

RURAL WATER DISTRICT #1,
CADDO COUNTY, LOOKEBA, OKLAHOMA

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

DECEMBER 31, 2011 AND 2010

RURAL WATER DISTRICT #1
CADDO COUNTY, LOOKEBA, OKLAHOMA
DIRECTORS AND OFFICERS
DECEMBER 31, 2011

Chairman
Vice-Chairman
Secretary - Treasurer
Director
Director

Muriel Bratcher
Mike Davis
Bill Johnston

RURAL WATER DISTRICT #1
CADDO COUNTY, LOOKEBA, OKLAHOMA
TABLE OF CONTENTS

	Page Number
INDEPENDENT AUDITOR'S REPORT	1 - 2
FINANCIAL STATEMENTS	
Balance Sheets	3
Statement of Revenues, Expenses and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to the Financial Statements	6 - 10
INDEPENDENT AUDITOR'S REPORT on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	11 - 13
Update on Prior Year's Audit Findings	14



Certified Public Accountants

*Glenn L. McCulley
Roselind C. McCulley*

*204 North Caddo
Post Office Box 1626
Weatherford, Oklahoma 73096*

*Voice (580) 772-8820
Fax (580) 772-0672*

*<http://prep.1040.com/mcculleycpas>
email: mmcpas@cebridge.net*

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District # 1, Caddo County
Lookeba, Oklahoma

We have audited the basic financial statements of the Rural Water District # 1, Caddo County, as of December 31, 2011 and 2010, 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 statements based on our audits.

We conducted our audits 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 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 Rural Water District # 1, Caddo County, as of December 31, 2011 and 2010, and its changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 12, 2012, on our consideration of the District's internal control over financial reporting and our

tests of its compliance with certain provisions of laws and regulations, contracts, and grants 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 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.

The District has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

McCulley & McCulley

Weatherford, Oklahoma

September 12, 2012

**RURAL WATER DISTRICT #1, CADDO COUNTY
 LOOKEBA, OKLAHOMA
 BALANCE SHEETS
 DECEMBER 31, 2011 AND 2010**

	DECEMBER 31,	
	2011	2010
ASSETS		
CURRENT ASSETS		
Petty Cash	\$ 100	\$ 100
Cash in Bank	70,529	69,457
Certificate of Deposits	33,295	33,105
Restricted Assets:		
Cash in Bank	4,512	4,972
Accounts Receivable, Net of Allowance for Loss	4,161	4,398
Prepaid Assets	683	584
Accrued Interest Receivable	69	97
TOTAL CURRENT ASSETS	113,349	112,713
NONCURRENT ASSETS		
Capital Assets, Net of Accumulated Depreciation	155,853	163,457
TOTAL ASSETS	\$ 269,202	\$ 276,170
LIABILITIES AND NET ASSETS		
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 5,691	\$ 4,574
Customer Meter Deposits	4,512	4,972
TOTAL CURRENT LIABILITIES	10,203	9,546
LONG-TERM LIABILITIES		
TOTAL LONG-TERM LIABILITIES	0	0
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	155,853	163,457
Unrestricted	103,146	103,167
TOTAL NET ASSETS	258,999	266,624
TOTAL LIABILITIES AND NET ASSETS	\$ 269,202	\$ 276,170

The accompanying notes are an integral part of these statements.

**RURAL WATER DISTRICT #1, CADDO COUNTY
 LOOKEBA, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 FOR THE YEAR ENDING DECEMBER 31, 2011 AND 2010**

	DECEMBER 31,	
	2011	2010
OPERATING REVENUES		
Water Sales	\$ 38,396	\$ 31,139
Sewer Sales	6,327	6,303
Garbage Sales	19,925	19,674
Late Charges and Penalties	3,741	1,825
Insurance Rebate	334	735
Other Revenue	502	55
	<u>69,225</u>	<u>59,731</u>
TOTAL OPERATING REVENUES		
OPERATING EXPENSES		
Director Fees	2,000	2,500
Compensation and Benefits	22,497	22,280
Depreciation	9,845	9,592
Bad Debt Expense	124	1,149
Repairs and Maintenance	10,240	6,319
Insurance	1,623	1,530
Utilities	4,745	4,282
Professional Services	1,400	1,200
Office Supplies	738	1,029
Licenses, Dues, and Subscriptions	1,593	1,426
Solid Waste Disposal	19,859	17,874
Miscellaneous Expense	2,625	4,612
	<u>77,289</u>	<u>73,793</u>
TOTAL OPERATING EXPENSES		
OPERATING (LOSS)	<u>(8,064)</u>	<u>(14,062)</u>
NONOPERATING REVENUES (EXPENSES)		
Interest Income	439	537
	<u>439</u>	<u>537</u>
TOTAL NONOPERATING REVENUES (EXPENSES)		
CHANGE IN NET ASSETS	(7,625)	(13,525)
NET ASSETS		
Beginning of Year	<u>266,624</u>	<u>280,149</u>
End of Year	<u>\$ 258,999</u>	<u>\$ 266,624</u>

The accompanying notes are an integral part of these statements.

