

RURAL WATER DISTRICT #1,
GRADY COUNTY, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
ACCOMPANYING INDEPENDENT
AUDITOR'S REPORTS

FOR THE FISCAL YEAR ENDED
OCTOBER 31, 2012

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FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012**

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**RURAL WATER DISTRICT #1, GRADY COUNTY, OKLAHOMA
LIST OF PRINCIPAL OFFICIALS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012**

Board of Directors

Shirley Howard - Chairman

Terry McCool - Vice Chairman

Harvey Davidson - Secretary/Treasurer

Wickie Riley – Director

Gene Turner - Director

Peggy Riley – Clerk

Chris Slaine - Operator

Kristi L. Dobbins

106 East McClure P.O. Box 38 Pauls Valley, OK 73075

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

January 22, 2013

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

I have audited the accompanying financial statements of Rural Water District No. 1, Grady County, Pocasset, Oklahoma (the District), as of and for the year ended October 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water District No. 1, Grady County, Pocasset Oklahoma as of October 31, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principals generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated January 22, 2013, on my consideration of the Rural Water District No. 1's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and 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 considered in assessing the results of my audit.

The District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Kristi Dobbins, CPA

RURAL WATER DISTRICT #1, GRADY COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
OCTOBER 31, 2012

ASSETS

Cash and cash equivalents, unrestricted	\$46,638
Cash and cash equivalents, restricted	3,525
Investments, unrestricted	34,045
Accounts receivable	9,745
Capital assets, net of depreciation	378,094
Total Assets	<u>472,047</u>

LIABILITIES

Customer deposits	3,525
Accounts payable	4,725
Interest payable	603
Note payable, current	9,124
Note payable, noncurrent	124,685
Total Liabilities	<u>142,662</u>

NET ASSETS

Invested in capital assets, net of related debt	244,285
Unrestricted	85,100
Total Net Assets	<u>\$329,385</u>

See accompanying notes to the basic financial statements.

Statement 2

**RURAL WATER DISTRICT #1, GRADY COUNTY, OKLAHOMA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012**

Operating Revenues:	
Water	\$52,997
Sanitation	19,527
Sewer	8,106
Late charges	4,196
Miscellaneous	3,868
Total Operating Revenues	<u>88,694</u>
Operating Expenses:	
Salaries	16,200
Payroll tax expense	1,401
Depreciation	16,072
Insurance and fees	3,811
Sanitation pickup expenses	13,490
Repairs and maintenance	5,872
Utilities	6,886
Office expense	597
Dues, licenses and fees	3,150
Postage	820
Professional fees	2,000
Water purchases	6,441
Water rights	300
Total Operating Expenses	<u>77,040</u>
Net Operating Income	11,654
Non-Operating Revenues (Expenses):	
Interest income	640
Interest expense	(4,245)
Loan administrative fees	(712)
Net Income	<u>7,337</u>
Net assets-beginning of year	322,048
Net assets-end of year	<u><u>\$329,385</u></u>

See accompanying notes to the basic financial statements.

**RURAL WATER DISTRICT #1, GRADY COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$89,434
Payments to suppliers	(44,130)
Payments to employees	(16,200)
Receipts (Payments) for customer meter deposits	325
Net Cash Provided by Operating Activities	29,429

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital assets purchased	(2,685)
Principal paid on capital debt	(8,795)
Interest paid on capital debt	(4,270)
Administrative fees paid on capital debt	(712)
Net Cash Used by Capital and Related Financing Activities	(16,462)

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income	640
Net Cash Provided by Investing Activities	640
Net Increase in Cash, Cash Equivalents and Investments	13,607
Balance - beginning of the year	70,601
Balance - end of the year	84,208

Reconciliation of operating income (loss) to net cash provided

by operating activities:	
Operating income	11,653
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	16,072
Change in assets and liabilities:	
Accounts receivable	739
Accounts payable	640
Customer deposits	325
Net cash provided by operating activities	\$29,429

See accompanying notes to the basic financial statements.

