

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

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, MAJOR COUNTY, OKLAHOMA
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	Page
INTRODUCTORY SECTION:	
Table of Contents	i
FINANCIAL SECTION:	
Independent Auditor's Report	1-2
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 <i>Government Auditing Standards</i>	3-5
Financial Statements:	6
Statements of Assets, Liabilities, and Net Position – Modified Cash Basis	7
Statements of Revenues, Expenses and Changes in Net Position - Modified Cash Basis	8
Statements of Cash Flows – Modified Cash Basis	9
Notes to Financial Statements	10-13

Kimberlye R. Mayer, CPA, P.C.

735 West Doolin

Blackwell, OK 74631

(580) 363-1453
Fax (580) 363-0068

Independent Auditor's Report

Board of Directors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water, Sewer, and Solid Waste Management, District No. 1, Major County Oklahoma which comprise the statements of assets, liabilities and net position as of December 31, 2013 and 2012 and the related statements of revenues and expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

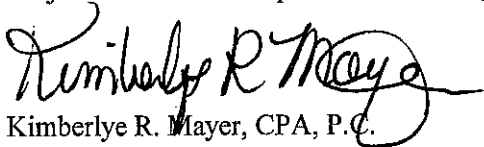
In our opinions, the financial statements referred to above, present fairly, in all material respects, the financial position of Rural Water, Sewer, and Solid Waste Management, District No. 1, Major County Oklahoma, as of December 31, 2013 and 2012; the changes in financial position and cash flows thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 13, 2014 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.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
February 13, 2014

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, 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, 2013 and have issued our report thereon dated February 13, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in *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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water, Sewer, and Solid Waste Management, District No. 1, Major County Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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's internal control. 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

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 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*.

Response to Findings

Rural Water, Sewer, and Solid Waste Management, District No. 1, Major County Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water, Sewer, and Solid Waste Management, District No. 1, Major County Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kimberly R. Mayer, CPA, P.C.
Blackwell, Oklahoma
February 13, 2014

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, MAJOR COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2013

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, MAJOR COUNTY, OKLAHOMA
STATEMENTS OF ASSETS, LIABILITIES AND NET POSITION
MODIFIED CASH BASIS
DECEMBER 31, 2013 AND 2012

ASSETS		2013	2012
Current Assets:			
Cash and cash equivalents (Note 1)	\$	172,045	\$ 196,634
Certificates of deposit		200,099	419,964
Restricted accounts (Note 1)		1,529	26,441
Total Current Assets		373,673	643,039
Capital assets (net of accumulated depreciation) (Note 2)		1,386,212	1,441,284
Easements (net of accumulated amortization) (Note 3)		13,000	13,000
Total Assets	\$	1,772,885	\$ 2,097,323

LIABILITIES AND NET POSITION

Liabilities:			
Current Liabilities:			
Notes payable, current portion (Note 5)	\$		\$ 6,445
Total Current Liabilities			6,445
Noncurrent Liabilities:			
Notes payable, long-term (Note 5)			380,568
Total Liabilities			387,013
Net Position:			
Net investment in capital assets		1,399,212	1,067,271
Restricted for debt service			24,912
Unrestricted		373,673	618,127
Total Net Position		1,772,885	1,710,310
Total Liabilities and Net Position	\$	1,772,885	\$ 2,097,323

