

**RURAL WATER DISTRICT NO. 2  
COMANCHE COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2012 AND 2011**

RURAL WATER DISTRICT NO. 2,  
COMANCHE COUNTY, OKLAHOMA  
TABLE OF CONTENTS  
YEARS ENDED DECEMBER 31, 2012 AND 2011

	Page
<b>INTRODUCTORY SECTION:</b>	
Table of Contents	i
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report	1-2
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards.</i>	3-4
Financial Statements:	5
Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis	6
Statements of Revenues, Expenses and Changes in Net Assets- Modified Cash Basis	7
Statements of Cash Flows -- Modified Cash Basis	8
Notes to Financial Statements	9-12

# Kimberlye R. Mayer, CPA, P.C.

735 West Doolin

Blackwell, OK 74631

(580) 363-1453  
Fax (580) 363-0068

## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of Rural Water District No. 2, Comanche County, Oklahoma as of December 31, 2012 and 2011 and for the years then ended. These financial statements are the responsibility of the District's management.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions 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 whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective modified cash basis financial position of Rural Water District No. 2, Comanche County,

Oklahoma, as of December 31, 2012 and 2011; the respective changes in modified cash basis financial position; and, when applicable, cash flows thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

### **Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated March 14, 2013 on our consideration of Rural Water District No. 2, Comanche County, Oklahoma'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.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
March 14, 2013

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, 2012, and have issued our report thereon dated March 14, 2013. 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 accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of Rural Water District No. 2, Comanche 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. 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 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.

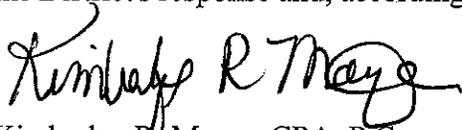
Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there 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 the Rural Water District No. 2, Comanche 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. 2, Comanche 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.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
March 14, 2013

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2012

**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 sales 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. 2, COMANCHE COUNTY, OKLAHOMA  
STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS  
MODIFIED CASH BASIS  
DECEMBER 31, 2012 AND 2011

ASSETS	2012	2011
Current Assets:		
Operating cash	\$ 30,776	\$ 76,816
Certificate of deposits	85,239	84,502
Capital improvements account	10,734	68,543
Membership accounts	119,161	179,033
Total cash and cash equivalents	245,910	408,894
Restricted Accounts		
Debt service	30,601	5
Debt service reserve	84,006	71,521
Project fund		11,605
Total reserve accounts	114,607	83,131
Reserve certificate	1,000	1,000
Capital assets (Note 2)		
(net of accumulated depreciation of \$1,349,771)	626,669	656,642
Work in progress	143,538	14,571
Other Assets:		
Loan fees (net of accumulated amortization)(Note 4)	22,917	
Total Assets	\$ 1,154,641	\$ 1,164,238
LIABILITIES AND NET ASSETS		
Liabilities:		
Current Liabilities:		
Current portion of long-term debt (Note 3)	\$ 65,000	\$ 24,500
Noncurrent Liabilities:		
Long-term debt, noncurrent (Note 3)	730,000	832,750
Premiums on note (net of accumulated amortization)(Note 4)	52,154	
Total Liabilities	847,154	857,250
Net Assets:		
Invested in capital assets, net of related debt	(76,947)	(186,037)
Restricted for debt service	114,607	83,131
Unrestricted	269,827	409,894
Total Net Assets	307,487	306,988
Total Liabilities and Net Assets	\$ 1,154,641	\$ 1,164,238

