

**RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, ALFALFA COUNTY**

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED SEPTEMBER 30, 2012

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, ALFALFA COUNTY
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Independent Auditor's Report

Board of Directors
Rural Water, Sewer and Solid Waste Management
District No. 1, Alfalfa County

We have audited the accompanying statements of assets, liabilities and net assets – modified cash basis of Rural Water, Sewer, and Solid Waste Management District No. 1, Alfalfa County as of September 30, 2012 and the related statements of revenues 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 Rural Water, Sewer, and Solid Waste Management District No. 1, Alfalfa County'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 for 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 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, Rural Water, Sewer, and Solid Waste Management District No. 1, Alfalfa 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 assets, liabilities and net assets of Rural Water, Sewer, and Solid Waste Management District No. 1, Alfalfa County at September 30, 2012, and its revenues, expenses and changes in net assets and 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 November 17, 2015 on our consideration of Rural Water, Sewer, and Solid Waste Management District No. 1, Alfalfa County's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws and 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, Sewer, and Solid Waste Management District No. 1, Alfalfa 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
November 17, 2015

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, Sewer, and Solid Waste Management District No. 1, Alfalfa County

We have audited the financial statements of Rural Water, Sewer, and Solid Waste Management District No. 1, Alfalfa County as of and for the year ended September 30, 2012 and have issued our report thereon dated November 17, 2015. 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. Rural Water, Sewer, and Solid Waste Management District No. 1, Alfalfa County has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Boards requires to supplement, although, not be a part of the basic financial statements.

Internal Control Over Financial Reporting

Management of the Rural Water, Sewer and Solid Waste Management District No. 1, Alfalfa County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water, Sewer and Solid Waste Management District No. 1, Alfalfa 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. 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.

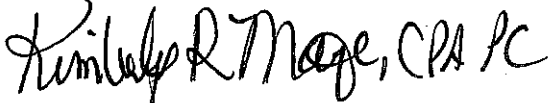
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water, Sewer, and Solid Waste Management District No. 1, Alfalfa County's financial statements are free of material misstatements, 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, Sewer, and Solid Waste Management District No. 1, Alfalfa County'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.

We noted certain matters that we reported to the management of Rural Water, Sewer, and Solid Waste Management District No. 1, Alfalfa County in a separate letter dated November 17, 2015.

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
November 17, 2015

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, ALFALFA COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2012

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.

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, ALFALFA COUNTY
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
MODIFIED CASH BASIS
SEPTEMBER 30, 2012

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 194,886
Property, plant and equipment (net of accumulated depreciation) (Note 2)	<u>523,321</u>
Total Assets	<u><u>\$ 718,207</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Current Liabilities:	
Current portion of notes payable (Note 3)	\$ 74,813
Noncurrent Liabilities:	
Notes payable, noncurrent (Note 3)	<u>256,780</u>
Total Liabilities	<u>331,593</u>
Net Assets:	
Invested in capital assets, net of related debt	191,728
Restricted for debt service	
Unrestricted	<u>194,886</u>
Total Net Assets	<u><u>386,614</u></u>
Total Liabilities and Net Assets	<u><u>\$ 718,207</u></u>

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

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, ALFALFA COUNTY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS
YEAR ENDED SEPTEMBER 30, 2012

Operating Revenues:	
Water sales	\$ 434,896
Operating Expenses:	
Payroll	49,947
Payroll taxes	4,298
Employee benefits	30,075
Contract labor	83,822
Repairs and maintenance	60,296
Professional fees	2,140
Fuel	31,126
Vehicle lease	2,859
Insurance	9,367
DEQ	5,716
Office and postage	8,828
Meals	3,600
Telephone	2,456
Utilities	26,823
Rent	19,990
Depreciation	91,329
Other expenses	4,201
Total Operating Expenses	<u>436,873</u>
Operating Income (Loss)	(1,977)
Nonoperating Revenue (Expenses):	
Interest income	636
Benefit units	3,400
Relocation income	20,717
Interest expense	(18,656)
Total Nonoperating Revenues (Expenses)	<u>6,097</u>
Change in Net Assets	4,120
Net Assets, beginning of year	<u>382,494</u>
Net Assets, end of year	<u><u>\$ 386,614</u></u>

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

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, ALFALFA COUNTY
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEAR ENDED SEPTEMBER 30, 2012