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 POSITION
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues:		
Water sales	\$ 326,026	\$ 346,446
Late penalties	701	852
Miscellaneous revenues	840	784
Total Operating Revenues	<u>327,567</u>	<u>348,082</u>
Operating Expenses:		
Salaries and wages	84,497	91,262
Payroll taxes	7,151	7,244
Employee benefits	7,224	7,016
Repairs and maintenance	11,939	11,999
Chemicals	7,067	4,730
Fuel	10,316	10,249
Water contracts	737	392
Depreciation and amortization	78,512	81,766
Insurance	10,955	8,345
Professional fees	2,355	1,910
Director fees	1,360	1,500
Memberships, licenses and fees	7,104	7,346
Office expense and postage	3,037	4,301
Telephone and utilities	30,075	35,951
Travel	524	579
Other expenses	121	1,401
Total Operating Expenses	<u>262,974</u>	<u>275,991</u>
Operating Income (Loss)	64,593	72,091
Nonoperating Revenue (Expenses):		
Benefit units	7,000	3,653
Interest income	2,507	4,732
Interest expense	<u>(11,525)</u>	<u>(17,909)</u>
Total Nonoperating Revenues (Expenses)	<u>(2,018)</u>	<u>(9,524)</u>
Change in Net Position	62,575	62,567
Net Position, beginning of year	<u>1,710,310</u>	<u>1,647,743</u>
Net Position, end of year	<u>\$ 1,772,885</u>	<u>\$ 1,710,310</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, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 326,727	\$ 347,298
Other operating receipts	840	784
Cash payments to employees	(84,497)	(91,262)
Cash payments to suppliers for goods and services	<u>(99,965)</u>	<u>(102,963)</u>
Net cash provided (used) by operating activities	143,105	153,857
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(24,969)	(9,374)
Principal paid on notes	(387,013)	(18,091)
Interest paid on notes	(11,525)	(17,909)
System development fees	<u>7,000</u>	<u>3,653</u>
Net cash provided (used) by financing activities	(416,507)	(41,721)
 Cash flows from investing activities:		
Interest received	2,507	4,732
(Increase) decrease in restricted accounts	26,441	(2)
(Increase) decrease in certificates of deposit	<u>219,865</u>	<u>(104,241)</u>
Net cash provided (used) by investing activities	<u>248,813</u>	<u>(99,511)</u>
 Net increase (decrease) in cash and cash equivalents	(24,589)	12,625
Beginning cash and cash equivalents	<u>196,634</u>	<u>184,009</u>
Ending cash and cash equivalents	<u>\$ 172,045</u>	<u>\$ 196,634</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income or loss	\$ 64,593	\$ 72,091
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization	<u>78,512</u>	<u>81,766</u>
 Net cash provided (used) by operating activities	<u>\$ 143,105</u>	<u>\$ 153,857</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, 2013 AND 2012

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 position/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, 2013 AND 2012

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. These deposits were used to retire the long-term debt during the fiscal year ending December 31, 2013. Restricted cash also includes \$1,000 invested in the Oklahoma Rural Water Association Assurance Group for insurance reserves, and the CDBG savings account of \$529.

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, 2013 and 2012 were \$73,512 and \$80,766 respectively. The balances for depreciable assets by major category at December 31, 2013 are as follows:

	Balance 12/31/12	(Deletions) Additions	Balance 12/31/13
Waterline system	\$ 2,406,917	\$ 13,590	\$ 2,420,507
Machinery & equipment	77,431	4,100	81,531
Vehicles	43,476	(2,989)	40,487
Buildings & improvements	84,532		84,532
Furniture & office equipment	7,052		7,052
Accumulated depreciation	(1,178,124)	(69,773)	(1,247,897)
Totals	<u>\$ 1,441,284</u>	<u>\$ (55,072)</u>	<u>\$ 1,386,212</u>

NOTE 3 – EASEMENTS:

The District purchased water rights which in prior years were being amortized. Due to a change in accounting pronouncements, and because these water rights are for an indefinite period of time, no amortization is currently being recorded. The District performs an annual evaluation of these water rights to determine any impairment or any change in their useful life.

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 \$1,608 and \$1,574 for the years ended December 31, 2013 and 2012 respectively.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, MAJOR COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

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 was \$24,912. This note was paid off during the fiscal year ended December 31, 2013 and the loan reserve account was closed.

Balance at 12/31/11	\$ 405,104
Payments	<u>(18,091)</u>
Balance at 12/31/12	387,013
Payments	<u>(387,013)</u>
Balance at 12/31/13	<u><u>\$</u></u>

NOTE 6 - NET POSITION:

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets is reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is 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.

NOTE 7 - COMMITMENTS:

On October 1, 2013, the District entered into a Consent Order with the Water Quality Division of the Department of Environmental Quality. In the Consent Order the District agreed to perform certain tasks according to a specified schedule to eliminate effluent permit violations from the District's water system to bring it into compliance with Oklahoma statutes and regulations. The District was assessed an administration penalty of \$15,000 which has been deferred and will be waived upon completion of these tasks by October 1, 2014. The District agreed to pursue all possible funding options for the projects required to bring its wastewater treatment system into compliance with federal and state regulations.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, MAJOR COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 8- 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, 2013.

NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The District's financial instruments include cash and cash equivalents, and certificates of deposit. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial statements approximates fair value because of the short maturity of these instruments.

NOTE 10 – 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 11 – CONTINGENCIES:

As of December 31, 2013 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 12 -- EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through February 13, 2014, the date which the financial statements were available to be issued.