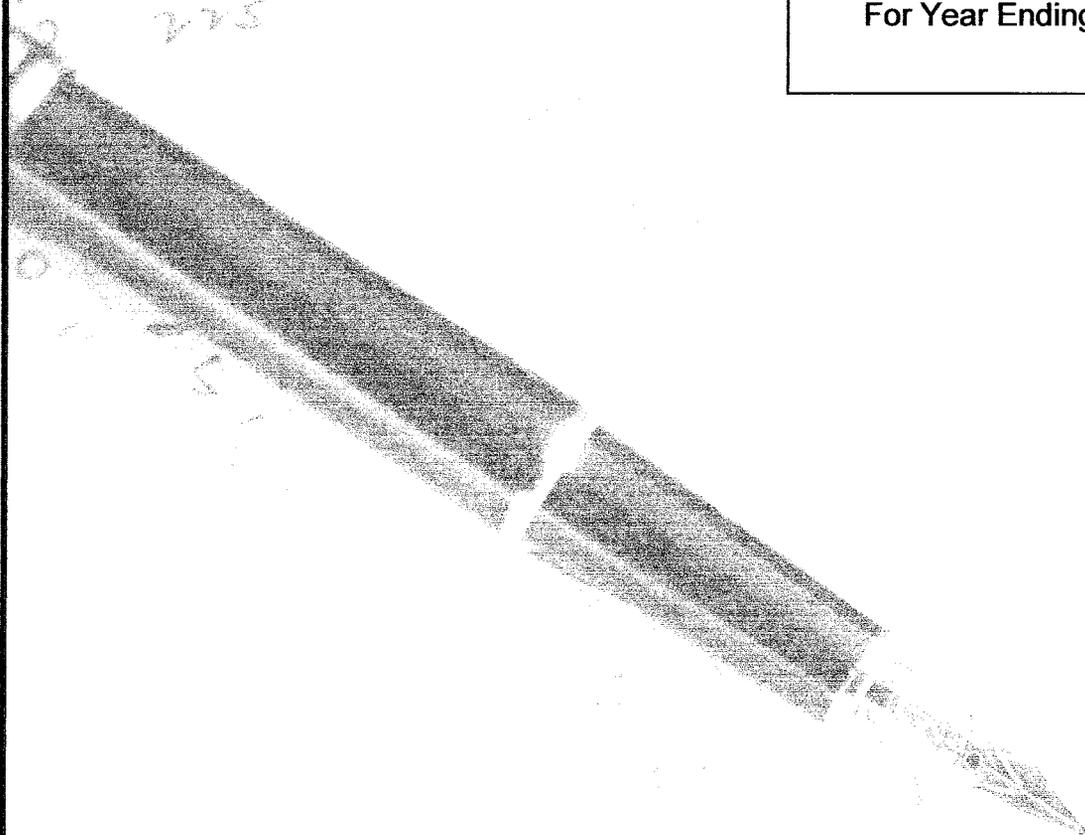


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**Beckham County Rural  
Water District #1**  
*Audit Report*  
For Year Ending June 30, 2012



**Scott Northrip, CPA**  
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# *Scott Northrip*

*Certified Public Accountant*

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## *Independent Auditor's Report*

To The Board of Directors of  
Rural Water, Sewer, and Solid Waste Management  
District #1, Beckham County, Oklahoma

We have audited the accompanying basic financial statements of Rural Water, Sewer, and Solid Waste Management District #1, Beckham County, Oklahoma (District #1) as of June 30, 2012 and 2011, and for the years then ended. These financial statements are the responsibility of the District #1's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted the 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. 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 the 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 District #1 as of June 30, 2012, and 2011 and the results of its operations and its cash flows and its changes in fund balance for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2012, on our consideration of the internal control and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.

