

**TRI-COUNTY RURAL WATER DISTRICT NO. 2**  
**ANNUAL FINANCIAL STATEMENTS**  
**YEARS ENDED SEPTEMBER 30, 2011 AND 2010**

TRI-COUNTY RURAL WATER DISTRICT NO. 2  
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## Independent Auditor's Report

Board of Directors  
Tri-County Rural Water District No. 2

We have audited the statements of assets, liabilities, and net assets— modified cash basis of Tri-County Rural Water District No. 2 as of September 30, 2011 and 2010, and the related statements of revenue and expenses and changes in net assets and cash flows – modified cash basis for the years then ended. 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 audit.

We conducted our audits 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 misstatements. 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 audits provide a reasonable basis for our opinion.

As described in Note 1, the District prepares its financial statements on the modified cash basis of accounting. This basis 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 statements of assets, liabilities, and net assets – modified cash basis of Tri-County Rural Water District No. 2 as of September 30, 2011 and 2010, and its revenues and expenses and changes in net assets and cash flows – modified 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 a report dated February 2, 2012 on our consideration of Tri-County 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 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 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.

Tri-County Rural Water District No. 2 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  
February 2, 2012

REPORT 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  
Tri-County Rural Water District No. 2

We have audited the financial statements of Tri-County Rural Water District No. 2 as of and for the year ended September 30, 2011 and have issued my report there on dated February 2, 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. The financial statements were prepared using the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. Tri-County Rural Water District No. 2 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

In planning and performing our audit, we considered the Tri-County 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 on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tri-County Rural Water District No. 2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Tri-County Rural Water District No. 2's internal control over financial reporting.

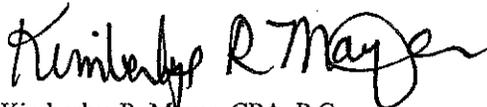
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is 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 weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tri-County 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 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*.

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



Kimberlye R. Meyer, CPA, P.C.  
Blackwell, Oklahoma  
February 2, 2012

FINANCIAL STATEMENTS

AND

NOTES

TRI-COUNTY RURAL WATER DISTRICT NO. 2  
 STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS  
 MODIFIED CASH BASIS  
 SEPTEMBER 30, 2011 AND 2010

ASSETS

	2011	2010
Current Assets:		
Operating cash	\$ 405,510	\$ 225,297
Certificates of deposit	188,300	199,793
Total Cash and Cash Equivalents	<u>593,810</u>	<u>425,090</u>
Certificates of deposit	377,369	452,710
Renter deposits	6,606	6,595
Inventory	23,324	30,114
Total Current Assets	<u>1,001,109</u>	<u>914,509</u>
Restricted reserves:		
Loan reserves	31,824	31,824
Participation investment	22,614	22,614
Total Restricted Reserves	<u>54,438</u>	<u>54,438</u>
Work in progress	1,520	1,520
Property, plant and equipment (net of accumulated depreciation (Note 2))	2,805,002	2,675,035
Loan fees (net of accumulated depreciation) (Note 3)	8,428	8,643
Total Assets	<u>\$ 3,870,497</u>	<u>\$ 3,654,145</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Current Liabilities		
Renter meter deposits	\$ 1,540	\$ 1,540
Notes payable (current portion) (Note 4)	9,343	8,960
Total Current Liabilities	<u>10,883</u>	<u>10,500</u>
Notes payable (long term portion) (Note 4)	507,919	517,357
Total Liabilities	<u>518,802</u>	<u>527,857</u>
Net Assets:		
Invested in capital assets, net of related debt	2,289,260	2,150,238
Restricted	54,438	54,438
Unrestricted	1,007,997	921,612
Total Net Assets	<u>3,351,695</u>	<u>3,126,288</u>
Total Liabilities and Net Assets	<u>\$ 3,870,497</u>	<u>\$ 3,654,145</u>

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

TRI-COUNTY RURAL WATER DISTRICT NO. 2  
 STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS  
 MODIFIED CASH BASIS  
 YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	2011	2010
Operating Revenue:		
Water service	\$ 849,587	\$ 778,742
Late penalties	12,219	7,836
Miscellaneous income	27,316	18,027
Total Operating Revenue	889,122	804,605
Operating Expense:		
Water costs	57,829	49,182
Wages	192,194	182,865
Payroll taxes	16,301	15,322
Employee benefits	45,492	47,656
Repairs, maintenance and supplies	129,901	118,841
Chemicals	14,361	11,261
Water tests	10,226	11,405
Vehicle expenses	16,217	16,102
Utilities	85,670	78,523
Telephone	3,816	3,415
Board fees	3,736	2,660
Insurance	26,796	38,394
Professional fees	12,345	9,403
Training, travel and mileage	6,540	3,641
Office and postage	14,149	13,990
Dues, licenses and memberships	3,815	4,767
Advertising and promotion	6,197	4,499
Depreciation and amortization	148,209	169,375
Bank charges	144	185
Total Operating Expense	793,938	781,486
Operating Income (Loss)	95,184	23,119
Non-operating Revenue (Expense):		
Interest income	7,142	9,242
Membership	29,610	11,000
Water system addition fees	116,240	50,000
Interest expense	(22,769)	(22,916)
Total Non-operating Revenue	130,223	47,326
Change in Net Assets	225,407	70,445
Net Assets, beginning of year	3,126,288	3,055,843
Net Assets, end of year	\$ 3,351,695	\$ 3,126,288

