

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 1, MAJOR COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2011 AND 2010**

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 1, MAJOR COUNTY, OKLAHOMA  
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## Independent Auditor's Report

Board of Directors  
Rural Water, Sewer, and Solid Waste Management  
District No. 1, Major County, Oklahoma

We have audited the accompanying financial statements of Rural Water, Sewer, and Solid Waste Management, District No. 1, Major 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.

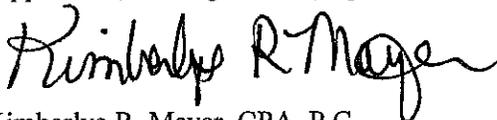
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether 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, Sewer, and Solid Waste Management, District No. 1, Major County, Oklahoma prepared its financial statements on the 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, Sewer, and Solid Waste Management, District No. 1, Major 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, Sewer, and Solid Waste Management, District No. 1, Major 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, Sewer, and Solid Waste Management District No. 1, Major 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, Sewer, and Solid Waste Management  
District No. 1, Major County, Oklahoma

We have audited the financial statements of Rural Water, Sewer, and Solid Waste Management District No. 1, Major 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, Sewer, and Solid Waste Management District No. 1, Major 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, Sewer and Solid Waste Management District No. 1, Major 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, Sewer and Solid Waste Management District No. 1, Major County, Oklahoma internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water, Sewer and Solid Waste Management District No. 1, Major 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, Sewer, and Solid Waste Management District No. 1, Major 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, 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, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 1, MAJOR 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 (Note 1)	\$ 184,009	\$ 93,736
Certificates of deposit	315,723	310,667
Restricted accounts (Note 1)	26,439	26,437
Total Current Assets	526,171	430,840
Capital assets (net of accumulated depreciation) (Note 2)	1,493,973	1,539,128
Easements (net of accumulated amortization) (Note 3)	14,000	15,000
Total Assets	\$ 2,034,144	\$ 1,984,968

LIABILITIES AND NET ASSETS

Liabilities:		
Current Liabilities:		
Payroll taxes due	\$	\$
Notes payable, current portion (Note 5)	6,167	5,902
Total Current Liabilities	6,167	5,902
Noncurrent Liabilities:		
Notes payable, long-term (Note 5)	398,937	416,545
Total Liabilities	405,104	422,447
Net Assets:		
Invested in capital assets, net of related debt	1,388,869	1,116,681
Restricted for debt service	25,439	25,437
Unrestricted	214,732	420,403
Total Net Assets	1,629,040	1,562,521
Total Liabilities and Net Assets	\$ 2,034,144	\$ 1,984,968

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 1, MAJOR 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 sales	\$ 363,486	\$ 257,896
Late penalties	544	856
Miscellaneous revenues	2,564	3,892
Total Operating Revenues	<u>366,594</u>	<u>262,644</u>
Operating Expenses:		
Salaries and wages	92,058	77,308
Payroll taxes	7,332	7,122
Employee benefits	7,098	7,025
Repairs and maintenance	28,683	17,605
Chemicals	6,875	3,465
Fuel	10,483	7,375
Water contracts	750	750
Depreciation and amortization	79,860	73,376
Insurance	9,270	7,172
Professional fees	1,910	1,880
Licenses and fees	2,406	3,173
Office expense and postage	4,918	3,764
Membership and service fees	1,988	2,024
Telephone and utilities	44,995	39,048
Travel	571	687
Other expenses	1,631	4,245
Total Operating Expenses	<u>300,828</u>	<u>256,019</u>
Operating Income (Loss)	65,766	6,625
Nonoperating Revenue (Expenses):		
Benefit units	12,200	5,000
Interest income	7,211	7,651
Interest expense	(18,658)	(23,522)
Total Nonoperating Revenues (Expenses)	<u>753</u>	<u>(10,871)</u>
Change in Net Assets	66,519	(4,246)
Net Assets, beginning of year	1,562,521	1,566,767
Net Assets, end of year	<u>\$ 1,629,040</u>	<u>\$ 1,562,521</u>