*Scott Northrip, CPA*

Scott Northrip  
Certified Public Accountant

August 6, 2012

# Rural Water, Sewer, & Solid Waste Management District #1, Beckham County, Oklahoma

Comparative Statement of Net Assets  
As of June 30, 2012 and 2011

<b>ASSETS:</b>	<b>2012</b>	<b>2011</b>
<b>Current Assets:</b>		
Cash & Cash Equivalents	\$ 655,618	\$ 513,171
Accounts Receivable-Net (Note 2)	60,084	55,460
Interest Receivable	780	886
Prepaid Insurance	20,814	20,462
Other Receivable	-	-
Inventory	53,369	38,568
<b>Total Current Assets</b>	<b>\$ 790,665</b>	<b>\$ 628,547</b>
<b>Noncurrent Assets:</b>		
Construction in Progress	\$ 6,000	\$ -
Other Noncurrent Assets	2,975	2,975
<b>Capital Assets:</b>		
Land & Water Rights	221,005	205,005
Other Capital Assets, net of depreciation	5,459,344	5,522,696
<b>Total Noncurrent Assets</b>	<b>\$ 5,689,324</b>	<b>\$ 5,730,676</b>
<b>TOTAL ASSETS</b>	<b>\$ 6,479,989</b>	<b>\$ 6,359,223</b>
<b>LIABILITIES AND NET ASSETS:</b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 25,420	\$ 26,124
Interest Payable	5,155	5,226
Advanced Collections	7,330	4,790
Customer Deposits	6,500	5,100
Line of credit - Southwest State Bank	1	1
Current Portion of Long-term Liabilities	49,171	47,110
<b>Total Current Liabilities</b>	<b>\$ 93,577</b>	<b>\$ 88,351</b>
<b>Long-Term Liabilities: (Note 10)</b>		
Notes Payable - net of current portion	<b>\$ 3,326,886</b>	<b>\$ 3,375,968</b>
<b>Net Assets:</b>		
Restricted Fund Balance	\$ 200,000	\$ 200,000
Unrestricted Fund Balance	518,298	454,706
<b>Total Fund Balance</b>	<b>\$ 718,298</b>	<b>\$ 654,706</b>
Member Investments	398,700	371,900
Donated Assets (Note 7)	948,242	874,012
Gain on Acquisition of Loans (Note 12)	894,056	894,056
Grants	100,230	100,230
<b>TOTAL NET ASSETS</b>	<b>\$ 3,059,526</b>	<b>\$ 2,894,904</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,479,989</b>	<b>\$ 6,359,223</b>

See accompanying notes to the financial statements.

**Rural Water, Sewer & Solid Waste Management  
District #1, Beckham County, Oklahoma**

Comparative Statement of Activities  
For the Years Ended June 30, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>OPERATING REVENUES:</b>		
Water Sales	\$ 790,250	\$ 697,923
Sale of Supplies	565	1,931
Installation & Repairs	6,523	3,972
<b>Total Operating Revenues</b>	<b>\$ 797,338</b>	<b>\$ 703,826</b>
<b>OPERATING EXPENSES:</b>		
Salaries	\$ 140,736	\$ 131,538
Depreciation Expense	180,890	184,719
Interest Expense	145,759	147,731
Utilities	45,341	44,621
Installation & Repairs	57,576	68,424
Director's Fees, Travel & Benefits	6,509	7,177
Insurance	24,902	25,145
Employee Benefits	38,708	40,805
Outside Services	34,182	31,349
Transportation Expense	23,652	18,093
Office Supplies & Postage	10,584	10,680
Legal & Professional Fees	12,421	6,186
Dues & Licenses	7,671	10,330
Payroll Tax Expense	11,822	10,497
Bad Debts Expense	-	-
Miscellaneous Expense	1,581	1,729
Communication Expense	3,228	3,144
Advertising Expense	-	232
<b>Total Operating Expenses</b>	<b>\$ 745,562</b>	<b>\$ 742,400</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 51,776</b>	<b>\$ (38,574)</b>
<b>OTHER REVENUES (EXPENSES):</b>		
Investment Revenues	\$ 10,158	\$ 10,241
Donations	(5,500)	-
Insurance Refunds	6,891	6,772
Other Income	267	281
Gain on Sale of Assets	-	-
<b>Total Other Revenues(Expenses)</b>	<b>\$ 11,816</b>	<b>\$ 17,294</b>
<b>NET INCOME</b>	<b>\$ 63,592</b>	<b>\$ (21,280)</b>

See accompanying notes to the financial statements.

**Rural Water, Sewer & Solid Waste Management  
District #1, Beckham County, Oklahoma**

Comparative Statement of Changes in Net Assets  
For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Balance, July 1</b>	\$ 2,894,904	\$ 2,888,515
Net Income (Loss)	63,592	(21,280)
Prior Period Adjustment (Note 11)	-	-
Member Investments	26,800	15,500
Donated Assets (Note 7)	74,230	8,982
Grants	-	3,187
	<hr/>	<hr/>
Total Changes in Net Assets	\$ 164,622	\$ 6,389
	<hr/>	<hr/>
<b>Balance, June 30</b>	<u>\$ 3,059,526</u>	<u>\$ 2,894,904</u>

See accompanying notes to the financial statements.

