

**ACCOUNTANT'S AUDIT REPORT
CONSOLIDATED RURAL WATER
AND SEWER DISTRICT NO. 1**

SEPTEMBER 30, 2011

BY



**Consolidated Rural Water and Sewer District No. 1
Hastings, Oklahoma
Year Ended September 30, 2011**

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Consolidated Rural Water and Sewer District No. 1
Jefferson County
Hastings, Oklahoma

We have audited the accompanying financial statements of the business-type activities of Consolidated Rural Water and Sewer District No. 1 (the District), as of and for the year ended September 30, 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 opinions 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 the 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 opinions.

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 Consolidated Rural Water and Sewer District No. 1, as of September 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year than ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2011, on our consideration of the District's internal control over financial reporting and on 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 an opinion on 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.

Accounting principles generally accepted in the United States of America require the budgetary comparison information on pages 22 through 23 be presented to supplement the basic financial statements. Such 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 statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The Schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Swah + Associates, PC

FURRH & ASSOCIATES, PC

Certified Public Accountants

November 8, 2011

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Statement of Net Assets

For Year Ended September 30, 2011

ASSETS

Current Assets

Petty Cash	\$	400	
Cash - Operating Accounts		486,734	
Temporary Investments - Due after 90 Days		727,414	
Accounts Receivable		230,165	
Interest Receivable		915	
Inventory		44,736	
Prepaid Expense		22,534	
Total Current Assets			\$ 1,512,898

Fixed Assets

Water and Sewer System	\$ 11,094,662		
Accumulated Depreciation	(5,983,333)	5,111,329	
Machinery and Equipment	136,821		
Accumulated Depreciation	(102,840)	33,981	
Transportation Equipment	169,955		
Accumulated Depreciation	(108,021)	61,934	
Office Equipment	19,096		
Accumulated Depreciation	(18,026)	1,070	
Buildings	114,359		
Accumulated Depreciation	(43,598)	70,761	
Well Water Project		53,176	
Net Fixed Assets			5,332,251

Other Assets

Cash - Reserve Accounts		124,371	
Certificates of Deposit - Reserve		200,000	
Total Other Assets			324,371
Total Assets			\$ 7,169,520

Please see accompanying notes to financial statements.

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Statement of Net Assets

For Year Ended September 30, 2011

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$	117,409	
Payroll Taxes Payable		7,791	
Accrued Payroll Payable		759	
Compensated Absences		2,493	
Accrued Interest Payable		3,488	
Current Portion of Long-Term Debt		136,556	
Total Current Liabilities			\$ 268,496

Long-Term Liabilities

Notes Payable - Rural Development Administration		1,060,702	
Less Current Portion		(136,556)	
Total Long-Term Liabilities			924,146

Total Liabilities 1,192,642

Net Assets

Invested in Capital Assets, Net of Related Debt		4,271,549	
Restricted for Debt Service		324,371	
Unrestricted		1,380,958	

Total Net Assets 5,976,878

Total Liabilities and Net Assets \$ 7,169,520

Please see accompanying notes to financial statements.

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Statement of Revenue, Expense, and Changes in Net Assets

Year Ended September 30, 2011

Operating Revenue

Water and Sewer Revenue		\$ 2,344,250
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Cost of Sales

Water Purchased	\$ 622,195	
System Maintenance and Repairs	400,762	
System Electricity	71,745	
Maintenance Supplies and Tools	5,926	
Total Cost of Sales		<u>1,100,628</u>
Gross Operating Revenue		1,243,622

Operating Expense

Depreciation	331,933	
Salaries and Wages	213,325	
Auto and Truck Expense	63,672	
Employee Insurance	37,663	
Legal Expense	28,273	
Other Repairs and Maintenance	25,925	
Other Insurance	20,643	
Payroll Taxes	14,802	
Office Supplies and Expense	12,634	
Telephone	10,474	
Dues, Licenses, Fees, and Permits	10,032	
Postage	8,807	
Accounting	8,179	
Pension Expense	8,036	
Workers Compensation Insurance	6,853	
Miscellaneous	6,800	
Utilities	4,263	
Uniforms	1,295	
Total Operating Expense		<u>813,609</u>
Net Operating Revenue		\$ 430,013

Please see accompanying notes to financial statements.

