

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

Financial Statements and  
Reports of Independent Auditor

July 31, 2022

Audited by

**BLEDSON, HEWETT & GULLEKSON  
CERTIFIED PUBLIC ACCOUNTANTS, PLLP**

Broken Arrow, Oklahoma

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

Board of Directors

July 31, 2022

**Chairman**

Diane Frick

**Vice Chairman**

Andy Bennett

**Secretary/Treasurer**

Mark LeMarr

**Members**

Dennis Datin  
Robert Carey  
S.R. Hunter  
Karen Katilus

**System Manager**

James Sauls

**Operator**

Donnie Emery

**Bookkeepers**

Heather Pierson  
Kathy Terry

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

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

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July 31, 2022

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## **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, 2022 and the related notes to the 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 opinion.

## **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, 2022, 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 3-6 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.

The prior year "memorandum only" comparative information and the supplementary information on page 19 are presented for the purposes of additional analysis and are not a required part of the basic financial statements of the District. Such information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2022 on our consideration of the District'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 District's internal control over financial reporting and compliance.

*Bledsoe, Hewett & Gullekson*

Bledsoe, Hewett & Gullekson  
Certified Public Accountants, PLLLP

September 6, 2022

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

**JULY 31, 2022**

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, 2022. Please read it in conjunction with the District's financial statements that begin on page 10.

**FINANCIAL HIGHLIGHTS**

- The District's operating revenue exceeded operating expenses by \$234,505 in the 2021-22 year, an increase of \$76,395 over the prior year.
- The District was forced to increase the water costs in January 2021, and the cost of benefit units was increased by \$300 in 2020-21, due to increased projected costs.
- The District continued to pay on a \$920,000 OWRB Note for water system improvements, and a lease-purchase agreement for \$105,468 for radio read meters.
- The District entered into a new promissory note with Community State Bank for \$490,000 in order to fund a new water tower. Construction on the water tower is ongoing with current costs of \$314,673.
- In 2021, the District discontinued its contract for third party maintenance and hired a system manager and assistant system manager as employees. In 2022, the District approved a health insurance plan and a retirement plan for its employees. Due to these changes, payroll related costs represented a larger portion of total expenses than in prior years.

**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 Position, the Statement of Revenues, Expenses and Changes in Net Position, 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 position and the changes in them. You can think of the District's net position – 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 position 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.

## **Net Position, and Changes in Net Position**

The District's Net Position was higher in 2021-22, increasing from \$1,717,886 to \$1,856,978. Our analysis below focuses on the Net Position (Table 1) and Changes in Net Position (Table 2) of the District's business-type activities.

**Table 1 – Net Position:**

	<u>2021-22</u>	<u>2020-21</u>	<u>Variances</u>
Current and other assets	\$ 822,496	475,698	346,798
Capital assets, net	<u>1,846,977</u>	<u>1,612,694</u>	<u>234,283</u>
Total Assets	<u>\$ 2,669,473</u>	<u>2,088,392</u>	<u>581,081</u>
Current liabilities	\$ 103,358	60,447	(42,911)
Long-term liabilities	<u>710,317</u>	<u>310,059</u>	<u>(400,258)</u>
Total Liabilities	<u>\$ 813,675</u>	<u>370,506</u>	<u>(443,169)</u>
Invest. In capital assets	\$ 1,062,448	1,256,985	(194,537)
Unrestricted	<u>793,350</u>	<u>460,901</u>	<u>332,449</u>
Total Net Position	<u>\$ 1,855,798</u>	<u>1,717,886</u>	<u>137,912</u>

Net Position of the District increased by 8.03 percent (\$1,855,798 compared to \$1,717,886). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased from \$460,901 to \$793,350.

