

**Lincoln County Rural Water District No. 1
Sparks, Oklahoma**

Financial Statements and
Reports of Independent Auditor

July 31, 2012

Audited by

**SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

Broken Arrow, Oklahoma

Lincoln County Rural Water District No. 1
Sparks, Oklahoma

Board of Directors
July 31, 2012

Chairman

Charles Wright

Vice Chairman

Bill Hollis

Secretary

Sharon Cummings

Member

Richard Coyle

Treasurer

Claude Knight

Lincoln County Rural Water District No. 1
Sparks, Oklahoma

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July 31, 2012

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Lincoln County Rural Water District No. 1
Sparks, Oklahoma

We have audited the accompanying financial statements -cash basis of the business-type activities of the Lincoln County Rural Water District No. 1 (the District), Sparks, Oklahoma, as of and for the year ended July 31, 2012, which collectively comprise the District's basic financial statements -cash basis as listed in the table of contents. These financial statements -cash basis are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements -cash basis based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements -cash basis are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements -cash basis. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement -cash basis presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in *Note A*, the District prepares its financial statements on a basis of accounting that demonstrates compliance with the 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 - cash basis referred to in the first paragraph present fairly, in all material respects, the financial position of the District for the year ended July 31, 2012, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the year then ended, on the basis of accounting described in *Note A*.

Management has elected to omit the Management Discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements -cash basis are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements -cash basis as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements -cash basis. The combining and individual fund financial statements -cash basis have been subjected to the auditing procedures applied in the audit of the basic financial statements -cash basis and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in *Note A*.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP
October 29, 2012



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Lincoln County Rural Water District No. 1
Sparks, Oklahoma

We have audited the financial statements –cash basis of the Lincoln County Rural Water District No. 1 (the District), Sparks, Oklahoma, as of and for the year ended July 31, 2012, and have issued our report thereon dated October 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 District's financial statements –cash basis 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 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements –cash basis and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements –cash basis. This reportable condition is described in the accompanying schedule of audit results as item 12-1.

Board of Directors
Lincoln County Rural Water District No. 1

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements –cash basis being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that item 12-1 is not a material weakness.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The script is cursive and fluid, with the ampersand clearly visible.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

October 29, 2012

Lincoln County Rural Water District No. 1
Sparks, Oklahoma

Disposition of Prior Year's Reportable Conditions
July 31, 2012

11-1 – Lack of Segregation of Duties

The prior years exception that the inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available and which prevent a proper segregation of accounting functions which is necessary in order to assure adequate internal accounting controls continued in the current fiscal year.

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Schedule of Audit Results
July 31, 2012

Section 1 – Summary of Auditor’s Results

1. A qualified opinion report was issued on the financial statements.
2. The audit disclosed a reportable condition in the internal controls: 12-1 was not considered to be a material weakness.

Section 2 – Findings Relating to the Financial Statements Required to be Reported in Accordance with GAGAS

12-1 – Lack of Segregation of Duties

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Statement Of Net Assets
July 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current Assets		
Cash (<i>Note A</i>)	\$ 12,373	4,261
Non-Current Assets		
Restricted Assets (<i>Note A</i>)		
Cash		
Utility deposits	12,491	12,453
Investments		
Utility deposits	16,189	9,410
Debt service reserve- Rural Development	6,132	12,713
Total Non-Current Assets	<u>34,812</u>	<u>34,576</u>
Capital Assets		
Water system and improvements	508,073	508,073
Less accumulated depreciation	<u>(251,508)</u>	<u>(240,499)</u>
Total Capital Assets (Net of Depreciation)	<u>256,565</u>	<u>267,574</u>
Other Assets		
Deposit with insurance pool	<u>1,000</u>	<u>1,000</u>
Total Assets	<u>\$ 304,750</u>	<u>307,411</u>
<u>LIABILITIES</u>		
Current Liabilities		
Current maturities of long-term debt (<i>Note B</i>)	<u>\$ 2,613</u>	<u>13,432</u>
Non-Current Liabilities		
Notes payable –long term (<i>Note B</i>)	<u>51,875</u>	<u>43,489</u>
Total Liabilities	<u>54,488</u>	<u>56,921</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	202,077	210,653
Restricted for debt service	6,132	12,713
Unrestricted	<u>42,053</u>	<u>27,124</u>
Total Net Assets	<u>\$ 250,262</u>	<u>250,490</u>

The accompanying notes to the financial statements are an integral part of this statement.