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Statement of Revenue, Expense, and Changes in Net Assets

Year Ended September 30, 2011

Nonoperating Revenue (Expense)

Other Income	\$ 134,778	
Interest Income	14,639	
Interest Expense	<u>(59,653)</u>	
Total Nonoperating Revenue (Expense)		<u>\$ 89,764</u>
Net Revenue (Loss)		519,777
Net Assets, September 30, 2010		<u>5,457,101</u>
Net Assets, September 30, 2011		<u><u>\$ 5,976,878</u></u>

Please see accompanying notes to financial statements.

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Statement of Cash Flows

Year Ended September 30, 2011

Cash Flow from Operating Activities

Cash Received from Customers	\$ 2,344,250	
Cash Paid for Water	(622,195)	
Cash Paid for Salaries and Related Costs	(213,325)	
Cash Paid to Suppliers	(735,506)	
Net Cash Provided by Operating Activities		\$ 773,224

Cash Flow from Capital and Related Financing Activities

Purchase of Fixed Assets	\$ (445,899)	
Water Well Project	(53,176)	
Payments on Long-Term Debt:		
Rural Development	(197,548)	
Interest on Long-Term Debt	(59,653)	
Decrease in Interest Payable	(563)	
Net Cash Used by Capital and Related Financing Activities		(756,839)

Cash Flow from Investing Activities

Interest Income	14,639	
Other Income	134,778	
Increase in Restricted Cash Accounts	(10,086)	
Increase in Temporary Investments	(6,272)	
Decrease in Interest Receivable	(39)	
Net Cash Provided by Investing Activities		<u>133,020</u>

Net Increase in Cash and Cash Equivalents 149,405

Cash and Cash Equivalents, September 30, 2010 337,329

Cash and Cash Equivalents, September 30, 2011 \$ 486,734

Please see accompanying notes to financial statements.

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Statement of Cash Flows

Year Ended September 30, 2011

Reconciliation of Operating Income to Net Cash Provided by

Operating Activities

Net Operating Revenue		\$	430,013
Add, Depreciation			331,933
(Increase) Decrease in Other Current Assets:			
Accounts Receivable	\$	(34,896)	
Prepaid Expense		(2,096)	
Inventory		1,473	(35,519)
Increase (Decrease) in Other Current Liabilities:			
Accounts Payable		48,679	
Payroll Taxes Payable		2,234	
Compensated Absences		(1,089)	
Accrued Payroll Payable		(3,027)	46,797
Net Cash Provided by Operating Activities		\$	<u>773,224</u>

Please see accompanying notes to financial statements.

Consolidated Rural Water and Sewer District No. 1
Hastings, Oklahoma
Notes to Financial Statements
September 30, 2011

Note 1 – Summary Of Significant Accounting Policies

The Consolidated Rural Water and Sewer District No. 1, Jefferson County, Oklahoma (the District), was organized December 1, 1975, by consolidation of previously existing Rural Water and Sewer District No. I, Jefferson County, Oklahoma, and Rural Water and Sewer District No. II, Jefferson County, Oklahoma. The district is organized under the Oklahoma Rural Water and Sewer Districts Act and is a political subdivision of the State of Oklahoma.

The District operates a water distribution and sewer service system for the communities of Addington and Hastings, Oklahoma, and a water distribution system over the remainder of its service area, which includes an area of approximately 1600 square miles in Jefferson, Stephens, Carter, Cotton, and Love Counties, Oklahoma. The District purchases its water supply from the cities of Comanche, Duncan, and Waurika, Oklahoma.

