

AUDIT REPORT

ATOKA COUNTY RURAL WATER DISTRICT #2 ATOKA, OKLAHOMA

JUNE 30, 2011



KERSHAW CPA & ASSOCIATES, PC

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ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
JUNE 30, 2011

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ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
JUNE 30, 2011

BOARD OF DIRECTORS

| <u>NAME</u> | <u>POSITION</u> |
|-----------------|-----------------|
| DAVID BLACKBURN | CHAIRMAN |
| THOMAS SMOOT | VICE-CHAIRMAN |
| MERRITT TAYLOR | TREASURER |
| ROGER MCININCH | SECRETARY |
| MONTY BIRDSONG | MEMBER |
| DUANE CRAWFORD | MEMBER |
| GEORGE BICKNELL | MEMBER |

MANAGER

MARTY COATES

Unaudited

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Atoka County Rural Water District #2
Atoka, Oklahoma

I have audited the accompanying financial statements of the Atoka County Rural Water District #2, as of and for the fiscal year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Atoka County Rural Water District #2'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, and in accordance with Oklahoma Statutes. 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 the Atoka County Rural Water District #2, Atoka, Oklahoma, as of June 30, 2011, and the changes in financial position thereof for the year then ended in conformity with U.S. Generally Accepted Accounting Principles.

In accordance with Government Auditing Standards, I have also issued my report dated January 16, 2012, on my consideration of the Atoka County Rural Water District #2's internal control over financial reporting and on 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 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 compliance with Government Auditing Standards and should be considered in assessing the results of my audit.

Atoka County Rural Water District #2 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the

KERSHAW CPA & ASSOCIATES, PC

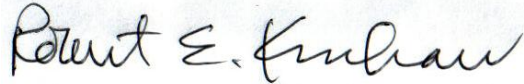
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District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in my audit of the basic financial statements, and accordingly, I do not express an opinion thereon.



Robert E. Kershaw
Certified Public Accountant

January 16, 2012

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
STATEMENT OF NET ASSETS
JUNE 30, 2011

