

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

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
ANNUAL FINANCIAL STATEMENTS
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Independent Auditor's Report

Board of Directors
Rural Water District No. 2, Noble County

We have audited the accompanying financial statements of Rural Water District No. 2, Noble County as of December 31, 2011 and 2010 and 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 included 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 discussed in Note 1, Rural Water District No. 2, Noble County 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 financial position of Rural Water District No. 2, Noble County as of December 31, 2011 and 2010 and the results of its operations and its 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 24, 2012 on our consideration of Rural Water District No. 2, Noble County's internal control over financial reporting and on our tests of its compliance with certain 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. 2, Noble County 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 24, 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, Noble County

We have audited the financial statements of Rural Water District No. 2, Noble County as of and for the year ended December 31, 2011 and have issued our report thereon dated February 24, 2012. We conducted our audit 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. 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, Noble County 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 Rural Water District No. 2, Noble County'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, Noble County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 2, Noble County's internal control over financial reporting.

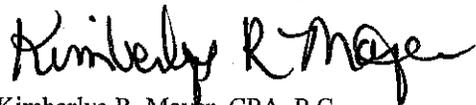
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination 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, Noble County'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 audits 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 organization, and all applicable federal and state awarding agencies 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 24, 2012

FINANCIAL STATEMENTS

AND

NOTES

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

ASSETS

	2011	2010
Current Assets:		
Cash and cash equivalents	\$ 89,328	\$ 66,736
Certificates of deposit	96,451	77,026
Total Current Assets	185,779	143,762
Restricted Funds:		
Debt service account	1,562	3,484
Debt service reserve account	47,482	47,484
Total Restricted Funds	49,044	50,968
Property, plant and equipment (net of accumulated depreciation) (Note 2)	1,244,129	1,231,451
Total Assets	\$ 1,478,952	\$ 1,426,181

LIABILITIES AND NET ASSETS

Current Liabilities:		
Current portion of notes payable (Note 3)	\$ 14,100	\$ 14,500
Meter deposits	60,080	57,480
Notes payable (Note 3)	273,550	287,550
Total Liabilities	347,730	359,530
Net Assets:		
Invested in capital assets, net of related debt	956,479	929,401
Restricted for debt service	49,044	50,968
Unrestricted	125,699	86,282
Total Net Assets	1,131,222	1,066,651
Total Liabilities and Net Assets	\$ 1,478,952	\$ 1,426,181

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

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
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 service	\$ 404,509	\$ 323,915
Other income	2,699	
Total Operating Revenues	<u>407,208</u>	<u>323,915</u>
Operating Expenses		
Water purchases	95,313	116,395
Wages	51,793	53,116
Employee benefits	11,063	10,834
Payroll taxes	4,343	7,926
Trustee fees	750	750
Professional fees	2,565	919
Insurance and bonds	7,623	7,023
Repairs and maintenance	55,615	29,737
Auto expense	12,391	7,562
Meter reading fees	11,123	11,291
Utilities and telephone	13,670	15,232
Depreciation	67,622	67,809
Director fees	6,443	4,463
Mileage, meetings and travel	2,375	1,711
Postage and office supplies	8,173	9,301
Processing fees	2,876	
Other expenses	3,144	5,276
Total Operating Expenses	<u>356,882</u>	<u>349,345</u>
Operating Income (Loss)	50,326	(25,430)
Nonoperating Revenue (Expenses):		
Interest income	1,100	1,780
Interest expense	(5,785)	(6,099)
Water tap and connection fees	18,930	4,850
Total Nonoperating Revenues and (Expenses)	<u>14,245</u>	<u>531</u>
Change in Net Assets	64,571	(24,899)
Net Assets, beginning of year	<u>1,066,651</u>	<u>1,091,550</u>
Net Assets, end of year	<u><u>\$ 1,131,222</u></u>	<u><u>\$ 1,066,651</u></u>

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

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
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	\$ 404,509	\$ 323,915
Other operating cash receipts	2,699	
Cash payments to suppliers for goods and services	(237,467)	(227,640)
Cash payments to employees	(51,793)	(53,116)
Net cash provided (used) by operating activities	<u>117,948</u>	<u>43,159</u>
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(77,700)	(22,200)
Grant and FEMA income		
Connection fees	18,930	4,850
Principle payments	(14,400)	(13,650)
Interest payments on debt	(5,785)	(6,099)
Net cash provided (used) by financing activities	<u>(78,955)</u>	<u>(37,099)</u>
 Cash flows from investing activities:		
Interest income	1,100	1,780
(Increase) decrease in investments	(19,425)	38,553
(Increase) decrease in restricted accounts	1,924	(1,873)
Net cash provided (used) by investing activities	<u>(16,401)</u>	<u>38,460</u>
 Net increase (decrease) in cash and cash equivalents	22,592	44,520
Beginning cash and cash equivalents	66,736	22,216
Ending cash and cash equivalents	<u>\$ 89,328</u>	<u>\$ 66,736</u>
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 50,326	\$ (25,430)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	67,622	67,809
Changes in assets and liabilities:		
Increase in meter deposits		780
Net cash provided (used) by operating activities	<u>\$ 117,948</u>	<u>\$ 43,159</u>