Lincoln County Rural Water District No. 1

Sparks, Oklahoma

Statements of Revenues, Expenses, and Changes in Net Assets For the Years Ended July 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Water sales	\$ 96,221	91,930
Benefit unit sales	1,800	1,800
Miscellaneous	<u>42</u>	<u>7,271</u>
Total Operating Revenues	<u>98,063</u>	<u>101,001</u>
Operating Expenses:		
Chemicals and lab	9,564	14,235
Insurance, dues and fees	14,528	8,417
Payroll and payroll taxes	36,826	36,146
Utilities and rent	9,009	8,583
Supplies and maintenance	8,523	24,887
Travel and mileage	909	1,314
Depreciation	11,009	11,009
Professional fees	1,225	1,200
Office supplies	3,234	1,734
Water tests - DEQ	<u>-</u>	<u>150</u>
Total Operating Expenses	<u>94,827</u>	<u>107,675</u>
Net Income (Loss) from Operations	<u>3,236</u>	<u>(6,674)</u>
Non-Operating Revenues (Expenses):		
Interest income	235	359
Interest paid on long-term debt	<u>(3,699)</u>	<u>(4,105)</u>
Total Non- Operating Revenues (Expenses)	<u>(3,464)</u>	<u>(3,746)</u>
Change in Net Assets	(228)	(10,420)
Total Net Assets, Beginning of Period	<u>250,490</u>	<u>260,910</u>
Total Net Assets, End of Period	<u><u>\$ 250,262</u></u>	<u><u>250,490</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Statements of Cash Flows
For the Years Ended July 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Receipts from water sales	\$ 96,221	91,930
Receipts from benefit unit sales	1,800	1,800
Payments to vendors	<u>(83,776)</u>	<u>(89,395)</u>
Net Cash Provided by Operating Activities	<u>14,245</u>	<u>4,335</u>
Cash Flows from Investing Activities:		
Interest on investments	235	359
Capital assets purchased	<u>-</u>	<u>(42,679)</u>
Net cash provided by Investing Activities	<u>235</u>	<u>(42,320)</u>
Cash Flows from Financing Activities:		
Interest expenses on debt	(3,699)	(4,105)
Principal payments on debt	(2,433)	(9,978)
REAP grant (net)	<u>-</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>(6,132)</u>	<u>(14,083)</u>
Net increase (decrease) in cash and cash equivalents	8,348	(52,068)
Cash & cash equivalents, beginning of period	<u>38,837</u>	<u>90,905</u>
Cash & cash equivalents, end of period	<u><u>\$ 47,185</u></u>	<u><u>38,837</u></u>
 Reconciliation of operating income (loss) to net cash provided by		
Operating activities:		
Operating income (loss)	\$ 3,236	(6,674)
Adjustments to reconcile operating income to net cash provided		
(used) by operating activities:		
Depreciation expense	<u>11,009</u>	<u>11,009</u>
Net cash provided by operating activities	<u><u>\$ 14,245</u></u>	<u><u>4,335</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Notes To The Financial Statements
July 31, 2012

Note A – Significant Accounting Policies

Financial Reporting Entity

Lincoln County Rural Water District No. 1 (the District), Sparks, Oklahoma, was established pursuant to Title 82 of Oklahoma Statutes. The purpose of the District is to provide a water distribution system for its members in the Sparks, Oklahoma, area. Members are owners of land located within the District who have subscribed to one or more benefit units, provided payments of charges are current on at least one of the benefit units. Each member represents one vote of the governing body of the District without any direct ownership in its assets.

The accompanying financial statements include all functions and activities over which the District exercises financial accountability. The District is considered a primary government as defined by the *Governmental Accounting Standards Board* (GASB) and has no other component units within its reporting entity.

Basis of Accounting

The cash basis of accounting is followed for all accounts. Revenues are recorded when received and expenditures are recognized when paid. This basis of accounting is not in accordance with accounting principles generally accepted in the United States of America.

Cash

The District's checking and savings accounts are with First United Bank of Chandler, Chandler, Oklahoma, and at July 31, 2012, are detailed as follows:

Maintenance and operation account	\$ 12,373
Savings account	<u>12,491</u>
Total	\$ <u>24,864</u>

Investments

All investments are recorded at value at renewal date. Investments at July 31, 2012, are detailed as follows.

First Bank of Chandler, Chandler, Oklahoma:

Certificate of deposit No. 25870, dated June 23, 1999, due June 23, 2013, @ .95%	\$ <u>22,321</u>
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Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Notes To The Financial Statements
July 31, 2012

Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments, such as savings accounts, but not long-term certificates of deposit, as cash equivalents.

Federal Income Tax

The District is exempt from all federal and state income taxes.

