

Logan County Rural Water District No. 2
Crescent, Oklahoma

Financial Statements and
Reports of Independent Auditor

July 31, 2016

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, 2016

Chairman

Diane Frick

Vice Chairman

Andy Bennett

Secretary/Treasurer

Leigh Britton Jr.

Members

Robert Carey
Dennis Rising
Art Platt
George Tiernan

Bookkeeper

Colette Datin

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

Logan County Rural Water District No. 2
Crescent, Oklahoma
Table of Contents
July 31, 2016

	<u>Page</u>
Board of Directors	<i>i</i>
Independent Auditor's Report	1
Management Discussion and Analysis	3
Independent Auditor's Report on Internal Control Over Financial Reporting Based and on Compliance Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	5
Schedule of Audit Results	7
Combined Financial Statements:	
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position.....	9
Statement of Cash Flows	10
Notes to the Financial Statements	11
Other Supplementary Information:	
Balance Sheet	15
Statement of Income and Retained Earnings.....	16



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, 2016, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements. Management is also responsible for 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.

Auditor's Responsibility

Our responsibility is to express opinions 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 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 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 opinions.

Opinions

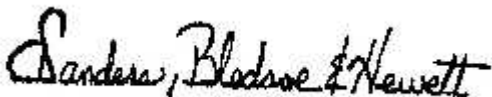
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of July 31, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 and 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

September 2, 2016

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

JULY 31, 2016

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, 2016. Please read it in conjunction with the District's financial statements that begin on page eight.

FINANCIAL HIGHLIGHTS

- The District's operating revenue exceeded operating expenses by \$148,813 in the 2015-16 year, an increase of \$34,877 over the prior year.
- Investments yielded interest income of \$674 in 2015-16.
- The District was forced to increase customer water rates in 2015-16, due to increased projected costs.
- The District was approved for \$139,284 of CDBG grant funds for water improvements in 2014-15, with the District matching this amount in local funds. The copper plant project began in 2014-15, and was completed in the 2015-16 year.

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, 2016, the District had \$1,629,804 invested in fixed assets, net of depreciation, including land, the water system, equipment, leases and rights. The District added \$197,521 in additional fixed assets in 2015-16, which was construction on the copper plant.

Long-Term Debt

The District continued 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, 2016 was \$445,778.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending July 31, 2017, 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

**INDEPENDENT AUDITOR'S 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
Logan County Rural Water District No. 2
Crescent, Oklahoma

We have audited, 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 accompanying financial statements of the Logan County Rural Water District No. 2 (the District), Crescent, Oklahoma, as of and for the year ended July 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 2, 2016.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting in order to determine our auditing procedures that are appropriate 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. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

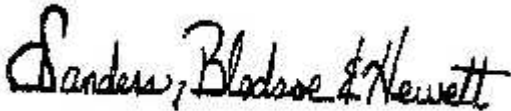
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial

statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance

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 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 that are required to be reported under *Government Auditing Standards*.

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

September 2, 2016

Logan County Rural Water District No. 2
Crescent, Oklahoma
Schedule of Audit Results
July 31, 2016

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 Position
July 31, 2016

ASSETS

Current assets:

Cash in bank	\$ 54,205
Investments	122,853
Receivables	43,151
Prepaid insurance	10,123
Total current assets	<u>230,332</u>

Noncurrent assets:

Capital assets:

Water system and improvements, net of depreciation	<u>1,629,804</u>
--	------------------

Total Assets	<u>1,860,136</u>
--------------	------------------

LIABILITIES

Current liabilities:

Accounts payable	5,117
Accrued interest	553
Current maturities of long-term debt	25,943
Total current liabilities	<u>31,613</u>

Noncurrent liabilities:

Notes payable, less current maturities	<u>419,836</u>
--	----------------

Total Liabilities	<u>451,449</u>
-------------------	----------------

NET ASSETS

Invested in capital assets, net of related debt	1,184,025
Unrestricted assets	<u>224,662</u>
Total Net Assets	<u>\$ 1,408,687</u>

