

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

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

RURAL WATER DISTRICT NO. 1,
KAY COUNTY, OKLAHOMA
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	Page
INTRODUCTORY SECTION:	
Table of Contents	i
FINANCIAL SECTION:	
Independent Auditor's Report	1-2
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
Financial Statements:	4
Statement of Assets, Liabilities, and Net Assets – Modified Cash Basis	5
Statement of Revenues, Expenses and Changes in Net Assets - Modified Cash Basis	6
Statement of Cash Flows – Modified Cash Basis	7
Notes to Financial Statements	8-10

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of Rural Water District No. 1, Kay County, Oklahoma as of December 31, 2012 and 2011 and for the years then ended. These financial statements are the responsibility of the District's management.

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 opinion, the financial statements referred to above, present fairly, in all material respects, the respective modified cash basis financial position of Rural Water District No. 1, Kay County, Oklahoma, as of December 31, 2012 and 2011; the respective changes in modified cash basis financial position; and, when applicable, 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.

Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 5, 2013 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.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
February 5, 2013

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, 2012 and have issued our report thereon dated February 5, 2013. 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.

Internal Control Over Financial Reporting

Management of Rural Water District No. 1, Kay County, Oklahoma is responsible for establishing and maintaining effective 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.

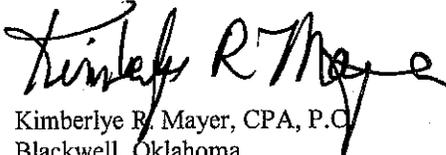
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material 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*.

We noted a matter involving the internal control and its operation that we reported to the management of Rural Water District No. 1, Kay County, Oklahoma in a separate letter dated February 5, 2013.

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 5, 2013

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 1
 KAY COUNTY, OKLAHOMA
 STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
 MODIFIED CASH BASIS
 DECEMBER 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and cash equivalents	\$ 525,332	\$ 384,317
ORWAAG deposits	1,000	1,000
Inventory	<u>9,611</u>	<u>9,611</u>
Total Current Assets	535,943	394,928
Work in progress		20,423
Capital assets (net of accumulated depreciation) (Note 2)	<u>1,015,113</u>	<u>1,011,709</u>
Total Assets	<u><u>\$ 1,551,056</u></u>	<u><u>\$ 1,427,060</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	\$	\$
Net Assets:		
Invested in capital assets, net of related debt	1,015,113	1,032,132
Unrestricted	<u>535,943</u>	<u>394,928</u>
Total Net Assets	<u>1,551,056</u>	<u>1,427,060</u>
Total Liabilities and Net Assets	<u><u>\$ 1,551,056</u></u>	<u><u>\$ 1,427,060</u></u>

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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Water service	\$ 460,946	\$ 402,906
Late charges		3,463
Other income		70
Total Operating Revenues	<u>460,946</u>	<u>406,439</u>
Operating Expenses		
Water purchases	210,446	221,795
Electricity	25,399	26,287
Repairs and maintenance	16,447	10,590
Permits, fees and water tests	802	804
Travel expenses	251	
Office supplies and postage	4,165	4,011
Management fees	36,000	36,000
Insurance and bonds	3,760	4,515
Dues and subscriptions	480	
Professional fees	980	980
Depreciation	47,318	46,594
Telephone	66	72
Miscellaneous expenses	1,725	837
Total Operating Expenses	<u>347,839</u>	<u>352,485</u>
Operating Income (Loss)	113,107	53,954
Nonoperating Revenue (Expenses):		
Interest income	889	570
Memberships	10,000	2,500
Total Nonoperating Revenues	<u>10,889</u>	<u>3,070</u>
Change in Net Assets	123,996	57,024
Net Assets, beginning of year	<u>1,427,060</u>	<u>1,370,036</u>
Net Assets, end of year	<u>\$ 1,551,056</u>	<u>\$ 1,427,060</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, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities:		
Cash received from customers	\$ 460,946	\$ 406,439
Other operating cash receipts		
Cash payments to suppliers for goods and services	(300,521)	(305,891)
Net cash provided (used) by operating activities	160,425	100,548
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(29,299)	
Membership fees	10,000	2,500
Net cash provided (used) by financing activities	(19,299)	2,500
 Cash flows from investing activities:		
Interest income	889	570
(Increase) decrease in certificates of deposit		
Net cash provided (used) by investing activities	889	570
 Net increase (decrease) in cash and cash equivalents	141,015	103,618
Beginning cash and cash equivalents	384,317	280,699
Ending cash and cash equivalents	\$ 525,332	\$ 384,317
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 113,107	\$ 53,954
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	47,318	46,594
Changes in assets and liabilities:		
(Increase) decrease in inventory		
Net cash provided (used) by operating activities	\$ 160,425	\$ 100,548

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, 2012 AND 2011

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, 2012 AND 2011

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, 2012 and 2011 was \$47,318 and \$46,594 respectively. The balances for depreciable assets by major category at December 31, 2012 are as follows:

	Balance 12/31/11	(Deletions) Additions	Balance 12/31/12
Land	\$ 10,522	\$	\$ 10,522
Waterline system	1,640,257	50,722	1,690,979
Accumulated depreciation	(639,070)	(47,318)	(686,388)
Totals	<u>\$ 1,011,709</u>	<u>\$ 3,404</u>	<u>\$ 1,015,113</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, 2012, 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, 2012 AND 2011

NOTE 6 – EVALUATION OF SUBSEQUENT EVENTS:

The Corporation has evaluated subsequent events through February 5, 2013, the date which the financial statements were available to be issued.