

RURAL WATER DISTRICT #1,  
GRADY COUNTY, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND  
ACCOMPANYING INDEPENDENT  
AUDITOR'S REPORTS

FOR THE FISCAL YEAR ENDED  
OCTOBER 31, 2011

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FOR THE FISCAL YEAR ENDED OCTOBER 31, 2011**

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**RURAL WATER DISTRICT #1, GRADY COUNTY, OKLAHOMA  
LIST OF PRINCIPAL OFFICIALS  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2011**

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Board of Directors

Shirley Howard - Chairman  
Terry McCool - Vice Chairman  
Harvey Davidson - Secretary/Treasurer  
Wickie Riley – Director

Peggy Riley – Clerk  
Gene Turner - Manager  
Jimmy Turner – Operator  
Chris Slaine - Operator

*Kristi L. Dobbins*

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

**Certified Public Accountant**

**(405) 238-6447**

**Fax (405) 238-6447**

**INDEPENDENT AUDITOR'S REPORT**

January 25, 2012

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, 2011, 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, 2011, 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 25, 2012, 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

Statement 1

RURAL WATER DISTRICT #1, GRADY COUNTY, OKLAHOMA  
STATEMENT OF NET ASSETS  
OCTOBER 31, 2011

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**ASSETS**

Cash and cash equivalents, unrestricted	\$33,426
Cash and cash equivalents, restricted	3,200
Investments, unrestricted	33,975
Accounts receivable	10,484
Capital assets, net of depreciation	391,482
Total Assets	<u>472,567</u>

**LIABILITIES**

Customer deposits	3,200
Accounts payable	4,087
Interest payable	629
Note payable, current	8,795
Note payable, noncurrent	133,808
Total Liabilities	<u>150,519</u>

**NET ASSETS**

Invested in capital assets, net of related debt	248,879
Unrestricted	73,169
Total Net Assets	<u>\$322,048</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, 2011**

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Operating Revenues:	
Water	\$56,565
Sanitation	19,017
Sewer	7,966
Late charges	3,827
Miscellaneous	1,351
Total Operating Revenues	<u>88,726</u>
Operating Expenses:	
Salaries	16,200
Payroll tax expense	1,205
Depreciation	16,692
Insurance and fees	3,943
Sanitation pickup expenses	14,053
Repairs and maintenance	4,367
Utilities	8,164
Office expense	353
Dues, licenses and fees	2,674
Postage	575
Professional fees	1,750
Water purchases	5,889
Water rights	300
Total Operating Expenses	<u>76,165</u>
Net Operating Income	12,561
Non-Operating Revenues (Expenses):	
Interest income	532
Interest expense	(4,602)
Loan administrative fees	(757)
Net Income	<u>7,734</u>
Net assets-beginning of year	314,314
Net assets-end of year	<u><u>\$322,048</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, 2011**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from customers	\$87,991
Payments to suppliers	(41,364)
Payments to employees	(16,200)
Receipts (Payments) for customer meter deposits	200
Net Cash Provided by Operating Activities	30,627

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Capital assets purchased	(6,879)
Principal paid on capital debt	(8,504)
Interest paid on capital debt	(4,544)
Administrative fees paid on capital debt	(757)
Net Cash Used by Capital and Related Financing Activities	(20,684)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment income	532
Net Cash Provided by Investing Activities	532
Net Increase in Cash, Cash Equivalents and Investments	10,475
Balance - beginning of the year	60,126
Balance - end of the year	70,601

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

Operating income	12,561
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	16,691
Change in assets and liabilities:	
Accounts receivable	(735)
Accounts payable	1,910
Customer deposits	200
Net cash provided by operating activities	\$30,627

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, 2011**

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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, 2011**

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**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, 2011**

**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 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, 2011, the District held deposits of approximately \$70,601 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.).

The investments held at October 31, 2011 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificates of deposit	24.00	N/A	\$33,975	\$33,975
<b>Total Investments</b>			<b>\$33,975</b>	<b>\$33,975</b>

**RURAL WATER DISTRICT #1, GRADY COUNTY, OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2011**

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**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, 2011 were as follows:

Cash and cash equivalents:	
Utility deposits	<u>\$3,200</u>

**3.C. PROPERTY, PLANT AND EQUIPMENT**

Fixed assets of the District were comprised of the following at October 31, 2011

	Balance at November 1, 2010	Additions	Disposals	Balance at October 31, 2011
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>680,471</u>	<u>6,879</u>	<u>-</u>	<u>687,350</u>
Total capital assets at				
Historical cost	<u>716,286</u>	<u>6,879</u>	<u>-</u>	<u>723,165</u>
Less accumulated depreciation for:				
Building, machinery and equipment	19,957	318	-	20,275
Utility property and improvements	<u>295,035</u>	<u>16,373</u>	<u>-</u>	<u>311,408</u>
Total accumulated depreciation	<u>314,992</u>	<u>16,691</u>	<u>-</u>	<u>331,683</u>
Business-type activities capital assets, net	<u>\$ 401,294</u>	<u>\$ (9,812)</u>	<u>-</u>	<u>\$ 391,482</u>

**3.D. LONG-TERM DEBT**

At October 31, 2011, 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>\$142,603</u>
Current portion	8,795
Noncurrent portion	<u>133,808</u>
Total note payable	<u>\$142,603</u>

**RURAL WATER DISTRICT #1, GRADY COUNTY, OKLAHOMA  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2011**

**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, 2011:

Type of Debt	Balance November 1, 2010	Amount Issued	Amount Retired	Balance October 31, 2011
Notes Payable	<u>\$151,107</u>	<u>\$-0-</u>	<u>\$8,504</u>	<u>\$142,603</u>

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of October 31, 2011 are as follows:

Year Ending October 31,	Principal	Interest
2012	\$8,795	\$4,282
2013	9,124	4,000
2014	9,450	3,720
2015	9,788	3,430
2016	10,128	3,139
2017-2021	56,397	10,762
2022-2024	38,921	2,101
Total	<u>\$142,603</u>	<u>\$31,434</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, 2011**

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**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 25, 2012, 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 25, 2012

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, 2011, and have issued my report thereon dated January 25, 2012. 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

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 that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a certain deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. I consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting. I consider the following to be a control deficiency.

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 25, 2012

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