In addition to service to individual consumers, the District provides water to the Corps of Engineers Waurika Project and the Towns of Loco, Healdton, Terral, and Wilson, Oklahoma, for their respective distribution systems.

The district operates as an autonomous proprietary fund and its bookkeeping accounts and financial statements are maintained and presented as Enterprise Fund accounts.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The District keeps its books and prepares its financial statements on the accrual basis of accounting. Water and sewer revenues are recognized when billed. Cost of water sold is recognized when billed by the supplier. Service and installation fees are reported as revenue when received. Meter and installation costs are expensed as current operating costs. Inventories are recorded at the lower of cost or market value.

Accounts receivable is stated at net realizable value. Bad debts are recorded by the specific charge-off method.

Consolidated Rural Water and Sewer District No. 1
Hastings, Oklahoma
Notes to Financial Statements
September 30, 2011

Note 2 – Bank Accounts

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments to be cash equivalents. Certificates of deposit and other time deposits with an original maturity date of 90 days or less are considered cash equivalents.

Petty Cash Fund	\$	400	
Checking/Savings Accounts			
First Farmers National Bank - Hi Fi Account		6,368	*
First Farmers National Bank - Construction Acct.		16,352	*
First Bank and Trust Company - Membership		32,243	*
(1) First Bank and Trust Company - Reserve Account		60,410	*
(1) First Farmers National Bank - Reserve Account		63,961	*
First Farmers National Bank - Tower Account		108,724	*
First Farmers National Bank - CDBG Account		135,859	*
First Farmers National Bank - Operating Acct		187,188	
Total	<u>\$</u>	<u>611,505</u>	

(1) Reserve Accounts – Restricted cash accounts, held for mortgage loan reserve guaranty, that are not available for operating activities.

* Interest Bearing Accounts

The bank accounts used by the district are covered by F.D.I.C. insurance.

Note 3 – Fixed Assets

Fixed assets are recorded at cost and expenditures for maintenance and repairs are charged to current operations as incurred. Fixed assets costing less than \$500 per unit are charged to current expense.

Depreciation is computed by the straight line method, using the following estimated useful lives.

Building	40 years
Water and Sewer System	40 years
Master Meters	20 years
Furniture and Fixtures	5 years
Machinery and Equipment	5-8 years
Transportation Equipment	3-5 years

Consolidated Rural Water and Sewer District No. 1
Hastings, Oklahoma
Notes to Financial Statements
September 30, 2011

Total depreciation expense for the current year was \$331,933, which was charged against current operations.

Current year changes to fixed assets were as follows:

	Balance 09/30/10	Additions	Disposals	Balance 09/30/11
<u>Assets</u>				
Buildings	\$ 72,004	\$ 42,355	\$ 0	\$ 114,359
Water & Sewer System	10,736,098	358,564	0	11,094,662
Machinery/Equip.	138,671	0	(1,850)	136,821
Transportation Equipment	124,975	44,980	0	169,955
Office Equipment	25,068	0	(5,972)	19,096
Total	<u>\$ 11,096,816</u>	<u>\$ 445,899</u>	<u>\$ (7,822)</u>	<u>\$ 11,534,893</u>
<u>Accum. Depreciation</u>				
Buildings	\$ 40,796	\$ 2,802	\$ 0	\$ 43,598
Water & Sewer System	5,689,543	293,790	0	5,983,333
Machinery/Equip.	88,966	15,724	(1,850)	102,840
Transportation Equipment	88,772	19,249	0	108,021
Office Equipment	23,630	368	(5,972)	18,026
Total	<u>\$ 5,931,707</u>	<u>\$ 331,933</u>	<u>\$ (7,822)</u>	<u>\$ 6,255,818</u>

Note 4 – Inventory

Inventories of replacement parts and consumable supplies are recorded at cost.