**Table 2 – Changes in Net Position:**

	<u>2021-22</u>	<u>2020-21</u>	<u>Variances</u>
<b>Revenues:</b>			
Charges for services	\$ 699,174	567,327	131,847
Interest	470	1,488	(1,018)
<b>Total Revenues</b>	<u>699,644</u>	<u>568,815</u>	<u>130,829</u>
<b>Expenses:</b>			
Salaries, taxes and benefits	205,715	79,809	(125,906)
Contract services	3,340	59,834	56,494
Maintenance, repairs & supplies	95,983	104,865	8,882
Chemicals & testing	55,459	53,025	(2,434)
Other expenses	104,172	111,684	7,512
Depreciation	80,390	68,658	(11,732)
Interest on debt	16,673	9,672	(7,001)
<b>Total Expenses</b>	<u>561,732</u>	<u>487,547</u>	<u>(74,185)</u>
<b>Changes in Net Position</b>	137,912	81,268	56,644
<b>Net Position, Beginning</b>	<u>1,717,886</u>	<u>1,636,618</u>	<u>81,268</u>
<b>Net Position, Ending</b>	<u>\$ 1,855,798</u>	<u>1,717,886</u>	<u>137,912</u>

The District’s total revenues increased by 23.00 percent (\$130,829). The total cost of all expenses increased by 15.22 percent (\$74,185).

**Capital Assets**

At July 31, 2022, the District had \$1,846,977 invested in capital assets, net of depreciation, including land, the water system, equipment, leases and rights. The District added \$314,673 in additional capital assets in 2021-22, which was construction costs for the new water tower.



### **Long-Term Debt**

The District continued to make payments on the \$920,000 OWRB loan. Current monthly payments are \$3,094.72, with accumulated semi-annual payments being made in March and September each year. The outstanding loan balance at July 31, 2022 was \$277,637.

The District entered into a promissory note with Community State Bank for \$490,000 to help finance the new water tower. The note calls for monthly payments of \$3,334.67 starting January 16, 2022. Any unpaid balance as of December 16, 2026 will be paid in full on this date. The outstanding note balance at July 31, 2022 was \$474,471.

The District obtained a lease-purchase agreement for the radio read meters in 2017-18, in the amount of \$105,469. At July 31, 2022, the outstanding balance of this note was \$32,421.

### **Economic Factors and Next Year's Budget and Rates**

For the upcoming fiscal year ending July 31, 2023, 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.



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**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), Holdenville, Oklahoma, as of and for the year ended July 31, 2022, 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 6, 2022.

**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.

*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.

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. We did identify certain deficiencies in the internal controls, described in the accompanying schedule of audit results as item 22-1, which is not considered a material weakness.

#### 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 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 District's response to the findings identified in our audit is described in the accompanying schedule of audit results. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

*Bledsoe, Hewett & Gullekson*

Bledsoe, Hewett & Gullekson  
Certified Public Accountants, PLLLP

September 6, 2022

**LOGAN COUNTY RURAL WATER DISTRICT NO. 2**  
**Crescent, Oklahoma**  
**Schedule of Audit Results**  
**July 31, 2022**

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed a significant deficiency in the internal controls, which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

22-1 – Lack of Segregation of Duties

Condition-

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.

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.

**LOGAN COUNTY RURAL WATER DISTRICT NO. 2**  
**Statement of Net Position**  
**July 31, 2022**

	<b>July 31, 2022</b>	<b>-Memorandum- -Only- July 31, 2021</b>
<b><u>ASSETS</u></b>		
Current assets:		
Cash in bank	\$ 644,234	\$ 340,737
Investments	91,400	74,962
Receivables	70,016	43,857
Prepaid insurance	16,846	16,142
Total current assets	822,496	475,698
Capital assets:		
Water system and improvements	3,242,291	2,927,618
Less: accumulated depreciation	(1,395,314)	(1,314,924)
Total capital assets	1,846,977	1,612,694
<b>TOTAL ASSETS</b>	<b>\$ 2,669,473</b>	<b>\$ 2,088,392</b>
 <b><u>LIABILITIES</u></b>		
Current liabilities:		
Accounts payable	\$ 28,174	\$ 14,415
Accrued interest	972	382
Current maturities of long-term debt	74,212	45,650
Total current liabilities	103,358	60,447
Long-term debt:		
Capital lease payable, less current maturities	16,469	32,421
Notes payable, less current maturities	693,848	277,638
Total current liabilities	710,317	310,059
Total Liabilities	813,675	370,506
 <b><u>NET POSITION</u></b>		
Net investment in capital assets	1,062,448	1,256,985
Unrestricted	793,350	460,901
Total Net Position	1,855,798	1,717,886
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 2,669,473</b>	<b>\$ 2,088,392</b>

