

Financial Statements

of

**Rural Water District No. 2
Muskogee County, Oklahoma**

December 31, 2012 and 2011



Clothier & Company CPA's P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rural Water District No. 2
Muskogee County, Oklahoma

We have audited the accompanying statements of assets, liabilities and fund balances - cash basis of Rural Water District No. 2, Muskogee County, Oklahoma, as of December 31, 2012 and 2011 and the revenues, expenses, and changes in fund balance - cash basis for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 entity'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 of the effectiveness of the entity's internal control. Accordingly, we express no such 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 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 assets, liabilities and fund balances - cash basis of Rural Water District No. 2, as of December 31, 2012 and 2011, and the respective changes in revenues, expenses, and changes in fund balance - cash basis and, where applicable, cash flows thereof for the years then ended on the basis of accounting described in Note 1.

Other-Matters

Our audit was conducted for the purpose of forming opinions on the financial statement that collectively comprise the District's financial statements as a whole. The District has not presented the management's discussion and analysis information that the *Governmental Accounting Standards Board* has determined is necessary to supplement, although not required to be part of the basic financial statements.

The budgetary comparison information on page 10 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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Clothier & Company, CPA's, P.C.
Muskogee, Oklahoma
March 11, 2013

RURAL WATER DISTRICT #2 MUSKOGEE
Statement of Assets, Liabilities
and Fund Balances
December 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and Cash Equivalents	\$ 79,436	\$ 107,478
Total Current Assets	79,436	107,478
Fixed Assets		
Land	17,719	17,719
Buildings	92,112	92,112
Water System & Equipment	777,746	777,746
Office Furniture/Equipment	21,730	21,730
Accum. Depreciation	<u>(476,128)</u>	<u>(446,708)</u>
Total Fixed Assets	433,179	462,599
Other Assets		
N/R Hopwell Park	<u>4,058</u>	<u>2,613</u>
Total Assets	<u><u>\$ 516,673</u></u>	<u><u>\$ 572,690</u></u>

LIABILITIES AND FUND BALANCE

Current Liabilities		
Payroll Taxes Payable	\$ 1,603	\$ 1,463
IRA Payable	<u>44</u>	<u>0</u>
Total Current Liabilities	1,647	1,463
Fund Balance		
Fund Balance	571,227	604,380
Current Income (Loss)	<u>1,279</u>	<u>-727</u>
Total Fund Balance	<u>572,506</u>	<u>603,653</u>
Total Liabilities and Fund Balance	<u><u>\$ 574,153</u></u>	<u><u>\$ 605,116</u></u>

See accompanying notes and independent auditors' report.

RURAL WATER DISTRICT #2 MUSKOGEE
Statement of Revenues and Expenses
December 31, 2012 and 2011

	2012	2011
REVENUES		
Water Sales	\$ 229,374	\$ 221,678
Late Charges	6,657	5,900
Reconnect Fees	150	25
Transfer Fees	175	375
Installation Fees	0	1,000
Benefit Unit Certificate	0	2,000
Miscellaneous Income	100	20
Interest Income	113	569
	<hr/>	<hr/>
Total Revenue	236,569	231,567
OPERATING EXPENSES		
Water Purchased	81,370	80,088
Wages-System Operator	46,731	45,085
Wages-Office Manager	18,697	17,616
Payroll Taxes-941	5,005	4,797
Health Insurance	14,261	14,251
IRA Expense	5,246	5,215
Utilities	4,607	4,518
Insurance-General	6,544	5,840
Depreciation Expense	29,420	32,229
Office Supplies	1,105	1,689
Plant Maintenance	26,404	9,570
Plant Expense	20,863	13,480
Water Tests	2,088	578
Telephone	1,996	1,720
Travel	396	420
Employee/Board Travel/Training	130	82
District Truck Maint/Ins/Fuel	2,816	3,482
Postal Expense	2,012	1,526
Office Equipment Maintenance	975	175
Miscellaneous Expense	283	452
ORWA Membership	0	322
Bank Service Charges	521	511
Audit Expense	2,140	2,100
Building/Grounds Maintenance	336	150
Tower Maintenance	18,824	18,824
	<hr/>	<hr/>
Total Operating Expense	292,770	264,720
	<hr/>	<hr/>
Net Income (Loss)	<u><u>\$ (56,201)</u></u>	<u><u>\$ (33,153)</u></u>

See accompanying notes and independent auditors' report.

