

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
ANNUAL FINANCIAL STATEMENTS
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Independent Auditor's Report

Board of Directors
Rural Water District No. 1, Noble County

We have audited the accompanying financial statements of Rural Water District No. 1, Noble County as of December 31, 2010 and 2009 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.

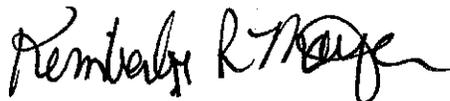
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether 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, Noble County 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, Noble County as of December 31, 2010 and 2009 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 April 19, 2012 on our consideration of Rural Water District No. 1, Noble County'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, Noble County 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
April 19, 2012

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 District No. 1, Noble County

We have audited the financial statements of Rural Water District No. 1, Noble County as of and for the year ended December 31, 2010 and have issued our report thereon dated April 19, 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, Noble County 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 Rural Water District No. 1, Noble 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, Noble 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, Noble County, Oklahoma's internal control over financial reporting

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Rural Water District No. 1, Noble County, Oklahoma's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the Rural Water District No. 1, Noble County, Oklahoma's financial statements that is more than inconsequential will not be prevented or detected by the Rural Water District No. 1, Noble County, Oklahoma's internal control. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Rural Water District No. 1, Noble County, Oklahoma's internal control.

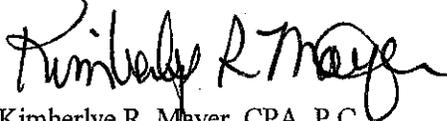
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do consider the significant deficiency described in the accompanying schedule of findings and responses to be a material weakness.

Rural Water District No. 1, Noble County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 1, Noble County'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
April 19, 2012

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2010

Material Weakness Communicated In Prior Year:

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 water billing 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 DISTRICT NO. 1, NOBLE COUNTY
 STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
 MODIFIED CASH BASIS
 DECEMBER 31, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Current Assets:		
Cash and cash equivalents	\$ 11,822	\$ 1,941
Restricted reserves:		
Reserve account	12,218	10,789
Property, plant and equipment (net of accumulated depreciation) (Note 2)	<u>396,080</u>	<u>413,845</u>
Total Assets	<u><u>\$ 420,120</u></u>	<u><u>\$ 426,575</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Current portion of notes payable (Note 3)	\$ 17,412	\$ 19,460
Customer deposits	992	992
Notes payable (non-current portion) (Note 3)	<u>191,663</u>	<u>195,439</u>
Total Liabilities	<u>210,067</u>	<u>215,891</u>
Net Assets:		
Invested in capital assets, net of related debt	187,005	198,946
Restricted for debt service	12,218	10,789
Unrestricted	<u>10,830</u>	<u>949</u>
Total Net Assets	<u><u>210,053</u></u>	<u><u>210,684</u></u>
Total Liabilities and Net Assets	<u><u>\$ 420,120</u></u>	<u><u>\$ 426,575</u></u>

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

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues:		
Water service	\$ 130,746	\$ 128,277
Service charges	405	300
Total Operating Revenues	<u>131,151</u>	<u>128,577</u>
Operating Expenses:		
Water costs	51,671	35,934
Wages	22,440	22,440
Payroll taxes	2,175	2,033
Chemicals		9,334
Supplies	1,636	7,640
Repairs and maintenance	6,974	15,723
Engineer fees		1,800
Depreciation expense	17,765	17,765
Water tests and lab fees	1,190	5,080
Insurance and bonds		6,042
Membership dues and fees	3,594	7,023
Professional fees	895	935
Office supplies and postage	1,428	2,901
Rent	1,050	1,350
Utilities	7,618	8,879
Telephone	834	799
Other expenses	161	
Total Operating Expenses	<u>119,431</u>	<u>145,678</u>
Operating Income (Loss)	11,720	(17,101)
Nonoperating Revenue (Expenses):		
Interest income	29	27
Interest expense	(12,380)	(11,690)
Membership fees		11,810
Total Nonoperating Revenues and (Expenses)	<u>(12,351)</u>	<u>147</u>
Change in Net Assets	(631)	(16,954)
Net Assets, beginning of year	<u>210,684</u>	<u>227,638</u>
Net Assets, end of year	<u>\$ 210,053</u>	<u>\$ 210,684</u>

