

**RURAL WATER DISTRICT NO. 2
COMANCHE COUNTY, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010**

RURAL WATER DISTRICT NO. 2,
COMANCHE COUNTY, OKLAHOMA
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Independent Auditor's Report

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

We have audited the accompanying statements of assets, liabilities and net assets – modified cash basis of Rural Water District No. 2, Comanche County, Oklahoma as of December 31, 2011 and 2010 and the related statements of revenues 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 Rural Water District No. 2, Comanche County, Oklahoma'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 the standards for 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 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.

As discussed in Note 1, Rural Water District No. 2, Comanche County, Oklahoma prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the assets, liabilities and net assets of Rural Water District No. 2, Comanche County, Oklahoma at December 31, 2011 and 2010, and its revenues, expenses and changes in net assets and cash flows for the years then ended in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 28, 2012 on our consideration of Rural Water District No. 2, Comanche County, Oklahoma's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws and 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 my audit.

Rural Water District No. 2, Comanche 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
February 28, 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. 2, Comanche County, Oklahoma

We have audited the financial statements of Rural Water District No. 2, Comanche County, Oklahoma as of and for the year ended December 31, 2011 and have issued our report thereon dated February 28, 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 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. Rural Water District No. 2, Comanche County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Boards 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 Rural Water District No. 2, Comanche 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. 2, Comanche County, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 2, Comanche County, Oklahoma's internal control over financial reporting.

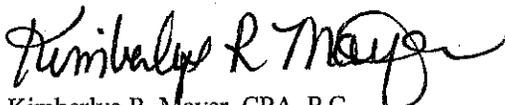
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination 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 Rural Water District No. 2, Comanche County, Oklahoma's financial statements are free of material misstatements, 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, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
February 28, 2012

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
 STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
 MODIFIED CASH BASIS
 DECEMBER 31, 2011 AND 2010

	ASSETS	
	2011	2010
Current Assets:		
Operating cash	\$ 76,816	\$ 19,965
Certificate of deposits	84,502	83,662
Capital improvements account	68,543	57,811
Membership accounts	179,033	168,991
Total cash and cash equivalents	408,894	330,429
Restricted Accounts		
Debt service	5	67
Debt service reserve	71,521	71,522
Project fund	11,605	11,604
Total reserve accounts	83,131	83,193
Reserve certificate	1,000	1,000
Capital assets (Note 2)		
(net of accumulated depreciation of \$1,166,941)	656,642	727,915
Work in progress	14,571	4,571
Total Assets	\$ 1,164,238	\$ 1,147,108

LIABILITIES AND NET ASSETS

Liabilities:		
Current Liabilities:		
Current portion of long-term debt	\$ 24,500	\$ 23,300
Noncurrent Liabilities:		
Long-term debt, noncurrent	832,750	857,550
Total Liabilities	857,250	880,850
Net Assets:		
Invested in capital assets, net of related debt	(186,037)	(148,364)
Restricted for debt service	83,131	83,193
Unrestricted	409,894	331,429
Total Net Assets	306,988	266,258
Total Liabilities and Net Assets	\$ 1,164,238	\$ 1,147,108

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

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Water sales	\$ 417,109	\$ 379,862
Miscellaneous revenues	5,134	5,340
Total Operating Revenues	<u>422,243</u>	<u>385,202</u>
Operating Expenses:		
Salaries and wages	126,364	124,084
Payroll taxes	10,318	9,193
Employee benefits	26,026	21,562
Repairs and maintenance	43,348	42,055
Fuel and auto expenses	12,602	7,686
Insurance and bonds	14,444	14,364
Professional fees	9,662	3,903
Director fees	4,500	2,650
Office and postage	7,298	5,136
Meter readings	11,035	10,996
Water purchases	25,575	14,104
Telephone and pagers	2,232	2,521
Utilities	16,620	15,262
Water tests and fees	4,876	4,192
School and travel	1,349	1,182
Depreciation	69,401	72,027
Other expenses	1,159	3,969
Total Operating Expenses	<u>386,809</u>	<u>354,886</u>
Operating Income (Loss)	35,434	30,316
Nonoperating Revenue (Expenses):		
Interest income	2,345	3,101
Gain on sale of assets	6,449	
Benefit units	9,000	12,000
Interest expense	(12,498)	(13,428)
Total Nonoperating Revenues (Expenses)	<u>5,296</u>	<u>1,673</u>
Change in Net Assets	40,730	31,989
Net Assets, beginning of year	<u>266,258</u>	<u>234,269</u>
Net Assets, end of year	<u>\$ 306,988</u>	<u>\$ 266,258</u>