# Rural Water, Sewer & Solid Waste Management District #1, Beckham County, Oklahoma

Comparative Statement of Cash Flows  
For the Years Ended June 30, 2012 and 2011

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 792,714	\$ 701,058
Payments to suppliers	(239,564)	(221,528)
Payments to employees	(191,266)	(182,840)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 361,884</b>	<b>\$ 296,690</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	\$ (117,538)	\$ (97,940)
Donated Assets	74,231	8,982
Payments for Construction in Progress	(6,000)	-
Purchase of Water Rights	(16,000)	-
Principal payments on notes payable	(47,022)	(45,052)
Interest paid on notes payable	(145,830)	(147,800)
Proceeds from Grants	-	3,187
Proceeds from Long-term notes	-	-
<b>Net Cash Used In Capital &amp; Related Financing Activities</b>	<b>\$ (258,159)</b>	<b>\$ (278,623)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment Receipts	\$ 10,264	\$ 10,261
Other Proceeds & Disbursements	1,658	7,053
Proceeds from memberships	26,800	15,500
<b>Net Cash Provided from Investing Activities</b>	<b>\$ 38,722</b>	<b>\$ 32,814</b>
<b>INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	<b>\$ 142,447</b>	<b>\$ 50,881</b>
Cash and Investment Balance - Beginning	513,171	462,290
<b>CASH AND INVESTMENT BALANCE - ENDING</b>	<b>\$ 655,618</b>	<b>\$ 513,171</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ 51,776	\$ (38,574)
Adjustments to reconcile operating income to net cash provided (used):		
Interest Expense	145,759	147,731
Depreciation expense	180,890	184,719
Change in assets and liabilities:		
Accounts Receivable	(4,624)	(2,768)
Other Receivables	-	-
Prepaid Insurance	(352)	351
Inventory	(14,801)	(8,825)
Accounts Payable	(704)	12,369
Advanced Collections	2,540	687
Customer Deposits	1,400	1,000
<b>Net Cash Provided from Operating Activities</b>	<b>\$ 361,884</b>	<b>\$ 296,690</b>

See accompanying notes to the financial statements.

# Rural Water, Sewer & Solid Waste Management District #1, Beckham County, Oklahoma

Notes to the Financial Statements  
For the Years Ended June 30, 2012 and 2011

## **Note 1 - Significant Accounting Policies**

### **Organization:**

Rural Water, Sewer & Solid Waste Management District #1, Beckham Co., OK, (District) was formed under the Oklahoma Rural Water Act to provide water in a designated area in and around Beckham County, Oklahoma to individuals and businesses that purchase a membership. The District served 995 and 956 meters at June 30, 2012 and 2011.

### **Basis of Accounting:**

The District is a proprietary fund type of entity and uses the accrual method of accounting which reports revenues when earned and expenses when incurred. The District is not legally required to adopt a budget or report on budget comparisons in this report.

### **Fixed Assets and Depreciation:**

The District records its fixed assets at their historical cost or donated value. Depreciation is calculated on each individual asset using the straight-line method of depreciation at the asset's estimated useful life. The District estimates the useful lives of the assets based on the type of asset. The lives range from 4 to 50 years.

### **Income Tax:**

The District is exempt from federal and state income taxes under IRS Code Section 115 (a) as an agency of the State of Oklahoma.

## **Note 2 - Accounts Receivable**

The accounts receivable represents the water usage and service revenues for June plus any unpaid balances from the previous months. The District uses the direct method to account for bad debts. No provision for an allowance has been made based on the history of the District's bad debts being very small or nonexistent. The accounts receivable balances at June 30, 2012 and 2011 were \$62,069 and \$57,445. The meters are read monthly.

## **Note 3 - Use of Estimates**

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

## **Note 4 - Contingencies**

The District didn't have any contingencies as of the date of the audit.

## **Note 5 - Restricted Assets**

The District has restricted certificates of deposit in the amount of \$200,000 for debt service as required by Rural Development's mortgage as of June 30, 2012 and 2011.