Fixed Assets

Facilities purchased, constructed, or donated are recorded at cost and include improvements that significantly add to the productive capacity or extend the useful life of the asset. Costs of maintenance and repairs are charged to expense. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the accounts, and gain or loss, if any, is reflected in earnings for that period. Depreciation is provided on a straight-line method over the estimated useful lives of the assets, generally 40 years for plant and building, 7 years for equipment and 5 years for office furniture and equipment.

Long-Term Debt

Long-term debt to be repaid from District resources is reported as a liability in the balance sheet. The long-term debt presently is comprised of one (1) note payable.

Equity Classifications

The District's fund equity is classified as contributed capital and retained earnings – reserved and unreserved.

Revenues and Expenses

For purposes of the operating statement, revenues and expenses are classified by operating and non-operating. The District reports expenses relating to use of economic resources, including depreciation.

Benefit Unit Fees

Benefit unit fees represent a membership/connection fee required of each District member at the time they request service. This nonrefundable fee is designed to cover the estimated cost of connection, tap and related hook-up costs to the District's system. As such, the fees are recorded as operating revenue.

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Notes To The Financial Statements
July 31, 2012

Debt Restrictions and Covenants

In accordance with the requirements set by Rural Development, a government agency to which the District is indebted, the District is required to set aside funds for the purpose of major catastrophic repair or extensions and improvements. The funding amounts required are equal to one year's worth of payments, with the provision that the District has ten years to fully fund the reserve. At July 31, 2012, the amount of reserve funds required is \$6,132, and, therefore, the reserve was fully funded at July 31, 2012.

Note B – Detail Notes – Transaction Classes/Accounts

Restricted Assets

The amounts reported as restricted assets of the District on the balance sheet are comprised of amounts held by the District for utility deposits (refunded upon termination of service or applied to final billing) and the amount of cash held as debt service on the Farmer's home Administration notes payable. The restricted assets as of July 31, 2012, were as follows:

<u>Type of Restricted Asset</u>	<u>Enterprise Fund</u>
Cash and cash equivalents:	
Utility deposits	\$ 12,491
Investments:	
Utility deposits	16,189
Rural Development - debt service reserve	6,132
	<hr/>
Total Restricted Assets	\$ 34,812
	<hr/> <hr/>

Property, Plant and Equipment

Fixed assets of the District at July 31, 2012, were comprised as follows:

Land (not depreciable)	\$ 2,000
Equipment (7 years - straight line)	27,118
Plant and building (40 years - straight line)	478,955
Total	<hr/> 508,073
Less: Accumulated depreciation	<hr/> (251,508)
	<hr/>
Net Property, Plant and Equipment	\$ 256,565
	<hr/> <hr/>

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Notes To The Financial Statements
July 31, 2012

Long-Term Debt

At July 31, 2012, the District had the following long-term debt outstanding:

Notes Payable:

Note payable No. 91-08, dated February 25, 1988, to Rural Development,
original balance of \$85,000, payable in monthly installments of \$511,
including principal and interest, at 6.375%, secured by the utility system,
final payment due February 25, 2028

\$ 54,488

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended July 31, 2012:

<u>Type of Debt</u>	<u>Balance 8/1/2011</u>	<u>Amount Issued</u>	<u>Amount Retired</u>	<u>Balance 7/31/2012</u>
Notes Payable	<u>\$ 56,921</u>	<u>0</u>	<u>2,433</u>	<u>54,488</u>

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Notes To The Financial Statements
July 31, 2012

Annual Debt Service Requirements

The annually debt service requirements to maturity, including principal and interest, for long-term debt as of July 31, 2012, are as follows:

Year Ending July 31,	
2013	\$ 2,613
2014	2,912
2015	3,211
2016	3,491
2017	3,726
2018-2028	<u>38,535</u>
Total notes payable	54,488
Less: Current portion	<u>(2,613)</u>
Long-term debt outstanding, July 31, 2011	<u><u>\$ 51,875</u></u>

Contributed Capital

Certain property and equipment has been donated or contributed by outside parties, or funded by capital grants to the District.

Summary of Changes in Contributed Capital:

Contributed Capital, August 1, 2011	\$ 100,000
Additions (deductions)	<u>-</u>
Contributed Capital, July 31, 2012	<u><u>\$ 100,000</u></u>

Retained Earnings

Retained earnings reserves at July 31, 2012, relate to promissory note reserve accounts for one (1) Rural Development note. This balance was \$6,132 at July 31, 2012.