| | Total 2011 | Total (Memo Only) 2010 |
|---|---------------------|------------------------------|
| <u>ASSETS</u> | | |
| <u>Current Assets:</u> | | |
| Cash and Cash Equivalents (Note 5) | \$ 141,458 | \$ 179,561 |
| Accounts Receivable - Trade | 22,819 | 23,030 |
| Prepaid Insurance | 5,231 | 3,004 |
| Total Current Assets | 169,507 | 205,594 |
| <u>Restricted Assets:</u> | | |
| Reserve Account | 6,426 | 3,071 |
| Sewer Project Account | - | 5 |
| Water Security Deposit Account | 25,769 | 25,651 |
| Total Restricted Assets | 32,195 | 28,726 |
| <u>Capital Assets:</u> | | |
| Land | 7,620 | 7,620 |
| Equipment | 14,572 | 12,822 |
| Water Distribution Facilities | 519,876 | 519,876 |
| Sewer Lagoon | 17,728 | 17,728 |
| Construction in Progress | 1,166,617 | 1,101,797 |
| Less: Accumulated Depreciation | (395,864) | (380,887) |
| Total Capital Assets | 1,330,549 | 1,278,956 |
| TOTAL ASSETS | \$ 1,532,251 | \$ 1,513,276 |
| <u>LIABILITIES</u> | | |
| <u>Current Liabilities:</u> | | |
| Accounts Payable | \$ 7,520 | \$ 4,443 |
| Interest Payable | 1,486 | 1,431 |
| Security Deposits | 17,725 | 20,075 |
| Current Portion of Long-Term Debt | 7,857 | 7,564 |
| Total Current Liabilities | 34,588 | 33,513 |
| <u>Long-Term Liabilities:</u> | | |
| Notes Payable | 648,640 | 656,203 |
| Less: Current Portion | (7,857) | (7,564) |
| TOTAL LIABILITIES | 675,372 | 682,152 |
| <u>NET ASSETS</u> | | |
| Invested in capital assets, net of related debt | 681,909 | 622,753 |
| Restricted for debt service | 32,195 | 28,726 |
| Unrestricted | 142,775 | 179,645 |
| TOTAL NET ASSETS | 856,879 | 831,124 |
| TOTAL LIABILITIES & NET ASSETS | \$ 1,532,251 | \$ 1,513,276 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | Total June 30, 2011 | Total (Memo Only) June 30, 2010 |
|--|------------------------|---------------------------------------|
| <u>Operating Revenues:</u> | | |
| Water Sales | \$ 137,144 | \$ 126,054 |
| Sewer Sales | 34,776 | 29,593 |
| Penalties | 4,551 | 4,103 |
| Benefit Units and Hook-Up Fees | 2,155 | 3,050 |
| Miscellaneous Income | 3,224 | 2,618 |
| Total Operating Revenues | 181,850 | 165,417 |
| <u>Operating Expenses:</u> | | |
| Salaries | 41,842 | 21,000 |
| Payroll Taxes | 4,012 | 2,172 |
| Retirement Expense | 5,784 | 2,205 |
| Water Purchases | 56,991 | 47,445 |
| Repairs/Maintenance and Operating Supplies | 19,789 | 24,210 |
| Utilities | 4,529 | 2,587 |
| Legal & Accounting | 7,858 | 8,091 |
| Office Supplies & Postage | 5,470 | 3,330 |
| Bank Charges | 10 | 23 |
| Dues & Fees | - | 1,429 |
| Professional Services | 440 | 2,420 |
| Insurance and Bonds | 5,766 | 4,905 |
| Travel | 1,738 | 1,750 |
| Licenses & Permits | 991 | 92 |
| Office Rental | 4,800 | 4,800 |
| Contract Labor | 580 | 600 |
| Returned Checks | 194 | 779 |
| Miscellaneous | 653 | 864 |
| Depreciation | 14,977 | 14,627 |
| Total Operating Expenses | 176,423 | 143,331 |
| Operating Income (Loss) | 5,427 | 22,086 |
| <u>Non-Operating Revenues (Expenses):</u> | | |
| Interest Income | 1,318 | 2,708 |
| Interest Expense | (26,044) | (20,490) |
| Total Non-operating Revenues (Expenses) | (24,727) | (17,782) |
| Net Income (Loss) Before Contributions | (19,300) | 4,305 |
| Capital Contributions | 45,055 | 381,544 |
| Change in Net Assets | 25,755 | 385,848 |
| Total Net Assets - Beginning | 831,124 | 445,276 |
| Total Net Assets - Prior Year Adjustment | - | - |
| Total Net Assets - Ending | \$ 856,879 | \$ 831,124 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | <u>6/30/11</u> | <u>Memorandum Only 6/30/10</u> |
|---|-------------------|--|
| <u>Net Cash Flows from Operating Activities:</u> | | |
| Cash Receipts from Customers | \$ 182,061 | \$ 157,523 |
| Payments to Suppliers for Goods & Services | (118,754) | (110,187) |
| Payments to Employees & Laborers | (41,842) | (21,000) |
| Receipts of Customer Utility Deposits, Net of Refunds | (2,350) | 1,550 |
| Net Cash Provided (Used) by Operating Activities | 19,115 | 27,886 |
| <u>Net Cash Flows from Capital & Related Financing Activities:</u> | | |
| Additions to Capital Assets | (66,570) | (1,094,977) |
| Capital Contributions - Grants | 45,055 | 381,544 |
| Loan Proceeds | - | 667,900 |
| Proceeds from sale of Capital Assets | - | - |
| Principal paid on Debt | (7,563) | (11,697) |
| Interest paid on Debt | (25,989) | (19,059) |
| Net Cash Provided (Used) by Capital & Related Financing Activities | (55,067) | (76,289) |
| Net Cash Flows from Investing Activities: | | |
| Non-Operating Income | - | - |
| Interest Income | 1,318 | 2,708 |
| Net Cash Provided (Used) by Investing Activities | 1,318 | 2,708 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (34,635) | (45,695) |
| Cash & Cash Equivalents, Beginning of Year | 208,287 | 253,982 |
| Cash & Cash Equivalents, Prior Year Adjustment | - | - |
| Cash & Cash Equivalents, End of Year | \$ 173,652 | \$ 208,287 |
| <u>Reconciliation of operating income (loss) to net cash provided operating activities:</u> | | |
| Operating Income (Loss) | \$ 5,427 | \$ 22,086 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | |
| Depreciation | 14,977 | 14,627 |
| (Increase)Decrease in Accounts Receivable-Trade | 211 | (7,894) |
| (Increase)Decrease in Prepaid Insurance | (2,227) | (244) |
| Increase(Decrease) in Accounts Payable | 3,077 | (2,240) |
| Increase(Decrease) in Security Deposits | (2,350) | 1,550 |
| Net Cash Provided (Used) by Operating Activities | \$ 19,115 | \$ 27,886 |

