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**AUDIT REPORT
CRAIG COUNTY RWD NO. 2
VINITA, OKLAHOMA
FOR YEARS ENDED JUNE 30, 2011 AND 2010**

Audited by

**JACK H. JENKINS
CERTIFIED PUBLIC ACCOUNTANT
A PROFESSIONAL CORPORATION
TULSA, OK**

**CRAIG COUNTY RURAL WATER DISTRICT NO. 2
VINITA, OKLAHOMA
JUNE 30, 2011**

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**CRAIG COUNTY RURAL WATER DISTRICT NO. 2
BOARD OF DIRECTORS
JUNE 30, 2011**

BOARD OF DIRECTORS

Chairman	Jeff Schroeder
Vice-Chairman	Johnny Cruse
Secretary/Treasurer	Roy Williams
Member	Steve Mayer
Member	DeWayne Wallace

MANAGER

Bob Chase

BOOKKEEPER

De Ann King



Jack H. Jenkins, CPA *A Professional Corporation*

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Craig County Rural Water District No. 2
Vinita, Oklahoma 74301

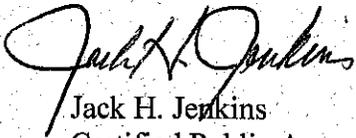
I have audited the accompanying financial statements of the business-type activities of the Craig County Rural Water District No. 2, Vinita, Oklahoma, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Craig County Rural Water District No. 2, Vinita, Oklahoma, as of June 30, 2011 and 2010; and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis report, that follows the Schedule of Audit Results, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I 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, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued a report dated September 30, 2011, on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my 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 my audit.



Jack H. Jenkins
Certified Public Accountant, P.C.

September 30, 2011



Jack H. Jenkins, CPA *A Professional Corporation*

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

Board of Directors
Craig County Rural Water District No. 2
Vinita, Oklahoma 74301

I have audited the financial statements of the Craig County Rural Water District No. 2, Vinita, Oklahoma, as of and for the year ended June 30, 2011, and have issued my report thereon dated September 30, 2011. I conducted my 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

In planning and performing my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the combined financial statements - regulatory basis, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

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 the regulatory basis mentioned above, 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.

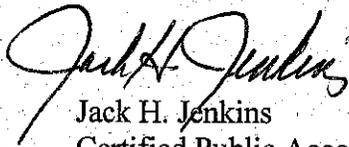
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of internal control was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control that I 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, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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



Jack H. Jenkins
Certified Public Accountant, P.C.

September 30, 2011

**CRAIG COUNTY RURAL WATER DISTRICT NO. 2
SCHEDULE OF AUDIT RESULTS
JUNE 30, 2011**

Findings – Financial Statement Audit

There were no material findings.

CRAIG COUNTY RURAL WATER DISTRICT NO. 2
VINITA, OKLAHOMA 74301

Management's Discussion and Analysis

The discussion and analysis of the Craig County Rural Water District No. 2 financial statements provides an overview of the Water Districts financial activities for the fiscal year ending June 30, 2011. Management has prepared the financial statements and the related disclosures along with the discussion and analysis.

Financial Highlights

The Water Districts financial position as a whole improved during the fiscal year ending June 30, 2011. Net assets increased by \$ 81,009 over the previous year.

Overview of the Financial Statements and Financial Analysis

This report consists of Management's Discussion and Analysis, the Independent Auditor's Report, Balance Sheets, Statements of Revenues and Expenses, Statements of Changes in Net Assets, Statements of Cash Flows, Notes to the Financial Statements, Supplementary Information, and the Independent Auditors Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. These statements provide both long-term and short-term financial information on the Water District as a whole.

Balance Sheets, Statements of Operations, and Statements of Changes in Net Assets

The Balance Sheets, Statements of Revenues and Expenses, and Statements of Changes in Net Assets report the Water District's net assets and how they have changed. Net assets, the difference between assets and liabilities, are one way to measure the Water District's financial position. Over time, increases or decreases in the Water District's net assets are an indicator of whether its financial position is improving or declining. Non-financial factors are important to consider as well, including community trends, number of new customers, and trends in national and state water policies. The attached statements include all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting used by private-sector entities. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. For the year ending June 30, 2011, Total Assets were \$ 1,143,914, and Total Liabilities were \$ 306,963. Operating Revenues of \$ 885,562 exceeded Operating Expenses of \$ 853,028 resulting in Operating Income of \$ 32,534. The total of Operating Income and Net Non-operating Income and Expenses of \$ 81,009 resulted in an increase in Net Assets from \$ 755,942 to \$ 836,951.

