

MCCLAIN COUNTY RURAL WATER DISTRICT #8

WAYNE, OKLAHOMA

FINANCIAL STATEMENTS AND

AUDITOR'S REPORT THEREON

FOR THE YEAR ENDING JUNE 30, 2012 and 2011

## TABLE OF CONTENTS

Independent Auditor's Report .....	1
Balance Sheet .....	2
Statement of Operations and Changes in Retained Earnings .....	3
Statement of Cash Flows .....	4
Notes to Financial Statements .....	5-8
Supporting Schedule of Operating Expenses .....	9
Supporting Schedule of General and Administrative Expenses .....	10
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> .....	11-12
Schedule of Findings and Responses .....	13

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
McClain County Rural Water District #8  
Wayne, Oklahoma

We have audited the accompanying financial statements of the McClain County Rural Water District #8 as of June 30, 2012 and 2011. These financial statements are the responsibility of the McClain County Rural Water District #8's management. Our responsibility is to express an opinion on these financial statements based on my 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the McClain County Rural Water District #8 as of June 30, 2012 and 2011 and the results of its operations and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 6, 2011 on our consideration of the McClain County Rural Water District #8's internal control structure and on its compliance with laws and regulations. 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 my audit.

Management has elected to not present a management, discussion, and analysis, and budget to actual comparison as is required by generally accepted accounting principles in the United States of America.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supporting schedules of pages 9 and 10 are presented for purposes of additional analysis and are not a required part of the financial statements of the McClain County Rural Water District #8. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

  
July 6, 2012

**McClain County Rural Water District #8**  
**Statement of Net Assets**  
**June 30, 2012 and 2011**

	2012	2011
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents - Unrestricted	229,590.17	261,763.18
Cash and cash equivalents - Restricted	54,891.55	55,073.79
Net Receivables	44,788.69	46,680.25
Prepaid Insurance	15,233.05	15,549.00
Materials and Supplies	2,500.00	2,500.00
<b>Total Current Assets</b>	347,003.46	381,566.22
<b>NONCURRENT ASSETS:</b>		
Net Capital Assets	1,756,048.16	1,716,747.46
<b>Total Noncurrent Assets</b>		
<b>TOTAL ASSETS</b>	\$ 2,103,051.62	\$ 2,098,313.68
 <b>CURRENT LIABILITIES:</b>		
Accounts Payable	9,496.68	11,924.79
Accrued Expenses	1,866.41	2,837.39
Current Portion of Long Term Debt	20,446.04	19,499.40
<b>Total Current Liabilities</b>	31,809.13	34,261.58
 <b>NONCURRENT LIABILITIES:</b>		
Notes Payable	1,036,802.07	1,057,248.11
<b>Total Noncurrent Liabilities</b>		
<b>TOTAL LIABILITIES</b>	1,068,611.20	1,091,509.69
 <b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	698,800.05	639,999.95
Unrestricted	335,640.37	366,804.04
<b>Total Net Assets</b>	1,034,440.42	1,006,803.99
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 2,103,051.62	\$ 2,098,313.68

**McClain County Rural Water District #8**  
**Statement of Operations and Changes in Retained Earnings**  
**For the Years Ending June 30, 2012 and 2011**

	2012	2011
<b>Revenues</b>		
Water Sales	\$ 448,208.17	\$ 411,174.08
Grant Revenue	-	5,039.21
Miscellaneous	33,981.54	30,676.72
<b>Total Revenues</b>	482,189.71	446,890.01
<b>Expenses</b>		
Operating Expenses	170,724.96	179,714.75
Wages and Salaries	120,790.23	129,478.71
General and Administrative	41,113.17	38,171.94
Interest	50,724.60	51,627.44
Depreciation	100,596.15	96,347.76
<b>Total Expenses</b>	483,949.11	495,340.60
<b>Excess Revenue Over Expenses Before Non-Operating Items</b>	(1,759.40)	(48,450.59)
Interest Income	895.83	2,209.98
<b>Excess Revenue Over Expenses After Non-Operating Items</b>	(863.57)	(46,240.61)
Beginning Net Assets	1,006,803.99	1,036,544.60
Contributed Capital	28,500.00	16,500.00
<b>Ending Net Assets</b>	\$ 1,034,440.42	\$ 1,006,803.99

**McClain County Rural Water District #8**  
**Statement of Cash Flows**  
**For the Years Ending June 30, 2012 and 2011**

