

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY, OKLAHOMA**

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2012 AND 2011

RURAL WATER DISTRICT NO. 21,
OSAGE COUNTY, OKLAHOMA
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Independent Auditor's Report

Board of Directors
Rural Water District No. 21, Osage County, Oklahoma

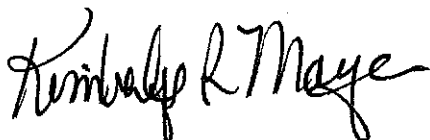
We have audited the accompanying financial statements of Rural Water District No. 21, Osage County, Oklahoma, Inc. as of August 31, 2012 and 2011. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *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 statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the statements of financial position of Rural Water District No. 21, Osage County, Oklahoma as of August 31, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 6, 2012 on our consideration of Rural Water District No. 21, Osage County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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.

Rural Water District No. 21, Osage County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
September 6, 2012

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*

Board of Directors
Rural Water District No. 21, Osage County, Oklahoma

We have audited the financial statements of Rural Water District No. 21, Osage County, Oklahoma as of and for the year ended August 31, 2012 and have issued our report thereon dated September 6, 2012. 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. Rural Water District No. 21, Osage County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.

Internal Control Over Financial Reporting

Management of Rural Water District No. 21, Osage County, Oklahoma is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rural Water District No. 21, Osage County, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District No. 21, Osage County, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 21, Osage County, Oklahoma's internal control over financial reporting.

Our 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 described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

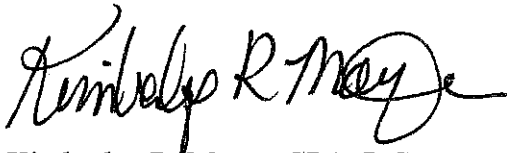
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control 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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 21, Osage County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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*.

Rural Water District No. 21, Osage County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, and others within the District and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Kimberley R. Mayer". The signature is fluid and cursive, with the first name "Kimberley" being more prominent and the last name "Mayer" following in a similar style.

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
September 6, 2012

RURAL WATER DISTRICT NO. 21, OSAGE COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED AUGUST 31, 2012

Material Weakness Communicated In Prior Year:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the water billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 21
OSAGE COUNTY, OKLAHOMA
STATEMENTS OF NET ASSETS
AUGUST 31, 2012 AND 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and cash equivalents	\$ 279,810	\$ 173,525
Reserve and grant funds	83,968	79,448
Certificates of deposit	40,820	29,515
Total Current Assets	<u>404,598</u>	<u>282,488</u>
Restricted Reserves:		
Debt service	69,694	70,192
Debt service reserves	64,001	64,001
Total Restricted Reserves	<u>133,695</u>	<u>134,193</u>
Noncurrent Assets:		
Work in progress	270,933	212,206
Property & equipment (net of accumulated depreciation) (Note 3)	<u>430,602</u>	<u>508,854</u>
Total Noncurrent Assets	<u>701,535</u>	<u>721,060</u>
Other Assets:		
Loan costs (net of accumulated amortization) (Note 5)	13,904	16,994
Total Assets	<u><u>\$ 1,253,732</u></u>	<u><u>\$ 1,154,735</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 2,757	\$ 1,098
Notes payable (current portion) (Note 6)	70,000	70,000
Total Current Liabilities	<u>72,757</u>	<u>71,098</u>
Non-current Liabilities:		
Notes payable, long term (Note 6)	395,000	465,000
Total Liabilities	<u>467,757</u>	<u>536,098</u>
Net Assets:		
Invested in capital assets, net of related debt	236,535	186,060
Restricted for debt service	133,695	134,193
Unrestricted	415,745	298,384
Total Net Assets	<u>785,975</u>	<u>618,637</u>
Total Liabilities and Net Assets	<u><u>\$ 1,253,732</u></u>	<u><u>\$ 1,154,735</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 21
OSAGE COUNTY, OKLAHOMA
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Water service fees	\$ 304,341	\$ 301,329
Late penalties	7,412	7,675
Miscellaneous income	13,949	9,745
Total Operating Revenues	<u>325,702</u>	<u>318,749</u>
Operating Expenses		
Payroll	18,027	18,027
Payroll taxes	1,416	1,379
Utilities	46,008	50,107
Repairs and maintenance	12,164	23,027
Water costs	3,738	4,128
Contract maintenance fees	37,440	33,600
Janitor expenses	3,400	3,000
Meter audit and reading fees	8,275	5,495
Operating supplies	9,633	9,433
Office supplies and postage	4,441	3,902
Insurance	3,366	3,181
Professional fees	1,915	1,376
Depreciation and amortization	81,342	81,359
Telephone	905	943
Water testing and monitoring	2,377	1,999
DEQ annual fees	10,725	
Miscellaneous	2,368	1,656
Total Operating Expenses	<u>247,540</u>	<u>242,612</u>
Operating Income (Loss)	78,162	76,137
Nonoperating Revenue (Expense)		
Interest income	1,884	1,594
Grant income	91,120	
Memberships	10,000	5,000
Interest expense	(13,828)	(14,804)
Total Nonoperating Revenue (Expense)	<u>89,176</u>	<u>(8,210)</u>
Increase (Decrease) in Net Assets	167,338	67,927
Net Assets, beginning of year	<u>618,637</u>	<u>550,710</u>
Net Assets, end of year	<u><u>\$ 785,975</u></u>	<u><u>\$ 618,637</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 21
OSAGE COUNTY, OKLAHOMA
STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 311,753	\$ 309,004
Other operating cash receipts	13,949	9,745
Cash payments to suppliers for goods and services	(109,072)	(113,088)
Cash payments to contractors	(37,440)	(33,600)
Cash payments to employees	(18,027)	(18,027)
Net cash provided (used) by operating activities	<u>161,163</u>	<u>154,034</u>
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(58,727)	(5,615)
Principal paid on notes and loans	(70,000)	(70,000)
Interest paid on notes and loans	(13,828)	(14,804)
System development fees	10,000	5,000
Net cash provided (used) by financing activities	<u>(132,555)</u>	<u>(85,419)</u>
Cash flows from investing activities:		
Grant funds	91,120	
Interest on cash and investments	1,884	1,594
(Increase) decrease in restricted and savings accounts	(15,327)	(4,916)
Net cash provided (used) by investing activities	<u>77,677</u>	<u>(3,322)</u>
Net increase (decrease) in cash and cash equivalents	106,285	65,293
Beginning cash and cash equivalents	173,525	108,232
Ending cash and cash equivalents	<u>\$ 279,810</u>	<u>\$ 173,525</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Income (loss) from operations	\$ 78,162	\$ 76,137
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation and amortization	81,342	81,359
Changes in assets and liabilities:		
Increase (decrease) in payables	<u>1,659</u>	<u>(3,462)</u>
Net cash provided (used) by operating activities	<u>\$ 161,163</u>	<u>\$ 154,034</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 21,
OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2012 AND 2011