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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Water sales	\$ 448,670	\$ 417,109
Miscellaneous revenues	6,700	5,134
Total Operating Revenues	<u>455,370</u>	<u>422,243</u>
Operating Expenses:		
Salaries and wages	149,875	126,364
Payroll taxes	11,976	10,318
Employee benefits	26,619	26,026
Repairs and maintenance	25,936	43,348
Fuel and auto expenses	13,598	12,602
Insurance and bonds	13,736	14,444
Professional fees	40,064	9,662
Director fees	5,950	4,500
Office and postage	6,972	7,298
Meter readings	11,070	11,035
Water purchases	42,395	25,575
Telephone and pagers	2,572	2,232
Utilities	14,618	16,620
Water tests and fees	5,516	4,876
School and travel	1,517	1,349
Depreciation and amortization	66,948	69,401
Other expenses	1,468	1,159
Total Operating Expenses	<u>440,830</u>	<u>386,809</u>
Operating Income (Loss)	14,540	35,434
Nonoperating Revenue (Expenses):		
Interest income	1,506	2,345
Gain on sale of assets		6,449
Benefit units	6,000	9,000
Interest expense	(26,288)	(12,498)
Amortization of premium	4,741	
Total Nonoperating Revenues (Expenses)	<u>(14,041)</u>	<u>5,296</u>
Change in Net Assets	499	40,730
Net Assets, beginning of year	<u>306,988</u>	<u>266,258</u>
Net Assets, end of year	<u>\$ 307,487</u>	<u>\$ 306,988</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, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities:		
Cash received from customers	\$ 448,670	\$ 417,109
Other operating cash receipts	6,700	5,134
Cash payments to suppliers for goods and services	(224,007)	(191,044)
Cash payments to employees	(149,875)	(126,364)
Net cash provided (used) by operating activities	81,488	104,835
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
(Increase) decrease in capital assets	(163,859)	(1,679)
New borrowings	896,895	
Principal paid on notes	(902,250)	(23,600)
Interest paid on notes	(26,288)	(12,498)
System development fees	6,000	9,000
Loan fees paid	(25,000)	
Net cash provided (used) by financing activities	(214,502)	(28,777)
Cash flows from investing activities:		
Interest income	1,506	2,345
(Increase) decrease in restricted accounts	(31,476)	62
Net cash provided (used) by investing activities	(29,970)	2,407
Net increase (decrease) in cash and cash equivalents	(162,984)	78,465
Beginning cash and cash equivalents	408,894	330,429
Ending cash and cash equivalents	\$ 245,910	\$ 408,894
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 14,540	\$ 35,434
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation and amortization	66,948	69,401
Net cash provided (used) by operating activities	\$ 81,488	\$ 104,835

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, 2012 AND 2011

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, 2012 and 2011, the District had \$114,607 and \$71,521 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, 2012 and 2011 was \$64,865 and \$69,401 respectively. The balances for depreciable assets by major category as December 31, 2012 are as follows:

	<u>12/31/2011</u>	<u>Deletions</u>	<u>Additions</u>	<u>12/31/2012</u>
Land	\$ 9,400	\$	\$	\$ 9,400
Waterline system	1,710,071		34,892	1,744,963
Machinery & equipment	108,595			108,595
Vehicles	38,896			38,896
Buildings & improvements	60,288			60,288
Furniture & office equipment	14,298			14,298
Accumulated depreciation	(1,284,906)		(64,865)	(1,349,771)
Total	<u>\$ 656,642</u>	<u>\$</u>	<u>\$ (29,973)</u>	<u>\$ 626,669</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 September 2023. The monthly payments are \$7,845. Principal payments are due on September 15<sup>th</sup> of each year and an interest payment is due on March 15<sup>th</sup> of each year.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 3 – NOTES PAYABLE (continued):

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

Year Ended	OWRB	Principal	Interest
12/31/2013	\$ 89,403	\$ 65,000	\$ 24,403
12/31/2014	88,009	65,000	23,009
12/31/2015	86,614	65,000	21,614
12/31/2016	85,220	65,000	20,220
12/31/2017	88,826	70,000	18,826
12/31/2018 - 12/31/2022	432,905	380,000	52,905
12/31/2024	87,673	85,000	2,673
Totals	<u>\$ 958,650</u>	<u>\$ 795,000</u>	<u>\$ 163,650</u>

NOTE 4 – AMORTIZATION:

The loan costs are being amortized over the life of the loan. Total amortization for the year ended December 31, 2012 was \$2,083.

The OWRB loan was issued at a premium of \$56,896. This premium is considered a reduction in interest and is being amortized over the life of the loan. Total amortization for the year ended December 31, 2012 was \$4,741.

NOTE 5 – 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 \$7,767 and \$7,167 for the years ended December 31, 2012 and 2011, respectively.

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 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, 2012.

RURAL WATER DISTRICT NO. 2, COMANCHE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 7 – 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.

NOTE 8 – CONTINGENCIES:

As of December 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 9 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through March 14, 2013, the date which the financial statements were available to be issued.