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

TRI-COUNTY RURAL WATER DISTRICT NO. 2  
STATEMENTS OF CASH FLOWS  
MODIFIED CASH BASIS  
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 889,122	\$ 804,605
Cash payments to employees	(192,194)	(182,865)
Cash payments to suppliers for goods and services	(446,745)	(459,360)
Net cash provided (used) by operating activities	<u>250,183</u>	<u>162,380</u>
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(277,961)	(123,643)
Principal payments	(9,055)	(8,910)
Interest payments	(22,769)	(22,916)
Membership fees	29,610	11,000
System addition fees	116,240	50,000
Net cash provided (used) by financing activities	<u>(163,935)</u>	<u>(94,469)</u>
 Cash flows from investing activities:		
Interest income	7,142	9,242
(Increase) decrease in CD's	75,341	(8,530)
(Increase) decrease in renter account	(11)	
Net cash provided (used) by investing activities	<u>82,472</u>	<u>712</u>
 Net increase (decrease) in cash and cash equivalents	168,720	68,623
Beginning cash and cash equivalents	425,090	356,467
Ending cash and cash equivalents	<u>\$ 593,810</u>	<u>\$ 425,090</u>
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 95,184	\$ 23,119
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation and amortization	148,209	169,375
(Increase) decrease in inventory	6,790	(30,114)
Net cash provided (used) by operating activities	<u>\$ 250,183</u>	<u>\$ 162,380</u>

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

TRI-COUNTY RURAL WATER DISTRICT NO. 2  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Tri-County Rural Water District No. 2 was organized on June 4, 1984 under the Rural Water, Sewer, Gas and Solid Waste Management District Act, Title 82, 1324.3 et seq. of the laws of the State of Oklahoma. The District is exempt from federal and state income taxes. The purpose of the District is to acquire water and water rights; to build and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District, and others as authorized by the By-laws.

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

Basis 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 modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

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

Cash and Cash Equivalents

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

TRI COUNTY RURAL WATER DISTRICT NO.2  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 2 – 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 asset or materially extend the asset's life are expendable. Annual depreciation is calculated on a straight-line basis. The balances for depreciable assets by major category are as follows:

	<u>9/30/2010</u>	<u>Additions</u>	<u>9/30/2011</u>
Land	\$ 9,045	\$	\$ 9,045
Waterline system	5,313,315	277,466	5,590,781
Buildings	89,010		89,010
Office equipment & furniture	86,533	495	87,028
Vehicles	33,189		33,189
Machinery & equipment	114,907		114,907
	<u>5,645,999</u>	<u>277,961</u>	<u>5,923,960</u>
Accumulated depreciation	<u>(2,970,964)</u>	<u>(147,994)</u>	<u>(3,118,958)</u>
Net	<u>\$ 2,675,035</u>	<u>\$ 129,967</u>	<u>\$ 2,805,002</u>

NOTE 3 – LOAN FEES:

Loan fees are being amortized over the life of the loan.

NOTE 4 – NOTES PAYABLE:

The District borrowed \$600,000 on April 5, 2004 from USDA Rural Development. The note carries an interest rate of 4.375% and matures on April 2, 2044. The monthly payments are \$2,652. Principal payments of \$9,055 were made during the year ended September 30, 2011. The following is a schedule of payments:

<u>Year Ended</u>	<u>Payments</u>
9/30/12	\$ 31,824
9/30/13	31,824
9/30/14	31,824
9/30/15	31,824
9/30/16	31,824
9/30/17 - 9/30/21	159,120
9/30/22 - 9/30/26	159,120
9/30/27 - 9/30/31	159,120
9/30/32 - 9/30/36	159,120
9/30/37 - 9/30/41	159,120
9/30/42 - 9/30/44	79,560
Total	<u>1,034,280</u>
Interest	<u>(517,018)</u>
Net	<u>\$ 517,262</u>

TRI-COUNTY RURAL WATER DISTRICT NO. 2  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 5 -- PENSION PLAN:

The District participates in the Oklahoma Public Employees Retirement Plan. The District contributes 12½% of eligible wages which amounted to \$24,773 and \$24,419 for the years ended September 30, 2011 and 2010 respectively.

NOTE 6 -- WATER PURCHASE CONTRACT:

The District entered into a water purchase contract on January 1, 2002 for a term of 50 years. This contract sets the cost of water purchased as follows:

39.3 cents per 1,000 gallons through January 1, 2010.

Price will be adjusted annually on January 1, 2011 through January 1, 2028.

Price will be renegotiated at January 1, 2029.

NOTE 7 -- 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.

NOTE 8 -- RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probably that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims during the years ended December 31, 2011 and 2010.

NOTE 9 -- ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

TRI-COUNTY RURAL WATER DISTRICT NO. 2  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

NOTE 10-- CONTINGENCIES:

As of September 30, 2011 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 11 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through February 2, 2012, the date which the financial statements were available to be issued.