

**LOVE COUNTY RURAL
WATER DISTRICT NO. 2**

Audit Report

Year Ended June 30, 2012

LOVE COUNTY RURAL WATER DISTRICT NO. 2
June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Love County Rural Water District No. 2
Thackerville, Oklahoma

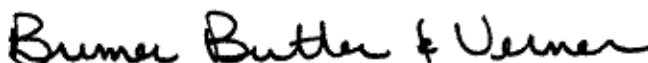
We have audited accompanying financial statements of Love County Rural Water District No. 2 as of and for the year ended June 30, 2012, as listed in the table of contents. These financial statements are the responsibility of Love County Rural Water District No. 2's management. Our responsibility is to 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 financial position of the Love County Rural Water District No. 2 as of June 30, 2012, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has not presented management's discussion and analysis and the required supplementary information that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2012, on our consideration of Love County Rural Water District No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Brimer, Butler & Verner, CPAs, PC
December 4, 2012

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

To the Board of Directors
Love County Rural Water District No. 2
Thackerville, Oklahoma

We have audited the financial statements of the Love County Rural Water District No. 2 as of and for the year ended June 30, 2012, and have issued our report thereon dated December 4, 2012. Love County Rural Water District No. 2, elected not to present management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement the basic financial statements. 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.

Internal Control Over Financial Reporting

Management of Love County Rural Water District No. 2 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Love County Rural Water District No. 2's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Love County Rural Water District No. 2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Love County Rural Water District No. 2's internal control over financial reporting.

Our consideration of 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 over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 in a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the

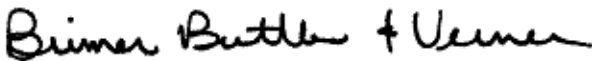
accompanying schedule of findings and responses to be material weaknesses. 2012-1 and 2012-2 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Love County Rural Water District No. 2'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 or other matters that are required to be reported under *Government Auditing Standards*.

Love County Rural Water District No. 2's responses to the findings identified in our audit are described in the accompanying schedule of finding and responses. We did not audit Love County Rural Water District No. 2's responses and, accordingly, we express no opinion on them.

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



Brimer, Butler & Verner, CPAs, PC
December 4, 2012

RURAL WATER DISTRICT NO. 2, LOVE COUNTY
Schedule of Findings and Responses
Year ended June 30, 2012

2012-1 Prior year audit adjustments were not posted to the accounts.

Observation

Multiple accounts were misstated.

Recommendation

Reconcile financial statement to the audit report.

Management's Response

Management will reconcile the financial statements to the audit report.

RURAL WATER DISTRICT NO. 2, LOVE COUNTY

Schedule of Findings and Responses

Year ended June 30, 2012

2012-2 The escrow account for payment of maturing bonds and interest was not reconciled.

Observation

The escrow account was not reconciled.

Recommendation

Management should review all cash accounts to make sure that they are reconciled monthly.

Management's response

Management will review all reconciliations.

RURAL WATER DISTRICT No. 2, LOVE COUNTY**BALANCE SHEET**

June 30, 2012

CURRENT ASSETS

Cash - unrestricted	\$ 485,026
Accounts receivable net of allowance for bad debts	53,896
Grant receivable	4,652
Inventory	<u>21,640</u>

TOTAL CURRENT ASSETS 565,213**FIXED ASSETS, net of depreciation** 868,533**OTHER ASSETS**

Reserve cash accounts	222,680
Loan origination cost - net of amortization	<u>5,576</u>

228,256\$ 1,662,003**CURRENT LIABILITIES**

Accounts payable	\$ 11,542
Accrued interest payable	4,683
Current portion of long-term debt	20,000
Customer deposits	<u>7,332</u>

TOTAL CURRENT LIABILITIES 43,557**REVENUE BONDS PAYABLE, net of current portion** 145,000**TOTAL LIABILITIES** 188,557**NET ASSETS**

Invested in capital assets, net of related debt	727,446
Unrestricted net assets	523,320
Restricted net assets	<u>222,680</u>

1,473,446\$ 1,662,003

RURAL WATER DISTRICT No. 2, LOVE COUNTY
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
June 30, 2012

REVENUE

Water sales and related revenues	\$ 510,812
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EXPENSES

Salaries and benefits	178,227
Depreciation and amortization	45,018
Dues and subscriptions	1,365
Utilities and telephone	39,265
Insurance	19,200
Repairs and maintenance	1,459
Office and printing	7,778
Professional fees	10,839
Professional development	1,177
Supplies	11,270
Gas, oil and mileage	7,260
Machine hire and contract labor	5,205
Water testing	3,563
Returned checks	1,546
Uniforms	2,231
Advertising	1,209
Bank fees	1,193
Miscellaneous other expense	<u>1,856</u>
	<u>339,661</u>

OPERATING INCOME	171,151
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Rental income	3,000
Interest income	1,318
Interest expense	<u>(13,915)</u>