**RURAL WATER DISTRICT #1, CADDO COUNTY
 LOOKEBA, OKLAHOMA
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDING DECEMBER 31, 2011 AND 2010**

	DECEMBER 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES	\$	\$
Cash Received from Customers	70,617	60,147
Cash Paid to Employees and Benefits	(24,497)	(24,780)
Cast Paid for Goods and Services	(43,544)	(37,321)
	<u>2,576</u>	<u>(1,954)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Capital Assets	(2,241)	
Interest Received on Cash and Certificate of Deposits	467	600
	<u>(1,774)</u>	<u>600</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	802	(1,354)
CASH AND CASH EQUIVALENTS		
Beginning of Year	107,634	108,988
End of Year	<u>\$ 108,436</u>	<u>\$ 107,634</u>
 Reconciliation of Operating (Loss) to Net Cash Provided by (Used in) Operating Activities:		
Operating (Loss)	\$ (8,064)	\$ (14,062)
Adjustments to Operating (Loss) to Net Cash Provided by (Used in) Operating Activities		
Depreciation	9,845	9,592
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable	1,392	416
Increase (Decrease) in Allowance for Bad Debts	(1,155)	972
(Increase) Decrease in Prepaid Assets	(99)	15
Increase in Accounts Payable	1,117	536
Increase (Decrease) in Customer Deposits	(460)	577
Total Adjustments	<u>10,640</u>	<u>12,108</u>
Net Cash Provided by (Used in) Operating Activities	\$ <u>2,576</u>	\$ <u>(1,954)</u>

The accompanying notes are an integral part of these statements.

**RURAL WATER DISTRICT #1
CADDO COUNTY, LOOKEBA, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010**

Note 1 - Significant Accounting Policies

The accounting policies of the Rural Water District # 1, Caddo County, (the District) conform to generally accepted accounting principles of the United States of America as applicable to government organizations. The following is a summary of the more significant current accounting policies.

A. The Reporting Entity.

The District provides water, sewer, and garbage services to its members within its geographic boundaries. The District is governed by a seven member Board of Directors who are elected by the participating members. These financial statements include all of the funds under the control of the Board of Directors relevant to the operations of the District. These members of the Board of Directors are also members of the Town Board of Trustees. Based upon the Bylaws of the District, and the use of common offices and Board members, it appears that the District should be a component unit of the Town of Lookeba, Oklahoma. Financial information concerning the Town of Lookeba, Oklahoma, is available from the Town of Lookeba, Oklahoma.

B. Basis of Presentation.

The activities of the District are organized into a single fund, an enterprise fund (proprietary fund type).

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, accountability, or other purposes.

RURAL WATER DISTRICT #1
CADDO COUNTY, LOOKEBA, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010

Note 1 - Significant Accounting Policies - (continued).

C. Basis of Accounting.

Basis of accounting refers as to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement focus applied.

Enterprise funds use the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the obligation is incurred.

D. Capital Assets.

All capital assets are valued at historical cost. Where cost could not be determined from the available records, estimated historical cost was used to record the estimated value of the assets. Assets are depreciated on the straight-line basis over the estimated useful life of the asset. A summary capital assets and the service lives by type of asset at December 31, 2011 and 2010, are as follows:

	<u>Estimated Useful Life</u>
Water and Sewer Improvements	10 - 40 yrs.
Furniture and Equipment	3 - 7 yrs.

E. Allowance for Losses.

Allowance for losses on receivables are recorded when management believes a receivable is uncollectible. Management periodically reviews its receivables to determine what is collectible.

F. Policy Regarding Use of Financial Accounting Standards Board (FASB) Statements.

The District applies all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as the pronouncements issued on or before November 30, 1989, by the FASB or predecessor boards, unless those pronouncements conflict with or contradict GASB pronouncements.

RURAL WATER DISTRICT #1
 CADDO COUNTY, LOOKEBA, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010

Note 1 - Significant Accounting Policies - (continued).

G. Net Assets.

Net assets are classified into three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes payable attributable to these assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional revisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of the other two above. These include amounts designated by management for a particular purpose.

Note 2 - Cash and Certificate of Deposits.

The District's cash in bank and certificate of deposits at December 31, 2011 and 2010, are secured by federal deposit insurance or collateralized by the bank. Certificate of deposits are recorded at cost, which approximates market value. Certificates of deposits are authorized and legal investments. The District's petty cash, cash in bank (including restricted assets), and certificate of deposits are considered to be cash equivalents for purposes of the Statement of Cash Flows.

Note 3 - Accounts Receivable.

Accounts receivable consists of billed and unbilled receivables as shown below:

	December 31,	
	2011	2010
Charges for Services	\$ 4,351	\$ 5,742
Allowance for Losses	(190)	(1,344)
Net Accounts Receivable	\$ 4,161	\$ 4,398

RURAL WATER DISTRICT #1
 CADDO COUNTY, LOOKEBA, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010

Note 4 - Restricted Assets.

Restricted assets consist of cash restricted for customer deposits which are offset by a related liability payable.

Note 5 - Capital Assets.

