



**Washita County Rural
Water District #2**
Audit Report
For Year Ending December 31, 2012

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Independent Auditor's Report

To The Board of Directors of
Washita County Rural Water District #2
Colony, Oklahoma

I have audited the basic financial statements of Rural Water, Sewer and Solid Waste Management District #2, Washita County, Oklahoma (District), as of and for the years ended December 31, 2012 and 2011. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted the 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about 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 statement presentation. I believe that the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water, Sewer and Solid Waste Management District #2, Washita County, Oklahoma, as of December 31, 2012 and 2011, and the results of its operations and its cash flows and its changes in member's equity for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated February 1, 2013, on my consideration of the Authority's internal control and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This 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 the audit.

Scott Northrip, CPA

Certified Public Accountant

January 23, 2012

**Rural Water, Sewer, & Solid Waste Management
District #2, Washita County, Oklahoma**

Comparative Statement of Net Assets
As of December 31, 2012 and 2011

ASSETS:	2012	2011
Current Assets:		
Cash & Cash Equivalents	\$ 48,519	\$ 116,291
Investments	177,275	220,081
Accounts Receivable (Note 2)	37,380	34,725
Other Receivable	-	6,369
Interest Receivable	1,243	1,667
Prepaid Insurance	7,156	6,377
Inventory	49,515	41,688
Total Current Assets	\$ 321,088	\$ 427,198
Noncurrent Assets:		
Construction in Progress	\$ -	\$ -
Capital Assets: (Note 5)		
Land	191,690	4,160
Other Capital Assets, net of depreciation	1,306,705	1,369,254
Total Noncurrent Assets	\$ 1,498,395	\$ 1,373,414
TOTAL ASSETS	\$ 1,819,483	\$ 1,800,612
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts Payable	\$ -	\$ -
Interest Payable	1,111	1,361
Customer Deposits	1,500	1,350
Current Portion of Long-term Liabilities	29,627	41,008
Total Current Liabilities	\$ 32,238	\$ 43,719
Long-Term Liabilities:		
Notes Payable - net of current	\$ 550,400	\$ 579,816
Net Assets:		
Restricted Fund Balance	\$ 57,888	\$ 102,000
Unrestricted Fund Balance	(72,189)	(163,769)
Total Fund Balance	\$ (14,301)	\$ (61,769)
Member Investments	312,800	303,100
Donated Assets	640,747	638,147
Grants	297,599	297,599
TOTAL NET ASSETS	\$ 1,236,845	\$ 1,177,077
TOTAL LIABILITIES AND NET ASSETS	\$ 1,819,483	\$ 1,800,612

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management
District #2, Washita County, Oklahoma**

Comparative Statement of Activities
For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES:		
Water Sales	\$ 392,445	\$ 411,852
Late Fees	9,769	13,347
Sale of Supplies	2,056	388
Miscellaneous Revenues	24,753	4,700
Total Operating Revenues	\$ 429,023	\$ 430,287
OPERATING EXPENSES:		
Salaries	\$ 106,094	\$ 86,925
Depreciation Expense	110,624	101,636
Interest Expense	29,777	33,032
Utilities	31,464	26,162
Water Purchases	11,280	12,294
Repairs & Maintenance	5,378	4,983
Insurance	23,954	22,515
Legal & Professional Fees	6,851	22,334
Transportation Expense	10,672	9,573
Director's Fees	6,800	6,600
Payroll Tax Expense	8,623	7,065
Operating Supplies & Chemicals	13,350	8,743
Office Supplies & Postage	6,952	7,476
Retirement Benefits	2,809	2,444
Dues & Licenses	930	964
Equipment Rent	2,396	2,380
Bad Debts Expense	2,633	4,327
FEMA Repairs	-	-
Miscellaneous Expense	3,513	2,107
Total Operating Expenses	\$ 384,100	\$ 361,560
OPERATING INCOME (LOSS)	\$ 44,923	\$ 68,727
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 2,545	\$ 3,638
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	\$ 2,545	\$ 3,638
NET INCOME	\$ 47,468	\$ 72,365

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management
District #2, Washita County, Oklahoma**

Comparative Statement of Changes in Net Assets
For the Years Ended December 31, 2012 and 2011

	2012	2011
Balance, January 1	\$ 1,177,077	\$ 1,060,058
Net Income (Loss)	47,468	72,365
Member Investments	9,700	10,900
Donated Assets	2,600	33,754
Grants	-	-
Total Changes in Net Assets	\$ 59,768	\$ 117,019
Balance, December 31	\$ 1,236,845	\$ 1,177,077

See accompanying notes to the financial statements.