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

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash Flows From Operating Activities:		
Cash received from customers	\$ 131,151	\$ 128,577
Other operating cash receipts		
Cash payments to suppliers for goods and services	(79,226)	(105,473)
Cash payments to employees	(22,440)	(22,440)
Net cash provided (used) by operating activities	29,485	664
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		
Membership fees		11,810
Principle payments	(5,824)	(3,656)
Interest payments on debt	(12,380)	(11,690)
Net cash provided (used) by financing activities	(18,204)	(3,536)
 Cash flows from investing activities:		
Interest income	29	27
(Increase) decrease in restricted accounts	(1,429)	(1,427)
Net cash provided (used) by investing activities	(1,400)	(1,400)
 Net increase (decrease) in cash and cash equivalents	9,881	(4,272)
Beginning cash and cash equivalents	1,941	6,213
Ending cash and cash equivalents	\$ 11,822	\$ 1,941
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income or loss	\$ 11,720	\$ (17,101)
Adjustments to reconcile income (loss) to net cash provided (used) by operating activities:		
Depreciation	17,765	17,765
Changes in assets and liabilities:		
Increase in customer deposits		
Net cash provided (used) by operating activities	\$ 29,485	\$ 664

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

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water District No. 1, Noble County was incorporated on February 26, 1965. The District was created under the Rural Water District Act, Title 82, Sections 1301-1321, as amended, of the laws of the state of Oklahoma. The purpose of the District is to acquire water and water rights; to construct and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of rural residents whose lands are located within the District.

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/funds equity, revenues, and expenditures/expenses when they result from cash transactions with 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.

Restricted Reserves

United States Department of Agriculture-Rural Development requires monies to be held in reserve accounts. These reserve funds are to equal the note payments for one year. To be fully funded, these reserve funds must total \$14,004. As of December 31, 2010 and 2009, these reserve funds, which consisted of a money market account, totaled \$12,218 and \$10,789 respectively.

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

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

Cash and Investments

For the purposes of the Statement of Cash Flows, the District considers demand accounts (excluding restricted reserves), subject to withdrawal by check, as cash equivalents.

NOTE 2 - PROPERTY, PLANT AND EQUIPMENT:

Equipment purchases, waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Depreciation is calculated on a straight-line basis. Total depreciation for the year ended December 31, 2010 and 2009 was \$17,765 and \$17,765 respectively. The balances for depreciable assets by major category are as follows:

	Balance 12/31/09	Additions	Balance 12/31/10
Building	\$ 5,302	\$	\$ 5,302
Water distribution system	625,790		625,790
Equipment	52,875		52,875
	683,967		683,967
Less accumulated depreciation	(270,122)	(17,765)	(287,887)
Net	\$ 413,845	\$ (17,765)	\$ 396,080

NOTE 3 - NOTES PAYABLE:

The District borrowed \$5,000 from a local bank for repairs to the water system. The note carried a variable interest rate and matured on February 6, 2007.

The District borrowed \$12,975 for improvements to the waterline system. The note carried a variable interest rate and matured on June 9, 2007.

The above two notes were combined in 2008 and were renewed to February 16, 2010 with an interest rate of 7.25%. There were no principal payments made. The balance of this note at December 31, 2010 were \$13,346.

The District borrowed \$238,000 from the United States Department of Agriculture-Rural Development for improvements to the waterline system. The loans consist of two promissory notes that carry interest rates of 5% and 5.5% and have terms of 40 years each. During the year ended December 31, 2010, principle payments of \$3,612 were made on these notes. On the next page is the schedule of these notes and the payments due at December 31, 2010.

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 3 – NOTES PAYABLE (continued):

		Note 91-03	Note 91-04
Original amount borrowed	\$	50,000	\$ 188,000
Monthly payments	\$	258	\$ 909
Interest rate		5.5%	5%

	Total	Principle	Interest
Payments:			
12/31/11	\$ 14,004	\$ 4,106	\$ 9,898
12/31/12	14,004	4,321	9,683
12/31/13	14,004	4,547	9,457
12/31/14	14,004	4,784	9,220
12/31/15	14,004	5,035	8,969
12/31/16-12/31/20	70,020	29,412	40,608
12/31/21-12/31/25	70,020	37,961	32,059
12/31/26-12/31/30	70,020	48,997	21,023
12/31/31-12/31/35	70,020	56,566	13,454
	\$ 350,100	\$ 195,729	\$ 154,371

NOTE 4 – 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 5 – 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. During the year end December 31, 2010, the District had no insurance to offset this risk.

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

NOTE 7 – CONTINGENCIES:

As of December 31, 2010 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 8 – 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.

NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through April 19, 2012, the date which the financial statements were available to be issued.