

**Logan County Rural Water District No. 2
Crescent, Oklahoma**

Financial Statements and
Reports of Independent Auditor

July 31, 2012

Audited by

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

Broken Arrow, Oklahoma

**Logan County Rural Water District No. 2
Crescent, Oklahoma**

Board of Directors
July 31, 2012

Chairman

Arthur Platt

Vice Chairman

Andy Bennett

Secretary/Treasurer

Diane Frick

Members

Robert Carey
Dennis Rising
Don Winslow
vacant

Bookkeeper

Colette Datin

1701 N. Hwy 74
Crescent, Oklahoma 73028
(405) 969-2646

Logan County Rural Water District No. 2
Crescent, Oklahoma

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities of the Logan County Rural Water District No. 2 (the District), Crescent, Oklahoma, as of and for the year ended July 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. 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 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 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of July 31, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2012 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements 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 1.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

August 28, 2012

RURAL WATER DISTRICT NO. 2, LOGAN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS

JULY 31, 2012

Our discussion and analysis of the Rural Water District No. 2, Logan County's financial performance provides an overview of the District's financial activities for the fiscal year ended July 31, 2012. Please read it in conjunction with the District's financial statements that begin on page seven.

FINANCIAL HIGHLIGHTS

- The District's operating revenue exceeded operating expenses by \$48,101 in the 2011-12 year.
- Investments yielded interest income of \$3,059 in 2011-12.
- The District was able to purchase some real property, begin construction on a pump house and perform some line extensions without having to obtain any additional debt.

Using This Report

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

Basis of Accounting

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets, the Statement of Activities, and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net assets and the changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one

way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Fixed Assets

At July 31, 2012, the District had \$1,208,927 invested in fixed assets, net of depreciation, including land, the water system, equipment, leases and rights. The District purchased \$62,613 in additional fixed assets in 2011-12, including land and began construction on a booster station, a pump house and some line extensions.

Long-Term Debt

The District began to make payments on the \$920,000 OWRB loan. Current monthly payments are \$3,283.19, with accumulated semi-annual payments being made in March and September each year. The outstanding loan balance at July 31, 2012 was \$541,982.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending July 31, 2013, the District's budget is fairly consistent with prior years.

As the current economic conditions continue and expenses continue to increase, additional rate increases may become necessary.

Contacting the District's Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office at 1701 N. Hwy 74, Crescent, OK 73028 or call (405) 969-2646.



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

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

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

We have audited the combined financial statements of Logan County Rural Water District No. 2 (the District), Crescent, Oklahoma, as of and for the year ended July 31, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 28, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District'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 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepting accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be 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 the District'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 that are required to be reported under *Government Auditing Standards*.

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 company name written in a single line.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

August 28, 2012

Logan County Rural Water District No. 2
Crescent, Oklahoma
Schedule of Audit Results
July 31, 2012

Section 1 – Summary of Auditor's Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.

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

None

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
Statement of Net Assets
July 31, 2012

ASSETS

Current assets:

Cash in bank	\$ 199,718
Investments	166,490
Receivables	29,883
Prepaid insurance	6,916
Total current assets	<u>403,007</u>

Noncurrent assets:

Capital assets:

Water system and improvements, net of depreciation	<u>1,208,927</u>
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Total Assets	<u>1,611,934</u>
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LIABILITIES

Current liabilities:

Accounts payable	11,752
Accrued interest	673
Current maturities of long-term debt	<u>23,353</u>
Total current liabilities	<u>35,778</u>

Noncurrent liabilities:

Notes payable, less current maturities	<u>518,629</u>
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Total Liabilities	<u>554,407</u>
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NET ASSETS

Invested in capital assets, net of related debt	666,945
Unrestricted assets	<u>390,582</u>
Total Net Assets	<u>\$ 1,057,527</u>

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

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
Statement of Activities
For The Year Ended July 31, 2012

Operating Revenues:	
Water sales	<u>\$ 240,575</u>
Operating Expenses:	
Easements	3,750
Chemicals and testing	7,084
Contract services	55,327
Dues and licenses	2,160
Insurance	7,991
Maintenance and repairs	9,712
Miscellaneous	206
Postage	1,936
Professional fees	19,591
Office supplies	730
Salaries and taxes	10,833
Supplies	39,797
Telephone	871
Test wells/ easements	6,325
Travel and meals	1,481
Utilities	24,680
Total expenses from operations	<u>192,474</u>
Operating Income (Loss)	48,101
Non-Operating Revenues (Expenses):	
Interest income	3,059
Amortization	(3,809)
Depreciation	(51,853)
Interest paid on debt	(17,527)
Total non-operating revenues (expenses)	<u>(70,130)</u>
Change in Net Assets	(22,029)
Total Net Assets, beginning of period	<u>1,079,556</u>
Total Net Assets, end of period	<u><u>\$ 1,057,527</u></u>

