

BUCKHORN RURAL WATER DISTRICT #2,
MURRAY COUNTY, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND
ACCOMPANYING INDEPENDENT
AUDITOR'S REPORTS

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2012

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY, OKLAHOMA

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BUCKHORN RURAL WATER DISTRICT #2, MURRY COUNTY, OKLAHOMA
LIST OF PRINCIPAL OFFICIALS
December 31, 2012

Board of Directors

Chairman – Michael Franks

Vice Chairman – Ronald Trett

Secretary/Treasurer – Dwain Binderim

Member – John Donaho

Member – Linda Williams

Field Manager – Shane Hale

Bookkeeper/Manager – Dean Lusk

Kristi L. Dobbins

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

Certified Public Accountant

(405) 238-6447

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Buckhorn Rural Water District #2, Murray County, Oklahoma

I have audited the accompanying statement of assets, liabilities and net assets – modified cash basis of Buckhorn Rural Water District #2, Murray County (the "District") as of December 31, 2012, and the related statements of revenues, expenses and changes in net assets – modified cash basis, and cash flows – modified cash basis for the year then ended, 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.

Except as noted in the third paragraph, 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 basic 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.

As further explained in Note 1.B., the financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion the financial statements referred to above present fairly, in all material respects, the financial position-modified cash basis of the District at December 31, 2012, and the changes in financial position and cash flows – modified cash basis, for the year then ended, on the basis of accounting described in Note 1. B., which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 25, 2013 on my consideration of the District'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 my 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.

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.



Pauls Valley, Oklahoma
January 25, 2013

Statement 1

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS
December 31, 2012

ASSETS

Cash and cash equivalents, unrestricted	\$315,519
Cash and cash equivalents, restricted	21,704
Capital assets, net of depreciation	1,008,480
Total Assets	<u>1,345,703</u>

LIABILITIES

Payroll taxes payable	1,695
Note payable, current	6,580
Note payable, noncurrent	335,428
Total Liabilities	<u>343,703</u>

NET ASSETS

Invested in capital assets, net of related debt	666,472
Restricted for debt service	21,704
Unrestricted	313,824
Total Net Assets	<u><u>\$1,002,000</u></u>

See accompanying notes to the basic financial statements.

Statement 2

BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS
December 31, 2012

Operating Revenues:	
Water	\$239,143
Late charges	3,012
Benefit units	7,513
Miscellaneous	4,684
Reconnect fees	4,953
Total Operating Revenues	<u>259,305</u>
Operating Expenses:	
Salaries	70,202
Payroll tax expense	5,478
Employee benefits	15,576
Truck expense	5,961
Professional fees	2,200
Utilities	2,925
Insurance and fees	8,291
System maintenance	5,822
Office expense	9,468
Backhoe rental	10,365
Water purchased	39,804
Depreciation	38,034
Amortization	
Total Operating Expenses	<u>214,126</u>
Net Operating Income	45,179
Non-Operating Revenues (Expenses):	
Interest income	6,529
Interest expense	<u>(15,976)</u>
Net Income	35,732
Net assets-beginning of year	966,268
Net assets-end of year	<u><u>1,002,000</u></u>

See accompanying notes to the basic financial statements.

Statement 3

**BUCKHORN RURAL WATER DISTRICT #2, MURRAY COUNTY
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
For the fiscal year ended December 31, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$259,305
Payments to suppliers	(100,413)
Payments to employees	(75,751)
Net Cash Provided by Operating Activities	<u>83,141</u>

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

Purchase of capital assets	(39,420)
Principal paid on capital debt	(6,284)
Interest paid on capital debt	(15,976)
Net Cash Used by Capital and Related Financing Activities	<u>(61,680)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income	6,529
Net Cash Provided by Investing Activities	<u>6,529</u>
Net Increase in Cash and Cash Equivalents	27,990
Balance - beginning of the year	<u>309,233</u>
Balance - end of the year	<u><u>\$337,223</u></u>

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

Operating income	\$45,179
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	38,034
Change in assets and liabilities:	
Payroll taxes payable	<u>(72)</u>
Net cash provided by operating activities	<u><u>\$83,141</u></u>

See accompanying notes to the basic financial statements.