Consolidated Rural Water and Sewer District No. 1
Hastings, Oklahoma
Notes to Financial Statements
September 30, 2011

Note 5 – Investments

The District has the following investments which are legal investments under the Oklahoma Statutes:

Certificates of Deposit:

First Farmers National Bank, Waurika, OK		
Maturity 11/16/11, Interest Paid Monthly at 1.2%	\$	100,000
First Bank and Trust Company, Duncan, OK		
Maturity 04/02/12, Interest Paid Monthly at 1.79%		117,637
First Farmers National Bank, Waurika, OK		
Maturity 06/21/12, Interest Paid Monthly at 1.0%		131,000
Arvest Bank, Duncan, OK		
Maturity 05/23/11, Interest Paid Monthly at 1.1%		157,378
First Bank and Trust Company, Duncan, OK		
Maturity 04/23/12, Interest Paid Monthly at 0.70%		200,000
Arvest Bank, Duncan, OK		
Maturity 06/12/12, Interest Paid Quarterly at 1.1%		221,399
Total	<u>\$</u>	<u>927,414</u>

All investments are covered by FDIC insurance and/or collateral pledge agreements.

Note 6 – Debt

The total annual debt service requirements of the long-term mortgage notes to Rural Development Administration detailed on page 24-25 amounts to \$136,556 plus interest at 4.75-6.5% per annum, payable in total monthly payments of \$21,466.

Changes in total long-term debt for the current year were as follows:

Balance, September 30, 2010	\$	1,258,250
Less, Principal Payments		<u>(197,548)</u>
Balance, September 30, 2011	\$	<u>1,060,702</u>

Consolidated Rural Water and Sewer District No. 1
Hastings, Oklahoma
Notes to Financial Statements
September 30, 2011

The principal maturities for the succeeding five years and thereafter on the long-term debt will be approximately as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ended September 30, 2012	\$ 136,562	\$ 49,330	\$ 185,892
Year Ended September 30, 2013	84,959	44,113	129,072
Year Ended September 30, 2014	89,289	39,783	129,072
Year Ended September 30, 2015	93,840	35,232	129,072
Year Ended September 30, 2016	98,537	30,535	129,072
5 Years Ended September 30, 2021	<u>557,515</u>	<u>71,640</u>	<u>629,155</u>
Total	<u>\$ 1,060,702</u>	<u>\$ 270,633</u>	<u>\$ 1,331,335</u>

Note 7 – Income Tax Status

As a political subdivision of the State of Oklahoma, the District is exempt from federal and state income taxes.

Note 8 – Insurance Against Loss Contingencies

The District maintains the following insurance coverage for protection against possible loss contingencies:

- Rural Water Association Assurance Group
 - Officers and Directors Liability
 - Business Property Protection
 - General Liability
 - Automobile Protection
 - Fidelity Bond Coverage
 - Workers Compensation & Employers Liability

Note 9 – Supplemental Disclosures

Supplemental disclosure of cash flow information:

Cash paid during the year for interest expense \$ 59,653

Consolidated Rural Water and Sewer District No. 1
Hastings, Oklahoma
Notes to Financial Statements
September 30, 2011

Note 10 – Accrued Payroll and Compensated Absences

Accrued payroll payable includes the following:

Accrued Payroll	\$	759
Earned Unpaid Vacation Pay		2,493
 Total	 \$	 <u>3,252</u>

Note 11 – Pension Accounting

The District sponsors an employee deferred compensation plan under Section 457 of the Internal Revenue Code. All full time employees are eligible to participate, on a voluntary basis, with no waiting period requirements. Participating employees are 100% vested in all elected deferrals. Salary reductions under the plan may not exceed the lesser of \$7,500.00 or 1/3 of the participant's includable compensation. Employee contributions to the plan are made from payroll deductions from the participating employees. The District matches the employee contributions up to 4.5% of compensation contributed by the employee. Costs of contributions for the current year were:

District	\$	8,510
Employees		8,510
 Total	 \$	 <u>17,020</u>

Pension cost to the District for the past three years was:

9/30/11	\$	8,510
9/30/10		6,741
9/30/09		6,780
 Total	 \$	 <u>22,031</u>

Assets of the plan, which are invested in individual employee insurance annuity contracts, are not included in the financial statement of the District because of the fiduciary responsibility to use the plan assets only for the payment of benefits.