# Rural Water, Sewer, & Solid Waste Management District #1, Beckham County, Oklahoma

Notes to the Financial Statements  
For the Years Ended June 30, 2012 and 2011

## **Note 6 - Changes in Capital Assets**

	Balance 7/1/2011	Additions	Disposed	Balance 6/30/2012
Water System Plant Assets	\$ 7,609,847	\$ 111,838	\$ -	\$ 7,721,685
Office Furniture & Fixtures	36,394	-	-	36,394
Equipment	162,283	-	-	162,283
Vehicles	37,720	5,700	-	43,420
Buildings & Improvements	298,778	-	-	298,778
<b>Total Assets</b>	<b>\$ 8,145,022</b>	<b>\$ 117,538</b>	<b>\$ -</b>	<b>\$ 8,262,560</b>
Less: Accumulated Depreciation	2,622,326	180,890	-	2,803,216
<b>Net Fixed Assets</b>	<b>\$ 5,522,696</b>	<b>\$ (63,352)</b>	<b>\$ -</b>	<b>\$ 5,459,344</b>

## **Note 7 - Donated Assets**

Donated assets are the estimated value of water lines installed by members from the existing lines of the system to the member's meter. The value of the lines donated to the District for the years ending June 30, 2012 and 2011 were \$74,231 and \$8,982, respectively.

## **Note 8 - Components of Cash and Investments**

	Date of Maturity	Interest Rate	Balance
Petty Cash	-	0.00%	\$ 200
Checking - Southwest State Bank	-	0.25%	189,227
Checking - Great Plains National Bank	-	0.00%	1,191
CD - Southwest State Bank	2/14/2013	1.00%	70,000
CD - Southwest State Bank	2/14/2013	1.00%	70,000
CD - Southwest State Bank	2/14/2013	2.50%	100,000
CD - Southwest State Bank	2/14/2013	2.50%	100,000
CD - Southwest State Bank	5/25/2013	0.85%	30,000
CD - Southwest State Bank	10/19/2012	1.00%	50,000
Investment - Oklahoma Rural Water Assurance	-	2.38%	45,000
<b>Total Cash and Investments</b>			<b>\$ 655,618</b>

The District has pledges from Southwest State Bank that covers amount not insured by FDIC.

# Rural Water, Sewer, & Solid Waste Management District #1, Beckham County, Oklahoma

Notes to the Financial Statements  
For the Years Ended June 30, 2012 and 2011

## **Note 9 - Retirement**

The District provides a 401(k) retirement plan for its employees and matches contributions up to 5%. The District contributed \$9,317 and \$11,497 for the years June 30, 2012 and 2011, respectively.

## **Note 10 - Long Term Liabilities**

The District has two 40 year notes with Rural Development, an agency of the United States Department of Agriculture. The loans are fixed interest notes. The notes are secured by the assets of the District. Rural Development requires the District to reserve enough funds to pay an amount equal to a year's total payments. The District makes monthly payments on the notes.

Note Number	Date of Note	Annual Payments	Balance 6/30/2012	Balance 6/30/2011	Interest Rate
91-01	11/17/2006	\$ 135,408	\$ 2,381,877	\$ 2,415,276	4.250%
91-03	11/17/2006	57,444	994,180	1,007,802	4.375%
		<u>\$ 192,852</u>	<u>\$ 3,376,057</u>	<u>\$ 3,423,078</u>	
Less: Current Portion			49,171	47,110	
Net Balance			<u><u>\$ 3,326,886</u></u>	<u><u>\$ 3,375,968</u></u>	

Current Portion:		Note 9101	Note 9103
Year Ending	6/30/2014	36,427	14,894
Year Ending	6/30/2015	38,006	15,559
Year Ending	6/30/2016	39,653	16,254
Year Ending	6/30/2017	41,372	16,979

## **Note 11 - Prior Period Adjustments**

There were no prior period adjustments in the financial statements for the year ending June 30, 2012 or 2011.

## **Note 12 - Gain on Acquisition of Loans**

The District purchased notes from FmHA through the Farmers Home Administration Discount Purchase Program on July 7, 1988. The discounted principal plus accrued interest was \$894,056 less than the carrying value of the notes which resulted in a gain from acquisition.

# *Scott Northrip*

*Certified Public Accountant*

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OF THE FINANCIAL STATEMENTS IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**To the Board of Directors of  
Rural Water, Sewer, and Solid Waste Management  
District #1, Beckham County, Oklahoma**

We have audited the basic financial statements of the Rural Water, Sewer, and Solid Waste Management District #1, Beckham County, Oklahoma (District) for the year ended June 30, 2012, and have issued our report thereon dated August 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Government Auditing Standards issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District's compliance with certain laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However our objective was not to provide an opinion on the overall compliance with such provisions, 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.

### Internal Control

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

A 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended for the information of the board of directors and management of the District, as well as Rural Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

*Scott Northrip, CPA*

**Scott Northrip**  
**Certified Public Accountant**

August 6, 2012