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, 2022**

	<u>2021-22</u>	<u>-Memorandum- -Only- 2020-21</u>
Operating Revenues:		
Water sales	\$ 632,182	\$ 491,021
Benefit units	54,000	46,700
Lease and rental fees	12,992	11,960
Total revenues from operations	<u>699,174</u>	<u>549,681</u>
Operating Expenses:		
Chemicals	55,459	43,773
Contract services	3,340	59,834
Dues and licenses	4,522	4,829
Insurance	21,704	14,955
Maintenance and repairs	9,988	20,522
Miscellaneous	10,459	6,471
Postage	4,498	3,743
Professional fees	2,724	38,593
Office supplies	2,639	3,786
Salaries and taxes	205,715	79,809
Supplies	85,995	66,697
Telephone	1,155	1,216
Testing fees	5,976	9,252
Travel and mileage	14,235	3,287
Utilities	36,260	34,804
Total expenses from operations	<u>464,669</u>	<u>391,571</u>
Operating Income (Loss)	234,505	158,110
Non-Operating Revenues (Expenses):		
Interest income	470	1,488
ODOT reimbursement	0	17,646
Amortization	(3,796)	(3,842)
Depreciation	(76,594)	(64,816)
ODOT Line relocation costs	0	(17,646)
Interest paid on debt	(16,673)	(9,672)
Total non-operating revenues (expenses)	<u>(96,593)</u>	<u>(76,842)</u>
Change in Net Position	137,912	81,268
Total Net Position, beginning of period	<u>1,717,886</u>	<u>1,636,618</u>
<b>Total Net Position, end of period</b>	<u><b>\$ 1,855,798</b></u>	<u><b>\$ 1,717,886</b></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, 2022**

	<u>2021-22</u>	<u>-Memorandum- -Only- 2020-21</u>
Cash flows from operating activities:		
Receipts from customers	\$ 673,015	\$ 575,129
Payments to employees	(191,956)	(75,066)
Payments to vendors	(259,658)	(333,135)
Net cash (used in) provided by operating activities	<u>221,401</u>	<u>166,928</u>
Cash flows from capital and related financing activities:		
Loan proceeds	490,000	0
Capital assets purchased	(314,673)	(110,436)
Principal paid on debt	(61,200)	(44,261)
Interest paid on debt	(16,063)	(9,708)
Net cash used in capital and related financing activities	<u>98,064</u>	<u>(164,405)</u>
Cash flows from investing activities:		
Interest on investments	470	1,488
Net cash used in investing activities	<u>470</u>	<u>1,488</u>
Net increase (decrease) in cash and cash equivalents	319,935	4,011
Cash & cash equivalents, beginning of period	<u>415,699</u>	<u>411,688</u>
<b>Cash &amp; cash equivalents, end of period</b>	<b><u><u>\$ 735,634</u></u></b>	<b><u><u>\$ 415,699</u></u></b>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ 234,505	\$ 158,110
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
(Increase) decrease in current assets-		
Accounts receivable, net	(26,159)	7,802
Prepaid expenses	(704)	(4,810)
Increase (decrease) in current liabilities-		
Accounts payable	13,759	5,826
Net Cash Provided by Operating Activities	<u><u>\$ 221,401</u></u>	<u><u>\$ 166,928</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, 2022

**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 574 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 (GAAP).