BUCKHORN RURAL WATER DISTRICT #2, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. FINANCIAL REPORTING ENTITY
- B. BASIS OF PRESENTATION
- C. ASSETS, LIABILITIES AND EQUITY
- D. REVENUES AND EXPENSES
- E. USE OF ESTIMATES
- F. DIFFERENCES FROM GAAP

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

- A. DEPOSITS AND INVESTMENT LAWS AND REGULATIONS
- B. DEBT RESTRICTIONS AND COVENANTS

NOTE 3. DETAIL NOTES - TRANSACTION CLASSES/ACCOUNTS

- A. CASH AND CASH EQUIVALENTS
- B. RESTRICTED ASSETS
- C. CAPITAL ASSETS
- D. LONG-TERM DEBT

NOTE 4. OTHER NOTES

- A. RISK MANAGEMENT
- B. EMPLOYEE PENSION AND OTHER BENEFITS
- C. COMMITMENTS AND CONTINGENCIES
- D. SUBSEQUENT EVENTS

BUCKHORN RURAL WATER DISTRICT #2, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. FINANCIAL REPORTING ENTITY

Buckhorn Rural Water District #2, Murray County, Oklahoma was established pursuant to "Nonprofit Corporation Act" Oklahoma State Law in March 1968. On May 14, 2001, the District was reorganized to be a Rural Water District pursuant to Title 82 of Oklahoma State Law. The purpose of the District remained the same, to provide a water distribution system for its members in the Sulphur, Oklahoma area. Members are owners of property located within the area who have subscribed to one or more 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 utilizes the modified cash basis of accounting, which is comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the modified cash basis of accounting assets, liabilities and related revenues and expenses are recorded when they result from cash transactions with an adjustment for depreciation.

If the District utilized the basis of accounting recognized as generally accepted, as a proprietary type fund, they would use the accrual basis of accounting. In other words, revenues would be recognized when earned and expenses (including depreciation) would be recorded when the liability is incurred or economic asset used.

1.C. ASSETS, LIABILITIES AND EQUITY

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three-months or less.

Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

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 forty years for the water system and five years for office furniture and equipment.

BUCKHORN RURAL WATER DISTRICT #2, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2012

Long-Term Debt

Long-term debt to be repaid from District resources are reported as liabilities in the balance sheet. As of December 31, 2012 long-term debt is comprised of one note payable.

Equity Classification

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

- a. 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.
- b. Restricted net assets - Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

It is the District's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

1.D. REVENUES AND EXPENSES

For purposes of the operating statement, revenues and expenses are classified by Operating and Non-Operating. The District reports expenses relating to use of economic resources including depreciation.

Benefit Unit Fees

Benefit unit fees represent a membership/connection fee required of each District member at the time they request service. This nonrefundable fee is designed to cover the estimated cost of connection, tap and related hook-up costs to the District's system. As such, the fees are recorded as operating revenue.

1.E. USE OF ESTIMATES

The preparation of financial statements in conformity with the other comprehensive basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

1.F. DIFFERENCES FROM GAAP

Basis of Accounting

As discussed in Note 1.B., the District reports its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

BUCKHORN RURAL WATER DISTRICT #2, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2012

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the District is subject to various federal, state and local laws and contractual regulations. An analysis of the District's compliance with significant laws and regulations and demonstration of its stewardship over District resources follows:

2.A. DEPOSITS AND INVESTMENT LAWS AND REGULATIONS

In accordance with State law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, surety bonds and certain letters of credit. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee. For the year ended December 31, 2012, the District's deposits were fully insured or collateralized.

2.B. DEBT RESTRICTIONS AND COVENANTS

In accordance with the requirements set by Rural Development, the District is required to set aside funds for the purpose of major catastrophic repair or extensions and improvements. The funding amounts required are equal to one year's worth of payments, with the provision the District has ten years to fully fund the reserve. At December 31, 2012, the amount of reserve funds required is \$21,704. The reserve was fully funded at December 31, 2012.

NOTE 3. DETAIL NOTES-TRANSACTION CLASSES/ACCOUNTS

The following notes present detail information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues and expenditures/expenses.