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

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
Statement of Cash Flows
For the Year Ended July 31, 2012

Cash flows from operating activities:	
Receipts from customers	\$ 243,129
Payments to employees	(10,994)
Payments to vendors	<u>(173,834)</u>
Net cash (used in) provided by operating activities	<u>58,301</u>
Cash flows from capital and related financing activities:	
Construction project payments	<u>(62,613)</u>
Cash flows from investing activities:	
Principal paid on debt	(22,243)
Interest paid on debt	(17,554)
Interest on investments	<u>3,059</u>
Net cash used in investing activities	<u>(36,738)</u>
Net increase (decrease) in cash and cash equivalents	(41,050)
Cash & cash equivalents, beginning of period	<u>407,258</u>
Cash & cash equivalents, end of period	<u><u>\$ 366,208</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating Income	\$ (7,561)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	51,853
Amortization Expense	3,809
(Increase) decrease in current assets-	
Accounts receivable, net	2,554
Prepaid expenses	(491)
Increase (decrease) in current liabilities-	
Accounts payable	<u>8,137</u>
Net Cash Provided by Operating Activities	<u><u>\$ 58,301</u></u>

The accompanying notes are an integral part of the financial statements

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JULY 31, 2012

Note 1 – Significant Accounting Policies

Logan County Rural Water District No. 2 (the “District”) was created under the provisions of Title 82, Oklahoma Statutes, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members of the District it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The membership consists of approximately 420 users, each entitled to one vote. The Board consists of seven members. The vacant Board seats are elected at the annual meeting, and all officers of the Board (chairman, vice-chairman and secretary/treasurer) are voted and approved at this meeting. The members of the Board serve without compensation.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District’s accounts at July 31, 2012, and are comprised as follows:

Community State Bank, Hennessey, OK	
Operating & Maintenance Checking	\$ 11,827
Community State Bank, Hennessey, OK	
Operating & Maintenance Hi-Fi	188,041
Outstanding checks	<u>(150)</u>
Total Cash	<u>\$199,718</u>

The District’s cash deposits at July 31, 2012, are categorized to give an indication of the level of risk assumed by the district at year-end. No bank used by the District exceeded the \$250,000 FDIC maximum allowable limit.

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JULY 31, 2012

Note 1 – Significant Accounting Policies – cont’d

Investments

The District had the following investments at July 31, 2012:

Stillwater National Bank, Edmond, OK-	
Certif. of Deposit No. 182362 (depreciation)	\$ 31,456
Certif. of Deposit No. 182363 (emergency)	31,456
Certif. of Deposit No. 177917	51,969
Certif. of Deposit No. 192322	<u>51,609</u>
Total	<u>\$ 188,490</u>

Capital Assets

Capital (fixed) assets are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets range from five to 40 years. Included in these assets are the leases, rights and organization expenses of the District, which are being amortized over a 40 year period. Capital (fixed) asset information for the 2011-12 fiscal year is as follows:

	Balance at Aug. 1, 2011	Additions	Deductions	Balance at July 31, 2012
Capital assets not being depreciated:				
Land	\$ 10,000	12,500		22,500
Other capital assets:				
Water distribution system	1,594,268	31,453		1,625,721
Construction in progress	-	18,660		18,660
Buildings and equipment	176,511			176,511
Leases, rights and organization expenses	151,629			151,629
Total depreciated capital assets	<u>1,922,408</u>	<u>50,113</u>	<u>-</u>	<u>1,972,521</u>
Total capital (fixed) assets at historical costs	<u>1,932,408</u>	<u>62,613</u>	<u>-</u>	<u>1,995,021</u>
Less accumulated depreciation for:				
Water distribution system	553,220	41,681		594,901
Buildings and equipment	115,372	10,172		125,544
Leases, rights and organization expenses	61,840	3,809		65,649
Total accumulated depreciation	<u>730,432</u>	<u>55,662</u>	<u>-</u>	<u>786,094</u>
Capital assets, net	<u>\$ 1,201,976</u>	<u>19,451</u>	<u>-</u>	<u>1,208,927</u>

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JULY 31, 2012

Note 1 – Significant Accounting Policies – cont'd

Accounts Receivable

Billings for accounts receivable at July 31, 2012 were \$29,883. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

Inventories

The District does not include an inventory amount on its financial statements. All items purchased for inventory are expensed immediately.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

Federal Income Tax

The District is exempt from federal and state income taxes.

