

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

**ANNUAL FINANCIAL STATEMENTS**

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

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

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

We have audited the accompanying financial statements of Rural Water District No. 1, Okfuskee County as of October 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 audit.

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 includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, Rural Water District No. 1, Okfuskee County 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 District No. 1, Okfuskee County as of October 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 May 14, 2013 on our consideration of Rural Water District No. 1, Okfuskee 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, Okfuskee 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.

The combining schedule on page 12 is not a required part of the basic financial statements but is supplementary information. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
May 14, 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, Okfuskee County

We have audited the financial statements of Rural Water District No. 1, Okfuskee County as of and for the year ended October 31, 2011 and have issued our report thereon dated May 14, 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. Rural Water District No. 1, Okfuskee 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

Management of Rural Water District No. 1, Okfuskee County 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, Okfuskee County'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, Okfuskee County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 1, Okfuskee County'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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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 such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 1, Okfuskee 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  
May 14, 2013

FINANCIAL STATEMENTS

AND

NOTES

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

ASSETS

	2011	2010
Current Assets:		
Cash and cash equivalents	\$ 23,051	\$ 15,415
Restricted Reserves (Note 1):		
Reserve account	14,591	17,645
Total Current Assets	37,642	33,060
Property, plant and equipment (net of accumulated depreciation) (Note 2)	1,102,720	1,158,494
Work in progress	6,732	6,732
Total Assets	\$ 1,147,094	\$ 1,198,286

LIABILITIES AND NET ASSETS

Current Liabilities:		
Current portion of notes payable (Note 3)	\$ 17,800	\$ 18,215
Non-Current Liabilities:		
Notes payable (Note 3)	595,861	611,994
Total Liabilities	613,661	630,209
Net Assets:		
Invested in capital assets, net of related debt	495,791	535,017
Restricted for debt service	14,591	17,645
Unrestricted	23,051	15,415
Total Net Assets	533,433	568,077
Total Liabilities and Net Assets	\$ 1,147,094	\$ 1,198,286

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

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

	2011	2010
Operating Revenues:		
Water, sewer and garbage services	\$ 165,226	\$ 156,226
Late fees	1,626	1,252
Total Operating Revenues	166,852	157,478
Operating Expenses:		
Wages	25,560	25,910
Payroll taxes	2,223	2,241
Chemicals	3,188	907
Repairs and maintenance	23,733	8,334
Depreciation expense	55,774	57,643
Garbage collection fees	13,149	13,478
Insurance and bonds	5,607	4,921
Professional fees	755	4,193
Office and postage	1,703	2,264
Lease and rental payments	6,000	6,000
Utilities and telephone	20,959	20,202
Truck expenses	8,180	7,588
Licenses, permits and DEQ fees	4,127	4,764
Lagoon testing	2,300	2,280
Other expenses	326	1,446
Total Operating Expenses	173,584	162,171
Operating Income (Loss)	(6,732)	(4,693)
Nonoperating Revenue (Expenses):		
Interest income	50	54
Interest expense	(27,962)	(28,785)
Total Nonoperating Revenues	(27,912)	(28,731)
Change in Net Assets	(34,644)	(33,424)
Net Assets, beginning of year	568,077	601,501
Net Assets, end of year	\$ 533,433	\$ 568,077

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

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

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 166,852	\$ 157,478
Cash payments to suppliers for goods and services	(92,250)	(78,618)
Cash payments to employees	<u>(25,560)</u>	<u>(25,910)</u>
Net cash provided (used) by operating activities	49,042	52,950
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets		(1,142)
Principle payments	(16,548)	(13,245)
Interest payments on debt	<u>(27,962)</u>	<u>(28,785)</u>
Net cash provided (used) by financing activities	(44,510)	(43,172)
 Cash flows from investing activities:		
Interest income	50	54
(Increase) decrease in restricted accounts	<u>3,054</u>	<u>(3,754)</u>
Net cash provided (used) by investing activities	<u>3,104</u>	<u>(3,700)</u>
 Net increase (decrease) in cash and cash equivalents	7,636	6,078
Beginning cash and cash equivalents	15,415	9,337
Ending cash and cash equivalents	<u>\$ 23,051</u>	<u>\$ 15,415</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (6,732)	\$ (4,693)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	55,774	57,643
Changes in assets and liabilities:	<u>          </u>	<u>          </u>
Net cash provided (used) by operating activities	<u>\$ 49,042</u>	<u>\$ 52,950</u>

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

RURAL WATER DISTRICT NO. 1, OKFUSKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED OCTOBER 31, 2011 AND 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water District No. 1, Okfuskee County was incorporated in May 1967. 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 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.