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Rural Water District No. 2, Atoka County, Oklahoma, was formed in 1966, pursuant to the Oklahoma Rural Water, Sewer, and Solid Waste Management District Act. The District operates as a nontaxable government entity to serve residents of a portion of rural Atoka County in Atoka, Oklahoma.

Accounting

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.
 - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after July 1, 2003 as provided by GASB standards.

Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Basis of Accounting

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity consists of contributed capital and retained earnings. Proprietary fund type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. The accrual basis of accounting is utilized by the proprietary fund type. Under this basis of accounting revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Budgetary Data

The District is required by Article 8 of its By-laws to prepare an annual budget.

Property and Equipment

Water distribution facilities and equipment purchased or constructed by the District are stated at cost. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets ranging from five to forty years.

Construction in progress is recorded at cost. No depreciation is recognized until construction contracts are complete and the applicable facilities become operational.

System improvements in excess of \$1,000.00 and equipment in excess of \$80.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Equity Classification

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors,

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

- contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Memorandum Only

Total Columns on combined statements are captioned “Memorandum Only” to indicate that they are presented only to aid in financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District’s internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

The District has complied with all of the covenants of the loan agreements.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

ATOKA COUNTY RURAL WATER DISTRICT #2
 ATOKA, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 3 - AGED ACCOUNTS RECEIVABLE - TRADE

| | | |
|---------------------------|----|-----------|
| CURRENT | \$ | 17,806.75 |
| 30-60 DAYS | | 2,724.73 |
| 60-90 DAYS | | 1,215.55 |
| 90-120 DAYS | | 801.00 |
| OVER 120 DAYS | | 270.82 |
| | | 270.82 |
| Total Accounts Receivable | \$ | 22,818.85 |

NOTE 4 - ACCUMULATED UNPAID VACATION BENEFITS

Accumulated unpaid vacation benefits have not been shown as a liability in the financial statements. The District's position is that any accrued benefits are not significant and would not materially affect the financial statements.

NOTE 5 - CASH AND INVESTMENTS

Custodial Credit Risk

At June 30, 2011, the District held deposits of approximately \$173,652 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

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

ATOKA COUNTY RURAL WATER DISTRICT #2
 ATOKA, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

- 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, bond 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 obligations 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 District has collateral pledges with AmeriState Bank totaling \$100,000.00.