Cash

The District’s accounts at July 31, 2022, and are comprised as follows:

Community State Bank, Hennessey, OK	
Operating & Maintenance Checking	\$ 580,770
Community State Bank, Hennessey, OK	
Operating & Maintenance Hi-Fi	70,043
Outstanding checks	<u>(6,579)</u>
Total Cash	<u>\$ 644,234</u>

Investments

The District had the following investments at July 31, 2022:

Oklahoma State Bank, Guthrie, OK-	
Certif. of Deposit No. 3201800101 (depreciation)	\$ 45,700
Certif. of Deposit No. 3201800201 (emergency)	<u>45,700</u>
Total	<u>\$ 91,400</u>



LOGAN COUNTY RURAL WATER DISTRICT NO. 2  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JULY 31, 2022

**Note 1 – Significant Accounting Policies – cont’d**

Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers’ acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Bank deposits are held at several financial institutions and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Custodial Credit Risk - At July 31, 2022, the District held deposits of approximately \$742,213 at financial institutions. The District’s cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District’s name.

Investment Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk – The District has no policy that limits its investment choices other than the limitations of state law, as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.

LOGAN COUNTY RURAL WATER DISTRICT NO. 2  
 NOTES TO FINANCIAL STATEMENTS  
 FOR YEAR ENDED JULY 31, 2022

**Note 1 – Significant Accounting Policies – cont’d**

- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a-d).

Fair Value of Financial Instruments – The District’s financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District’s estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair values because of the short maturity of these instruments.

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 asset information for the 2021-22 fiscal year is as follows:

	Balance at Aug. 1, 2021	Additions	Deductions	Balance at July 31, 2022
Capital assets not being depreciated:				
Land	\$ 22,500	-	-	22,500
Other capital assets:				
Water distribution system	2,080,715	314,673	-	2,395,388
Copper plant	365,623	-	-	365,623
Buildings and equipment	292,151	-	-	292,151
Leases, rights and organization expenses	156,629	-	-	156,629
Total depreciated capital assets	<u>2,895,118</u>	<u>314,673</u>	<u>-</u>	<u>3,209,791</u>
Total capital assets at historical costs	<u>2,917,618</u>	<u>314,673</u>	<u>-</u>	<u>3,232,291</u>
Less accumulated depreciation for:				
Water distribution system	1,043,629	57,679	-	1,101,308
Buildings and equipment	171,727	18,916	-	190,643
Leases, rights and organization expenses	99,568	3,796	-	103,364
Total accumulated depreciation	<u>1,314,924</u>	<u>80,391</u>	<u>-</u>	<u>1,395,315</u>
Capital assets, net	<u>\$ 1,602,694</u>	<u>234,282</u>	<u>-</u>	<u>1,836,976</u>

LOGAN COUNTY RURAL WATER DISTRICT NO. 2  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JULY 31, 2022

**Note 1 – Significant Accounting Policies – cont'd**

Accounts Receivable

Billings for accounts receivable at July 31, 2022 were \$70,016. 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.

Federal Income Tax

The District is exempt from federal and state income taxes.

**Note 2 – Accumulated Unpaid Vacation and Sick Pay**

At July 31, 2022, 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 \$18,568. A debt service reserve fund will be used to retain a percentage of the loan amount.

The first principal payment was made August 27, 2010. As of July 31, 2022, the outstanding principal balance on the loan was \$277,637.

LOGAN COUNTY RURAL WATER DISTRICT NO. 2  
 NOTES TO FINANCIAL STATEMENTS  
 FOR YEAR ENDED JULY 31, 2022

**Note 3 – Long-Term Debt – cont’d**

The District has a promissory note in the amount of \$490,020 with Community State Bank, Cashion OK, dated December 16, 2021, for a period of 30 years. The current interest rate on this note is 2.75%. The proceeds were used to finance the construction of a new water tower. The water system and future water revenues are used as security for this note. As of July 31, 2022, the outstanding principal balance on the loan was \$474,471.