NET INCOME	161,555
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NET ASSETS BEGINNING OF THE YEAR	<u>1,311,891</u>
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NET ASSETS END OF THE YEAR	<u>\$ 1,473,446</u>
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RURAL WATER DISTRICT No. 2, LOVE COUNTY**STATEMENT OF CASH FLOWS**

Year ended June 30, 2012

Cash flow from Operating Activities:

Cash received from customers	\$ 512,580
Grant funds received	<u>174,107</u>
	686,688
Cash paid for good and services	103,893
Cash paid for employees and contractors	<u>197,092</u>
	300,984
Net cash provided (used) by operating activities	<u>385,704</u>

Cash flows from capital and related financing activities:

Principal paid on bonds	(150,000)
Interest paid on debt	(18,375)
Cash paid for property and equipment	<u>(250,015)</u>
	(418,390)

Cash flows from non-capital financing activities

Transfers to restricted accounts	(43,545)
Decrease in tenant deposits	(750)
Transfers from restricted accounts	<u>33,765</u>
	(10,530)

Cash flows from investing activities:

Interest received	1,318
Rents received	3,000
Interest earned on restricted account	<u>(602)</u>
Net cash provided (used) by investing activities	3,716
Net Increase (Decrease) in Cash	<u>(39,501)</u>

Cash at the Beginning of the Year	<u>524,527</u>
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Cash at the End of the Year	<u><u>\$ 485,026</u></u>
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Reconciliation of operating income (loss) to net cash**Provided by operating activities:**

Operating income	\$ 171,151
Depreciation and amortization	45,018
(Increase) Decrease accounts receivable	1,768
(Increase) Decrease in inventory	(4,890)
(Increase) Decrease in Grant receivable	174,107
Increase (Decrease) accounts payable	<u>(1,452)</u>
Total adjustments	<u>214,552</u>
Net cash provided (used) by operating activities	<u><u>\$ 385,704</u></u>

LOVE COUNTY RURAL WATER DISTRICT NO.2
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and nature of operations

Love County Rural Water District No. 2 (the "District") is a body corporate and politic, without taxing power, established in the State of Oklahoma pursuant to Title 82, Oklahoma Statutes 1991, and an Order of the Board of County Commissioners of Love County, Oklahoma dated as of July 26, 1993. All assets and liabilities of Thackerville Water and Sewerage Company were transferred to the District. Its purpose is the construction, maintenance and operation of a water works within its district.

The basic financial statements of the Love County Rural Water District #2 have been prepared in conformity with generally accepted accounting principles as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. As allowed by the GASB, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretation, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedures issued after November 30, 1989.

The District is governed by a Board of Directors consisting of five members elected by the members of the District. The Board elects a Chairman.

Basis of Presentation

The District's resources are allocated to and accounted for in these basic financial statements as an enterprise fund type of the proprietary fund group. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other policies. Net assets for the enterprise fund represent the amount available for future operations.

Basis of accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The enterprise fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Net assets are segregated into amounts invested in capital assets, net of related debt, amounts restricted and amount unrestricted. Enterprise fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The District uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Revenues are recognized when customers are billed.

Accounts receivable

The District uses the allowance method to account for uncollectible accounts receivable. Accounts receivable are presented net of an allowance for doubtful accounts of \$1,000.

LOVE COUNTY RURAL WATER DISTRICT NO.2
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents, including restricted assets.

Fair Value of Financial Instruments Approximates Carrying Amount

The District's financial instruments are cash and cash equivalents, accounts receivable, accounts payable, and revenue bonds payable. The recorded values of cash and cash equivalents, accounts receivable, and payable approximate their fair values based on their short-term nature. The recorded values of bonds payable approximate their fair values, as interest approximates market rates.

Operating and Nonoperating Revenues

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Fixed Assets and Depreciation

Fixed assets are stated at original cost. The costs of additions and replacements are capitalized. Replacements of minor items of property are charged to expense as incurred. Costs of property retired are eliminated from accounts, likewise such costs plus removal expense less salvage are charged to accumulated depreciation.

Unamortized debt issue costs

These costs are being amortized over the term of the related debt (19 years).

Inventory

Inventory consisting of meters, pumps, valves and other merchandise, held for replacement purposes, is stated at cost.

Accounting estimates

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

Restricted and Unrestricted resources

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

Tenant Security Deposits

Tenant security deposits are held in a segregated demand account in the name of the District.

Subsequent Events

The District evaluates events or transactions that occur subsequent to year end for potential recognition or disclosure in the financial statement through the date on which the financial statements are available to be issued. The financial statements were approved by management and available to be issued on December 4, 2012.

