

*Financial Statements*

*of*

**Rural Water District No. 2  
Muskogee County, Oklahoma**

December 31, 2011 and 2010



***Clothier & Company CPA's P.C.***

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Rural Water District No. 2  
Muskogee County, Oklahoma

We have audited the accompanying balance sheet- cash basis of Rural Water District No. 2 Muskogee County, Oklahoma, as of December 31, 2011 and 2010 and the related statements of revenues and expenses- cash basis and cash flows for the years then ended. These financial statements are the responsibility of Rural Water District No. 2'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 applicable to 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 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.

As described in Note 1, the District prepares its financial statements on the 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 fund balances- cash basis of Rural Water District No. 2, as of December 31, 2011 and 2010, and the revenues and expenses- cash basis for the years then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2012, on our consideration of Rural Water District No. 2's internal control over financial reporting and on our 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 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.

The District has not presented the management's discussion and analysis information that the *Governmental Accounting Standards Board* has determined is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise Rural Water District No. 2's basic financial statements. The budgetary comparison information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Clothier + Company CPA's*

Clothier & Company, CPA's, P.C.  
March 1, 2012

**Rural Water District No2 Muskogee County  
BALANCE SHEET  
As of December 31, 2011 and 2010**

**ASSETS**

	<u>2011</u>	<u>2010</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 107,478	\$ 111,627
<b>Total Current Assets</b>	<u>107,478</u>	<u>111,627</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	17,719	17,719
Buildings	92,112	92,112
Water System & Equipment	777,746	666,438
Office Furniture & Equipment	21,730	21,730
Construction in Progress	0	107,898
Less: Accumulated Depreciation	<u>(446,708)</u>	<u>(414,479)</u>
<b>Net Property and Equipment</b>	<u>462,599</u>	<u>491,418</u>
<b>OTHER ASSETS</b>		
N/R Hopewell Park	<u>2,613</u>	<u>2,750</u>
<b>Total Other Assets</b>	<u>2,613</u>	<u>2,750</u>
<b>TOTAL ASSETS</b>	<u>\$ 572,690</u>	<u>\$ 605,795</u>

**LIABILITIES AND FUND BALANCE**

<b>CURRENT LIABILITIES</b>		
Accrued Expense	<u>1,462</u>	<u>1,414</u>
<b>Total Current Liabilities</b>	<u>1,462</u>	<u>1,414</u>
<b>FUND BALANCE</b>		
Fund Balance	604,381	625,575
Net Income	<u>(33,153)</u>	<u>(21,194)</u>
<b>Total Fund Balance</b>	<u>571,228</u>	<u>604,381</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 572,690</u>	<u>\$ 605,795</u>

See accompanying footnotes and auditors' report.

**Rural Water District No2 Muskogee County**  
**STATEMENT OF REVENUES AND EXPENSES**  
**As of December 31, 2011 and 2010**

	<u>2010</u>	<u>2009</u>
<b>Sales</b>		
Water Sales	\$ 221,678	\$ 209,944
Late Charges	5,900	5,064
Reconnect Fees	25	50
Transfer Fees	375	350
Installation Fees	1,000	3,500
Benefit Unit Certificate	2,000	7,000
Miscellaneous Income	20	85
Interest Income	569	1,721
Less: Returns & Allowances	0	0
<b>Total Sales</b>	<u>231,567</u>	<u>227,714</u>
 <b>Cost of Goods Sold</b>		
Water Purchased	<u>80,088</u>	<u>77,438</u>
<b>Total Cost of Goods Sold</b>	<u>80,088</u>	<u>77,438</u>
 <b>Gross Profit</b>	<u>151,479</u>	<u>150,276</u>
 <b>Operating Expenses</b>		
Wages-System Operator	45,085	42,533
Wages-Office Manager	17,616	16,685
Payroll Taxes-941	4,797	4,530
Health Insurance	14,251	14,060
IRA Eexpense	5,215	1,273
Utilities	4,518	4,539
Insurance-General	5,840	4,458
Depreciation Expense	32,229	24,802
Office Supplies	1,689	1,819
Building/Grnds Maint.	150	0
Plant Maintenance	9,570	8,715
Plant Expense	13,480	9,500
Water Tests	578	833
Telephone	1,720	1,662
Travel	420	504
Vehicle Allowance	0	5,443
Employee/Board Travel/Training	82	0
District Truck Maint/Ins/Fuel	3,482	0
Postal Expense	1,526	1,225
Computer Expense	175	575
Miscellaneous Expense	452	290
ORWA Membership	322	323
Bank Service Charges	511	481
Audit Expense	2,100	2,100
Building Maintenance	0	1,640
<b>Total Operating Expenses</b>	<u>165,808</u>	<u>147,990</u>
 Tower Maintenance	<u>18,824</u>	<u>23,480</u>
 <b>Net Income (Loss)</b>	<u>\$ (33,153)</u>	<u>\$ (21,194)</u>

See accompanying footnotes and auditors' report.

