

AUDIT REPORT
RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
WILBURTON, OKLAHOMA
DECEMBER 31, 2011

RALPH OSBORN
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INDEPENDENT AUDITORS' REPORT

To The Honorable Members of the Board of Directors
Rural Water District No. 1, Latimer County, Oklahoma
Wilburton, Oklahoma

I have audited the accompanying financial statements of the business-type activities of Rural Water District No. 1, Latimer County, Oklahoma as of and for the year ended December 31, 2011, which collectively comprise Rural Water District No. 1, Latimer County, Oklahoma's basic financial statements. These financial statements are the responsibility of Rural Water District No. 1, Latimer County, Oklahoma'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 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 respective financial position of the business-type activities of Rural Water District No. 1, Latimer County, Oklahoma as of December 31, 2011, and the respective changes in financial position and cash flows where appropriate, thereof, in conformity with accounting principles generally accepted in the United States of America.

Rural Water District No. 1, Latimer County, Oklahoma has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, I have also issued my report dated June 12, 2012, on my consideration of Rural Water District No. 1, Latimer County, Oklahoma's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, 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 considered in assessing the results of my audit.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
June 12, 2012

RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
LATIMER, OKLAHOMA
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,048,773
Accounts receivable	64,121
Prepaid expense	8,868
Utility deposit	<u>70</u>
Total current assets	<u>1,121,832</u>

Non-current assets

Capital assets:

Other capital assets, net of accumulated depreciation	<u>1,163,274</u>
Total non-current assets	<u>1,163,274</u>

Total assets	<u>2,285,106</u>
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LIABILITIES

Current liabilities:

Accounts payable	37,915
Payroll Liabilities	17,061
Renters' deposits	<u>13,958</u>

Total liabilities	<u>68,934</u>
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NET ASSETS

Nonspendable	1,163,274
Assigned	424,057
Unassigned	<u>628,841</u>

Net assets of business-type activities	<u>\$ 2,216,172</u>
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See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
LATIMER, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011

OPERATING REVENUES

Charges for services:	
Water sales	\$ 817,031
Miscellaneous customer fees	21,913
Other revenue	<u>8,232</u>
 Total operating revenues	 <u>847,176</u>

OPERATING EXPENSES

Water purchased	418,781 ✓
Salaries/wages and taxes	177,644 ✓
Retirement contribution	10,306 ✓
Group health insurance	15,468 ✓
Insurance	23,788 ✓
Licences and permits	62 ✓
Meetings and seminars	4,321 ✓
Office	8,486 ✓
Other expense	2,223
Professional services	4,820 ✓
Scholarship	700 ✓
Repairs and maintenance	47,804
Telephone	3,098 ✓
Truck expense	21,633 ✓
Utilities	17,558 ✓
Depreciation	<u>62,911 ✓</u>
 Total operating expenses	 <u>819,603</u>
 Operating income (loss)	 <u>27,573</u>

NON-OPERATING REVENUE (EXPENSES)

Interest earnings	<u>7,155</u>
 Total non-operating revenue (expenses)	 <u>7,155</u>
 Change in net assets	 34,728
Total net assets, beginning	<u>2,181,444</u>
Total net assets, ending	<u>\$ 2,216,172</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
LATIMER, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash flows from operating activities	\$ 855,733
Cash received from customers	(191,055)
Cash payments for employees and benefits	(554,603)
Cash payments to suppliers for goods and services	<u>110,075</u>
Net cash provided (used) by operating activities	<u>110,075</u>
 Cash flows from capital and related financing activities	
Oklahoma Department of Transportation	47,571
Acquisition of fixed assets	<u>(29,604)</u>
Net cash used for capital and related financing activities	<u>17,967</u>
 Cash flows from investing activities	
Investment earnings	<u>7,155</u>
Net cash used by investing activities	<u>7,155</u>
 Net increase in cash and cash equivalents	135,197
 Cash and cash equivalents, beginning	<u>913,576</u>
 Cash and cash equivalents, ending	<u>\$ 1,048,773</u>
 Reconciliation of operating income (loss) to net cash provided by (used) by operating activities	
Operating income (loss)	\$ 27,573
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	62,911
Changes in assets and liabilities:	
Increase in accrued receivables	7,732
Increase in prepaid expenses	(488)
Increase in accounts payable	11,522
Increase in renters' deposits	<u>825</u>
Net cash provided by operating activities	<u>\$ 110,075</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
LATIMER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District Number 1 (the "District") was created by the Latimer County, Oklahoma Board of County Commissioners under the provisions of Title 82 Oklahoma statutes 1961, Sections 1301 to 1321. The District is managed by a nine member Board of Directors elected by the members of the District. Terms of the Directors are staggered to expire in different years. Directors are elected at the annual meeting of the membership of the District. Membership in the District is acquired by paying a membership fee and receiving services from the District. The District is exempt from federal and state taxation.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The District's reporting entity does not apply FASB pronouncements or ABP opinions issued after November 30, 1989.