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

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 417,109	\$ 379,862
Other operating cash receipts	5,134	5,340
Cash payments to suppliers for goods and services	(191,044)	(158,775)
Cash payments to employees	<u>(126,364)</u>	<u>(124,084)</u>
Net cash provided (used) by operating activities	104,835	102,343
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
(Increase) decrease in capital assets	(1,679)	(96,601)
Principal paid on notes	(23,600)	(22,400)
Interest paid on notes	(12,498)	(13,428)
System development fees	9,000	12,000
Net cash provided (used) by financing activities	<u>(28,777)</u>	<u>(120,429)</u>
 Cash flows from investing activities:		
Interest income	2,345	3,101
(Increase) decrease in restricted accounts	62	(44)
Net cash provided (used) by investing activities	<u>2,407</u>	<u>3,057</u>
 Net increase (decrease) in cash and cash equivalents	78,465	(15,029)
Beginning cash and cash equivalents	<u>330,429</u>	<u>345,458</u>
Ending cash and cash equivalents	<u>\$ 408,894</u>	<u>\$ 330,429</u>
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 35,434	\$ 30,316
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	<u>69,401</u>	<u>72,027</u>
Net cash provided (used) by operating activities	<u>\$ 104,835</u>	<u>\$ 102,343</u>

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

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 2, Comanche County, Oklahoma was created under the Rural Water District Act, Title 82, as amended, 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 provide water services to the owners and occupants of land located within the District, and others as authorized by law. Membership in the water district consists of water users who have paid the required membership fees.

The District is an entity governed 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, revenues, and 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 on 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 is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States 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.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the District considers all accounts, (excluding restricted reserves), and deposits with a maturity of three months or less to be cash equivalents.

Budget

The District is not legally required to adopt a budget.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Restricted Reserve Accounts

As part of the loan agreement with OWRB, (Note 3) the District is to maintain a reserve amount equal to 125% of the maximum annual amount due for debt service. At December 31, 2011 and 2010, the District had \$71,521 and \$71,522 respectively, in its debt service reserve account.

NOTE 2 – WATERLINE SYSTEM AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Annual depreciation is calculated on a straight-line basis. Total depreciation for the year ended December 31, 2011 and 2010 was \$69,401 and \$72,027 respectively. The balances for depreciable assets by major category as December 31, 2011 are as follows:

	<u>12/31/10</u>	<u>Deletions</u>	<u>Additions</u>	<u>12/31/11</u>
Land	\$ 9,400	\$	\$	\$ 9,400
Waterline system	1,710,071			1,710,071
Machinery & equipment	108,595			108,595
Vehicles	64,710	(25,814)		38,896
Buildings & improvements	60,288			60,288
Furniture & office equipment	13,819		479	14,298
Accumulated depreciation	(1,238,968)	23,463	(69,401)	(1,284,906)
Total	<u>\$ 727,915</u>	<u>\$ (2,351)</u>	<u>\$ (68,922)</u>	<u>\$ 656,642</u>

NOTE 3 – NOTES PAYABLE:

The District entered into a loan agreement with the OWRB on December 13, 2001. The proceeds of this note were for water system improvements; to refinance the existing debt to USDA-Rural Development and to establish a debt reserve. Collateral for this loan is the revenue from operations and a mortgage with the power of sale and security agreement on the real property. The term of the note is 30 years with a variable interest rate. The interest rate through March 31, 2012 is 1.38%. The balance of this note at December 31, 2010 was \$880,850 and principle payments of \$23,600 were made during 2011. The balance at December 31, 2011 was \$857,250.

In January 2012, the District borrowed \$840,000 to refinance this note. The new note has a fixed interest rate of 3.26% with a maturity date of January 2024. The monthly payments are \$7,845.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 3 – NOTES PAYABLE (continued):

The following is a detailed schedule of payments:

Year Ended	Amount
12/31/12	\$ 94,136
12/31/13	94,136
12/31/14	94,136
12/31/15	94,136
12/31/16	94,136
12/31/17 - 12/31/21	470,682
12/31/22 - 12/31/24	23,534
	964,896
Interest	(107,646)
	\$ 857,250

NOTE 4 – RETIREMENT PLAN:

The full-time, permanent employees of the District participate in a SEP retirement plan. The District contributes 6.2 % of gross wages to the employees retirement accounts. This amounted to \$7,167 and \$6,630 for the years ended December 31, 2011 and 2010, respectively.

NOTE 5 – 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 probable that a loss has occurred and the amounts 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 year ended December 31, 2011.

NOTE 6 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis 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. 2, COMANCHE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 7 – CONTINGENCIES:

As of December 31, 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 8 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through February 28, 2012, the date which the financial statements were available to be issued.