

**RURAL WATER DISTRICT NO. 1
KAY COUNTY, OKLAHOMA**

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2011 AND 2010

RURAL WATER DISTRICT NO. 1,
KAY COUNTY, OKLAHOMA
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Independent Auditor's Report

Board of Directors
Rural Water District No. 1, Kay County, Oklahoma

We have audited the accompanying financial statements of Rural Water District No. 1, Kay County, Oklahoma as of December 31, 2011 and 2010 and for the years then ended. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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 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 included 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.

As discussed in Note 1 Rural Water District No. 1, Kay County, Oklahoma prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Rural Water District No. 1, Kay County, Oklahoma, as of December 31, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 9, 2012 on our consideration of Rural Water District No. 1, Kay County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants 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 read in conjunction with this report in considering the results of our audit.

Rural Water District No. 1, Kay County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
February 9, 2012

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 No. 1, Kay County, Oklahoma

We have audited the financial statements of Rural Water District No. 1, Kay County, Oklahoma as of and for the year ended December 31, 2011 and have issued our report thereon dated February 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Rural Water District No. 1, Kay County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rural Water District No. 1, Kay County, Oklahoma'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 Rural Water District No. 1, Kay County, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 1, Kay County, Oklahoma's internal control over financial reporting.

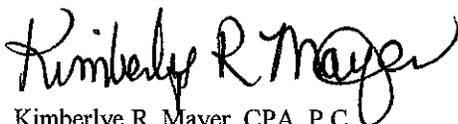
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is 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 weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 1, Kay County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 audits 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, the board of directors, and others within the District and is not intended to be and should not be used by anyone other than these specified parties.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
February 9, 2012

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 1
 KAY COUNTY, OKLAHOMA
 STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
 MODIFIED CASH BASIS
 DECEMBER 31, 2011 AND 2010

ASSETS

	2011	2010
Current Assets:		
Cash and cash equivalents	\$ 384,317	\$ 280,699
ORWAAG deposits	1,000	1,000
Inventory	9,611	9,611
Total Current Assets	394,928	291,310
Work in progress	20,423	20,423
Capital assets (net of accumulated depreciation) (Note 2)	1,011,709	1,058,303
Total Assets	\$ 1,427,060	\$ 1,370,036

LIABILITIES AND NET ASSETS

Liabilities:	\$	\$
Net Assets:		
Invested in capital assets, net of related debt	1,032,132	1,078,726
Unrestricted	394,928	291,310
Total Net Assets	1,427,060	1,370,036
Total Liabilities and Net Assets	\$ 1,427,060	\$ 1,370,036

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 1
KAY COUNTY, OKLAHOMA
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS - MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Water service	\$ 402,906	\$ 351,959
Late charges	3,463	3,517
Other income	70	21
Total Operating Revenues	<u>406,439</u>	<u>355,497</u>
Operating Expenses		
Water purchases	221,795	191,557
Electricity	26,287	25,093
Repairs and maintenance	10,590	3,492
Permits, fees and water tests	804	874
Office supplies and postage	4,011	3,918
Management fees	36,000	35,600
Insurance and bonds	4,515	2,941
Professional fees	980	875
Depreciation	46,594	55,517
Telephone	72	78
Miscellaneous expenses	837	1,927
Total Operating Expenses	<u>352,485</u>	<u>322,272</u>
Operating Income (Loss)	53,954	33,225
Nonoperating Revenue (Expenses):		
Interest income	570	1,392
Memberships	2,500	
Total Nonoperating Revenues	<u>3,070</u>	<u>1,392</u>
Change in Net Assets	57,024	34,617
Net Assets, beginning of year	<u>1,370,036</u>	<u>1,335,419</u>
Net Assets, end of year	<u>\$ 1,427,060</u>	<u>\$ 1,370,036</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 1
KAY COUNTY, OKLAHOMA
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 406,439	\$ 355,497
Other operating cash receipts		
Cash payments to suppliers for goods and services	<u>(305,891)</u>	<u>(266,755)</u>
Net cash provided (used) by operating activities	100,548	88,742
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(371,851)
Membership fees	<u>2,500</u>	
Net cash provided (used) by financing activities	2,500	<u>(371,851)</u>
 Cash flows from investing activities:		
Interest income	570	1,392
(Increase) decrease in certificates of deposit		<u>191,047</u>
Net cash provided (used) by investing activities	<u>570</u>	<u>192,439</u>
 Net increase (decrease) in cash and cash equivalents	103,618	(90,670)
Beginning cash and cash equivalents	<u>280,699</u>	<u>371,369</u>
Ending cash and cash equivalents	<u>\$ 384,317</u>	<u>\$ 280,699</u>
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 53,954	\$ 33,225
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	46,594	55,517
Changes in assets and liabilities:		
(Increase) decrease in inventory		
Net cash provided (used) by operating activities	<u>\$ 100,548</u>	<u>\$ 88,742</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 1,
KAY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 1, Kay County, Oklahoma was incorporated in December 1966. The District was created under the Rural Water District Act, as amended, Title 82, Section 1301-1321 of the Oklahoma State Statutes. The purpose of the District is to acquire water and water rights; to build and acquire pipelines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owner and occupants of land located within the District, and others as authorized by the by-laws.

The District is a governed entity by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Statement of Cash Flows

For the purpose of the Statement of Flows, the District considers all checking, savings and money market accounts and deposits with a maturity of three months or less to be cash equivalents.

RURAL WATER DISTRICT NO. 1
 KAY COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or eternal restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 2 - WATERLINE SYSTEM:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Annual depreciation is calculated on a straight-line basis. Total depreciation for the years ended December 31, 2011 and 2010 was \$46,594 and \$55,517 respectively. The balances for depreciable assets by major category at December 31, 2011 are as follows:

	Balance 12/31/10	(Deletions) Additions	Balance 12/31/11
Land	\$ 10,522	\$	\$ 10,522
Waterline system	1,640,257		1,640,257
Accumulated depreciation	(592,476)	(46,594)	(639,070)
Totals	<u>\$ 1,058,303</u>	<u>\$ (46,594)</u>	<u>\$ 1,011,709</u>

NOTE 3- ESTIMATES.

The preparation of financial statements in conformity with the modified cash basis of accounting 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. Accordingly, actual results could differ from those estimates.

NOTE 4 -- RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; thefts of, damages to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for these and other risks of loss. Settled claims have not exceeded the commercial coverage in past years.

NOTE 5 -- CONTINGENCIES:

As of December 31, 2011, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

RURAL WATER DISTRICT NO. 1,
KAY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 6 – EVALUATION OF SUBSEQUENT EVENTS:

The Corporation has evaluated subsequent events through February 9, 2012, the date which the financial statements were available to be issued.