**RURAL WATER DISTRICT #2 MUSKOGEE**  
**Statement of Cash Flows**  
**December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Cash Flows From Operating Activities:</b>		
Cash received from customers	\$ 230,978	\$ 223,158
Cash received from other sources	157	85
Cash paid to employees	(62,701)	(59,218)
Cash paid to suppliers	(80,040)	(77,438)
Other operating payments	(89,702)	(87,488)
Net Cash Flows from Operating Activities	<u>(1,308)</u>	<u>(901)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Payment of debt	0	0
Acquisition and construction of capital assets	(3,410)	(107,898)
Net Cash (Used) By Capital and Related Financing Activities	<u>(3,410)</u>	<u>(107,898)</u>
<b>Cash Flows From Investing Activities:</b>		
Receipt of interest and dividends	569	1,721
Net Cash Provided (Used) By Investing Activities	<u>569</u>	<u>1,721</u>
Net Increase (Decrease) In Cash	(4,149)	(107,078)
Cash Beginning of Year	111,627	218,705
Cash End of Year	<u>\$ 107,478</u>	<u>\$ 111,627</u>
<b>Reconciliation of Operating Income to Net Cash Flows from Operating Activities:</b>		
Operating income (loss)	\$ (33,153)	\$ (21,194)
Add depreciation expense	32,229	24,802
Add interest expense	0	0
Less interest income	(569)	(1,721)
(Increase)/Decrease in Current Assets:		
Notes receivables, net	137	(2,750)
Prepaid expenses	0	0
Increase/(Decrease) in Current Liabilities:		
Accounts payable	0	0
Accrued expenses	48	(38)
Customer deposits	0	0
Net Cash Flows from Operating Activities	<u>\$ (1,308)</u>	<u>\$ (901)</u>

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2011

### **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Rural Water District No. 2 is a political subdivision of the State of Oklahoma organized in June of 1965, with its offices located in Muskogee County, Oklahoma. The District was formed to furnish water service to the residents of the district by constructing and maintaining a water system.

#### Basis of Accounting

The financial statements of the District are prepared using the cash basis of accounting where revenues are recognized when received and expenses are recognized when paid. This is a comprehensive basis of accounting other than generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District had the option to apply FASB pronouncements issued after that date to its business-type activities, it has chosen not to do so.

#### Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents, consists of cash on hand and all cash in bank.

#### Funds on Deposit

The District maintains the following account for funds deposited with a fully insured bank:

Operating account- Gross revenues of the District are to be deposited to this account. The reasonable and necessary current expenses of operating and maintaining the District for each month are also paid from this account. These funds are on deposit with Citizen's bank.

Money Market Account – A cash reserve is set aside in this account for unforeseen catastrophes, extensions and improvements to the water system.

#### Property and Equipment

Property and equipment are recorded at cost, with depreciation provided on a straight-line method over the estimated useful lives of the assets.

#### Income Tax

As a political subdivision of the State of Oklahoma, the District is exempt from income taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**2. PROPERTY AND EQUIPMENT:**

	<u>Beginning Balance</u>	<u>Addition</u>	<u>Accumulated Depreciation</u>	<u>Book Balance</u>
Land	\$17,719	\$0	\$0	\$17,719
Office Furniture & Equipment	21,730	0	(20,290)	1,440
Water System & Equipment	666,438	111,308	(404,467)	373,279
Buildings	92,112	0	(21,951)	70,161
Construction in Process	0	0	0	0
<b>Totals</b>	<u>\$797,999</u>	<u>\$111,308</u>	<u>(\$446,708)</u>	<u>\$462,599</u>

**3. CONCENTRATION OF CREDIT RISK**

The District maintains cash balances at Citizens Security Bank. As of December 31, 2011 the District's deposits and investments were \$111,327 (\$300 petty cash). Of the bank balance \$111,327 was covered by Federal Depository Insurance Corporation and \$0 was collateralized.