	2012	2011
<b>Cash flows from operating activities</b>		
Cash Received from customers	\$ 450,099.73	\$ 403,024.21
Cash Received from other sources	34,877.37	37,925.91
Payments to suppliers	(264,674.89)	(266,379.08)
Payments to employees	<u>(121,761.21)</u>	<u>(128,582.28)</u>
<b>Net cash provided by operating activities</b>	98,541.00	45,988.76
 <b>Cash flows from capital and related financing activities</b>		
Common Units Sold	28,500.00	16,500.00
Purchase of Capital Assets	(139,896.85)	-
Principal paid on long term debt	<u>(19,499.40)</u>	<u>(18,596.56)</u>
<b>Net cash flows from capital and related financing activities</b>	(130,896.25)	(2,096.56)
 <b>Net increase (decrease) in cash</b>	(32,355.25)	43,892.20
 <b>Cash, Beginning of the Year</b>	<u>316,836.97</u>	<u>272,944.77</u>
<b>Cash, End of the Year</b>	<u><u>\$ 284,481.72</u></u>	<u><u>\$ 316,836.97</u></u>
 <b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>		
Excess Revenue over Expenses Before Non-Operating Items	(863.57)	(46,240.61)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	100,596.15	96,347.76
(Increase) Decrease in Accounts Receivable	1,891.56	(8,149.87)
(Increase) Decrease in Prepaid Expenses	315.95	252.35
Increase (Decrease) in Accounts Payable	(2,428.11)	2,882.70
Increase (Decrease) in Accrued Expenses	<u>(970.98)</u>	<u>896.43</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 98,541.00</u></u>	<u><u>\$ 45,988.76</u></u>
 Cash and cash equivalents - Unrestricted	229,590.17	261,763.18
Cash and cash equivalents - Restricted	<u>54,891.55</u>	<u>55,073.79</u>
<b>Total Cash</b>	<u><u>\$ 284,481.72</u></u>	<u><u>\$ 316,836.97</u></u>

The accompanying notes are an integral part of these financial statements

MCCLAIN COUNTY RURAL WATER DISTRICT #8  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011 and 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The McClain County Rural Water District #8, Oklahoma (the "District") was created on October 5, 1973, pursuant to the Rural Water, Sewer and Solid Waste Management Districts Act of Oklahoma (82 O.S. Sec. 1301-1324) by an order of the Board of County Commissioners of McClain County, Oklahoma. The purpose of the District is providing an adequate water supply to meet the needs of rural residents within the territory of the district.

Cash and Cash Equivalents – Items classified as cash equivalents in the financial statements include temporary investments in bank certificates of deposit, as well as other highly liquid short term investments. Restricted cash is cash reserves required by the USDA Rural Development Program.

Depreciation – Waterlines and facilities are depreciated using the straight-line method over the estimated useful lives of forty years. Depreciation of office building and office equipment is computed over the estimated useful lives of five to twenty years.

Income Taxes – The District is a body politic (corporate and an agency) and legally constituted authority of the State of Oklahoma. Based upon this status, the District should be exempt from federal income taxes and from filing requirements of the Internal Revenue Service. As discussed in Note 5, organizations covered by Section 501(c)(12) of the Internal Revenue Code and subject to imposition of income taxes on income from non-members and (2) subject to filing requirements of the Internal Revenue Service.

Contributed Capital – The District has received grants from governmental agencies for the construction of the District's water system. These amounts have been recorded as Contributed Capital to reflect amounts received as equity from events not involving operations of the fund. No amounts were contributed during 2012 and 2011.

Revenue and Expense Recognition – Revenue is recognized when it is earned, which is the point of consumption by the customer and expenses are recognized at the point of sale to the District.

Risk Management - The District is exposed to various risks of losses related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance from commercial insurance companies.

GASB 34 - The District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments, as of June 30, 2004.

## NOTE 2 - DEPOSIT COLLATERAL

The cash accounts of the District are required by state law to be secured by collateral pledged by the financial institution and/or FDIC deposit insurance. In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name. (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

The District's cash accounts would be classified as category 1 for the portion that was insured by FDIC and category 3 for the portion not covered by FDIC. As of June 30, 2012 the District had \$250,000 secured as category 1 and \$34,482 secured as category 2. For the year end the District had an overall under pledged collateral amount of \$-0-.

## NOTE 3 – COMMON UNITS

The District sells common units to new members. The accumulation of the sale of common units is reflected as part of the equity of the District. During the year ending June 30, 2012, the District sold \$28,500 worth of common units.

## NOTE 4 – LONG TERM DEBT

During the year ending June 30, 2004, the District incurred two notes payable with Rural Development, a division of the United States Department of Agriculture. These loans were for the construction of a new water treatment plant.

The first note was for \$1,065,000 and carries an interest rate of 4.75%. This note calls for monthly payments of \$5,006 to begin on September 28, 2003. The note matures in 2043. As of June 30, 2012, the balance on this note was \$961,162. Principal and interest paid during the year ending June 30, 2012 was \$14,053 and \$46,019, respectively. Principal and interest required to amortize this note till maturity is as follows:

	Principal	Interest		
2012/2013	14,735	45,337	Balance Beginning of Year	\$ 975,214
2013/2014	15,450	44,622	Principal Paid During of Year	14,053
2014/2015	16,200	43,872	Balance End of Year	<u>\$ 961,161</u>
2015/2016	16,987	43,085		
2016/2017	17,811	42,261		
2018/2022	102,899	197,461		
2023/2027	130,422	169,938		
2028/2032	165,307	135,053		
2033/2037	209,524	90,836		
2038/2042	265,568	34,792		
2043 to maturity	6,258	6,283		
	<u>\$ 961,161</u>	<u>\$ 853,540</u>		