Cash Flows From Operating Activities:	
Cash received from customers	\$ 434,896
Cash payments to suppliers for goods and services	(295,597)
Cash payments to employees	(49,947)
Net cash provided (used) by operating activities	<u>89,352</u>
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
(Increase) decrease in capital assets	(41,075)
New Borrowings	48,000
Principal paid on notes	(55,234)
Interest paid on notes	(18,656)
System development fees & relocation income	24,117
Net cash provided (used) by financing activities	<u>(42,848)</u>
Cash flows from investing activities:	
Interest income	636
Net cash provided (used) by investing activities	<u>636</u>
Net increase (decrease) in cash and cash equivalents	
	47,140
Beginning cash and cash equivalents	147,746
Ending cash and cash equivalents	<u>\$ 194,886</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Operating income or loss	\$ (1,977)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	<u>91,329</u>
Net cash provided (used) by operating activities	<u>\$ 89,352</u>

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

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, ALFALFA COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water, Sewer, and Solid Waste Management District No. 1, Alfalfa County was created under the Rural Water District Act, Title 82, as amended, 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 provide water services to the owners and occupants of land located within the District, and others as authorized by law. Membership in the water district consists of water users who have paid the required membership fees.

The District is an entity governed 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, revenues, and 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 on 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.

Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, the District considers all checking and savings accounts, and certificates of deposit with a maturity of three months or less to be cash equivalents.

Budget

The District is not legally required to adopt a budget.

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, ALFALFA COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

NOTE 2 – WATERLINE SYSTEM AND EQUIPMENT:

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 year ended September 30, 2012 was \$91,329. The balances for depreciable assets by major category as of September 30, 2012 are as follows:

	9/30/11	Deletions	Additions	9/30/12
Waterline system	\$ 1,989,849	\$	\$ 11,561	\$ 2,001,410
Machinery & equipment	310,132		29,514	339,646
Office equipment	6,423			6,423
Accumulated depreciation	(1,732,829)		(91,329)	(1,824,158)
Total	<u>\$ 573,575</u>	<u>\$</u>	<u>\$ (50,254)</u>	<u>\$ 523,321</u>

NOTE 3 – NOTES PAYABLE:

The District entered into a loan agreement August 2, 2007 to purchase a vehicle. The note carries an interest rate of 5% and matures on July 20, 2012. Monthly payments are \$805. Principle payments made during fiscal year ended September 30, 2012 were \$9,022 which paid this note off.

The District entered into a note agreement in June 2011 to purchase a vehicle. The note carries an interest rate of 3.3% and matures on June 19, 2016. Monthly payments are \$673. Principle payments made during the fiscal year ended September 30, 2012 were \$7,025.

The District entered into a note agreement on November 4, 2002. The proceeds of this note were to refinance the existing debt for the water system. Collateral for this loan is all land easements, equipment and revenue from operations. The note carries an interest rate of 6% and matures on September 30, 2015. Monthly payments are \$4,800. During the year ended September 30, 2012, the District borrowed another \$24,000 for equipment. Principle payments made during the fiscal year ended September 30, 2012 were \$40,287.

The District borrowed \$24,000 from a board member. The interest rate is 1% and the note is due on demand. Principle and interest payments made during the fiscal year ending September 30, 2012 were \$0. At the date of this report, the loan had been paid off.

RURAL WATER, SEWER AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, ALFALFA COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

NOTE 3 – NOTES PAYABLE (continued):

The following is an annual schedule of the payments due:

Year Ended	Payment Amount	Principle	Interest
09/30/13	\$ 98,813	\$ 89,682	\$ 9,131
09/30/14	65,682	53,742	11,940
09/30/15	178,729	171,845	6,884
09/30/16	17,233	16,324	909
	360,457	331,593	28,864

NOTE 4 – RETIREMENT PLAN:

The District sponsors a defined contribution plan in which the employees are eligible to participate. Contributions to the plan are made directly to the plan administrator (Oklahoma Public Employee Retirement System). Employer contributions made to the plan for the year ending September 30, 2012 were \$15,245.

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 amounts 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 September 30, 2012.

NOTE 6 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis 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.

RURAL WATER, SEWER, AND SOLID WASTE MANAGEMENT
DISTRICT NO. 1, ALFALFA COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2012

NOTE 7 – RELATED PARTIES:

The District borrowed funds from a board member. See Note 3.

The District has the following agreements with employees:

<u>Agreement</u>	<u>Amount paid</u> <u>9/30/2012</u>
Rent	\$ 6,150
Rent	13,750
Vehicle lease	<u>2,859</u>
	<u>\$ 22,759</u>

NOTE 8 – CONTINGENCIES:

As of September 30, 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.

NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through November 17, 2015, the date which the financial statements were available to be issued.