

CONSOLIDATED RURAL WATER DISTRICT NO. 1
NOWATA & ROGERS COUNTIES, OKLAHOMA
NOWATA, OKLAHOMA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2011

RALPH OSBORN
CERTIFIED PUBLIC ACCOUNTANT
500 SOUTH CHESTNUT
P.O. BOX 1015
BRISTOW, OK 74010-1015

INDEPENDENT AUDITORS' REPORT

Board of Directors
Consolidated Rural Water District No. 1
Nowata & Rogers Counties
Nowata, Oklahoma

I have audited the accompanying financial statements of the business-type activities of Consolidated Rural Water District No. 1, Nowata & Rogers Counties, Nowata, Oklahoma as of and for the year ended December 31, 2011, which collectively comprise Consolidated Rural Water District No. 1's basic financial statements. These financial statements are the responsibility of Consolidated Rural Water District No. 1's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Consolidated Rural Water District No. 1 as of December 31, 2011, and the respective changes in financial position and cash flows where appropriate, thereof, in conformity with accounting principles generally accepted in the United States of America.

Consolidated Rural Water District No. 1 has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statement.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 12, 2012, on my consideration of Consolidated Rural Water District No. 1's internal control over financial reporting and my 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 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 my audit.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
July 12, 2012

CONSOLIDATED RURAL WATER DISTRICT NO. 1
NOWATA & ROGERS COUNTIES, OKLAHOMA
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STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 24,172
Accounts receivable, net	43,058
Prepaid expense	6,470
Interest receivable	<u>35</u>
 Total current assets	 <u>73,735</u>

Restricted assets:

Restricted cash and cash equivalents	<u>63,628</u>
 Total restricted assets	 <u>63,628</u>

Non-current assets:

Capital assets:

Other capital assets, net of accumulated depreciation	<u>1,546,362</u>
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Total non-current assets	<u>1,546,362</u>
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Total assets	<u>1,683,725</u>
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LIABILITIES

Current liabilities:

Accounts payable	19,207
Payroll liabilities	1,362
Accrued Interest Payable	1,199
Lease obligation, current	4,135
Notes payable, current	<u>43,286</u>

Total current liabilities	<u>69,189</u>
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Non-current liabilities:

Notes payable, non-current	<u>477,134</u>
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Total non-current liabilities	<u>477,134</u>
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Total liabilities	<u>546,323</u>
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NET ASSETS

Nonspendable	1,049,602
Reserved for debt service	63,628
Unassigned	<u>24,172</u>

Net assets	<u>\$ 1,137,402</u>
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See accompanying notes to financial statements.

CONSOLIDATED RURAL WATER DISTRICT NO. 1
 NOWATA & ROGERS COUNTIES, OKLAHOMA
 NOWATA, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2011

OPERATING REVENUES

Charges for services	\$ 448,838
Transfers	450
Other	<u>432</u>
 Total operating revenues	 <u>449,720</u>

OPERATING EXPENSES

Personal Services	150,655
Water purchases	201,004
Office and postage expense	6,747
Dues, fees, and licenses	2,217
Insurance and bonds	11,524
Legal and professional	6,420
Telephone	4,860
Utilities	13,678
Repairs and maintenance	10,761
Vehicle Expense	17,387
Supplies	12,998
Other	2,234
Depreciation	<u>80,077</u>
 Total operating expenses	 <u>520,562</u>
 Operating income (loss)	 <u>(70,842)</u>

NON-OPERATING REVENUE (EXPENSES)

OEPIC health insurance reimbursement	8,081
Grant	22,500
Sale of Equipment	1,226
New memberships	12,000
Alluwe sewer billing	1,500
Insurance Proceeds	5,742
Investment income	2,695
Interest on notes payable and fiscal fees	<u>(17,705)</u>
 Total non-operating revenue (expenses)	 <u>36,039</u>
 Net income (loss)	 (34,803)
 Total net assets, beginning	 <u>1,172,205</u>
 Total net assets, ending	 <u>\$ 1,137,402</u>

See accompanying notes to financial statements.