**4. SYSTEM IMPROVEMENTS**

Funding for system improvements projects was provided with monies saved by the District in previous years for this purpose. The maintenance projects are expenses on the Statement of Revenues and Expenses and the capital improvements are included on the Balance Sheet under Property and Equipment.

District Contingency Funding 1/1/2011:			\$57,622
		<u>Capital</u>	
System Improvement Costs:	<u>Maintenance</u>	<u>Improvements</u>	
Water Tower Maintenance	18,824		
Equipment Purchases		1,330	
New Meter System		0	
Meter Installation		2,080	
Total System Improvements	<u>18,824</u>	<u>3,410</u>	<u>22,234</u>
District Contingency Funding 12/31/2011:			<u>\$35,388</u>



**5. OTHER INFORMATION**

Water rates in effect at December 31, 2011 were as follows:

Minimum 0 to 2,000 gallons	\$20.0000	
Next 2,001 - 8,000 gallons	\$0.0060	per gallon
Next 8,001 -10,000 gallons	\$0.0065	per gallon
All usage above 10,001 gallons	\$0.0070	per gallon

The Board of Directors and staff of Rural Water District #2, Muskogee County, Oklahoma as of December 31, 2011:

Chairman	Alvie McDaniel
Vice-chairman	John Vecchio
Secretary/Treasure	Bob Rose
Director	Alan Hensley
Director	Ken Herringshaw
District Manager	Gerald Schneidewent
Office Manager/Bookkeeper	Patty Sweptson



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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  
Rural Water District No. 2  
Muskogee County, Oklahoma

We have audited the financial statements- cash basis of Rural Water District No. 2, Muskogee County, Oklahoma, as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated March 1, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and those 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 Rural Water District No. 2 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rural Water District No. 2's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion of 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 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 weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 2's financial statements are free of material misstatement, we 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 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, the Board of Directors, others within the organization, and the State of Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Clothier & Company CPA's". The signature is written in black ink and is positioned above the printed name of the firm.

Clothier & Company, CPA's, P.C.  
March 1, 2012

## SUPPLEMENTAL INFORMATION

**RURAL WATER DISTRICT NO. 2**  
**Budget to Actual Comparison**  
**December 31, 2011**

	Original	Final	Actual	Variance
<b>Revenue:</b>				
Water Revenue	\$218,000	\$218,000	\$221,678	(\$3,678)
Late Charges	5,000	5,000	5,900	(900)
Meter Installation/Benefit Unit	4,500	4,500	3,000	1,500
Reconnection/Transfer Fees	350	350	400	(50)
Returned Check Charges	100	100	0	100
Misc. & Intrest Income	1,500	1,500	589	911
Total Revenue	229,450	229,450	231,567	(2,117)
<b>Cost of Sales:</b>				
Water Purchases	65,000	65,000	80,088	(15,088)
Gross Revenue	164,450	164,450	151,479	12,971
<b>Operating Expenses:</b>				
Audit Expense	2,200	2,200	2,100	100
Legal Expense	500	500	0	500
Wages - Operator	45,085	45,085	45,085	0
Contract Labor - System Asst.	500	500	0	500
Wages - Office Manager	18,018	18,018	17,616	402
Payroll Taxes	4,796	4,796	4,797	(1)
Health/Life Insurance	14,500	14,500	14,251	249
Retirement Expense	5,160	5,160	5,215	(55)
Utilities	4,700	4,700	4,518	182
Insurance	4,500	4,500	5,840	(1,340)
Office Supplies/Expenses	1,400	1,400	1,689	(289)
Computer Expense	0	0	175	(175)
Plant Expense	10,000	10,000	13,480	(3,480)
Water Tests/Environment Fees	900	900	578	322
Bad Debt Expense	0	0	0	0
Telephone Expense	1,700	1,700	1,720	(20)
Travel Expense	510	510	420	90
Staff/Board Travel/Training	50	50	82	(32)
Truck Expense	3,000	3,000	3,482	(482)
Postal Expense	1,300	1,300	1,526	(226)
Contract Backhoe Expense	9,000	9,000	9,570	(570)
Miscellaneous Expense	300	300	452	(152)
OWRA Membership	350	350	322	28
Bank Service Charge	500	500	511	(11)
Building Maintenance	500	500	150	350
Tower Maintenance	18,824	18,824	18,824	0
Total Operating Expenses	148,293	148,293	152,403	(4,110)
Revenues Over/(Under) Expenses	\$16,157	\$16,157	(924)	\$17,081
Depreciation Expense(not included in budget)			(32,229)	
Net Income (Loss)			(33,153)	