

**ELLIS COUNTY RURAL WATER DISTRICT NO. 1**

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED OCTOBER 31, 2011**

ELLIS COUNTY RURAL WATER DISTRICT NO. 1  
TABLE OF CONTENTS  
YEAR ENDED OCTOBER 31, 2011

	Page
<b>INTRODUCTORY SECTION:</b>	
Table of Contents	1
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report	1
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>	*2-4
Financial Statements:	5
Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis	6
Statements of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis	7
Statements of Cash Flows – Modified Cash Basis	8
Notes to Financial Statements	9-12

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## Independent Auditor's Report

Board of Directors  
Ellis County Rural Water District No. 1

We have audited the accompanying financial statements of Ellis County Rural Water District No. 1 as of October 31, 2011 and for the year 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.

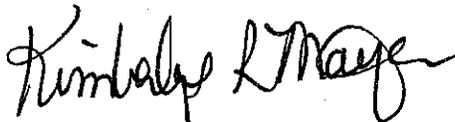
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, Ellis County Rural Water District No. 1 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 Ellis County Rural Water District No. 1 as of October 31, 2011 and the results of its operations and its cash flows for the year 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 16, 2012 on our consideration of Ellis County Rural Water District No. 1'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.

Ellis County Rural Water District No. 1 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  
May 16, 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  
Ellis County Rural Water District No. 1

We have audited the financial statement of Ellis County Rural Water District No. 1 as of and for the year ended October 31, 2011 and have issued our report thereon dated May 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained 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. Ellis County Rural Water District No. 1 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 Ellis County Rural Water District No. 1'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 Ellis County Rural Water District No. 1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ellis County Rural Water District No. 1'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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

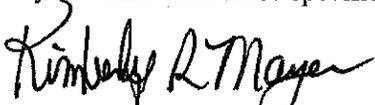
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control 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 consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ellis County Rural Water District No. 1'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*.

Ellis County Rural Water District No. 1's response to the finding 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.

This report is intended solely for the information and use of management, the board of directors, others within the District, and Rural Development, USDA 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 16, 2012

ELLIS COUNTY RURAL WATER DISTRICT NO. 1  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED OCTOBER 31, 2011

**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

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ELLIS COUNTY RURAL WATER DISTRICT NO. 1  
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS  
MODIFIED CASH BASIS  
OCTOBER 31, 2011

ASSETS

Current Assets:	
Cash and cash equivalents (Note 2)	\$ 43,285
Reserve Accounts:	
USDA Reserve	3,613
Asset Account	4,543
Water system and equipment (net of accumulated depreciation) (Note 3)	<u>1,529,991</u>
Total Assets	<u><u>\$ 1,581,432</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Notes payable, current portion (Note 4)	\$ 5,100
Non-current Liabilities:	
Notes payable, long term (Note 4)	<u>368,589</u>
Total Liabilities	373,689
Net Assets:	
Invested in capital assets, net of related debt	1,156,302
Restricted for debt service	3,613
Unrestricted	<u>47,828</u>
Total Net Assets	<u>1,207,743</u>
Total Liabilities and Net Assets	<u><u>\$ 1,581,432</u></u>

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

ELLIS COUNTY RURAL WATER DISTRICT NO. 1  
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS  
MODIFIED CASH BASIS  
YEAR ENDED OCTOBER 31, 2011

Operating Revenue:	
Water service	\$ 42317
Other income	1,679
Total Operating Revenue	<u>43,996</u>
Operating Expense:	
Insurance and bonds	4,744
Repairs, maintenance and supplies	6,058
Professional fees	1,350
Office and postage	1,018
Fuel	1,224
Utilities	1,439
Other expense	3,282
Depreciation expense	58,279
Total Operating Expense	<u>77,394</u>
Income (Loss) From Operations	(33,398)
Non-operating Revenue (Expense):	
Grants	8,800
Interest income	35
Interest expense	(12,849)
Total Non-operating Revenue (Expense)	<u>(4,014)</u>
Change in Net Assets	(37,412)
Net Assets, beginning of year	<u>1,245,155</u>
Net Assets, end of year	<u>\$ 1,207,743</u>

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

ELLIS COUNTY RURAL WATER DISTRICT NO. 1  
STATEMENT OF CASH FLOWS  
MODIFIED CASH BASIS  
YEAR ENDED OCTOBER 31, 2011

Cash Flows From Operating Activities:

Cash received from customers	\$ 42,317
Other operating receipts	1,679
Cash payments to suppliers for goods and services	<u>(19,115)</u>
Net cash provided (used) by operating activities	<u>24,881</u>