CONSOLIDATED RURAL WATER DISTRICT NO. 1
NOWATA & ROGERS COUNTIES, OKLAHOMA
NOWATA, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash flows from operating activities	
Cash received from customers	\$ 453,356
Cash paid to employees	(151,446)
Cash payments to suppliers for goods and services	<u>(293,752)</u>
Net cash provided (used) by operating activities	<u>8,158</u>
Cash flows from noncapital financing activities:	
OEPIC health insurance reimbursement	8,081
New memberships	12,000
Alluwe sewer billing	<u>1,500</u>
Net cash provided (used) by non capital financing activities	<u>21,581</u>
Cash flows from capital and related financing activities	
Insurance proceeds	5,742
Grants	22,500
Acquisition of capital assets	(25,650)
Sale of capital assets	1,226
Interest paid on notes payable and fiscal fees	(17,705)
Principal paid on notes payable	<u>(45,974)</u>
Net cash (used) by capital and related financing activities	<u>(59,861)</u>
Cash flows from investing activities	
Receipt of interest and dividends	<u>2,695</u>
Net cash provided (used) by investing activities	<u>2,695</u>
Net increase in cash and cash equivalents	(27,427)
Cash and cash equivalents, beginning	<u>115,227</u>
Cash and cash equivalents, ending	<u>\$ 87,800</u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities	
Operating income (loss)	\$ (70,842)
Depreciation	80,077
(Increase)/Decrease in Current Assets	
Accounts receivables, net	4,618
Prepaid expenses	(884)
Increase/(Decrease) in Current Liabilities	
Accounts payable	(3,922)
Accrued interest payable	(791)
Payroll liabilities	<u>(98)</u>
Net cash provided by operating activities	<u>\$ 8,158</u>

See accompanying notes to financial statements.

CONSOLIDATED RURAL WATER DISTRICT NO. 1
NOWATA & ROGERS COUNTIES, OKLAHOMA
NOWATA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidated Rural Water District No.1, Nowata & Rogers Counties, Oklahoma (the "District") was organized on August 10, 1982 by the Nowata County Board of County Commissioners and the Rogers County Board of County Commissioners by consolidating Rural Water District No.1 and Winganon Water District under the provisions of the Rural Water District Act (Title 82, O.S. Supp 1972, Sections 1324.1 to 1324.26) for the purpose of providing a water works system including all physical facilities, improvements and services necessary for executing that purpose in Nowata and Rogers counties. Since the District is a political subdivision of the State of Oklahoma, under Title 82, it is exempt from Federal and State income taxes.

The membership consists of approximately 600 benefit unit holders, each entitled to one vote. Subscribers to benefit units pay a \$1,500 subscription fee, which is non refundable, and entitles the holder to one line from the District's water system. The Board of Directors consists of 7 members serving 3 year terms. The vacant Board seats are filled at the annual meeting, and the Board of Directors elects a Chairman, Vice-Chairman, Secretary, and Treasurer.

Government-Wide and Fund Financial Statements

The District is a special purpose governmental entity engaged only in business type activities. The District prepares financial statements required for enterprise funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The financial statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported in financial statements include revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FUND TYPES AND MAJOR FUNDS

The District reports all activity within a single fund.

Investments

The District follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Investment reported in the financial statements is a certificate of deposit.

Capital Assets, Depreciation, and Amortization

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported. The District maintains infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The District generally capitalizes assets with as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method with one-half year depreciation in the year acquired and one-half in the year of disposal. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	20 - 50 years
Water and sewer system	30 - 50 years
Machinery, and equipment	5 - 10 years
Improvements	10 - 20 years

The prior auditor was unable to obtain the schedule of fixed assets and depreciation schedule for 2005 and prior. The depreciation expense for any fixed assets acquired before 2005 has been estimated based on prior years' depreciation expense with the assumption that all prior assets will depreciate at the same rate as the expense reported in 2005 until fully depreciated. This method may cause an under or over depreciation of some fixed assets in this or future years.

Compensated Absences

All regular, full-time, hourly and all regular, full-time, salaried employees shall receive one week paid vacation after one year employment, and two weeks paid vacation after two years employment. Vacation pay is vested, and thus is paid upon retirement or separation (with proper notice). At December 31, 2011, it is not believed that accrued benefits, if any, are significant and would not materially affect the financial statements.

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Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Restricted net assets represent tentative plans for future use of financial resources.

Use of Estimates

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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the District will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by counterparty or the counterparty's trust department but not in the name of the District. The District's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of December 31, 2011, all of the District's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$87,800 at December 31, 2011. The bank balance of the deposits at December 31, 2011 was approximately \$92,471.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at December 31, 2011.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitors the investment performance on an ongoing basis to limit the District's interest rate risk. As of December 31, 2011, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

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 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011

NOTE C - RESTRICTED ASSETS

USDA RURAL DEVELOPMENT

The District has reported as restricted assets cash held by a trustee bank for use in relation to the note payable listed in Note E. The cash reported in the Statement of Net Assets is restricted as indicated. This cash is not available for other purposes.

The Loan Resolution Security Agreements with the USDA Rural Development requires a reserve fund to be funded at 10% of the monthly installment until the balance is equal to the annual installment amount (\$3,398 X 12 = \$40,776). At December 31, 2011, the total balance in the debt service reserve accounts at Lakeside State Bank, Chelsea, Oklahoma was \$42,840.

