bank charges	1,006	584
Miscellaneous	91	2,703
Depreciation	80,438	76,089
<b>Total Operating Expenses</b>	<b>382,843</b>	<b>360,609</b>
<b>Operating Income</b>	<b>53,877</b>	<b>68,993</b>
<b>Nonoperating Revenue (Expenses)</b>		
Interest income	1,167	1,006
Loan fees	(2,990)	-
Interest expense	(20,860)	(22,148)
<b>Total Net Nonoperating Revenue (Expenses)</b>	<b>(22,683)</b>	<b>(21,142)</b>
<b>Change in Net Assets</b>	<b>31,194</b>	<b>47,851</b>
Beginning of the Year Net Assets	1,357,763	1,309,912
<b>End of the Year Net Assets</b>	<b>\$ 1,388,957</b>	<b>\$ 1,357,763</b>

See accompanying notes.

# SEQUOYAH COUNTY RURAL WATER DISTRICT #4

## Statement of Cash Flows

FOR THE YEARS ENDED DECEMBER 31,	2011	2010
<b>Cash Flows From Operating Activities</b>		
Cash receipts from customers and other sources	\$ 435,460	\$ 427,423
Cash payments to suppliers for goods and services	(287,460)	(281,567)
Cash payments to employees for services	(21,500)	(17,822)
<b>Net Cash Provided By Operating Activities</b>	<b>126,500</b>	<b>128,034</b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Acquisition of capital assets	(68,813)	(58,590)
Principal paid on debt	(30,211)	(29,875)
Interest paid on debt	(19,948)	(21,403)
<b>Net Cash Used In Capital and Related Financing Activities</b>	<b>(118,972)</b>	<b>(109,868)</b>
<b>Cash Flows From Investing Activities</b>		
Reinvestment of certificate of deposit earnings	(1,186)	(1,632)
Interest Income	1,188	1,650
<b>Net Cash Provided By Investing Activities</b>	<b>2</b>	<b>18</b>
<b>Net Increase In Cash and Cash Equivalents</b>	<b>7,530</b>	<b>18,184</b>
Cash and Cash Equivalents at Beginning of Year	68,636	50,452
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 76,166</b>	<b>\$ 68,636</b>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 53,877	\$ 68,993
Adjustments:		
Depreciation	80,438	76,089
Net change in assets and liabilities		
Accounts receivable	(1,260)	(718)
Prepaid expenses	1,217	(1,888)
Inventory	(2,344)	(13,270)
Accounts payable	(6,215)	(1,425)
Payroll taxes payable	787	253
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 126,500</b>	<b>\$ 128,034</b>

See accompanying notes.



# SEQUOYAH COUNTY RURAL WATER DISTRICT #4

## Notes to Financial Statements

DECEMBER 31, 2011 AND 2010

### Nature of Business

Sequoyah County Rural Water District #4 (the District) was organized to provide suitable water to customers in Sequoyah County, Oklahoma. Treated water is acquired solely from the City of Sallisaw and transmitted in District water lines to the customers.

### 1. Summary of Significant Accounting Policies

#### a. Financial Reporting

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting and reflect transactions on behalf of the District. The District accounts for its operations as an enterprise fund.

*Under GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the entity has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989, that do not conflict with or contradict GASB pronouncements. Only GASB pronouncements issued after this date will be followed.

#### b. Capital Outlays and Depreciation

Capital outlays of the District are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

	Life
Building	20 years
Equipment	3-10 years
Water system and towers	10-40 years

It is the District's policy to capitalize assets purchased for \$500 or more and to expense assets purchased for less than \$500.

#### c. Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

# SEQUOYAH COUNTY RURAL WATER DISTRICT #4

## Notes to Financial Statements

DECEMBER 31, 2011 AND 2010

### 1. Summary of Significant Accounting Policies (Continued)

#### d. Income Taxes

The District is exempt from income taxes as a governmental agency.

#### e. Accounts Receivable

Management establishes an allowance for uncollectible accounts receivable based on historical collection experience and management's evaluation of the collectability of outstanding accounts receivable. The allowance for doubtful accounts was \$11,715 and \$10,247 as of December 31, 2011 and 2010, respectively.

#### f. Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market. Inventory consists primarily of pipe and related supplies.

#### g. Estimates

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements and notes to the financial statements. Actual results could differ from those estimates.

#### h. Long-Lived Assets

Financial Accounting Standards Board (FASB) Codification Topic *Property, Plant and Equipment*, Section *Subsequent Measurement* requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of this Codification Topic has not materially affected the District's reported earnings, financial condition, or cash flows.

#### i. Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

# SEQUOYAH COUNTY RURAL WATER DISTRICT #4

## Notes to Financial Statements

DECEMBER 31, 2011 AND 2010

### 2. Cash Deposits

The District had deposits in one area bank all of which were FDIC insured as of December 31, 2011 and 2010.