The second note was for \$180,000 and carries an interest rate of 4.75%. This note calls for monthly payments of \$846. The note matures in 2023. The balance on this note as of June 30, 2012 was \$98,087. Principal and interest paid during the year ending June 30, 2012 was \$5,447 and \$4,705, respectively. Principal and interest required to amortize this note till maturity is as follows:

2013/2014	5,988	4,164	Principal Paid During of Year	5,446
2014/2015	6,279	3,873	Balance End of Year	<u>\$ 96,087</u>
2015/2016	6,584	3,568		
2016/2017	6,904	3,248		
2018/2022	39,883	10,877		
2023 to Maturity	24,738	1,604		
	<u>\$ 96,087</u>	<u>\$ 31,775</u>		

Collateral for these obligations is the water system and revenues generated by the system. The terms of these loans require that net operating revenues less depreciation and interest equal 125% of the annual debt service. As of June 30, 2012, net operating revenues less depreciation and interest equaled 215% of the annual debt service requirement. The District also had restricted cash of \$54,892 as of June 30, 2012 for debt service as required by the USDA Rural Development Loan Program.

**NOTE 5 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Lines and Plant	2,854,095	36,136	-	2,890,231
Equipment and Fixtures	243,482	103,760	-	347,242
Total	3,097,577			3,237,473
Accumulated Depreciation	(1,380,831)	(100,596)		(1,481,427)
Net Capital Assets	<u>\$1,716,746</u>			<u>\$ 1,756,046</u>

Management decides which purchases are capitalized in a case by case basis.

**NOTE 6 – INSURANCE COVERAGE**

The District maintains insurance coverage through the Oklahoma Rural Water Association Assurance Group (ORWA). The policy coverage period is 6/01/2012 to 6/01/2013. The policy agreement number is 10298. The policy provides the following coverage:

Property and General Liability

\$25,000	Each Property Damage Loss per Occurrence	\$1,000,000	Aggregate Per Occurrence
\$125,000	Each Other Loss per Occurrence	\$1,000,000	Annual Aggregate

Worker's Compensation and Employment Related Practices Liability

\$500,000	Per Occurrence Including Attorney Fees	\$1,000,000	Annual Aggregate
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Position Fidelity Bond

\$10,000	Blanket Coverage
\$71,000	Per Position on the Board
\$10,000	Money Securities

**McClain County Rural Water District #8**  
**Supporting Schedule of Operating Expenses**  
**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Chemicals	11,800.19	953.75
Expense on System	15,693.89	28,406.09
Uniforms	1,483.78	1,182.78
System Repairs	73,563.98	86,219.91
Electricity	33,799.51	31,243.74
Workmen's Comp Insurance	0.00	3,614.11
Automobile Expense	34,383.61	28,094.37
Total Operating Expenses	<u>\$ 170,724.96</u>	<u>\$ 179,714.75</u>

**McClain County Rural Water District #8**  
**Supporting Schedule of General and Administrative Expenses**  
**For the Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Accounting and Legal	3,500.00	3,250.00
Insurance and Bonding	4,520.37	15,851.35
Miscellaneous	9,727.12	0.00
Office Supplies	15,200.14	10,145.57
Postage	2,665.46	3,352.28
Telephone	4,000.13	3,692.80
Natural Gas	915.26	1,196.92
Water	584.69	683.02
Total General & Administrative Expenses	<u>\$ 41,113.17</u>	<u>\$ 38,171.94</u>

## Casey J. Russell CPA, Inc.

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### 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*

To the Board of Directors  
McClain County Rural Water District #8  
Wayne, Oklahoma

We have audited the financial statements of the McClain County Rural Water District #8 (the District) as of and for the year ended June 30, 2012 and have issued our report thereon dated July 6, 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.

#### Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered McClain County Rural Water District #8's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions 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 District's internal control over financial reporting.

*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 a combination of 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of current findings and responses that we consider to be significant deficiencies in internal control over financial reporting. 2012-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements, 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*.

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

  
July 6, 2012

## **Schedule of Current Findings and Responses**

### **2012-1 Lack of Segregation of Duties (Repeat Finding)**

**CONDITION:** During our review of the internal control structure, we noted that several procedures lack the control of having duties segregated. We understand that due to the size of the District and number of personnel, many aspects related to segregation of duties cannot be implemented.

**CRITERIA:** We believe that internal control procedures would be strengthened by reviewing the individual tasks to determine whether internal control procedures could be improved.

**CAUSE OF CONDITION:** Limited personnel

**EFFECT OF CONDITION:** Unknown

**MANAGEMENT RESPONSE:** All checks require two signatures whether there are two signature lines or not. Board has approval of all expenditures. In many cases due to our limited resources, controls will be limited.