Capital assets consist of the following:

	Dec 31, 2010	Additions	Deletions	Dec 31, 2011
Land **	\$ 2,020	\$	\$	\$ 2,020
Equipment	34,300	2,241	(4,612)	31,929
Sewer Improvements	10,488			10,488
Water Improvements	451,920			451,920
 Total Property and Equipment	 498,728	 2,241	 (4,612)	 496,357
 Less Accumulated Depreciation for:				
Equipment	31,045	1,186	(4,612)	27,619
Sewer Improvements	4,854	231		5,085
Water Improvements	299,372	8,428		307,800
 Total Accumulated Depreciation	 335,271	 9,845	 (4,612)	 340,504
 Net Property and Equipment	 \$ 163,457	 \$(7,604)	 \$ -0-	 \$ 155,853

** non-depreciable asset

RURAL WATER DISTRICT #1
 CADDO COUNTY, LOOKEBA, OKLAHOMA
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEARS ENDING DECEMBER 31, 2011 AND 2010

Note 5 - Capital Assets (continued).

	Dec 31, 2009	Additions	Deletions	Dec 31, 2010
Land **	\$ 2,020	\$	\$	\$ 2,020
Equipment	34,300			34,300
Sewer Improvements	10,488			10,488
Water Improvements	451,920			451,920
Total Property and Equipment	<u>498,728</u>			<u>498,728</u>
Less Accumulated Depreciation for:				
Equipment	30,112	933		31,045
Sewer Improvements	4,623	231		4,854
Water Improvements	290,944	8,428		299,372
Total Accumulated Depreciation	<u>325,679</u>	<u>9,592</u>		<u>335,271</u>
Net Property and Equipment	<u>\$ 173,049</u>	<u>\$ (9,592)</u>	<u>\$ -0-</u>	<u>\$ 163,457</u>

Note 6 - Risk Management.

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The District purchases commercial insurance to manage these risks of loss and retains a deductible ranging from \$500 to \$1,000. However, the District does not bond its bookkeeper and other employees/directors. Only the Treasurer has a surety bond for \$7,500.



Certified Public Accountants

Glenn L. McCulley
Roselind C. McCulley

204 North Caddo
Post Office Box 1626
Weatherford, Oklahoma 73096

Voice (580) 772-8820
Fax (580) 772-0672

<http://prep.1040.com/mcculleycpas>
email: mncpas@cebridge.net

**INDEPENDENT AUDITOR'S 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**

Board of Directors
Rural Water District #1, Caddo County
Lookeba, Oklahoma

We have audited the accompanying financial statements of the Rural Water District # 1, Caddo County, as of and for the period ended December 31, 2011, and have issued our report dated September 12, 2012. The District has elected to omit the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

We have 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

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Rural Water District # 1, Caddo County, 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 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 the financial statements are free of material misstatement, we performed tests of the District's 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 the objective of our audit. Accordingly, we do not express such an opinion.

The results of our tests indicate the following instance of noncompliance or other matters that is required to be reported herein under Government Auditing Standards for which the ultimate resolution cannot presently be determined. Accordingly, no provision for any liability that may result has been recognized in the District's 2011 financial statements.

Compliance with District By-laws and Bonding Requirements.

CONDITION AND EFFECT - Article 8, Section 1 (e) of the By-laws of the District requires that all officers and employees charged with the responsibility for the custody of funds of the District to give adequate bond. It is mandatory for the Directors to require this bond. Noted that only the Treasurer is bonded. Other officers and the bookkeeper who handle funds are not bonded.

RECOMMENDATION - Recommend the District purchase the required bond to comply with the District's By-laws or to amend the By-laws.

RESPONSE - The Board approved acquiring this bond in 1996, but it has never been purchased.

The District's response to the findings identified in our audit is described above. We did not audit the District's response, and accordingly, we express no opinion on it.

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

McCulley & McCulley

Weatherford, Oklahoma

September 12, 2012

RURAL WATER DISTRICT #1
CADDO COUNTY, LOOKEBA, OKLAHOMA
UPDATE ON PRIOR YEAR'S AUDIT FINDINGS
DECEMBER 31, 2011

1. Compliance with District By-laws and Bonding Requirements.

CONDITION AND EFFECT - Article 8, Section 1 (e) of the By-laws of the District requires that all officers and employees charged with the responsibility for the custody of funds of the District to give adequate bond. It is mandatory for the Directors to require this bond. Noted that only the Treasurer is bonded. Other officers and the bookkeeper who handle funds are not bonded.

RECOMMENDATION - Recommend the District purchase the required bond to comply with the District's By-laws or to amend the By-laws.

RESPONSE - The Board approved acquiring this bond, but it has not yet been purchased.

UPDATED COMMENT - Condition is the same. Comment repeated in the audit.

2. Segregation of Duties.

CONDITION AND EFFECT - The District does not have appropriate segregation of duties due to a limited size staff. The effect of inappropriate segregation of duties could result in material errors or irregularities occurring and not be detected in a timely matter.

RECOMMENDATION - The District should be aware of this and segregate duties to the extent possible should new employees be hired.

RESPONSE - The District will keep this recommendation in mind should it ever be economically feasible to hire additional staff.

UPDATED COMMENT - The District has corrected this by using other part time employees. Comment removed.