### 3. Capital Assets

Activity of capital assets consists of the following:

	January 1, 2011	Additions	Deletions/ Transfers	December 31, 2011
Land	\$ 28,888	\$ -	\$ -	\$ 28,888
Building	64,794	-	-	64,794
Equipment	27,053	-	-	27,053
Water system and towers	2,055,464	-	-	2,055,464
<b>Total</b>	<b>\$ 2,176,199</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,176,199</b>

	January 1, 2010	Additions	Deletions/ Transfers	December 31, 2010
Land	\$ 28,888	\$ -	\$ -	\$ 28,888
Building	64,794	-	-	64,794
Equipment	23,438	3,615	-	27,053
Water system and towers	2,000,489	54,975	-	2,055,464
<b>Total</b>	<b>\$ 2,117,609</b>	<b>\$ 58,590</b>	<b>\$ -</b>	<b>\$ 2,176,199</b>

### 4. Long-Term Debt

Long-term debt of the District consists of:	2011	2010
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Berkadia #1 - monthly payments are made in the amount of \$914 and includes interest of 5.00%. The note is secured by revenues and equipment of the District and is scheduled to mature October 2018.

\$ - \$ 70,789

Berkadia #2 - monthly payments are made in the amount of \$246 and includes interest of 5.00%. The note is secured by revenues and equipment of the District and is scheduled to mature December 2018.

- 19,375

# SEQUOYAH COUNTY RURAL WATER DISTRICT #4

## Notes to Financial Statements

DECEMBER 31, 2011 AND 2010

### 4. Long-Term Debt (continued)

First National Bank - monthly payments are made in the amount of \$3,278 and includes interest of 5.35%. The note is secured by revenues and equipment of the District and is scheduled to mature April 2021.

- 311,584

Government Capital Corporation - monthly payments are made in the amount of \$5,311 and includes interest of 4.26%. The note is secured by revenues and equipment of the District and is scheduled to mature December 2018.

385,135 -

Total debt	385,135	401,748
Less current maturity	48,255	32,865
Long-term debt	\$ 336,880	\$ 368,883

Debt is scheduled to mature as follows:

December 31,	Principal	Interest	Total
2012	\$ 48,255	\$ 15,472	\$ 63,727
2013	50,351	13,376	63,727
2014	52,538	11,188	63,726
2015	54,821	8,906	63,727
2016	57,202	6,524	63,726
2017-2018	121,968	5,486	127,454
Total	\$ 385,135	\$ 60,952	\$ 446,087

Activity of the long-term debt consists of the following:

	January 1, 2011	Debt Additions	Debt Retirements	December 31, 2011
Berkadia	\$ 90,164	\$ -	\$ 90,164	\$ -
First National Bank	311,584	-	311,584	-
Government Capital Corporation	-	385,135	-	385,135
Total	\$ 401,748	\$ 385,135	\$ 401,748	\$ 385,135

# SEQUOYAH COUNTY RURAL WATER DISTRICT #4

## Notes to Financial Statements

DECEMBER 31, 2011 AND 2010

### 4. Long-Term Debt (continued)

	January 1, 2010	Debt Additions	Debt Retirements	December 31, 2010
Berkadia	\$ 98,118	\$ -	\$ 7,954	\$ 90,164
First National Bank	333,505	-	21,921	311,584
Total	\$ 431,623	\$ -	\$ 29,875	\$ 401,748

### 5. Major Suppliers

The District purchases all of its water from one supplier. In addition, the District has contracted with one local business to carry out the daily operations as assigned by the Managing Chairperson of the Board. This vendor also procures supplies, equipment and purchases for capital expenditures for the District. During the years ended December 31, 2011 and 2010, the District paid this vendor \$79,406 and \$68,434, respectively. The loss of either of these vendors may have an adverse effect on the District's daily operations.

### 6. Concentrations of Credit Risk

Financial instruments that potentially subject the District to credit risk consist primarily of accounts receivable. The receivables are from individuals located within the same geographic region.

### 7. Risk Management

The District is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial blanket coverage and worker's compensation for risk of loss.

There has been no significant reduction in the District's insurance coverage from the previous year. In addition there have been no settlements in excess of the District's coverage in any of the prior three fiscal years.

### 8. Subsequent Events

The District has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended December 31, 2011 through February 8, 2012, the date the financial statements were available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

***ADDITIONAL REQUIRED REPORT***



# PRZYBYSZ

& ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A Professional Corporation

## **Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based On An Audit of Financial Statements Performed In Accordance with *Government Auditing Standards***

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To the Board of Directors  
Sequoyah County Rural Water District #4  
Sallisaw, Oklahoma

We have audited the financial statements of Sequoyah County Rural Water District #4, as of and for the year ended December 31, 2011, and have issued our report thereon dated February 8, 2012. 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 *Governmental 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 deficiency in internal control* 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management and various lending agencies and is not intended to be and should not be used by anyone other than these specified parties.



**Przybysz & Associates, CPAs, P.C.**  
**Fort Smith, Arkansas**  
**February 8, 2012**