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 21, Osage County, Oklahoma was created under Title 82, Oklahoma Statutes 1991, Sections 1324.1-1324.26, as amended, of the laws of the State of Oklahoma. The purpose of the District is to furnish and supply to owners and occupants of property within the corporate limits water and related facilities and services.

The District is a governed entity by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board is comprised of elected board members, four of which are elected as officers of the District.

Basic of Accounting

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Restricted Assets

Restricted assets are cash and cash equivalents, whose use is limited by legal requirements. Restricted cash with fiscal agent represents amounts required by debt covenant to be segregated for debt payments and accrued interest on the notes.

Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

Budget

The District is not legally required to adopt a budget.

RURAL WATER DISTRICT NO. 21
OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2012 AND 2011

NOTE 2 - CASH AND CASH EQUIVALENTS:

The District considers all operating checking accounts and certificates of deposit with a maturity of three months or less to be cash equivalents.

NOTE 3 - PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended August 31, 2012 and 2011 was \$78,252 and \$78,269 respectively. The following is a summary by category of changes in property and equipment:

Category	8/31/11	Additions	Deletions	8/31/12
Land	\$ 6,000	\$	\$	\$ 6,000
Waterline system	2,712,010			2,712,010
Buildings and improvements	28,367			28,367
Office equipment	8,339			8,339
Totals	2,754,716			2,754,716
Accumulated depreciation	(2,245,862)	(78,252)		(2,324,114)
Net	<u>\$ 508,854</u>	<u>\$ (78,252)</u>	<u>\$</u>	<u>\$ 430,602</u>

NOTE 4 – INVESTMENTS:

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United State Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Cash and restricted reserves are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation.

NOTE 5 – LOAN COSTS:

The costs of the OWRB loan are being amortized over the life of the loan which is 8 1/2 years.

RURAL WATER DISTRICT NO. 21
OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2012 AND 2011

NOTE 6 – NOTES PAYABLE:

The District had several loans outstanding with the USDA Rural Development. Collateral for these loans was a first real estate lien on the entire water system and revenues. On December 20, 2004 the District borrowed \$930,000 from the OWRB to refinance the USDA Rural Development loans and to establish a debt reserve fund. The new loan is for eighteen years and has an interest rate that is adjusted every six months. In the fiscal year ending August 31, 2009 this note was converted to a fixed rate note with an interest rate of 2.841% and a maturity date of October 1, 2017.

The following is a detail of the OWRB loan for the years ended August 31, 2012 and 2011:

Balance, August 31, 2010	\$ 605,000
Principle payments	<u>(70,000)</u>
Balance, August 31, 2011	535,000
Principle payments	<u>(70,000)</u>
Balance, August 31, 2012	<u><u>\$ 465,000</u></u>

The following is a summary of the District's future annual debt requirements:

Year Ended	Total
8/31/13	\$ 83,252
8/31/14	86,820
8/31/15	85,062
8/31/16	84,169
8/31/17	84,288
8/31/18	<u>86,485</u>
Total	510,076
Interest	<u>(45,076)</u>
Net	<u><u>\$ 465,000</u></u>

NOTE 7 – 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

RURAL WATER DISTRICT NO. 21,
OSAGE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2012 AND 2011

NOTE 8 – RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for these and other risks of loss. Settled claims have not exceeded the commercial coverage in past years.

NOTE 9 – CONTINGENCIES:

As of August 31, 2012, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS:

The Organization has evaluated subsequent events through September 6, 2012, the date which the financial statements were available to be issued.