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

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended July 31, 2016

Operating Revenues:	
Water sales	\$ 379,189
Operating Expenses:	
Chemicals and testing	28,219
Contract services	75,003
Dues and licenses	2,134
Insurance	11,618
Maintenance and repairs	21,372
Miscellaneous	1,694
Postage	2,175
Professional fees	6,943
Office supplies	2,148
Salaries and taxes	13,568
Supplies	31,797
Telephone	773
Test wells/ easements	4,281
Travel and meals	1,996
Utilities	26,655
Total expenses from operations	<u>230,376</u>
Operating Income (Loss)	148,813
Non-Operating Revenues (Expenses):	
Interest income	674
Amortization	(3,809)
Depreciation	(49,065)
Interest paid on debt	(14,238)
Total non-operating revenues (expenses)	<u>(66,438)</u>
Change in Net Assets	82,375
Total Net Assets, beginning of period	<u>1,145,022</u>
Total Net Assets, end of period	<u><u>\$ 1,227,397</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, 2016

Cash flows from operating activities:	
Receipts from customers	\$ 375,663
Payments to employees	(13,568)
Payments to vendors	<u>(215,918)</u>
Net cash (used in) provided by operating activities	<u>146,135</u>
Cash flows from capital and related financing activities:	
Grant proceeds	0
Capital assets purchased	<u>(197,521)</u>
Net cash used in capital and related financing activities	<u>(197,521)</u>
Cash flows from investing activities:	
Principal paid on debt	(25,130)
Interest paid on debt	(14,268)
Interest on investments	<u>674</u>
Net cash used in investing activities	<u>(38,724)</u>
Net increase (decrease) in cash and cash equivalents	(90,110)
Cash & cash equivalents, beginning of period	<u>267,168</u>
Cash & cash equivalents, end of period	<u><u>\$ 177,058</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating Income	\$ 148,813
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
(Increase) decrease in current assets-	
Accounts receivable, net	(3,526)
Prepaid expenses	(1,728)
Increase (decrease) in current liabilities-	
Accounts payable	<u>2,576</u>
Net Cash Provided by Operating Activities	<u><u>\$ 146,135</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, 2016

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 445 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, 2016, and are comprised as follows:

Community State Bank, Hennessey, OK	
Operating & Maintenance Checking	\$ 45,086
Community State Bank, Hennessey, OK	
Operating & Maintenance Hi-Fi	20,705
Outstanding checks	<u>(11,586)</u>
Total Cash	<u>\$ 54,205</u>

The District’s cash deposits at July 31, 2016, 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, 2016

Note 1 – Significant Accounting Policies – cont’d

Investments

The District had the following investments at July 31, 2016:

Stillwater National Bank, Edmond, OK-	
Certif. of Deposit No. 182362 (depreciation)	\$ 34,919
Certif. of Deposit No. 182363 (emergency)	34,919
Certif. of Deposit No. 177917	<u>53,015</u>
Total	<u><u>\$ 122,853</u></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 2015-16 fiscal year is as follows:

	<u>Balance at</u> <u>Aug. 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at</u> <u>July 31, 2016</u>
Capital assets not being depreciated:				
Land	\$ 22,500	-	-	22,500
Other capital assets:				
Water distribution system	1,918,168	-	-	1,918,168
Copper plant	168,102	197,521	-	365,623
Buildings and equipment	183,119	-	-	183,119
Leases, rights and organization expenses	<u>151,629</u>	<u>-</u>	<u>-</u>	<u>151,629</u>
Total depreciated capital assets	<u>2,421,018</u>	<u>197,521</u>	<u>-</u>	<u>2,618,539</u>
Total capital (fixed) assets at historical costs	<u>2,443,518</u>	<u>197,521</u>	<u>-</u>	<u>2,641,039</u>
Less accumulated depreciation for:				
Water distribution system	739,962	45,256		785,218
Buildings and equipment	141,323	3,809		145,132
Leases, rights and organization expenses	<u>77,076</u>	<u>3,809</u>		<u>80,885</u>
Total accumulated depreciation	<u>958,361</u>	<u>52,874</u>	<u>-</u>	<u>1,011,235</u>
Capital assets, net	<u><u>\$ 1,485,157</u></u>	<u><u>144,647</u></u>	<u><u>-</u></u>	<u><u>1,629,804</u></u>

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JULY 31, 2016

Note 1 – Significant Accounting Policies – cont'd

Accounts Receivable

Billings for accounts receivable at July 31, 2016 were \$41,151. 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, 2016, 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, 2016

Note 3 – Long-Term Debt – cont’d

The first principal payment was made August 27, 2010. As of July 31, 2016, the outstanding principal balance on the loan was \$445,779.