The following is a breakdown of the Cash & Cash Equivalents figure shown in the Statement of Net Assets:

| | |
|--------------------------|---------------|
| Cash & Cash Equivalents: | |
| Operating Fund | \$ 25,679.58 |
| Savings Accounts | 74,947.69 |
| Special Projects | 9,728.54 |
| Certificate of Deposit | 30,893.74 |
| Petty Cash | 207.98 |
| Total | \$ 141,457.53 |

NOTE 6 - RESTRICTED ASSETS

Restrictions on restricted assets are as follows:

| | |
|-----------------------|--|
| Security Deposits | -Use is Restricted to deposit and refund water meter security deposits |
| Reserve Account | -Restricted by USDA RD loan covenants |
| Sewer Project Account | -Restricted for Sewer Project |

The loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installments (\$26,004 and \$7,548), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of June 30, 2011, the District was required to have at least \$6,430.80 set aside in the reserve account; as of that date the account balance for the reserve account was \$6,425.80, which does not comply with

ATOKA COUNTY RURAL WATER DISTRICT #2
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 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

the covenants of the loan agreements. However, the \$5 difference is a disputed \$5 service charge initiated by the bank. This amount is expected to be refunded to the account.

NOTE 7 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended June 30, 2011, was as follows:

| | Balance at June 30, 2010 | Additions | Deductions | Balance at June 30, 2011 |
|---|-----------------------------|------------------|-------------|-----------------------------|
| Land | \$ 7,620 | \$ - | \$ - | \$ 7,620 |
| Equipment | 12,822 | 1,750 | - | 14,572 |
| Water Distribution Facilities | 519,876 | - | - | 519,876 |
| Sewer Lagoon | 17,728 | - | - | 17,728 |
| Construction in Progress | 1,101,797 | 64,820 | - | 1,166,617 |
| Subtotal | 1,659,843 | 66,570 | - | 1,726,413 |
| Less: Accum. Depr. | (380,887) | (14,977) | - | (395,864) |
| Total Capital Assets (Net of Depreciation) | <u>\$ 1,278,956</u> | <u>\$ 51,593</u> | <u>\$ -</u> | <u>\$ 1,330,549</u> |

The current year capital asset additions included the water and sewer system improvement project and a new copier.

NOTE 8 - LONG-TERM DEBT

The District has a note payable with an original balance of \$481,500, to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$2,167 until maturity, including interest at 4.50%. The final payment is scheduled for July 10, 2049. The note is secured by the water and sewer system.

The District has a note payable with an original balance of \$186,400, to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$629 until maturity, including interest at 2.625%. The final payment is scheduled for July 10, 2049. The note is secured by the water and sewer system.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2011:

| | Balance 6/30/2010 | Additions | Deductions | Balance 6/30/2011 |
|----------------|----------------------|-------------|-------------------|----------------------|
| USDA RD #93-01 | \$ 474,339 | \$ - | \$ (4,755) | \$ 469,583 |
| USDA RD #93-03 | 181,864 | - | (2,808) | 179,057 |
| | <u>\$ 656,203</u> | <u>\$ -</u> | <u>\$ (7,563)</u> | <u>\$ 648,640</u> |

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 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

A summary of future maturities of principal and interest are as follows:

USDA Rural Development #93-01:

| FYE June 30, | Principal | Interest | Total |
|--------------|----------------------|----------------------|----------------------|
| 2012 | \$ 4,974.57 | \$ 21,029.43 | \$ 26,004.00 |
| 2013 | 5,203.09 | 20,800.91 | 26,004.00 |
| 2014 | 5,442.09 | 20,561.91 | 26,004.00 |
| 2015 | 5,692.12 | 20,311.88 | 26,004.00 |
| 2016 | 5,953.63 | 20,050.37 | 26,004.00 |
| 2017-2021 | 34,130.86 | 95,889.14 | 130,020.00 |
| 2022-2026 | 42,724.85 | 87,295.15 | 130,020.00 |
| 2027-2031 | 53,482.82 | 76,537.18 | 130,020.00 |
| 2032-2036 | 66,949.54 | 63,070.46 | 130,020.00 |
| 2037-2041 | 83,807.11 | 46,212.89 | 130,020.00 |
| 2042-2046 | 104,909.42 | 25,110.58 | 130,020.00 |
| 2047-2049 | 56,313.37 | 3,048.16 | 59,361.53 |
| | <u>\$ 469,583.47</u> | <u>\$ 499,918.06</u> | <u>\$ 969,501.53</u> |