**Rural Water, Sewer & Solid Waste Management
District #2, Washita County, Oklahoma**

Comparative Statement of Cash Flows
For the Years Ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 432,737	\$ 427,184
Payments to suppliers	(134,629)	(126,864)
Payments to employees	(117,526)	(107,222)
Net Cash Provided by Operating Activities	\$ 180,582	\$ 193,098
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (48,075)	\$ (187,852)
Donated Assets	2,600	33,754
Payments for Land	(187,530)	-
Proceeds from Grants	-	-
Principal payments on notes payable	(40,797)	(69,289)
Interest paid on notes payable	(30,025)	(32,711)
Proceeds from sale of assets	-	-
Net Cash Used In Capital & Related Financing Activities	\$ (303,827)	\$ (256,098)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 2,967	\$ 5,663
Proceeds from memberships	9,700	10,900
Net Cash Provided from Investing Activities	\$ 12,667	\$ 16,563
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ (110,578)	\$ (46,437)
Cash and Investment Balance - Beginning	336,372	382,809
CASH AND INVESTMENT BALANCE - ENDING	\$ 225,794	\$ 336,372
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 44,923	\$ 68,727
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	29,777	33,032
Depreciation expense	110,624	101,636
Change in assets and liabilities:		
Accounts Receivable	3,714	(3,103)
Prepaid Insurance	(779)	(766)
Inventory	(7,827)	(6,578)
Accounts Payable	-	-
Customer Deposits	150	150
Net Cash Provided from Operating Activities	\$ 180,582	\$ 193,098

See accompanying notes to the financial statements.

Rural Water, Sewer & Solid Waste Management District #2, Washita County, Oklahoma

Notes to the Financial Statements
For the Years Ended December 31, 2012 and 2011

Note 1 - Significant Accounting Policies

Organization:

Rural Water, Sewer, and Solid Waste Management District #2, Washita County, Oklahoma (District) is an Oklahoma trust formed under the Oklahoma Rural Water Act to provide water, sewer, and solid waste management in a designated area in and around Washita County, Oklahoma to individuals and businesses that purchase a membership. The District served 729 meters and sold 64,256,000 gallons of water for the year ending December 31, 2012 which represented an increase of 8 meters from previous year.

Basis of Accounting:

The District is a proprietary fund type of entity and uses the accrual method of accounting which reports revenues when earned and expenses when incurred. The District is not legally required to adopt a budget or report on budget comparisons in this report.

Fixed Assets and Depreciation:

The District records its fixed assets at their historical cost or donated value. Depreciation is calculated on each individual asset using the straight-line method of depreciation at the asset's estimated useful life. The District estimates the useful lives of the assets based on the type of asset. The lives range from 5 to 40 years.

Income Tax:

The District is exempt from federal and state income taxes under IRS Code Section 115 (a) as an agency of the State of Oklahoma.

Note 2 - Accounts Receivable

The accounts receivable represents the water usage and service revenues for December plus any unpaid balances from the previous months. The District uses the reserve method to account for bad debts. No provision was made during the years 2012 or 2011 even though it was less than the accounts receivable balances over 90 days old. The accounts receivable balances at December 31, 2012 and 2011 amounted to \$40,4538 and \$37,798, respectively with the allowance in the amount of \$3,073 and \$3,073, respectively.

Note 3 - Use of Estimates

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

Note 4 - Contingencies

The District didn't have any contingencies as of the date of the audit.