3.A. CASH AND CASH EQUIVALENTS

Custodial Credit Risk

At December 31, 2012, the District held deposits of approximately \$337,223 at financial institutions. The District's cash deposits, including the interest-bearing certificates of deposit, are entirely covered by the 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 the investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

BUCKHORN RURAL WATER DISTRICT #2, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2012

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 December 31, 2012 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificates of deposit	2.34	N/A	\$254,010	\$254,010
Total Investments			<u>\$254,010</u>	<u>\$254,010</u>

3.B. RESTRICTED ASSETS

The amount reported as restricted assets of the District on the Statement of Net Assets is comprised of amounts held by the District for cash held as debt service reserves on the Rural Development note payable. The restricted asset as of December 31, 2012 was as follows:

Investments: Debt service	<u>\$21,704</u>
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BUCKHORN RURAL WATER DISTRICT #2, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2012

3.C. CAPITAL ASSETS

Capital assets activity resulting from modified cash basis transactions for the fiscal year ended December 31, 2012, was as follows:

	Balance at January 1, 2012	Additions	Deductions	Balance at December 31, 2012
Business-type activities				
Office Equipment	6,998	-	-	6,998
Plant Equipment	17,913		-	17,913
Building	54,950	-	-	54,950
Utility property and improvements	1,620,981	39,420		1,660,401
Total capital assets at historical cost	1,700,842	39,420	-	1,740,262
Less accumulated depreciation for:				
Office Equipment	6,484	206	-	6,690
Plant Equipment	3,549	213	-	3,762
Building	16,902	1,374	-	18,276
Utility property and improvements	666,812	36,242		703,054
Total accumulated depreciation	693,747	38,035	-	731,782
Capital assets, net	1,007,095	1,385	-	1,008,480

3.D. LONG-TERM DEBT

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

Note payable to RECD, payable in monthly installments of \$1,855, including principal and interest at 4.625%, final payment due March 17, 2043, secured by utility facilities.

Current portion	\$ 6,580
Noncurrent portion	<u>335,428</u>
Total Note Payable	<u>\$342,008</u>

Changes in Long-Term Debt

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

	Balance January 1, 2012	Additions	Deductions	Balance December 31, 2012	Amounts Due Within One Year
Note Payable	\$ 348,292.00	-	\$ 6,284.00	\$ 342,008.00	\$ 6,580.00
Total Debt	<u>\$ 348,292.00</u>	<u>-</u>	<u>\$ 6,284.00</u>	<u>\$ 342,008.00</u>	<u>\$ 6,580.00</u>

BUCKHORN RURAL WATER DISTRICT #2, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2012

Annual Debt Service Requirements

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

Year Ending December 31,	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$6,580	\$15,680
2014	6,891	15,369
2015	7,217	15,043
2016	7,558	14,702
2017	7,915	14,345
2018-2022	45,548	65,752
2023-2027	57,373	53,927
2028-2032	72,268	39,032
2033-2037	91,029	20,271
2038-2039	<u>39,629</u>	<u>1,808</u>
Principal outstanding at December 31, 2012	<u>\$342,008</u>	<u>\$255,929</u>

NOTE 4. OTHER NOTES

4.A. RISK MANAGEMENT

Buckhorn Rural Water District No. 2 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 pension benefits through a Simplified Employee Pension Plan. As of December 31, 2012, the District provided a benefit to each employee in the amount of 7% of each employee's gross income. The District provides no other deferred compensation or other post-employment benefits to employees of the District.

4.C. COMMITMENTS AND CONTINGENCIES

Commitments

Buckhorn Rural Water District #2, Murray County, Oklahoma has a contract with Rural Water District #1, Murray County, Oklahoma, which sets the cost of water purchased by the Buckhorn. At December 31, 2012, the contract allowed a purchase rate of \$.90 per thousand gallons of water used. The contract extends through November 2044.

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

BUCKHORN RURAL WATER DISTRICT #2, MURRY COUNTY, OKLAHOMA
NOTES TO BASIC FINANCIAL STATEMENTS
For the fiscal year ended December 31, 2012

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, 2013 which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

January 25, 2013

Board of Directors
Buckhorn Rural Water District No. 2
Murray County, Oklahoma

I have audited the basic financial statements of Buckhorn Rural Water District #2, Murray County (the District) as of and for the year ended December 31, 2012, and have issued my report thereon dated January 25, 2013 which was a special report on the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United State of America. Except as noted in my report dated January 25, 2013, I conducted my audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The District did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control over Financial Reporting

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

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, I identified a certain deficiency in internal control over financial reporting that I consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the following to be a material weakness..

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.

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 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 the Board of Directors, management, all applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Kristi L. Dobbins". The signature is fluid and cursive, with the first name "Kristi" and last name "Dobbins" clearly distinguishable.

Kristi L. Dobbins, CPA