USDA Rural Development #93-03:

| FYE June 30, | Principal | Interest | Total |
|--------------|----------------------|----------------------|----------------------|
| 2012 | \$ 2,882.28 | \$ 4,665.72 | \$ 7,548.00 |
| 2013 | 2,958.87 | 4,589.13 | 7,548.00 |
| 2014 | 3,037.49 | 4,510.51 | 7,548.00 |
| 2015 | 3,118.17 | 4,429.83 | 7,548.00 |
| 2016 | 3,201.01 | 4,346.99 | 7,548.00 |
| 2017-2021 | 17,326.83 | 20,413.17 | 37,740.00 |
| 2022-2026 | 19,754.17 | 17,985.83 | 37,740.00 |
| 2027-2031 | 22,521.47 | 15,218.53 | 37,740.00 |
| 2032-2036 | 25,676.55 | 12,063.45 | 37,740.00 |
| 2037-2041 | 29,273.58 | 8,466.42 | 37,740.00 |
| 2042-2046 | 33,374.43 | 4,365.57 | 37,740.00 |
| 2047-2049 | 15,931.74 | 476.31 | 16,408.05 |
| | <u>\$ 179,056.59</u> | <u>\$ 101,531.46</u> | <u>\$ 280,588.05</u> |

NOTE 9 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets
3. Unrestricted net assets

Restricted assets are described in Note 6 above.

NOTE 10 - ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that could

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 11 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 12 - ECONOMIC DEPENDENCY - WATER CONTRACT

The District has a contract to purchase all of its water from the City of Atoka at a cost of \$1.45 per thousand gallons.

NOTE 13 - USDA/RURAL DEVELOPMENT

In April 2002, the District was awarded a federal loan in the amount of \$481,500.00, payable for 40 years at an interest rate of 4.5%, and a federal grant in the amount of \$326,600.00 by the USDA/Rural Development to be used to upgrade the existing water and wastewater systems. The District was also awarded a second loan in the amount of \$186,400.00. As of June 30, 2011, all loan and grant proceeds have been received.

NOTE 14 - RETIREMENT PLAN

During the fiscal year 2003, the District joined the Oklahoma Public Employees Retirement (OPERS). The District follows the OPERS Code H percentages for retirement contributions as follows: employees contribute 6.5% of gross wages and the District contributes 7.0%. Retirement plan contributions by the District for 2011 were \$5,783.50.

NOTE 15 - SUBSEQUENT EVENTS

The District did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2011.

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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
Atoka County Rural Water District #2
Atoka, Oklahoma

I have audited the financial statements of the Atoka County Rural Water District #2, as of June 30, 2011 and have issued my report thereon dated January 16, 2012. The Atoka County Rural Water District #2 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. I conducted my audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Atoka County Rural Water District #2'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 the Atoka County Rural Water District #2's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Atoka County Rural Water District #2'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.

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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weakness, as defined above. However, I identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that I consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Item 11-01. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control

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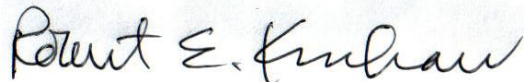
that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Atoka County Rural Water District #2's financial statements are free of material misstatement, I performed tests of 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 in the accompanying Schedule of Findings. 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 the board of directors and management of the Atoka County Rural Water District #2 and is not intended to be and should not be used by anyone other than these specified parties.



Robert E. Kershaw
Certified Public Accountant

January 16, 2012

ATOKA COUNTY RURAL WATER DISTRICT #2
ATOKA, OKLAHOMA
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011

INTERNAL CONTROL FINDINGS:

Item 11-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of the District Clerk, who is responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the organization.