OVERVIEW OF WATER DISTRICT SYSTEM

General Information

1. 1592 active customers mostly in Craig County, but also in Mayes, Rogers and Nowata Counties.
2. 391 miles of water line ranging in size from 1" to 10" (Diameter).
3. 431 valves.
4. 6 water towers
5. 5 pump stations, all with variable frequency drive pumps.
6. 6 employees: 5 with Class C Water licenses and Class C Water Lab licenses, 1 with Class D Water license and one new employee with a Temporary Permit.
7. Water usage averaged 11,163,506 gallons per month. Last year's average was 10,688,731 gallons per month.
8. Water purchased from Vinita Utilities Authority & Ketchum Public Works Authority.
9. Water source is Grand Lake.
10. We do all our own maintenance and repair and install all new lines.
11. Our growth this past year increased by 5 customers which was the same as the previous year. The United States Census for the past 10 years shows that Craig County only experienced a growth of 79 people.

GOALS

1. Provide adequate water pressure to all customers.
 - A. Oklahoma Department of Environmental Quality requires that there be a minimum of 25 PSI at the meter.
 - B. To properly serve a customer there should be between 40 and 60 PSI at the meter.

2. Provide adequate water volume to all customers.
 - A. Oklahoma Department of Environmental Quality requires that the volume of water available at the meter should be enough to ensure that the water pressure does not drop below 25 PSI under all conditions of flow.
 - B. To serve a customer properly the pressure should not drop more than 10 to 15 PSI when in full usage. The pressure should never drop below 25 PSI.

3. Water Quality – Chlorine Residual
 - A. Oklahoma Department of Environmental Quality states that “All systems required to disinfect, including all surface water treatment plants and most groundwater systems, must provide a minimum free chlorine residual of 1.0 mg/L in the water entering the distribution system. There must also be a minimum of 0.2 mg/L of free chlorine residual maintained throughout the distribution system. For this reason, it may be necessary to leave the plant with much higher chlorine residual or to provide supplemental points of chlorination in the distribution system.”

4. Secondary source of water.
 - A. Oklahoma Department of Environmental Quality and the Department of Homeland Security highly recommend that all Water Districts have a backup source of water.

CURRENT STATUS OF CRAIG COUNTY RURAL WATER DISTRICT NO. 2

1. Water Pressure

A. All customers have at least 40 PSI of pressure.

2. Water Volume

A. All customers have enough volume available so they do not see a significant drop in pressure during high usage periods.

3. Water Quality – Chlorine Residual

A. The chlorine residual tests that we perform each month are above the .20 mg/L required by the Oklahoma Department of Environmental Quality. In some areas where we have dead-end lines we flush these lines to help maintain acceptable chlorine residual.

4. Secondary source of water.

A. At the present time we have a second source of water for the Southeast portion of our Water District. We are obtaining 20% of our water from Ketchum Public Works Authority. The southeast area can now be serviced by water from the City of Vinita Utilities Authority or Ketchum Public Works Authority. Both of these plants obtain their water from Grand Lake.

B. We are actively working to expand this service to the rest of the Water District as described later in this report.

FUTURE PLANS

WATER LOSS:

The Water District's first priority will continue to be locating and repairing water leaks. We appreciate the efforts of the employees and the members of the Water District in helping us locate leaks. We have many miles of glue joint lines that are the cause of 95% of our leaks. During the past 11 years we have located and repaired over 1,900 leaks with most of them being the result of a joint failure on a glue joint line. We have greatly reduced our water loss and will continue to work to keep our water loss low.

COMPLETE DISTRIBUTION SYSTEM:

We have a Master Plan for connecting all of our water system together, so we can obtain water at any point in the system and distribute it throughout the entire system. In the past we have taken water from the Vinita Utility Authority System at 9 different locations in order to provide water to all our customers. In the past 10 years we have installed water lines so that now we only need to obtain water from 3 locations on the Vinita Utility Authority System. The plan is to complete our system so that we can distribute water to all our customers without using Vinita Utility Authority's distribution system. This is a necessary step so that we can also distribute water from a second source to all our customers.