**Rural Water, Sewer & Solid Waste Management
District #2, Washita County, Oklahoma**

Notes to the Financial Statements
For the Years Ended December 31, 2012 and 2011

Note 5 - Changes in Fixed Assets

	Balance 1/1/2012	Additions	Disposed	Balance 12/31/2012
Water System Plant Assets	\$ 2,701,236	\$ -	\$ -	\$ 2,701,236
Extensions	656,139	-	-	656,139
Office Furniture & Fixtures	17,657	-	-	17,657
Equipment	93,017	48,075	-	141,092
Vehicles	16,391	-	-	16,391
Buildings	179,325	-	-	179,325
Total Assets	\$ 3,663,765	\$ 48,075	\$ -	\$ 3,711,840
<u>Accumulated Depreciation:</u>				
Water System Plant Assets	\$ 1,942,853	\$ 70,464	\$ -	\$ 2,013,317
Extensions	245,243	16,824	-	262,067
Office Furniture & Fixtures	15,863	1,021	-	16,884
Equipment	42,178	9,251	-	51,429
Vehicles	2,049	4,098	-	6,147
Buildings	46,325	8,966	-	55,291
Total Accumulated Deprec.	\$ 2,294,511	\$ 110,624	\$ -	\$ 2,405,135
Net Fixed Assets	\$ 1,369,254	\$ (62,549)	\$ -	\$ 1,306,705

Note 6 - Donated Assets

Donated assets are the estimated value of water lines installed by members from the existing lines of the system to the member's meter. The value of the lines donated to the District for the years ending December 31, 2012 and 2011 were \$2,600 and \$33,754, respectively.

Note 7 - Components of Cash and Investments

	Date of Maturity	Interest Rate	Balance
Checking - Bank of Cordell	-	0.60%	\$ 48,219
Petty Cash	-	0.00%	300
CD - Bank of Hydro	4/19/2013	0.75%	58,000
CD - Bank of Cordell	3/16/2013	0.75%	119,275
			-
Total Cash and Investments			\$ 225,794
<u>Designation:</u>			
Operating			\$ 48,519
Reserved for System Improvements			119,387
Restricted for Debt Service - Rural Development			57,888
			\$ 225,794

**Rural Water, Sewer & Solid Waste Management
District #2, Washita County, Oklahoma**

Notes to the Financial Statements
For the Years Ended December 31, 2012 and 2011

Note 8 - Retirement

The District provides a Simple IRA retirement plan for its participating employees. The District matches contributions up to 3% of the employee wages.

Note 9 - Long Term Liabilities

The District has three 40 year notes with Rural Development, an agency of the United States Department of Agriculture. The loans are all 5% fixed interest notes. The notes are secured by the assets of the District. Rural Development requires the District to reserve enough funds to pay an amount equal to a year's total payments. The District makes monthly payments on each of the notes.

Note Number	Date of Note	Annual Payment	Balance 12/31/2012	Balance 12/31/2011
91-06	12/2/1978	44,112	-	12,813
91-11	2/21/1983	32,664	237,176	257,376
91-13	5/23/1997	25,224	342,851	350,635
		<u>\$ 102,000</u>	<u>\$ 580,027</u>	<u>\$ 620,824</u>
Less: Current Portion			29,627	41,008
Net Long-Term Liabilities			<u>\$ 550,400</u>	<u>\$ 579,816</u>

Current Portion:		Note 91-06	Note 91-11	Note 91-13
Year Ending	12/31/2013	-	21,336	8,291
Year Ending	12/31/2014	-	22,430	8,718
Year Ending	12/31/2015	-	23,571	9,156
Year Ending	12/31/2016	-	24,782	9,630
Year Ending	12/31/2017	-	26,046	10,118

Note 10 - Prior Period Adjustments

There were no prior period adjustments in the financial statements for the years ending December 31, 2012 or 2011.

SCOTT NORTHRIP, CPA

P.O. Box 642, Hobart, Oklahoma 73651

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OF THE FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Washita County Rural Water District #2
Colony, Oklahoma

I have audited the basic financial statements of Rural Water, Sewer and Solid Waste Management District #2, Washita County, Oklahoma (District), as of and for the year ending December 31, 2012, and have issued my report thereon dated February 1, 2013. I conducted the 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.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed test of the District's compliance with certain laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, my objective was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that require to be reported under *Government Auditing Standards*.

Internal Control

In planning and performing the audit, I considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing my opinion on 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, I 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.

Report on Compliance and Internal Controls-Continued

A material weakness is a deficiency, or a 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.

My consideration of the 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.

This report is intended for the information of the Board of Directors, Rural Development and the State of Oklahoma. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Scott Northrip, CPA

Certified Public Accountant

February 1, 2013