LOVE COUNTY RURAL WATER DISTRICT NO.2
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 2 – CASH AND INVESTMENTS

All deposits are stated at cost, which approximates market value unless otherwise indicated. Funds are invested only in Certificates of Deposits in Oklahoma banks. Funds in excess of \$250,000 are collateralized by securities held by the pledging institution. As of June 30, 2012 the District had \$ 707,548 deposited in several financial institutions. Of those balances \$ 517,432 were insured by federal depository insurance and the remaining was collateralized by securities held on behalf of the District.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. GASB directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance and the deposits are as follow:

- A. Uncollateralized,
- B. Collateralized by securities held by pledging financial institution, or
- C. Collateralized by securities held by the pledging financial institution's trust department or agent but not in the district's name.

None of the District's aggregate bank balances, not covered by depository insurance, were exposed to custodial credit risk as described above at year end.

NOTE 3 – LONG-TERM DEBT

Description	Interest rate payable	Amount of Original issue	Amount outstanding 06/30/11	Issued current year	Retired Current year	Amount outstanding 06/30/12
Utility revenue Bonds Series 1998	5.00% - 5.70%	360,000	185,000	-	(20,000)	165,000
Utility revenue Bonds Series 2001	6.00%	<u>130,000</u>	<u>130,000</u>	-	<u>(130,000)</u>	-
Total bonded debt principal payable			315,000	-	(150,000)	165,000
Accrued interest			<u>9,143</u>	-	-	<u>4,683</u>
Total bond debt payable			<u>324,143</u>	-	<u>(150,000)</u>	<u>169,683</u>

As of June 30, 2012, long-term debt of the Love County Rural Water District No. 2 consisted of \$165,000 in utility system revenue bonds. The only security for the bonds is net revenue provided by the operation of the district's rural water system. The stated maturities of the bonds and interest rates are as follows:

July 1, 2013	\$ 40,000	5.60%
July 1, 2018	<u>125,000</u>	5.70%
TOTAL	<u>\$ 165,000</u>	

LOVE COUNTY RURAL WATER DISTRICT NO.2
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2012

The debt service requirements on the above bonds are as follows:

Due in fiscal year ending June 30,	Principal	Interest	Total
2013	20,000	8,245	28,245
2014	25,000	7,125	32,125
2015	25,000	5,700	30,700
2016	25,000	4,275	29,275
2017	25,000	2,850	27,850
2017- 2021	25,000	1,425	26,425
	<u>145,000</u>	<u>29,620</u>	<u>174,620</u>

Total interest charged to expense during the current year was \$13,915

NOTE 4 – PROPERTY AND EQUIPMENT

Fixed assets are depreciated on a straight-line basis over their estimated useful life. As of June 30, fixed assets consisted of the following:

	<u>June 30, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2012</u>
Water systems	\$ 1,096,534	\$ 332,877	\$ -	\$ 1,429,412
Office furnitures and fixtures	8,214	3,918		12,132
Machinery and equipment	157,099	10,289		167,388
Land	30,057			30,057
Work in process - see Note No. 5	97,070	(97,070)	-	-
	<u>1,388,974</u>	<u>250,015</u>	<u>-</u>	<u>1,638,989</u>
Less accumulated depreciations	<u>(731,279)</u>	<u>(39,177)</u>	<u>-</u>	<u>(770,456)</u>
	-			-
Net book value	<u>\$ 657,695</u>	<u>\$ 210,838</u>	<u>\$ -</u>	<u>\$ 868,533</u>

Depreciation expense for the year ended June 30, 2012 was \$39,177.

NOTE 5 – COMMUNITY DEVELOPMENT BLOCK GRANT

The District received a Community Development Block Grant in the amount of \$249,999. The purpose is waterline replacement, purchase and install radio read meters with computer, telemetry/SCADA for well, standpipes, and booster station. The District's matching funds are equal to \$225,000.

NOTE 6 – BOND ORIGATION COSTS

Bond origination costs are amortized on the straight-line basis over the life of the bonds. During the year the District redeemed \$130,000 of bonds due to mature in July 1, 2023. The unamortized bond issue cost on those bonds was \$4,831 and was written off during the current year. Amortization expense for the year ended was \$5,841.

LOVE COUNTY RURAL WATER DISTRICT NO.2
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – CASH NOT AVAILABLE FOR USE IN OPERATIONS

The District has classified as restricted certain cash and cash equivalents that are not available for use in operations. Cash restricted to maintain certain facilities, pay interest on and retire Utility Revenue Bonds outstanding:

Depreciation and replacement	\$ 132,583
Series 2001 Bond reserve account	12,383
Series 1998 Bond reserve account	40,442
Principal and interest fund, including escrow	<u>37,272</u>
	<u>\$ 222,680</u>

NOTE 8 – RISK MANAGEMENT

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

Health Care Coverage

During the year ended June 30, 2012, employees of the District were covered by health insurance under a plan sponsored by the State of Oklahoma.

Workers' Compensation Coverage

Workers' compensation insurance is purchased through Oklahoma Rural Water Association.