SECOND SOURCE OF WATER:

Five years ago we installed four miles of 6" water line that connects our System to the Ketchum Public Works Authority System. We are now purchasing approximately two million gallons of water per month from Ketchum Public Works Authority. This water which is approximately 20% of our water purchases is being used to supply water to the southeast area of our System.

The southeast area of our System can now be supplied with water from Vinita Utilities Authority or Ketchum Public Works Authority.

Ketchum Public Works Authority is moving ahead on their plans to build a new Water Treatment Plant and we are working closely with them to coordinate our future needs and plans with their plans.

The Water District has been able to install 7.5 miles of 8" pvc pipe this past year. We have purchased 4 more miles of 8" pvc pipe and plan on having this pipe installed this year. When complete this 8" line will extend from Ketchum Public Works Authority Water Tower to our Pump Station #310 on 310 road and then to our Pump Station #16 which is west of Big Cabin. When this line is completed we will be able to service 50% of our system from KPWA's System or the Vinita Utility Authority System. This covers the Southeast and Southwest portions of our System.

FUTURE PLANS

COMMUNICATION SYSTEM BETWEEN PUMP STATIONS, TOWERS & OFFICE:

We continue work on a system that will allow us to monitor the status of our Pump Stations and Water Towers. The Junction Internet Service now has high-speed wireless Internet antennas on three of our water towers. They should be ready to put the antennas on the other two towers in the next 3 months. The Junction Internet Service is giving all Water District customers who use their service a 10% discount. We have been looking at various Systems that we can use once we get the Internet Antennas on all the towers. These Systems will allow us to see water levels in the storage tanks, water pressure in and out of the pump stations, which pumps are running and the speed they are running at. This type of information will help us monitor the system and discover problems without having to drive to the towers and pump stations.

METER READING SYSTEM:

For the past 32 months we have been using our three field employees to read all customers' meters. We have refined the system and can read the 1600 meters using 3 employees for 3 days. Having our own employees read the meters has helped in finding leaks and identifying other areas that need our attention such as, missing meter lids, broken meter lids, leaks in the meter can, meter cans that need replacing and other maintenance issues. We also have the employees' report all meters that have a leak detector that is turning. We check all meters that are showing a higher than normal usage and notify customers if we think they have a leak. We will continue to read the meters and watch for other opportunities that can make this procedure more efficient and improve the system. This has also helped with our past due accounts because we get a reading for every meter every month so customers do not get behind on reporting their water usage.

MAPPING SYSTEM:

We continue to update our Mapping System with GPS locations of all meters and keep this information in a mapping system that our Engineer, David Dollar, uses to keep our hydraulic system current. This System helps us in determining where we can add new customers and aids us in identifying areas where we have potential pressure and volume problems. We use this System to determine where problems exist and analyze what will happen to an area if we add more customers. We continue to update this system as we make changes to our system.

We are now in the process of getting GPS locations for all of our valves and we GPS the locations of all repairs that we make to the System. We are also getting GPS locations on all the new waterlines we install.

CRAIG COUNTY RURAL WATER DISTRICT NO. 2
STATEMENT OF NET ASSETS
FOR YEARS ENDED JUNE 30, 2011 AND 2010

	June 30,	
<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current assets		
Cash and cash equivalents	\$ 144,014	190,944
Inventory	95,572	158,654
Deposits	175	175
Prepaid insurance	20,683	20,345
Accounts receivable	72,908	74,974
Less allowance for doubtful account	(6,022)	(3,107)
Total current assets	327,330	441,985
Noncurrent assets		
Restricted cash and cash equivalents	52,464	52,464
Work in process	184,838	-
Water System and Equipment	1,847,222	1,840,200
Less accumulated depreciation	(1,267,940)	(1,195,025)
Total noncurrent assets	816,584	697,639
Total Assets	1,143,914	1,139,624
 <u>LIABILITIES</u>		
Current liabilities		
Accounts payable	58,396	100,454
Customer deposits	22,101	16,675
Current maturities of long-term debt	42,135	40,082
Total current liabilities	122,632	157,211
Noncurrent liabilities		
Long-Term Debt, less current maturities	184,331	226,471
Total Liabilities	306,963	383,682
 <u>NET ASSETS</u>		
Invested in capital assets, net of related debt	352,816	378,622
Restricted for debt service	52,464	52,464
Unrestricted	431,671	324,856
Total net assets	\$ 836,951	755,942