**RURAL WATER DISTRICT #1, GRADY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity
- B. Basis of Presentation
- C. Assets, Liabilities and Equity
- D. Revenues and Expenses

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. Deposits and Investments Laws and Regulations

NOTE 3. DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

- A. Cash and Investments
- B. Restricted Assets
- C. Property, Plant and Equipment
- D. Long-Term Debt

NOTE 4. OTHER NOTES

- A. Risk Management
- B. Employee Pension and Other Benefits
- C. Commitments and Contingencies
- D. Subsequent Events

**RURAL WATER DISTRICT #1, GRADY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. FINANCIAL REPORTING ENTITY

Rural Water District #1, Grady County, Oklahoma was established pursuant to Title 82 of Oklahoma State Law in September 1964. The purpose of the District is to provide a water distribution system for its members in the Pocasset, Oklahoma area. Members are owners of land located within the District who have subscribed to one or more Benefit Units, provided payments of charges are current on at least one of the Benefit Units. Each member represents one vote of the governing body of the District without any direct ownership in its assets.

The accompanying financial statements include all functions and activities over which the District exercises financial accountability. The District is considered a primary government as defined by the Governmental Accounting Standards Board (GASB) and has no other component units within its reporting entity.

1.B. BASIS OF PRESENTATION

The District is considered a governmental entity as defined by the Governmental Accounting Standards Board (GASB). Its operations are considered proprietary in nature and therefore, the District has adopted a reporting framework similar to that of proprietary type funds. Proprietary fund types utilize the accrual basis of accounting, revenues are recognized when earned and expenses (including depreciation) are recorded when the liability is incurred or economic asset used.

1.C. ASSETS, LIABILITIES AND EQUITY

Cash

For purposes of the balance sheet, "cash" includes all demand and savings accounts.

Investments

For the purpose of the balance sheet, "investments" include certificates of deposit with a maturity of longer than 3 months.

Accounts Receivable

Material receivables consist of all revenues earned at year-end and not yet received. Utility and late charges comprise the majority of the District's receivables. Due to the past history of immaterial bad debt expenses incurred and the enforcement of the District's cutoff policy, no allowance for doubtful accounts is considered necessary.

Capital Assets

Facilities purchased, constructed, or donated are recorded at cost and include improvements that significantly add to the productive capacity or extend the useful life of the asset. The District has determined that assets with a cost of more than \$1,000 will be capitalized. Costs of maintenance and repairs are charged to expense. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the accounts, and gain or loss, if any, is reflected in earnings for that period. Depreciation is provided on a straight-line method over the estimated useful lives of the assets, generally thirty years for water and sewer facilities and equipment and five years for office furniture and equipment.

**RURAL WATER DISTRICT #1, GRADY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2.A. DEPOSITS AND INVESTMENTS LAWS AND REGULATIONS

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Bank deposits are held by two financial institutions and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

NOTE 3 - DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND CASH EQUIVALENTS

Custodial Credit Risk

At October 31, 2012, the District held deposits of approximately \$84,208 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC).

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bonds or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality, or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligation of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

**RURAL WATER DISTRICT #1, GRADY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012**

The investments held at October 31, 2012 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificates of deposit	36.00	N/A	\$34,045	\$34,045
Total Investments			<u>\$34,045</u>	<u>\$34,045</u>

NOTE 3 - DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS, Continued

3.B. RESTRICTED ASSETS

The amounts reported as restricted assets of the District on the balance sheet are comprised of amounts held by the District for utility deposits (refunded upon termination of service or applied to final bill). The restricted assets as of October 31, 2012 were as follows:

Cash and cash equivalents:	
Utility deposits	<u>\$3,525</u>

3.C. PROPERTY, PLANT AND EQUIPMENT

Fixed assets of the District were comprised of the following at October 31, 2012

	Balance at November 1, 2011	Additions	Disposals	Balance at October 31, 2012
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 14,500	-	-	\$ 14,500
Capital assets being depreciated:				
Building, machinery and equipment	21,315	-	-	21,315
Utility property and improvements	<u>687,350</u>	<u>2,685</u>	<u>3,754</u>	<u>686,281</u>
Total capital assets at				
Historical cost	<u>723,165</u>	<u>2,685</u>	<u>3,754</u>	<u>722,096</u>
Less accumulated depreciation for:				
Building, machinery and equipment	20,276	318	-	20,594
Utility property and improvements	<u>311,408</u>	<u>15,754</u>	<u>(3,754)</u>	<u>323,408</u>
Total accumulated depreciation	<u>331,683</u>	<u>16,072</u>	<u>(3,754)</u>	<u>344,002</u>
Business-type activities capital assets, net	<u>\$ 391,482</u>	<u>\$ (13,387)</u>	<u>-</u>	<u>\$ 378,094</u>