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
2023	\$ 58,260	18,892	77,152
2024	59,934	17,218	77,152
2025	61,763	15,389	77,152
2026	63,594	13,559	77,153
2027	396,461	6,184	402,645
2028-31	112,096	1,390	113,486
	<u>\$ 752,108</u>	<u>72,632</u>	<u>824,740</u>

The District entered into a lease-purchase agreement in August 2017, in the amount of \$105,469, for 500 radio read meters. This debt is considered long-term debt on the financial statements. A principal and interest payment of \$16,804 is to be made every August on this note, which is to be paid off on August 1, 2024. As of July 31, 2022, the outstanding principal balance on this note was \$32,421.

The amounts of principal and interest to be paid in future fiscal years (based upon current interest rate of 3.386%) are as follows:

Year Ended July 31,	Principal	Interest	Total
2023	\$ 15,952	852	16,804
2024	16,469	335	16,804
	<u>\$ 32,421</u>	<u>1,187</u>	<u>33,608</u>

LOGAN COUNTY RURAL WATER DISTRICT NO. 2  
NOTES TO FINANCIAL STATEMENTS  
FOR YEAR ENDED JULY 31, 2022

**Note 4 – Subsequent Events**

Management has evaluated subsequent events through September 6, 2022, 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 DISTRICT NO. 2**  
**Schedule of Water Rates and Customers**  
**-Unaudited Information-**  
**June 31, 2022**

**Water Rates**

0 – 1,000 gallons	=	\$19.69
1,001 – 2,000 gallons	=	\$6.35 per 1,000 gallons
2,001 – 3,000 gallons	=	\$6.80 per 1,000 gallons
3,001 – 4,000 gallons	=	\$7.19 per 1,000 gallons
4,001 – 5,000 gallons	=	\$7.62 per 1,000 gallons
5,001 – 9,000 gallons	=	\$8.26 per 1,000 gallons
Over 9,000 gallons	=	\$8.895 per 1,000 gallons

**Customers**

The District had 574 customers at the close of the fiscal year.

Current membership fee is \$1,500.



**BLEDSON, HEWETT & GULLEKSON**  
CERTIFIED PUBLIC ACCOUNTANTS, PLLLP

Eric M. Bledsoe, CPA  
Jeffrey D. Hewett, CPA  
Christopher P. Gullekson, CPA

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September 6, 2022

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

Dear Board of Directors:

The following section contains the observations and recommendations relayed to management that are immaterial control deficiencies, which we feel need to be communicated to you so that appropriate action may be taken to correct these deficiencies. These items are not included in your audit report, as they are not considered material in nature. They are simply observations of some immaterial findings that could evolve into material findings if not addressed or corrected.

Financial Reporting

During our audit, we observed several instances where errors were made with respect to the posting and reporting of financial transactions. Most of these instances were related to expenditures being misclassified in the accounting software. This appears to be a result of the change in accounting personnel and the additional responsibilities required of the accounting personnel related to payroll. For instance, there was a large number of transactions classified as *Miscellaneous Expenses – Other* in the accounting software, however, there were more appropriate account codes in the software for these expenses to be classified. Adjusting entries were made in the audited financial statements to correctly report the transactions and we discussed these matters with District staff while on site. Any time there is a change in accounting personnel for a rural water district, there is risk that some transactions will not be recorded correctly or consistent with previous fiscal years. We recommend that training be provided to ensure that all transactions are recorded appropriately in the software.

In addition to the large increase in payroll related costs, when compared to previous years, we also noted a significant increase in fuel purchases made at Crescent Mart, the local gas station. While this increase might be directly related to the District's decision to employ its field staff, we felt this increase should be separately disclosed in this letter. We observed several months during the year where there were 10-15 separate purchases made at Crescent Mart for fuel. Although these purchases were all well supported with an itemized invoice, we always caution our clients to be as diligent as possible with record keeping for travel and fuel related purchases to ensure that no unallowable items are purchased with District funds.

We take this opportunity to thank you and your professional staff for the outstanding cooperation and invaluable assistance you gave us during our recent onsite audit work.

Sincerely,

A handwritten signature in black ink, appearing to read 'CPG', written in a cursive style.

Christopher P. Gullekson

For

Bledsoe, Hewett & Gullekson  
Certified Public Accountants, PLLLP