Debt Service Reserve Account	\$ 42,840
Less: Excess Funds	<u>(2,064)</u>
Net Required Reserve	40,776
Trustee Bank Balances	<u>22,852</u>
Total Reserved for Debt Service	<u>\$ 63,628</u>

NOTE D - CAPITAL ASSETS

The following table provides a summary of changes in capital assets:

	Beginning Balance	Additions	Retirements	Ending Balance
Buildings & Improvements	\$ 48,986	\$ -	\$ -	\$ 48,986
Equipment	155,647	3,150	-	158,797
Water Distribution System	<u>3,144,175</u>	<u>22,500</u>	-	<u>3,166,675</u>
Total Capital Assets	\$ 3,348,808	\$ 25,650	\$ -	\$ 3,374,458
Depreciation	<u>(1,748,019)</u>	<u>(80,077)</u>	<u>-</u>	<u>(1,828,096)</u>
Total Net Capital Assets	<u>\$ 1,600,789</u>	<u>\$ (54,427)</u>	<u>\$ -</u>	<u>\$ 1,546,362</u>

CONSOLIDATED RURAL WATER DISTRICT NO. 1
NOWATA & ROGERS COUNTIES, OKLAHOMA
NOWATA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE E - NOTES PAYABLE PROPRIETARY FUND

A brief description of the outstanding notes payable at December 31, 2011 is set forth below:

OWRB, Oklahoma Water Resources Board loan in the original loan amount of \$245,000, interest rate of 1.32% at December 31, 2011, term of 20 years, monthly installments are deposited into a debt service fund with the trustee bank. Semi-annual payments are then made from this account to OWRB.	\$188,633
USDA, Rural Development loan #15 in the original loan amount of \$400,000, interest rate of 5.00%, term of 40 years, monthly installment of \$1,964.00.	157,476
USDA, Rural Development loan #16 in the original loan amount of \$292,000, interest rate of 5.00%, term of 40 years, monthly installment of \$1,434.00.	118,099
ODOC, Oklahoma Department of Commerce CDBG-CD loan in the original loan amount of \$175,000, interest rate of 0.00%, term of 20 years, monthly installment of \$729.17.	56,145
Lakeside State Bank lease purchase in the original amount of \$17,881 to purchase a 2009 pickup, interest rate of 4.50%, term of 60 months, monthly installment of \$337.87	<u>4,202</u>
TOTAL	<u>\$ 524,555</u>

Following is the anticipated annual debt service amounts for principal payments.

<u>Year Ended October 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2012	\$ 47,421	\$ 16,082	\$ 63,503
2013	45,300	14,628	59,928
2014	47,386	13,013	60,399
2015	49,648	11,310	60,958
2016	51,991	9,515	61,506
2017 - 2021	193,209	22,762	215,971
2022 - 2026	<u>89,600</u>	<u>3,478</u>	<u>93,078</u>
Total	<u>\$ 524,555</u>	<u>\$ 90,788</u>	<u>\$ 615,343</u>

CONSOLIDATED RURAL WATER DISTRICT NO. 1
NOWATA & ROGERS COUNTIES, OKLAHOMA
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE F - 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; and natural disasters. The District carries commercial insurance for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE G - CONTRACTS

The District purchases water for resale from Chelsea Economic Development Authority, Chelsea, Oklahoma, under the terms of a Water Purchase Agreement dated December 19, 1997. The contract extends for an initial term twenty-nine (29) years and thereafter is to be reviewed annually for successive one year terms until terminated. The price paid by the District is determined based on costs incurred by the Authority in producing the water purchased. The contract contains terms defining the costs to be considered.

NOTE H - PENSION

Plan Description. The District contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Section 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. District employees are required to contribute a minimum of 3.5% of earned compensation, and the District is required to contribute a minimum of 10.5% with the total aggregated contribution of 20%. The District's contributions to the Plan for the years ending December 31, 2011, 2010 and 2009 were \$11,774, \$10,175 and \$11,244, respectively.

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*

To the Board of Directors
Consolidated Rural Water District No. 1
Nowata & Rogers Counties
Nowata, Oklahoma

I have audited the financial statements of the business-type activities of Consolidated Rural Water District No. 1 as of and for the year ended December 31, 2011, which collectively comprise Consolidated Rural Water District No. 1's basic financial statements and have issued my report thereon dated August 3, 2011. I conducted my 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 my audit, I considered Consolidated Rural Water District No. 1's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Consolidated Rural Water District No. 1's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Consolidated Rural Water District No. 1'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.

My 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. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the lack of segregation of duties to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Consolidated Rural Water District No. 1's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
July 12, 2012