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
2017	25,943		12,324	38,267
2018	26,744		10,393	37,137
2019	27,569		9,568	37,137
2020	28,390		8,746	37,136
2021	29,295		7,841	
2022-26	160,586		25,096	185,682
2027-30	147,252		3,372	150,624
	\$ 445,779		77,340	485,983

Note 4 – Contributed Capital

The District has received various grants in previous years to assist in the construction of the water system and supporting infrastructure. In the 2014-15 year, the District was awarded a CDBG grant through Logan County in the amount of \$139,284, which is being used to construct a copper plant. The project began in 2014-15, and was completed in 2015-16.

Note 5 – Subsequent Events

Management has evaluated subsequent events through September 2, 2016, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

LOGAN COUNTY RURAL WATER DISTRICT NO. 2

Balance Sheet

July 31, 2016

	July 31,	
	2016	(Memo only) 2015
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 54,205	144,930
Investments	122,853	122,238
Accounts receivable	43,151	39,625
Prepaid Insurance	10,123	8,395
Total current assets	<u>230,332</u>	<u>315,188</u>
Fixed Assets:		
Water system	2,641,039	2,443,518
Less: accumulated depreciation	(1,011,235)	(958,361)
Total fixed assets (net)	<u>1,629,804</u>	<u>1,485,157</u>
Total Assets	<u>\$ 1,860,136</u>	<u>1,800,345</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 5,117	2,541
Accrued interest	553	584
Current maturities of long-term debt	25,943	25,528
Total current liabilities	<u>31,613</u>	<u>28,653</u>
Long-Term Liabilities:		
Notes payable, less current maturities	<u>419,836</u>	<u>445,380</u>
Total Liabilities	<u>451,449</u>	<u>474,033</u>
Fund Equity:		
Contributed capital	418,606	418,606
Retained earnings - unrestricted	990,081	907,706
Total fund equity	<u>1,408,687</u>	<u>1,326,312</u>
Total Liabilities and Fund Equity	<u>\$ 1,860,136</u>	<u>1,800,345</u>

LOGAN COUNTY RURAL WATER DISTRICT NO. 2
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended July 31, 2016

	2015-16	(Memo only) 2014-15
Revenue from Operations:		
Water sales	\$ 350,480	330,161
Benefit units	14,100	13,220
Reimbursements	14,609	7,171
Total revenue from operations	<u>379,189</u>	<u>350,552</u>
Expenses from Operations:		
Chemicals and testing	28,219	8,146
Contract services	75,003	70,834
Dues and licenses	2,134	3,178
Insurance	11,618	9,948
Maintenance and repairs	21,372	10,958
Miscellaneous	1,694	2,531
Postage	2,175	1,935
Professional fees	6,943	27,450
Office supplies	2,148	1,817
Salaries and taxes	13,568	12,034
Supplies	31,797	47,764
Telephone	773	829
Test wells/ easements	4,281	5,171
Travel and meals	1,996	1,579
Utilities	26,655	32,442
Total expenses from operations	<u>230,376</u>	<u>236,616</u>
Net Income (Loss) from Operations	148,813	113,936
Other Income:		
ODOT reimb - line reloaction	0	55,785
Interest earnings	674	616
Total other income	<u>674</u>	<u>56,401</u>
Other Expenses:		
Amortization	(3,809)	(3,809)
Depreciation	(49,065)	(53,785)
Line relocation costs	0	(55,785)
Interest on debt	(14,238)	(14,952)
Total other expenses	<u>(67,112)</u>	<u>(128,331)</u>
Net Income (Loss)	82,375	42,006
Retained earnings, beginning of period	<u>907,706</u>	<u>865,700</u>
Retained earnings, end of period	<u><u>\$ 990,081</u></u>	<u><u>907,706</u></u>