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 \$44,508. As of October 31, 2011 and 2010, these reserve funds, which consisted of a money market account, totaled \$14,591 and \$17,645 respectively.

RURAL WATER DISTRICT NO. 1, OKFUSKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED OCTOBER 31, 2011 AND 2010

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 years ended October 31, 2011 and 2010 was \$55,774 and \$57,643 respectively. The balances for depreciable assets by major category are as follows:

	Balance 10/31/10	(Deletions) Additions	Balance 10/31/11
Land and lagoon	\$ 53,079	\$	\$ 53,079
Water & sewer system	1,907,754		1,907,754
Machinery & equipment	104,839		104,839
Office furniture & equipment	45,183		45,183
	<u>2,110,855</u>		<u>2,110,855</u>
Less accumulated depreciation	(952,361)	(55,774)	(1,008,135)
Net	<u>\$ 1,158,494</u>	<u>\$ (55,774)</u>	<u>\$ 1,102,720</u>

NOTE 3 - NOTES PAYABLE:

The District has incurred indebtedness for the expansion and improvements of the water and sewer system. The following is a summary of the notes payable:

	93-05	91-08	93-11
Date of note	7/24/1978	11/12/1993	10/10/2002
Original amount	\$ 211,000	\$ 55,000	\$ 559,000
Interest rate	4.125%	5.0%	4.5%
Maturity date	7/24/2018	11/12/1933	10/10/1942
Monthly payment	\$ 900	\$ 271	\$ 2,538
Balance at 10/31/09	\$ 77,276	\$ 44,772	\$ 521,405
Principle payments	\$ 6,444	\$ 861	\$ 5,939
Balance at 10/31/10	\$ 70,832	\$ 43,911	\$ 515,466
Principle payments	\$ 8,029	\$ 1,081	\$ 7,438
Balance at 10/31/11	<u>\$ 62,803</u>	<u>\$ 42,830</u>	<u>\$ 508,028</u>

RURAL WATER DISTRICT NO. 1, OKFUSKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED OCTOBER 31, 2011 AND 2010

NOTE 3 – NOTES PAYABLE (continued):

The following are the annual debt service requirements:

<u>10/31</u>	<u>Payment</u>	<u>Principle</u>	<u>Interest</u>
2012	\$ 44,508	\$ 17,322	\$ 27,186
2013	44,508	18,091	26,417
2014	44,508	18,895	25,613
2015	44,508	19,734	24,774
2016	44,508	20,611	23,897
2017 - 2021	186,540	79,033	107,507
2022 - 2026	168,540	77,529	91,011
2027 - 2031	168,540	97,382	71,158
2032 - 2036	156,725	109,397	47,328
2037 - 2041	152,280	132,850	19,430
2042	23,105	22,817	288
Totals	<u>1,078,270</u>	<u>613,661</u>	<u>464,609</u>

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. 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.

RURAL WATER DISTRICT NO. 1, OKFUSKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED OCTOBER 31, 2011 AND 2010

NOTE 6 – CONTINGENCIES:

As of October 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 7 – 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 8 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through May 14, 2013, the date which the financial statements were available to be issued.

RURAL WATER DISTRICT NO. 1, OKFUSKEE COUNTY, OKLAHOMA  
 COMBINING STATEMENT OF REVENUE AND EXPENSES  
 MODIFIED CASH BASIS  
 YEAR ENDED OCTOBER 31, 2011

	<u>Water System</u>	<u>Sewer System</u>	<u>Operations</u>	<u>Total</u>
Operating Revenues:				
Water, sewer and garbage services	\$ 137,074	\$ 15,132	\$ 14,646	\$ 166,852
Operating Expenses:				
Payroll and taxes	23,805	1,677	2,301	27,783
Chemicals	3,188			3,188
Repairs and maintenance	21,956	1,777		23,733
Depreciation expense	44,619	10,597	558	55,774
Garbage collection fees			13,149	13,149
Insurance and bonds		522	5,085	5,607
Professional fees			755	755
Office supplies	1,550		153	1,703
Lease and rental payments	6,000			6,000
Utilities and telephone	19,073		1,886	20,959
Truck expenses	8,180			8,180
Licenses, permits and DEQ fees	4,127			4,127
Lagoon testing		2,300		2,300
Other expenses			326	326
Total Operating Expenses	<u>132,498</u>	<u>16,873</u>	<u>24,213</u>	<u>173,584</u>
Operating Income (Loss)	4,576	(1,741)	(9,567)	(6,732)
Interest expense	(27,962)			(27,962)
Interest income			50	50
Change in Net Assets	<u>\$ (23,386)</u>	<u>\$ (1,741)</u>	<u>\$ (9,517)</u>	<u>\$ (34,644)</u>

UNAUDITED SUPPLEMENTAL INFORMATION