Consolidated Rural Water and Sewer District No. 1
Hastings, Oklahoma
Notes to Financial Statements
September 30, 2011

Note 12 – Contingencies

The district filed a lawsuit against a previous supplier for defective water meters. It is currently unfeasible to evaluate the outcome at its present status.

Note 13 – Working Capital Summary

Comparative working capital components at the beginning and end of the fiscal year were as follows:

	<u>9/30/2010</u>	<u>9/30/2011</u>	<u>Change</u>
Current Assets	\$ 1,321,491	\$ 1,512,898	\$ 191,407
Current Liabilities	<u>283,065</u>	<u>268,496</u>	<u>(14,569)</u>
Net Working Capital	<u>\$ 1,038,426</u>	<u>\$ 1,244,402</u>	<u>\$ 205,976</u>

Note 14 – Management Personnel

Board of Directors

Ronnie Bohot, Chairman
 Lyndal Vanbuskirk, Vice Chairman
 Mildred Brock, Secretary-Treasurer
 Gary Ledford, Member
 Glenn Knutson, Member
 Terry Bishop, Member
 Charlie Lockwood, Member

Manager

Kenny Lovett

Legal Counsel

Josh Creekmore



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Consolidated Rural Water and Sewer District No. 1
Jefferson County
Hastings, Oklahoma

We have audited the financial statements of the business-type activities of Consolidated Rural Water and Sewer District No. 1 (the District), Hastings, Oklahoma, as of and for the year ended September 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 8, 2011. 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.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 a 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 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 management and regulatory authorities and is not intended to be and should not be used by anyone other than these specified parties.

Furrh & Associates, PC

FURRH & ASSOCIATES, PC

Certified Public Accountants

November 8, 2011

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Comparative Statement of Financial Position

Years Ended September 30, 2011

	<u>9/30/2010</u>	<u>09/30/11</u>	<u>Increase (Decrease)</u>
<u>Assets</u>			
Cash	\$ 337,479	\$ 487,134	\$ 149,655
Temp. Investments - Due After 90 Days	721,142	727,414	6,272
Accounts Receivable	195,269	230,165	34,896
Interest Receivable	954	915	(39)
Inventory	46,209	44,736	(1,473)
Prepaid Expense	20,438	22,534	2,096
Water and Sewer System (Net)	5,046,555	5,111,329	64,774
Machinery and Equipment (Net)	49,705	33,981	(15,724)
Transportation Equipment (Net)	36,203	61,934	25,731
Office Equipment (Net)	1,438	1,070	(368)
Buildings (Net)	31,208	70,761	39,553
Water Well Project	0	53,176	53,176
Cash - Reserve Accounts	314,285	324,371	10,086
	<u>\$ 6,800,885</u>	<u>\$ 7,169,520</u>	<u>\$ 368,635</u>
Total Assets			
<u>Liabilities</u>			
Accounts Payable	\$ 68,730	\$ 117,409	\$ 48,679
Payroll Taxes Payable	5,557	7,791	2,234
Accrued Payroll Payable	3,786	759	(3,027)
Compensated Absences	3,582	2,493	(1,089)
Accrued Interest Payable	3,879	3,488	(391)
Notes Payable - Rural Development	1,258,250	1,060,702	(197,548)
	<u>1,343,784</u>	<u>1,192,642</u>	<u>(151,142)</u>
Total Liabilities			
<u>Fund Equity</u>			
Invested in Capital Assets (Net)	3,906,859	4,271,549	364,690
Restricted for Debt Service	314,285	324,371	10,086
Unrestricted Retained Earnings (Deficit)	1,235,957	1,380,958	145,001
	<u>5,457,101</u>	<u>5,976,878</u>	<u>519,777</u>
Total Fund Equity			
Total Liabilities and Fund Equity	<u>\$ 6,800,885</u>	<u>\$ 7,169,520</u>	<u>\$ 368,635</u>

Please see accompanying notes to the financial statements.