Cash flows from non-capital financing activities:

Cash flows from capital and related financing activities:

Acquisition and construction of capital assets	(22,203)
Principle payments	(5,091)
Interest paid	(12,849)
Grants received	8,800
New memberships	
Net cash provided (used) by financing activities	<u>(31,343)</u>

Cash flows from investing activities:

Interest income	35
Increase in reserve accounts	<u>(6,362)</u>
Net cash provided (used) by investing activities	<u>(6,327)</u>

Net increase (decrease) in cash and cash equivalents (12,789)

Beginning cash and cash equivalents 56,074

Ending cash and cash equivalents \$ 43,285

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	\$ (33,398)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	58,279
Changes in assets and liabilities:	
Net cash provided (used) by operating activities	<u><u>\$ 24,881</u></u>

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

ELLIS COUNTY RURAL WATER DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED OCTOBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Ellis County Rural Water District No. 1 was organized and established under the provisions of Title 82 of the laws of the State of Oklahoma. The purpose of this District is to furnish and supply to owners and occupants of property within the corporate limits water and related facilities and services.

The District is a governed entity administered by a Board of Directors that act as the authoritative and legislative body of the entity. The Board is comprised of elected board members.

Basis of Accounting

The accounting policies of Ellis County Rural Water District No. 1 conform to the basic principles of governmental accounting and financial reporting set forth by the Governmental Accounting Standards Board.

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 accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Cash and Deposits

Cash and deposits are 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 State 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.

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 2 – CASH AND CASH EQUIVALENTS:

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments (excluding the reserve accounts) with a maturity of three months or less to be cash equivalents.

ELLIS COUNTY RURAL WATER DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED OCTOBER 31, 2011

NOTE 3 – WATER SYSTEM AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased. Assets donated are recorded at fair market value when received. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended October 31, 2011 was \$58,279. The balances for depreciable assets, by major category are as follows:

	<u>10/31/2010</u>	<u>Addition</u>	<u>10/31/2011</u>
Water system	\$ 1,557,757	\$ 22,203	\$ 1,579,960
Machinery & equipment	59,096		59,096
Vehicles	20,466		20,466
Office equipment	<u>2,039</u>		<u>2,039</u>
	1,639,358	22,203	1,661,561
Less accumulated depreciation	<u>(73,291)</u>	<u>(58,279)</u>	<u>(131,570)</u>
Net	<u>\$ 1,566,067</u>	<u>\$ (36,076)</u>	<u>\$ 1,529,991</u>

NOTE 4 – NOTES PAYABLE:

On July 23, 2008 the District entered into note agreements with USDA-Rural Development for funds to construct a water system. The following schedule details these notes:

	<u>91-01</u>	<u>91-04</u>
Date of note	7/23/08	7/23/08
Date payments began	8/23/10	8/23/10
Interest rate	4.125%	2.750%
Term of note	40 years	40 years
Loan amount	\$ 183,000	\$ 197,000
Principle balance 10/31/10	\$ 182,510	\$ 196,270
New borrowings		
Principle payments	<u>(2,074)</u>	<u>(3,017)</u>
Principle balance 10/31/11	<u>\$ 180,436</u>	<u>\$ 193,253</u>

ELLIS COUNTY RURAL WATER DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED OCTOBER 31, 2011

NOTE 4 – NOTES PAYABLE (continued):

The following is a schedule of the debt service requirements:

Year	Payments
10/31/2012	\$ 17,940
10/31/2013	17,940
10/31/2014	17,940
10/31/2015	17,940
10/31/2016	17,940
10/31/17 - 10/31/21	89,700
10/31/22 - 10/31/26	89,700
10/31/27 - 10/31/31	89,700
10/31/32 - 10/31/36	89,700
10/31/37 - 10/31/41	89,700
10/31/42 - 10/31/46	89,700
10/31/47 - 10/31/48	35,880
	663,780
Interest	(290,091)
Net	\$ 373,689

NOTE 5 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires the use of 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 6 – 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.

ELLIS COUNTY RURAL WATER DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED OCTOBER 31, 2011

NOTE 7 – RESERVE ACCOUNTS:

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 \$17,940. As of October 31, 2011, these reserve funds totaled \$3,613.

United States Department of Agriculture-Rural Development requires monies to be set aside for a short-lived assets account. The amount to be reserved each year is \$2,267. The balance of this account at October 31, 2011 was \$4,543.

NOTE 8 – 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 9 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through May 16, 2012, the date which the financial statements were available to be issued.

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