Note 2 – Accumulated Unpaid Vacation and Sick Pay

At July 31, 2012, no determination of the aggregate dollar value of vacation and sick pay had been made.

Note 3 – Long-Term Debt

In September 2009, the District was awarded a loan with the Oklahoma Water Resources Board in the amount of \$920,000. Of this amount, \$239,321 of principal was forgiven, made possible by the American Recovery and Reinvestment Act of 2009. That amount of forgiveness will be classified as contributed capital. The current interest rate for this loan is 3.02 percent, payable over 20 years. The local trustee for the loan is BancFirst, Oklahoma City, Oklahoma. A debt service fund will be used to pay bi-yearly principal payments of \$18,400. A debt service reserve fund will be used to retain a percentage of the loan amount.

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JULY 31, 2012

Note 3 – Long-Term Debt – cont'd

The first principal payment was made August 27, 2010. As of July 31, 2012, the outstanding principal balance on the loan was \$541,982.

The amounts of principal and interest to be paid in future fiscal years (based upon current interest rates) are as follows:

Year Ended				
July 31,	Principal		Interest	Total
2013	\$ 23,353		16,046	39,399
2014	24,068		15,331	39,399
2015	24,805		14,594	39,399
2016	25,565		13,835	39,400
2017	26,348		13,052	39,400
2018-22	144,346		52,645	196,991
2023-27	167,842		29,149	196,991
2028-30	105,655		5,973	111,628
	\$ 541,982		160,625	702,607

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
Balance Sheet
July 31, 2012

	July 31,	
	2012	(Memo only) 2011
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 199,718	137,545
Investments	166,490	269,713
Accounts receivable	29,883	32,437
Prepaid Insurance	6,916	6,425
Total current assets	<u>403,007</u>	<u>446,120</u>
Fixed Assets:		
Water system	1,976,361	1,932,408
Construction in progress	18,660	-
Less: accumulated depreciation	<u>(786,094)</u>	<u>(730,432)</u>
Total fixed assets (net)	<u>1,208,927</u>	<u>1,201,976</u>
Total Assets	<u>\$ 1,611,934</u>	<u>1,648,096</u>
 <u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 11,752	3,615
Accrued interest	673	700
Current maturities of long-term debt	23,353	22,279
Total current liabilities	<u>35,778</u>	<u>26,594</u>
Long-Term Liabilities:		
Notes payable, less current maturities	<u>518,629</u>	<u>541,946</u>
Total Liabilities	<u>554,407</u>	<u>568,540</u>
Fund Equity:		
Contributed capital	279,322	279,322
Retained earnings - unrestricted	778,205	800,234
Total fund equity	<u>1,057,527</u>	<u>1,079,556</u>
Total Liabilities and Fund Equity	<u>\$ 1,611,934</u>	<u>1,648,096</u>

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended July 31, 2012

	2011-12	(Memo only) 2010-11
Revenue from Operations:		
Water sales	\$ 227,512	237,251
Benefit units	7,750	7,000
Reimbursements	5,313	-
Total revenue from operations	<u>240,575</u>	<u>244,251</u>
Expenses from Operations:		
Advertising	-	225
Easements	3,750	-
Chemicals and testing	7,084	6,116
Contract services	55,327	52,000
Dues and licenses	2,160	4,630
Insurance	7,991	6,927
Maintenance and repairs	9,712	21,958
Miscellaneous	206	624
Postage	1,936	1,778
Professional fees	19,591	19,183
Office supplies	730	1,350
Salaries and taxes	10,833	10,149
Supplies	39,797	31,755
Telephone	871	1,221
Test wells/ easements	6,325	5,000
Travel and meals	1,481	1,380
Utilities	24,680	26,219
Total expenses from operations	<u>192,474</u>	<u>190,515</u>
Net Income (Loss) from Operations	48,101	53,736
Other Income:		
Interest earnings	<u>3,059</u>	<u>3,690</u>
Other Expenses:		
Amortization	(3,809)	(3,809)
Depreciation	(51,853)	(52,291)
Interest on debt	<u>(17,527)</u>	<u>(28,518)</u>
Total other expenses	<u>(73,189)</u>	<u>(84,618)</u>
Net Income (Loss)	(22,029)	(27,192)
Retained earnings, beginning of period	<u>800,234</u>	<u>827,426</u>
Retained earnings, end of period	<u><u>\$ 778,205</u></u>	<u><u>800,234</u></u>