RURAL WATER DISTRICT #2 MUSKOGEE
Statement of Cash Flows
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 236,356	\$ 230,978
Cash received from other sources	100	157
Cash paid to employees	(65,428)	(62,701)
Cash paid to suppliers	(81,370)	(80,040)
Other operating payments	(117,813)	(89,702)
Net Cash Flows from Operating Activities	<u>(28,155)</u>	<u>(1,308)</u>
Cash Flows From Capital and Related		
Financing Activities:		
Payment of debt	0	0
Acquisition and construction of capital assets	0	(3,410)
Net Cash (Used) By Capital and Related		
Financing Activities	<u>0</u>	<u>(3,410)</u>
Cash Flows From Investing Activities:		
Receipt of interest and dividends	113	569
Net Cash Provided (Used) By Investing Activities	<u>113</u>	<u>569</u>
Net Increase (Decrease) In Cash	(28,042)	(4,149)
Cash Beginning of Year	<u>107,478</u>	<u>111,627</u>
Cash End of Year	<u>\$ 79,436</u>	<u>\$ 107,478</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:		
Operating income (loss)	\$ (56,201)	\$ (33,153)
Add depreciation expense	29,420	32,229
Less interest income	(113)	(569)
(Increase)/Decrease in Current Assets:		
Notes receivables, net	(1,445)	137
Increase/(Decrease) in Current Liabilities:		
Accrued expenses	<u>184</u>	<u>48</u>
Net Cash Flows from Operating Activities	<u>\$ (28,155)</u>	<u>\$ (1,308)</u>

See accompanying notes and independent auditors' report.

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Rural Water District No. 2 is a political subdivision of the State of Oklahoma organized in June of 1965, with its offices located in Muskogee County, Oklahoma. The District was formed to furnish water service to the residents of the district by constructing and maintaining a water system.

Basis of Accounting

The financial statements of the District are prepared using the cash basis of accounting where revenues are recognized when received and expenses are recognized when paid. This is a comprehensive basis of accounting other than generally accepted accounting principles. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District had the option to apply FASB pronouncements issued after that date to its business-type activities, it has chosen not to do so.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents, consists of cash on hand and all cash in bank.

Funds on Deposit

The District maintains the following account for funds deposited with a fully insured bank:

Operating account- Gross revenues of the District are to be deposited to this account. The reasonable and necessary current expenses of operating and maintaining the District for each month are also paid from this account. These funds are on deposit with Citizen's bank.

Money Market Account – A cash reserve is set aside in this account for unforeseen catastrophes, extensions and improvements to the water system.

Property and Equipment

Property and equipment are recorded at cost, with depreciation provided on a straight-line method over the estimated useful lives of the assets.

Income Tax

As a political subdivision of the State of Oklahoma, the District is exempt from income taxes.

Use of Estimates

Rural Water District No. 2
Muskogee County, Oklahoma

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. PROPERTY AND EQUIPMENT

	<u>Beginning Balance</u>	<u>Addition</u>	<u>Accumulated Depreciation</u>	<u>Book Balance</u>
Land	\$17,719	\$0	\$0	\$17,719
Office Furniture & Equipment	21,730	0	(21,028)	702
Water System & Equipment	777,746	0	(430,742)	347,004
Buildings	92,112	0	(24,358)	67,754
Construction in Process	0	0	0	0
Totals	<u>\$909,307</u>	<u>\$0</u>	<u>(\$476,128)</u>	<u>\$433,179</u>

3. CONCENTRATION OF CREDIT RISK

The District maintains cash balances at Citizens Security Bank. As of December 31, 2012 the District's deposits and investments were \$79,136 (\$300 petty cash). Of the bank balance \$79,136 was covered by Federal Depository Insurance Corporation and \$0 was collateralized.

4. SYSTEM IMPROVEMENTS

Funding for system improvements projects was provided with monies saved by the District in previous years for this purpose. The maintenance projects are expenses on the Statement of Revenues and Expenses and the capital improvements are included on the Balance Sheet under Property and Equipment.

District Contingency Funding 1/1/2012:			\$35,388
		Capital	
System Improvement Costs:	<u>Maintenance</u>	<u>Improvements</u>	
Water Tower Maintenance	18,824		
Equipment Purchases		0	
New Meter System		0	
Meter Installation		0	
Total System Improvements	<u>18,824</u>	<u>0</u>	<u>18,824</u>
District Contingency Funding 12/31/2012:			<u>\$16,564</u>

5. SUBSEQUENT EVENTS

Rural Water District No. 2
Muskogee County, Oklahoma

The District has evaluated subsequent events through the date which the financial state were available to be issued with none found that need disclosed.