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 1, MAJOR 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	\$ 364,030	\$ 258,752
Other operating receipts	2,564	3,892
Cash payments to employees	(92,058)	(77,308)
Cash payments to suppliers for goods and services	(128,910)	(105,335)
Net cash provided (used) by operating activities	<u>145,626</u>	<u>80,001</u>
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(33,705)	(54,844)
Principal paid on notes	(17,343)	(121,295)
Interest paid on notes	(18,658)	(23,522)
System development fees	12,200	5,000
Net cash provided (used) by financing activities	<u>(57,506)</u>	<u>(194,661)</u>
 Cash flows from investing activities:		
Interest received	7,211	7,651
(Increase) decrease in restricted accounts	(2)	20,039
(Increase) decrease in certificates of deposit	(5,056)	(6,537)
Net cash provided (used) by investing activities	<u>2,153</u>	<u>21,153</u>
 Net increase (decrease) in cash and cash equivalents	90,273	(93,507)
Beginning cash and cash equivalents	93,736	187,243
Ending cash and cash equivalents	<u>\$ 184,009</u>	<u>\$ 93,736</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income or loss	\$ 65,766	\$ 6,625
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	<u>79,860</u>	<u>73,376</u>
Net cash provided (used) by operating activities	<u>\$ 145,626</u>	<u>\$ 80,001</u>

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 1, MAJOR 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, Sewer, and Solid Waste Management District No. 1, Major County, Oklahoma, was created under the Rural Water District Act, Title 82, as amended, of the laws of the State of Oklahoma. The District is exempt from Federal and State income taxes of the United States Internal Revenue code. The purpose of the District is to provide water, sewer, and solid waste management services to the owners and occupants of land located within the District, and others as authorized by law.

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 recognized 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 and deposits are maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

Cash and Cash Equivalents

All operating cash accounts and certificates of deposit with a maturity date of three months or less are considered cash equivalents for purposes of the cash flow statement.

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.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 1, MAJOR COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2011 AND 2010

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

Restricted Cash and Cash Equivalents

The District is required to maintain deposits of \$24,912 for retirement of its long-term debt. Restricted cash also includes \$1,000 invested in the Oklahoma Rural Water Association Assurance Group for insurance reserves, and the CDBG savings account of \$527.

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 were \$78,860 and \$72,376 respectively. The balances for depreciable assets by major category at December 31, 2011 are as follows:

	Balance <u>12/31/2010</u>	(Deletions) <u>Additions</u>	Balance <u>12/31/2011</u>
Waterline system	\$ 2,354,694	\$ 24,146	\$ 2,378,840
Machinery & equipment	76,712	719	77,431
Vehicles	35,486	7,990	43,476
Buildings & improvements	84,532		84,532
Furniture & office equipment	6,202	850	7,052
Accumulated depreciation	<u>(1,018,498)</u>	<u>(78,860)</u>	<u>(1,097,358)</u>
Totals	<u>\$ 1,539,128</u>	<u>\$ (45,155)</u>	<u>\$ 1,493,973</u>

NOTE 3 – EASEMENTS:

Water rights purchased have been capitalized at cost and are being amortized over 40 years.

NOTE 4 – RETIREMENT BENEFITS:

The employees of the District participate in a retirement plan. The District contributes approximately 3% of the employees' gross wages which amounted to \$1,649 and \$1,657 for the years ended December 31, 2011 and 2010 respectively.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 1, MAJOR COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 5 - NOTES PAYABLE:

During the year ended December 31, 2004 the District borrowed \$452,100 from USDA-Rural Development to help fund a water system extension to the town of Isabella. The note carries an interest rate of 4 ½% and is to be repaid over 40 years. The monthly payments are \$2,076. Collateral for this loan is the water system including revenues, real property, easements and leases. The USDA loan reserve account requirement is \$24,912. The balance of this reserve account at December 31, 2011 is \$24,912.

Balance at 12/31/10		\$ 422,447
Payments		(17,343)
Balance at 12/31/11		<u>\$ 405,104</u>

The following is a summary of the Districts future debt requirements.

Years Ending	Payments Due
12/31/2012	\$ 24,912
12/31/2013	24,912
12/31/2014	24,912
12/31/2015	24,912
12/31/2016	24,912
12/31/2017 - 12/31/2021	124,560
12/31/2022 - 12/31/2026	124,560
12/31/2027 - 12/31/2031	124,560
12/31/2032 - 12/31/2036	124,560
12/31/2037 - 12/31/2041	124,560
12/31/2042 - 12/31/2043	42,870
	<u>\$ 790,230</u>
Less interest	(385,126)
Net	<u>\$ 405,104</u>

NOTE 6 - 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 external restrictions by creditors, grantors, laws or regulations of other governments.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT  
DISTRICT NO. 1, MAJOR COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 7- RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims during the year ended December 31, 2011.

NOTE 8 – 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 disclosure 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 9 – 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.

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS:

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