

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

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED OCTOBER 31, 2011**

RURAL WATER DISTRICT NO. 1,  
WOODS COUNTY, OKLAHOMA  
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YEAR ENDED OCTOBER 31, 2011

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## Independent Auditor's Report

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

We have audited the statements of assets, liabilities, and net assets-- modified cash basis of Rural Water District No. 1, Woods County, Oklahoma as of October 31, 2011, and the related statements of revenue and expenses and changes in net assets and cash flows -- modified cash basis 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 the standards applicable to financial audits contained in *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 misstatements. 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 described in Note 1, the District prepares its financial statements on the modified cash basis of accounting. This basis 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 statement of assets, liabilities, and net assets -- modified cash basis of Rural Water District No. 1, Woods County, Oklahoma as of October 31, 2010, and its revenues and expenses and changes in net assets and cash flows -- modified cash basis, for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2010 on our consideration of Rural Water District No. 1, Woods County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of 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 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, Woods County, Oklahoma 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  
November 29, 2011

REPORT 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, Woods County, Oklahoma

We have audited the financial statements of Rural Water District No. 1, Woods County, Oklahoma as of and for the year ended October 31, 2011 and have issued our report there on dated November 29, 2011. 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 using the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Rural Water District No. 1, Woods County, Oklahoma 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 Rural Water District No. 1, Woods 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, Woods 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, Woods 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 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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.


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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 1, Woods 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*.

Rural Water District No. 1, Woods 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.

This report is intended solely for the information and use of management, the board of directors, others within the District and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Kimberley R. Mayer". The signature is written in a cursive style with a large initial 'K'.

Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
November 29, 2011

RURAL WATER DISTRICT No. 1  
WOODS COUNTY, OKLAHOMA  
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 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.

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**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.

**Material Weakness in Internal Control Over Financial Reporting: Financial Statements:**

**Criteria:**

Internal controls should be in place so that the District could prepare the financial statements, including the related note disclosures.

**Condition:**

As part of the audit, management requested the auditors to prepare the financial statements, including the related notes. Although management reviewed, approved and accepted responsibility for those financial statements, the auditors cannot be considered part of the internal control over the preparation of the financial statements. Because the District's internal financial statements don't reflect all assets and liabilities, and because the District's spreadsheets are not being reconciled with the bank statements, the District does not have necessary controls in place to detect, prevent or correct misstatements in those financial statements.

**Cause:**

The entity's limited size and structure has made it difficult for management to obtain these skills.

**Effect or Potential Effect:**

The absence of controls over the preparation of financial statements is considered a significant deficiency because more than a remote likelihood exists that a misstatement of the financial statements could occur and not be prevented or detected by the District's internal control.

RURAL WATER DISTRICT No. 1  
WOODS COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED OCTOBER 31, 2011

Recommendation:

We recommend that the District strive to understand the presentation and disclosure requirements of the financial statements.

Board's Response:

The District concurs with the recommendation, and will strive to understand the presentation and disclosure requirements of the financial statements, however, we believe the cost to obtain this knowledge would be prohibitive for the size and structure of our organization.

FINANCIAL STATEMENTS

AND

NOTES

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

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 78,173
Certificates of deposit	154,877
Total Current Assets	<u>233,050</u>
Reserve certificates	1,000
Capital assets (net of accumulated depreciation) (Note 2)	<u>290,767</u>
Total Assets	<u><u>\$ 524,817</u></u>

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LIABILITIES AND NET ASSETS

Liabilities:	
Customer deposits	\$ 550
Net Assets:	
Invested in capital assets	290,217
Restricted	
Unrestricted	234,050
Total Net Assets	<u>524,267</u>
Total Liabilities and Net Assets	<u><u>\$ 524,817</u></u>

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

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

Operating Revenues:	
Water service	\$ 210,992
Penalties	3,371
Other income	388
Total Operating Revenues	214,751
Operating Expenses:	
Water purchases	75,902
Wages	36,323
Payroll taxes	2,048
Office supplies and postage	2,021
Insurance	4,235
Professional fees	1,625
Utilities	3,262
Telephone	1,457
Repairs and maintenance	9,348
Vehicle costs	4,783
Director fees	1,250
DEQ and sampling fees	760
Meetings and mileage	2,939
Depreciation	28,558
Other expenses	1,547
Total Operating Expenses	176,058
Operating Revenues Over (Under) Expenses	38,693
Non-operating Revenues (Expenses):	
Grants	40,481
Interest income	3,250
Memberships	2,250
Total Non-operating Revenue (Expense)	45,981
Changes in Net Assets	84,674
Net Assets, beginning of year	439,593
Net Assets, end of year	\$ 524,267

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

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

Cash Flows From Operating Activities:	
Cash received from customers	\$ 214,363
Other operating cash receipts	388
Cash payments to employees	(36,323)
Cash payments to suppliers for goods and services	<u>(111,177)</u>
Net cash provided (used) by operating activities	67,251
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(74,416)
Grants	40,481
Membership fees	<u>2,250</u>
Net cash provided (used) by financing activities	<u>(31,685)</u>
Cash flows from investing activities:	
Interest income	3,250
(Increase) decrease in certificates of deposit	<u>(1,721)</u>
Net cash provided (used) by investing activities	<u>1,529</u>
Net increase (decrease) in cash and cash equivalents	37,095
Beginning cash and cash equivalents	<u>41,078</u>
Ending cash and cash equivalents	<u><u>\$ 78,173</u></u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Operating income (loss)	\$ 38,693
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	<u>28,558</u>
Net cash provided (used) by operating activities	<u><u>\$ 67,251</u></u>

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

RURAL WATER DISTRICT NO. 1  
WOODS COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED OCTOBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 1, Woods County, Oklahoma was organized in January 1966 under the Rural Water, Sewer, Gas and Solid Waste Management District Act, Title 82, 1324.3 et seq. of the laws of the State of Oklahoma. The District is exempt from federal and state income taxes. The purpose of the District is to acquire water and water rights; to build and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners 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 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 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.

Cash and Cash Equivalents

The District considers all checking and savings accounts and certificates of deposit with a maturity of three months or less to be cash equivalents.

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

NOTE 2 – PROPERTY AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expendable. Annual depreciation is calculated on a straight-line basis. Total depreciation for the year ended October 31, 2010 was \$28,558. The balances for depreciable assets by major category are as follows:

	10/31/10	(Deletions) Additions	10/31/11
Land and right of way	\$ 2,415	\$	\$ 2,415
Waterline system	567,822	48,372	616,194
Buildings	21,770	26,044	47,814
Vehicles	25,300		25,300
Equipment	45,603		45,603
Office equipment	50,200		50,200
Accumulated depreciation	(468,201)	(28,558)	(496,759)
Net	<u>\$ 244,909</u>	<u>\$ 45,858</u>	<u>\$ 290,767</u>

NOTE 3 – 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 4 – 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 probably 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 October 31, 2011.

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

NOTE 5 – 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 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 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through November 29, 2011, the date which the financial statements were available to be issued.