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Notes To The Financial Statements
JULY 31, 2012

Note C – Risk Management

The District is exposed to various risks of loss related to torts, theft or damage to, and destruction of assets, errors and omissions and natural disasters. The District manages these various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
a. Torts, errors and omissions and vehicle	Participation in ORWAG risk entity pool	\$1,000 deductible per occurrence
b. Injuries to employees (workers compensation)	Participation in ORWAG risk entity pool	None
c. Physical property loss and natural disasters	Participation in ORWAG risk entity pool	None

Management believes such coverage is sufficient to preclude any significant uninsured losses to the District.

Employee Pension and Other Benefits

The District provides no pension, deferred compensation or other post-employment benefits to employees of the District.

Commitments and Contingencies

Commitments

The District had no commitments as of July 31, 2012.

Contingencies-Litigation

The District is not involved with any legal proceedings, which normally occur in the course of governmental operations, at this time. Therefore, the financial statements do not include accruals or provisions for loss contingencies.

While legal proceedings cannot be foreseen, the District believes that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the District.

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Balance Sheets
July 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
Current Assets		
Cash (<i>Note A</i>)	\$ 12,373	4,261
Restricted Assets		
Cash		
Utility deposits	12,491	12,453
Investments		
Utility deposits	16,189	9,410
Debt service reserve – Rural Development	6,132	12,713
Total Restricted Assets	34,812	34,576
Fixed Assets		
Property, plant, and equipment (net of accumulated depreciation)	256,565	267,574
Other Assets		
Deposit with insurance pool	1,000	1,000
Total Assets	<u>\$ 304,750</u>	<u>307,411</u>
<u>LIABILITIES AND MEMBER EQUITY</u>		
Current Liabilities		
Notes payable – current portion	\$ 2,613	13,432
Long-term Liabilities		
Notes payable – <i>long-term</i>	51,875	43,489
Total Liabilities	54,488	56,921
Member Equity		
Contributed capital	100,000	100,000
Retained Earnings		
Reserved for Rural Development notes	6,132	12,713
Reserved for utility deposits	28,680	21,863
Unreserved	115,450	115,914
Total Retained Earnings	150,262	150,490
Total Member Equity	250,262	250,490
Total Liabilities and Member Equity	<u>\$ 304,750</u>	<u>307,411</u>

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Statements of Revenues, Expenses, and Changes in Retained Earnings
For the Years Ended July 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Revenues from Operations		
Water charges	\$ 96,221	91,930
Benefit units	1,800	1,800
Miscellaneous	<u>42</u>	<u>7,271</u>
Total Revenues from Operations	<u>98,063</u>	<u>101,001</u>
Expenses from Operations		
Payroll and payroll taxes	36,826	36,146
Depreciation	11,009	11,009
Utilities and rent	9,009	8,583
Supplies and maintenance	8,523	24,887
Insurance and bonds	14,528	8,417
Chemicals and lab	9,564	14,235
Travel and mileage	909	1,314
Professional fees	1,225	1,200
Office supplies	3,234	1,734
Testing DEQ	<u>-</u>	<u>150</u>
Total Expenses from Operations	<u>94,827</u>	<u>107,675</u>
Net Income (Loss) from Operations	<u>3,236</u>	<u>(6,674)</u>
Non-operating (Loss) from Operations		
Interest income	235	359
Interest expense	<u>(3,699)</u>	<u>(4,105)</u>
Total Non-operating Revenues (Expenses)	<u>(3,464)</u>	<u>(3,746)</u>
Net Income (Loss)	(228)	(10,420)
Retained Earnings, Beginning of Year	<u>250,490</u>	<u>260,910</u>
Retained Earnings, End of Year	<u><u>\$ 250,262</u></u>	<u><u>250,490</u></u>

Lincoln County Rural Water District No. 1
Sparks, Oklahoma
Statements of Cash Flows
For the Years Ended July 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Net income (loss) from operations	\$ 3,236	(6,674)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation expense	<u>11,009</u>	<u>11,009</u>
Total Cash Flows from Operating Activities	<u>14,245</u>	<u>4,335</u>
Cash Flows from Financing Activities		
Principal paid on notes payable	(2,433)	(9,978)
Interest paid on notes payable	(3,699)	(4,105)
REAP grant (net)	<u>-</u>	<u>-</u>
Total Cash Flows from Financing Activities	<u>(6,132)</u>	<u>(14,083)</u>
Cash Flows from Investing Activities		
Interest income	235	359
Capital assets purchased	<u>-</u>	<u>(42,679)</u>
Total Cash Flows from Investing Activities	<u>235</u>	<u>(42,320)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,348	(52,068)
Cash and Cash Equivalents, Beginning of Year	<u>38,837</u>	<u>90,905</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 47,185</u></u>	<u><u>38,837</u></u>