The accompanying notes are an integral part of the financial statement

CRAIG COUNTY RURAL WATER DISTRICT NO. 2
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
FOR YEARS ENDED JUNE 30, 2011 AND 2010

	June 30,	
	2011	2010
Operating Revenues:		
Charges for services	\$ 821,858	\$ 845,724
Miscellaneous	63,704	59,218
Total operating revenues	885,562	904,942
Operating Expenses:		
Water Purchased	328,033	321,713
Salaries & payroll taxes	249,642	229,740
Depreciation	72,914	89,872
Parts & supplies	52,273	52,125
Utilities	47,889	44,966
Insurance	24,209	19,789
Repairs & maintenance	25,683	14,893
Travel reimbursements	21,755	13,915
Engineering	7,905	12,604
Office Expense	7,892	8,436
Miscellaneous	2,984	4,101
Telephone	5,189	4,104
Dozer services	-	2,000
Contract labor	400	-
Accounting	1,750	1,650
Bad debt	2,915	449
Water testing	1,408	2,022
Legal	187	-
Total operating expenses	853,028	822,379
Operating Income (Loss)	32,534	82,563
Non-Operating Revenues (Expenses):		
Interest income	2,505	2,106
Reimbursable	58,346	(32,660)
Interest expense	(12,376)	(14,392)
Grant Income	-	43,050
Total non-operating revenues (expenses)	48,475	(1,896)
Change in Net Assets	81,009	80,667
Total Net Assets, beginning of period	755,942	675,275
Total Net Assets, end of period	\$ 836,951	755,942

The accompanying notes are an integral part of the financial statement

CRAIG COUNTY RURAL WATER DISTRICT NO. 2
STATEMENT OF CASH FLOWS
FOR YEARS ENDED JUNE 30, 2011 AND 2010

	June 30,	
	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 890,544	909,633
Payments to employees	(249,642)	(229,740)
Payments to vendors	(504,360)	(553,599)
Net cash flows from operating activities	<u>136,542</u>	<u>126,294</u>
Cash Flows from Investing Activities:		
Interest earned	2,505	2,106
Reimbursable expense	58,346	(32,660)
Work in process	(184,838)	
Capital assets purchased, net	(7,021)	(5,302)
Net cash flows from investing activities	<u>(131,008)</u>	<u>(35,856)</u>
Cash Flows from Financing Activities:		
Interest expense on debt	(12,376)	(14,392)
Principal payments on long-term debt	(40,088)	(45,711)
Grant Income	-	43,050
Net cash flows from financing activities	<u>(52,464)</u>	<u>(17,053)</u>
Net increase (decrease) in cash and cash equivalents	(46,930)	73,385
Cash and cash equivalents, beginning of period	<u>190,944</u>	<u>117,559</u>
Cash and cash equivalents, end of period	<u>\$ 144,014</u>	<u>190,944</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 32,534	82,563
Add depreciation expense	72,914	89,872
(Increase)/Decrease in Current Assets		
Accounts receivable, net	4,982	(1,159)
Inventory	63,082	(91,626)
Prepaid Insurance	(338)	2,108
Increase/(Decrease) in Current Liabilities		
Customer deposits	5,426	5,850
Accounts payable	(42,058)	38,686
Net cash flows from operating activities	<u>\$ 136,542</u>	<u>126,294</u>

The accompanying notes are an integral part of the financial statements

CRAIG COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2011 AND 2010

Note 1 – Organization

Craig County Rural Water District No. 2, Vinita, Oklahoma, was originally an Oklahoma nonprofit corporation, incorporated in 1968. Currently the district is recognized as a public not for profit rural water district under Oklahoma Statutes, Title 82. The purpose of the organization is to provide water to residential and commercial customers who are members of the District.