3.D. LONG-TERM DEBT

At October 31, 2012, the District had the following long-term debt outstanding:

Note payable to OWRB, payable in quarterly installments, including principal and interest at 3%, final payment due September 15, 2024, secured by utility facilities	<u>\$133,809</u>
Current portion	9,124
Noncurrent portion	<u>124,685</u>
Total note payable	<u>\$133,809</u>

**RURAL WATER DISTRICT #1, GRADY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012**

NOTE 3 - DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS, Continued

3.D. LONG-TERM DEBT, Continued

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended October 31, 2012:

Type of Debt	Balance November 1, 2011	Amount Issued	Amount Retired	Balance October 31, 2012
Notes Payable	<u>\$142,603</u>	<u>\$-0-</u>	<u>\$8,794</u>	<u>\$133,809</u>

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of October 31, 2012 are as follows:

Year Ending October 31,	Principal	Interest
2013	\$9,124	\$4,000
2014	9,450	3,720
2015	9,788	3,430
2016	10,128	3,139
2017	10,501	2,819
2018-2022	58,417	9,032
2023-2024	26,401	1,012
Total	<u>\$133,809</u>	<u>\$27,152</u>

NOTE 4 - OTHER NOTES

4.A. RISK MANAGEMENT

Rural Water District No. 1 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, and property damage liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

4.B. EMPLOYEE PENSION AND OTHER BENEFITS

The District provides no pension, deferred compensation or other post-employment benefits to employees of the District.

**RURAL WATER DISTRICT #1, GRADY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2012**

NOTE 4 - OTHER NOTES, (Continued)

4.C. COMMITMENTS AND CONTINGENCIES

Commitments

The Rural Water District #1, Grady County, Oklahoma has a contract with All American Waste that transferred to WCA of Oklahoma dba Oklahoma Hauling. WCA of Oklahoma is responsible for picking up trash and disposing of it for the paying members of the District. The District remits payment to WCA of Oklahoma for each residential and commercial customer that pays for sanitation services. Fees are remitted based upon the type of disposal container each customer uses.

Contingencies:

Litigation

The District is not involved with any legal proceedings, which normally occur in the course of governmental operations at this time. Therefore, the financial statements do not include accruals or provisions for loss contingencies.

While legal proceedings cannot be foreseen, the District feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the District.

4.D. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 22, 2013, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

**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**

January 22, 2013

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

I have audited the basic financial statements of the Rural Water District No. 1, Grady County, Pocasset, Oklahoma (the District), as of and for the year ended October 31, 2012, and have issued my report thereon dated January 22, 2013. I conducted my 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 District did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my audit procedures for the purpose of expressing my opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily 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 discussed below, I identified a certain deficiency in internal control over financial reporting that I 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 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. I consider the deficiency described below and responses to be material weaknesses.

An adequate internal control structure does not exist because of the small size of the entity, nor is there adequate segregation of duties. A good internal control system would provide for separation of duties and responsibilities in financial matters between various employees. The individual receiving payments for utility billings would not be the same as the individual doing the billing, making the deposits and maintaining accounts receivable. The individual writing checks would not be the same as the individual recording those checks and reconciling bank accounts. However, because of the very limited number of administrative employees and the small size of the District budget, it is generally not financially efficient to have enough employees for proper segregation of duties. The best protection is to maintain sufficient bond on those handling cash to cover losses should they occur. This condition has been discussed with management, and management has concluded that the cost to correct this condition would exceed the benefit.

Rural Water District No. 1
Grady County
January 22, 2013

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in my audit is described above. I did not audit the District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of management, all applicable federal and state agencies, and those other Governments from which federal financial assistance was received and is not intended to be and should not be used by anyone other than these specified parties.



Kristi Dobbins, CPA