The financial statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported in financial statements include revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Investments

The District follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The District considers highly liquid investments with a maturity of twelve months or less when purchased to be cash equivalents.

Inventories and Prepaids

Inventories consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis.

RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
LATIMER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets, Depreciation, and Amortization

The District's property, plant, and equipment, with useful lives of more than one year are stated at historical cost and comprehensively reported in the financial statements. Donated assets are stated at fair value on the date donated. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture , machinery, and equipment	3-30
Utility system	5-50

Reserves and Designations

Reserves represent those portions of net assets not available for expenditure or legally segregated for a specific future use. Designated net assets represent tentative plans for future use of financial resources.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
LATIMER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE B - CASH AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the District will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by counterparty or the counterparty's trust department but not in the name of the District. The District's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of December 31, 2011, all of the District's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$1,048,773 at December 31, 2011. The bank balance of the deposits at December 31, 2011 was approximately \$1,048,787.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at December 31, 2011.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitors the investment performance on an ongoing basis to limit the District's interest rate risk. As of December 31, 2011, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - ACCOUNTS RECEIVABLE

The District records amounts unpaid at December 31 as receivable. District employees do not read water meters. Meters are read by customers and the payment is based on this reading. Amounts received in January are shown as receivable in December. Any uncollectible amounts are written-off as they become uncollectible. The actual amount of receivables may vary from the reported amount, however, the amount of the variance is unknown, but it is not believed to be material.

RURAL WATER DISTRICT NO. 1
LATIMER COUNTY, OKLAHOMA
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE D - CAPITAL ASSETS

Changes in capital assets.

The following table provides a summary of changes in capital assets:

	CAPITAL ASSETS, DEPRECIATED			
	Buildings	Improvements Other Than Buildings	Furniture, Machinery, And Equipment	Totals
Balance, Dec. 31, 2010	\$ 77,533	\$ 2,368,307	\$ 48,170	\$ 2,494,010
Increases	-	29,604	-	29,604
Decreases	-	-	-	-
Balance, Dec. 31, 2011	<u>77,533</u>	<u>2,397,911</u>	<u>48,170</u>	<u>2,523,614</u>
Accumulated Depreciation				
Balance, Dec. 31, 2010	23,906	1,268,706	4,817	1,297,429
Increase	1,292	57,639	3,980	62,911
Decreases	-	-	-	-
Balance, Dec. 31, 2011	<u>25,198</u>	<u>1,326,345</u>	<u>8,797</u>	<u>1,360,340</u>
Capital Assets, Net	<u>\$ 52,335</u>	<u>\$ 1,071,566</u>	<u>\$ 39,373</u>	<u>\$ 1,163,274</u>

NOTE E - RISK MANAGEMENT

The District 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 carries commercial insurance, including workers compensation, for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE F - PENSION

Prior to October 31, 2011, Employees working five hundred hours per year are eligible to participate in a 403(b) plan. The District contributed 7% of covered compensation for participating employees.

Beginning November 1, 2011, the District changed to a Simplified Employee Pension (SEP) plan administered through Edward Jones. Under the new plan, employees are eligible to participate after completion of twelve months service. The employee contribution rate increased to 8%. Benefits are determined based on the amount contributed to the retirement plan.

NOTE G - COMPENSATED ABSENCES

The District allows full-time employees one week vacation after one year of employment, two weeks vacation after three years, and three weeks vacation after 5 years. Vacation must be used in the year it is earned and is not accumulated.

Full-time employees are allowed two weeks sick time per year. Unused sick time may not accumulate from year to year.

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
Rural Water District Number 1, Latimer County, Oklahoma
Wilburton, Oklahoma

I have audited the financial statements of the business-type activities of Rural Water District Number 1, Latimer County, Wilburton, Oklahoma as of and for the year ended December 31, 2011, and have issued my report thereon dated June 12, 2012 which did not include Management's Discussion and Analysis. 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Rural Water District Number 1's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District Number 1's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Rural Water District Number 1'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.

My 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. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies. 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. I consider the lack of segregation of duties to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District Number 1, Latimer County, Wilburton, Oklahoma'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*.

This report is intended solely for the information and use of management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
June 12, 2012