Note 2 – Summary of significant accounting policies

Reporting Entity

Craig County Rural Water District No. 2 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost of providing water services is financed through user charges. The District purchases water primarily from the cities of Vinita and Ketchum.

Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the balance sheet. The operating statements present increases and decreases in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Accounts Receivable

All accounts greater than thirty days are considered past due. Receivables greater than ninety days are carried at the original billed amount.

Accounts written off when the water usage is not in dispute or which the District feels it can collect if legal action is pursued, are classified as bad debts. Accounts written off when the water usage is in dispute and the District does not believe legal action would result in collection due to a weak position are removed from sales and not classified as bad debts. An *Allowance For Bad Debts*, account (reserve) is utilized to record the management estimate of accounts, which are not collectible or collection is in substantial doubt at year-end.

CRAIG COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2011 AND 2010

Inventory

Inventory is recorded and valued using the FIFO method of costing. Materials associated with the installation and repair of water system lines on hand at the end of the year are reflected in inventory.

Property and Equipment

Property and equipment is recorded at cost when purchased. Depreciation expense is recorded using the straight-line method over the estimated useful life of the asset. Water line extensions and improvements are depreciated using a 20-year life. Water system improvements constructed by the District include capitalizing the direct cost of materials and labor. If an asset is permanently impaired in value, the asset cost is written down to market value. The District capitalizes assets with a useful life in excess of one year with a cost of \$250 or more. Line extension costs reimbursed by the customer are not capitalized and accordingly not depreciated.

Cash and Cash Equivalents

Cash and cash equivalents, shown in the financial statements, are amounts that are not subject to fluctuations in principal value due to changing market conditions and have a maturity of less than three months.

Custodial Credit Risk

At June 30, 2011, the District held deposits of approximately \$196,478 at financial institutions. The District's cash deposits are entirely covered by Federal Depository Insurance.

Note 3 – Reserve Account

The loan agreement with the United States Department of Agriculture Rural Development requires the District to maintain a debt service reserve account in the amount of \$52,464 as of June 30, 2011. This account is fully funded. The District cannot withdraw funds from the reserve account without USDA approval.

**CRAIG COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2010 AND 2011**

Note 4 – Water Purchase Commitment

The District purchases its water from the City of Vinita and Ketchum Public Works Authority. The current contract with City of Vinita for water purchase is dated in 1968. The contract provides the City is not obligated to provide more than four million gallons per month. For the year ended June 30, 2011, the District's average purchase per month was approximately 9,163,506 gallons from City of Vinita and 2,000,000 from Ketchum Public Works Authority. Until an updated contract is agreed upon, the District's ability to continue as a going concern would come into question.

Note 5 – Long-Term Debt

The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2011:

	Notes Payable
Balance, 7/1/10	\$ 266,553
Additions	
Retirements	40,087
Balance, 6/30/11	\$ 226,466

Long-term debt at June 30, 2011, is detailed as follows:

Note payable to United States Department of Agriculture Rural Development, payable in monthly installments of \$4,372 including interest. This note is secured by a mortgage dated December 22, 1976 in favor of the United States of America. The mortgage covers the water system, land, all easements owned or issued, and water revenues of the District with the exception of \$65,000 water revenue subordination.

\$226,466

**CRAIG COUNTY RURAL WATER DISTRICT NO. 2
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2010 AND 2011**

Note 5 – Long-Term Debt – contd.

The annual debt service requirements for the retirement of principal, and interest payments are as follows:

Year-ending June 30	Principal	Interest	Total
2012	\$ 42,135	10,329	52,464
2013	44,293	8,171	52,464
2014	46,561	5,903	52,464
2015	48,946	3,518	52,464
2016	44,531	981	45,512
Total	<u>\$ 226,466</u>	<u>28,902</u>	<u>255,368</u>

Note 6 – Risk Management

Craig County Rural Water District No. 2 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

Note 7 – Capital Assets

The following is a summary of changes in property, plant and equipment:

	<u>Balance June</u> <u>30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June</u> <u>30, 2011</u>
Water System & Equipment	\$ 1,840,200	7,022		1,847,222
Less accumulated depreciation	(1,195,025)	(72,915)		-
Net	<u>\$ 645,175</u>	<u>(65,893)</u>	<u>-</u>	<u>579,282</u>