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Comparative Statement of Revenue and Expense

Years Ended September 30, 2011

<u>Revenue</u>	<u>Year Ended 9/30/10</u>	<u>Year Ended 9/30/11</u>	<u>Increase (Decrease)</u>
Water Revenue - Distribution	\$ 1,494,958	\$ 1,893,635	\$ 398,677
Water Revenue - Corps of Engineers	21,379	35,884	14,505
Water Revenue - Wilson	5,148	5,148	0
Water Revenue - Healdton	8,785	21,593	12,808
Water Revenue - Loco	4,704	2,619	(2,085)
Water Revenue - Terral	5,546	5,317	(229)
Tower Maintenance	121,550	121,985	435
Construction Revenue	121,610	122,635	1,025
Benefit Unit Fees	38,462	75,643	37,181
Other Revenue	60,303	134,778	74,475
Interest Earned	11,692	14,639	2,947
Penalty Revenue	31,544	35,928	4,384
Meter Service Fees	5,997	5,143	(854)
Sewer Revenue	12,995	12,086	(909)
Reactivation Fees	8,997	6,634	(2,363)
Total Revenue	1,953,670	2,493,667	539,997
<u>Cost of Sales</u>			
Water Purchased	368,981	622,195	253,214
System Maintenance and Repairs	422,723	400,762	(21,961)
System Electricity	55,595	71,745	16,150
Maintenance Supplies and Tools	5,584	5,926	342
Total Cost of Sales	852,883	1,100,628	247,745
Gross Revenue	\$ 1,100,787	\$ 1,393,039	\$ 292,252

Please see accompanying notes to the financial statements.

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Comparative Statement of Revenue and Expense

Years Ended September 30, 2011

	<u>Year Ended</u> <u>9/30/10</u>	<u>Year Ended</u> <u>9/30/11</u>	<u>Increase</u> <u>(Decrease)</u>
<u>Operating Expense</u>			
Depreciation	\$ 317,401	\$ 331,933	\$ 14,532
Salaries and Wages	212,003	213,325	1,322
Interest Expense	72,954	59,653	(13,301)
Auto and Truck Expense	58,878	63,672	4,794
Employee Insurance	35,843	37,663	1,820
Other Insurance	31,944	20,643	(11,301)
Payroll Taxes	9,109	14,802	5,693
Other Repairs and Maintenance	14,942	25,925	10,983
Telephone	10,712	10,474	(238)
Workers Compensation Insurance	6,245	6,853	608
Postage	10,255	8,807	(1,448)
Accounting	8,882	8,179	(703)
Pension Expense	6,944	8,036	1,092
Bad Debts	13,176	0	(13,176)
Dues, Licenses, Fees, and Permits	10,539	10,032	(507)
Office Supplies and Expense	10,869	12,634	1,765
Miscellaneous	6,466	6,800	334
Legal Expense	0	28,273	28,273
Utilities	3,964	4,263	299
Uniforms	968	1,295	327
	<u>842,094</u>	<u>873,262</u>	<u>31,168</u>
Total Operating Expense			
Net Revenue (Loss)	<u>\$ 258,693</u>	<u>\$ 519,777</u>	<u>\$ 261,084</u>

Please see accompanying notes to the financial statements.