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

RURAL WATER DISTRICT NO. 2, NOBLE COUNTY
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, Noble County was incorporated under the Rural Water District Act, as amended, Title 82, Section 1301-1321 of the Oklahoma State Statutes. The purpose of the District is to acquire water and water rights; to build and acquire pipelines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owner 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 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.

Restricted Reserves

Rural Economic and Community Development Agency requires monies to be held in reserve accounts. These reserve funds are for future debt service and amounted to \$49,044 and \$50,968 at December 31, 2011 and 2010 respectively.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

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

NOTE 2 – PROPERTY, PLANT AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Depreciation is calculated on a straight-line basis. Total depreciation for the year ended December 31, 2011 and 2010 was \$67,622 and \$67,809 respectively. The balances for depreciable assets by major category are as follows:

	Balance 12/31/10	(Deletions) Additions	Balance 12/31/11
Building and land	\$ 28,624	\$ 70,750	\$ 99,374
Water distribution system	1,888,630		1,888,630
Machinery & equipment	105,124	9,550	114,674
Office furniture & fixtures	14,386		14,386
	2,036,764	80,300	2,117,064
Less accumulated depreciation	(805,313)	(67,622)	(872,935)
Net	\$ 1,231,451	\$ 12,678	\$ 1,244,129

NOTE 3 – NOTES PAYABLE:

During the year ended December 31, 1999 the District entered into a note agreement with the Oklahoma Water Resources Board for \$510,000. The proceeds from this note were used to refinance an existing note with USDA – Rural Development, pay loan costs, set up a debt service reserve fund, and to pay for construction costs for the improvement and expansion of its waterline system. Monthly payments began January 15, 2000 with an interest rate of 4.772%. The rate of interest and monthly payments are adjusted semiannually. The term of the note is 30 years. The current interest rate at December 31, 2011 was 1.705%. The following is summary of the notes payable at December 31, 2011 and 2010:

Balance at 12/31/09	\$ 315,700
Principle payments	(13,650)
Balance at 12/31/10	302,050
Principle payments	(14,400)
Balance at 12/31/11	\$ 287,650

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

NOTE 3 – NOTES PAYABLE(continued):

The following is a summary of future debt requirements.

<u>Year Ending</u>	<u>Payments</u>	<u>Principle</u>	<u>Interest</u>
12/31/12	\$ 18,703	\$ 14,100	\$ 4,603
12/31/13	18,703	15,200	3,503
12/31/14	18,703	16,500	2,203
12/31/15	18,703	17,900	803
12/31/16	18,703	10,400	8,303
12/31/17-12/31/21	93,516	60,300	33,216
12/31/22-12/31/26	93,516	86,200	7,316
12/31/27-12/31/29	74,812	67,050	7,762
	<u>\$ 355,359</u>	<u>\$ 287,650</u>	<u>\$ 67,709</u>

NOTE 4 – WATER PURCHASE COMMITMENT:

The governing board of the Rural Water District No. 2, Noble County, together with seven other cities and rural water districts located in Noble, Pawnee, and Payne Counties have jointly formed Lone Chimney Water Association (Association). The purpose of the Association is to provide a water system for the benefit of its members and other users. The Association has entered into various loan agreements with the USDA-Rural Development to provide financing for the facility. Under the terms of the agreement regarding the Lone Chimney Water Association, each member has contracted to purchase a minimum amount of water from the Association during the 40 year term of the notes. In addition, each individual member is proportionately liable for any debts that exceed the assets of the Association to the extent of one and one-half times the percentage of ownership interest held by the entity pursuant to the agreement. At December 31, 2011 and 2010, the District's percentage of ownership was 12%.

Up until July 1, 2011, Rural Water District No. 2, Noble County, was obligated to purchase a minimum of 31.2 million gallons of water annually. Because of the drought conditions at the Lone Chimney Lake, the minimum purchase was waived until the availability of water increases. At December 31, 2011, all water was being purchased from the cities of Stillwater and Perry.

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

NOTE 5 - ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires the use of management 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.

NOTE 6 – 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 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.

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 – 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 9 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through February 24, 2012, the date which the financial statements were available to be issued.