6. OTHER INFORMATION

Water rates in effect for 2012 were as follows:

Minimum 0 to 2,000 gallons	\$22.0000	
Next 2,001 - 8,000 gallons	\$0.0060	per gallon
Next 8,001 -10,000 gallons	\$0.0065	per gallon
All usage above 10,001 gallons	\$0.0070	per gallon

At the December board meeting the board voted to increase the rates effective January 1, 2013 to the following:

Minimum 0 to 2,000 gallons	\$24.0000	
Next 2,001 - 8,000 gallons	\$0.0070	per gallon
Next 8,001 -10,000 gallons	\$0.0075	per gallon
All usage above 10,001 gallons	\$0.0080	per gallon

The Board of Directors and staff of Rural Water District #2, Muskogee County, Oklahoma as of December 31, 2012:

Chairman	Alvie McDaniel
Vice-chairman	Ken Herringshaw
Secretary/Treasure	Bob Rose
Director	Alan Hensley
Director	Gary Rogers
District Manager	Gerald Schneidewent
Office Manager/Bookkeeper	Patty Sweptson



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**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***

To the Board of Directors
Rural Water District No. 2
Muskogee County, Oklahoma

We have audited the financial statements of Rural Water District No. 2 Muskogee County, Oklahoma, as of and for the years ended December 31, 2012 and 2011, and have issued our report thereon dated March 11, 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.

As described in Note 1, the District prepares its financial statements on the cash basis, which is a comprehensive basis of accounting other than accounting principals generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of Rural Water District No. 2 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's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 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.

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 weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 grant agreements, 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 organization, Oklahoma Water Resources Board, and State of Oklahoma Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.

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Clothier & Company, CPA's, P.C.
March 11, 2013

RURAL WATER DISTRICT NO. 2
Budget to Actual Comparison
December 31, 2012

	Original	Final	Actual	Variance
Revenue:				
Water Revenue	\$215,000	\$215,000	\$229,374	(\$14,374)
Late Charges	5,500	5,500	6,657	(1,157)
Meter Installation/Benefit Unit	3,000	3,000	0	3,000
Reconnection/Transfer Fees	375	375	325	50
Returned Check Charges	200	200	0	200
Misc. & Intrest Income	450	450	213	237
Total Revenue	224,525	224,525	236,569	(12,044)
Cost of Sales:				
Water Purchases	72,000	72,000	81,370	(9,370)
Gross Revenue	152,525	152,525	155,199	(2,674)
Operating Expenses:				
Audit Expense	2,200	2,200	2,140	60
Wages - Operator	46,731	46,731	46,731	0
Wages - Office Manager	18,265	18,265	18,697	(432)
Payroll Taxes	4,796	4,796	5,005	(209)
Health/Life Insurance	14,250	14,250	14,261	(11)
Retirement Expense	5,215	5,215	5,246	(31)
Utilities	4,500	4,500	4,607	(107)
Insurance	5,840	5,840	6,544	(704)
Office Supplies/Expenses	1,000	1,000	2,080	(1,080)
Plant Expense	10,000	10,000	20,863	(10,863)
Water Tests/Environment Fees	3,600	3,600	2,088	1,512
Bad Debt Expense	0	0	0	0
Telephone Expense	1,720	1,720	1,996	(276)
Travel Expense	425	425	396	29
Staff/Board Travel/Training	82	82	130	(48)
Truck Expense	3,550	3,550	2,816	734
Postal Expense	1,675	1,675	2,012	(337)
Contract Backhoe Expense	9,500	9,500	26,404	(16,904)
Miscellaneous Expense	500	500	283	217
OWRA Membership	322	322	0	322
Bank Service Charge	485	485	521	(36)
Building Maintenance	200	200	336	(136)
Tower Maintenance	0	0	18,824	(18,824)
Total Operating Expenses	134,856	134,856	181,980	(47,124)
Revenues Over/(Under) Expenses	\$17,669	\$17,669	(26,781)	\$44,450
Depreciation Expense(not included in budget)			(29,420)	
Net Income (Loss)			(\$56,201)	