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Comparative Statement of Cash Flows

Years Ended September 30, 2011

	<u>Year Ended</u> <u>9/30/10</u>	<u>Year Ended</u> <u>9/30/11</u>
<u>Cash Flow from Operating Activities</u>		
Net Operating Revenue	\$ 320,225	\$ 430,013
Adjustments:		
Depreciation	317,401	331,933
(Increase) Decrease in Other Current Assets	(41,301)	(35,519)
Increase (Decrease) in Other Current Liabilities	(6,903)	46,797
Net Cash Provided by Operating Activities	<u>589,422</u>	<u>773,224</u>
<u>Cash Flow from Capital and Related Financing Activities</u>		
Purchase of Fixed Assets	(189,403)	(499,075)
Payments on Long-Term Debt	(186,246)	(197,548)
Interest Expense	(72,954)	(59,653)
Sale of Assets	1,500	0
Decrease in Interest Payable	(371)	(563)
Net Cash Used by Capital and Related Financing Activities	<u>(447,474)</u>	<u>(756,839)</u>
<u>Cash Flow from Investing Activities</u>		
Interest Income	11,692	14,639
(Increase) Decrease in Restricted Cash Accounts	(6,350)	(10,086)
(Increase) Decrease in Other Income	0	134,778
(Increase) Decrease in Temporary Investments	(7,952)	(6,272)
(Increase) Decrease in Interest Receivable	36	(39)
Net Cash Provided by Investing Activities	<u>(2,574)</u>	<u>133,020</u>
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	139,374	149,405
<u>Cash and Cash Equivalents, Beginning of Period</u>	<u>197,955</u>	<u>337,329</u>
<u>Cash and Cash Equivalents, End of Period</u>	<u>\$ 337,329</u>	<u>\$ 486,734</u>

Please see accompanying notes to the financial statements.

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Revenues and Expenses Compared with Budget

Year Ended September 30, 2011

	Budget	Actual	(Over) Under Budget
<u>Operating Revenue</u>			
Water Revenue - Distribution	\$ 1,419,628	\$ 1,893,635	\$ (474,007)
Water Revenue - Corps of Engineers	10,384	35,884	(25,500)
Water Revenue - Wilson	6,870	5,148	1,722
Water Revenue - Loco	6,634	2,619	4,015
Water Revenue - Healdton	6,160	21,593	(15,433)
Water Revenue - Terral	4,028	5,317	(1,289)
Other Revenue	115,684	134,778	(19,094)
Tower Maintenance	124,380	121,985	2,395
Construction Revenue	124,380	122,635	1,745
Penalty Revenue	32,600	35,928	(3,328)
Benefit Unit Fees	34,000	75,643	(41,643)
Interest Earned	20,200	14,639	5,561
Sewer Revenue	13,860	12,086	1,774
Meter Service Fees	12,300	5,143	7,157
Transfer from Savings	70,000	0	70,000
Reactivation Fees	8,820	6,634	2,186
Total Operating Revenue	2,009,928	2,493,667	(483,739)
<u>Cost of Sales</u>			
Water Purchased	549,996	622,195	(72,199)
System Maintenance and Repairs	510,804	400,762	110,042
System Electricity	65,400	71,745	(6,345)
Maintenance Supplies and Tools	6,000	5,926	74
Total Cost of Sales	1,132,200	1,100,628	31,572
Gross Operating Revenue	\$ 877,728	\$ 1,393,039	\$ (515,311)

Please see accompanying notes to the financial statements.

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Revenues and Expenses Compared with Budget

Year Ended September 30, 2011

	Budget	Actual	(Over) Under Budget
<u>Operating Expense</u>			
Salaries and Wages	\$ 213,144	\$ 213,325	\$ (181)
Other Insurance	28,812	20,643	8,169
Auto and Truck Expense	67,272	63,672	3,600
Employee Insurance	35,880	37,663	(1,783)
Payroll Taxes	17,772	14,802	2,970
Telephone	11,640	10,474	1,166
Workers Compensation Insurance	11,544	6,853	4,691
Office Supplies and Expense	19,560	12,634	6,926
Other Repairs and Maintenance	6,325	25,925	(19,600)
Pension Expense	9,000	8,036	964
Postage	11,400	8,807	2,593
Miscellaneous	13,800	6,800	7,000
Accounting	9,600	8,179	1,421
Dues, Licenses, Fees, and Permits	11,760	10,032	1,728
Legal Expense	7,500	28,273	(20,773)
Utilities	5,580	4,263	1,317
Uniforms	1,167	1,295	(128)
	481,756	481,676	80
 Net Revenue Before Debt Service and Capital Outlay	 395,972	 911,363	 (515,391)
 <u>Debt Service and Capital Outlay</u>			
Long-Term Debt Interest Payment	0	59,653	(59,653)
Capital Outlay	395,972	331,933	64,039
	395,972	391,586	4,386
 Total Debt Service and Capital Outlay	 395,972	 391,586	 4,386
 Net Revenue After Debt Service and Capital Outlay	 \$ 0	 \$ 519,777	 \$ (519,777)

Please see accompanying notes to the financial statements.

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Schedule of Long Term Debt

Year Ended September 30, 2011

<u>Description</u>	<u>Original Note Balance</u>	<u>Balance as of 09/30/2011</u>
United States Department of Agriculture Rural Development Administration		
Mortgage Note #9112, November 5, 1981, Matures November 5, 2021	<u>\$ 106,228</u>	
Monthly Payment \$514, Including 5% Interest Principal Balance, September 30, 2011		\$ 47,468
Mortgage Note #9213, November 5, 1981, Matures November 5, 2021	<u>76,787</u>	
Monthly Payment \$371, Including 5% Interest Principal Balance, September 30, 2011		33,707
Mortgage Note #9314, November 5, 1981, Matures November 5, 2021	<u>170,675</u>	
Monthly Payment \$796, Including 4.75% Interest Principal Balance, September 30, 2011		75,988
Mortgage Note #9115, November 5, 1981, Matures November 5, 2021	<u>424,690</u>	
Monthly Payment \$2,052, Including 5% Interest Principal Balance, September 30, 2011		192,170
Mortgage Note #9116, November 5, 1981, Matures November 5, 2021	<u>955,816</u>	
Monthly Payment \$4,617, Including 5% Interest Principal Balance, September 30, 2011		433,550
Mortgage Note #9117, November 5, 1981, Matures November 5, 2021	<u>497,988</u>	
Monthly Payment \$2,406, Including 5% Interest Principal Balance, September 30, 2011		221,979

Please see accompanying notes to the financial statements.

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Schedule of Long Term Debt

Year Ended September 30, 2011

	<u>Original Note Balance</u>	<u>Balance as of 09/30/2011</u>
Mortgage Note #9118, July 24, 1987, Matures July 25, 2013	<u>\$ 1,530,000</u>	
Monthly Payment \$10,710, Including 6.5% Interest		
Principal Balance, September 30, 2011		<u>55,840</u>
 Total United States Department of Agriculture Notes		 <u>\$ 1,060,702</u>

Please see accompanying notes to the financial statements.

Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Grant No. 14311 CDBG 2010

Revenue and Expenditures Compared with Budget
(Modified Cash Basis)

Year Ended September 30, 2011

<u>Revenue</u>	<u>Budget</u>	<u>Cumulative 06/30/10</u>	<u>Current Year</u>	<u>Total</u>	<u>(Over) Under Budget</u>
State Grant	\$ 274,999	\$ 0	\$ 0	\$ 0	\$ 274,999
Local Matching Funds	275,001	39,500	93,667	133,167	141,834
Total Income	550,000	39,500	93,667	133,167	416,833
<u>Expenditures</u>					
Capital Expenditures	478,935	0	89,667	89,667	389,268
Professional Services	49,065	34,500	0	34,500	14,565
Administrative Costs	22,000	5,000	4,000	9,000	13,000
Total Expenditures	550,000	39,500	93,667	133,167	416,833
<u>Revenue Over (Under) Expenditures</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

CFDA No. 14.228

Please see accompanying notes to the financial statements.