

**Comanche County Rural
Water District #4**

Audit Report

For Year Ending August 31, 2012

Scott Northrip, CPA

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Independent Auditor's Report

To The Board of Directors of
Rural Water District #4, Comanche County

We have audited the accompanying financial statements of Rural Water District #4 Comanche County (District) as of August 31, 2012 and 2011, and for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted the 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 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 audits provide 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 Rural Water District #4 Comanche County as of August 31, 2012 and 2011, and the results of its activities, its cash flows and its changes in net assets 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 November 8, 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

Certified Public Accountant

November 8, 2012

Rural Water District #4, Comanche County

Comparative Statement of Net Assets

As of August 31, 2012 and 2011

ASSETS:	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash & Cash Equivalents	\$ 572,012	\$ 407,639
Accounts Receivable (Note 2)	164,013	167,297
Prepaid Insurance	9,481	8,415
Other Receivable	-	-
Inventory	14,095	21,002
Total Current Assets	<u>\$ 759,601</u>	<u>\$ 604,353</u>
Noncurrent Assets:		
Construction in Progress	\$ -	\$ 13,360
Capital Assets: (Note 6)		
Other Capital Assets, net of depreciation	3,490,637	3,376,758
Total Noncurrent Assets	<u>\$ 3,490,637</u>	<u>\$ 3,390,118</u>
TOTAL ASSETS	<u>\$ 4,250,238</u>	<u>\$ 3,994,471</u>
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts Payable	\$ 64,451	\$ 65,310
Accrued Wages Payable	8,815	8,815
Interest Payable	3,802	5,143
Current Portion of Long-term Liabilities	104,368	97,880
Total Current Liabilities	<u>\$ 181,436</u>	<u>\$ 177,148</u>
Long-Term Liabilities: (Note 10)		
Notes Payable - net of current portion	<u>\$ 1,222,334</u>	<u>\$ 1,376,515</u>
Net Assets:		
Restricted Fund Balance	\$ 15,324	\$ 15,324
Unrestricted Fund Balance	1,043,315	797,357
Total Fund Balance	<u>\$ 1,058,639</u>	<u>\$ 812,681</u>
Member Investments	1,079,750	1,024,750
Donated Assets (Note 7)	19,640	4,250
Grants	688,439	599,127
TOTAL NET ASSETS	<u>\$ 2,846,468</u>	<u>\$ 2,440,808</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,250,238</u>	<u>\$ 3,994,471</u>

See accompanying notes to the financial statements.

Rural Water District #4, Comanche County

Comparative Statement of Activities
For the Years Ended August 31, 2012 and 2011

	2012	2011
OPERATING REVENUES:		
Water Sales	\$ 1,248,584	\$ 1,273,283
Reimbursements	30,887	9,135
Miscellaneous Operating	1,275	-
Total Operating Revenues	\$ 1,280,746	\$ 1,282,418
OPERATING EXPENSES:		
Water Purchases	\$ 416,199	\$ 404,103
Personnel Expense	123,373	119,011
Depreciation Expense	105,597	101,935
Interest Expense	60,290	64,665
Utilities & Communication	36,637	31,937
Installation & Repairs	184,518	92,611
Transportation	36,829	36,073
Insurance	15,166	10,468
Dues & Licenses	8,446	8,507
Bad Debts Expense	-	564
Rent Expense	18,225	18,000
Office Expenses & Postage	12,589	10,398
Legal & Professional Fees	6,417	8,820
Directors Fees & Meeting Expense	3,600	4,425
Miscellaneous Expense	7,647	3,147
Total Operating Expenses	\$ 1,035,533	\$ 914,664
OPERATING INCOME (LOSS)	\$ 245,213	\$ 367,754
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 745	\$ 983
Other Income	-	-
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	\$ 745	\$ 983
NET INCOME	\$ 245,958	\$ 368,737

See accompanying notes to the financial statements.

Rural Water District #4, Comanche County

Comparative Statement of Changes in Net Assets

For the Years Ended August 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Balance, September 1	<u>\$ 2,440,808</u>	<u>\$ 1,921,681</u>
Net Income (Loss)	245,958	368,737
Prior Period Adjustment (Note 11)	-	-
Member Investments	55,000	43,750
Donated Assets (Note 7)	15,390	-
Grants	<u>89,312</u>	<u>106,640</u>
Total Changes in Net Assets	<u>\$ 405,660</u>	<u>\$ 519,127</u>
Balance, August 31	<u><u>\$ 2,846,468</u></u>	<u><u>\$ 2,440,808</u></u>

See accompanying notes to the financial statements.

Rural Water District #4, Comanche County

Comparative Statement of Cash Flows
For the Years Ended August 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,284,030	\$ 1,213,903
Payments to suppliers	(741,291)	(606,606)
Payments to employees	(123,373)	(119,011)
Net Cash Provided by Operating Activities	\$ 419,366	\$ 488,286
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	\$ (219,476)	\$ (103,845)
Donated Assets	15,390	-
Payments for Construction in Progress	13,360	(13,360)
Principal payments on notes payable	(147,693)	(202,425)
Interest paid on notes payable	(61,631)	(62,746)
Proceeds from Grants	89,312	106,640
Proceeds from Long-term notes	-	-
Net Cash Used In Capital & Related Financing Activities	\$ (310,738)	\$ (275,736)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 745	\$ 983
Other Proceeds	-	-
Proceeds from memberships	55,000	43,750
Net Cash Provided from Investing Activities	\$ 55,745	\$ 44,733
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 164,373	\$ 257,283
Cash and Investment Balance - Beginning	407,639	150,356
CASH AND INVESTMENT BALANCE - ENDING	\$ 572,012	\$ 407,639
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 245,213	\$ 367,754
Adjustments to reconcile operating income to net cash provided (used):		
Interest Expense	60,290	64,665
Depreciation expense	105,597	101,935
Change in assets and liabilities:		
Accounts Receivable	3,284	(68,515)
Other Receivables	-	-
Prepaid Insurance	(1,066)	(741)
Inventory	6,907	(1,467)
Accounts Payable	(859)	15,840
Accrued Wages Payable	-	8,815
Net Cash Provided from Operating Activities	\$ 419,366	\$ 488,286

See accompanying notes to the financial statements.

Rural Water District #4, Comanche County

Notes to the Financial Statements
For the Years Ended August 31, 2012 and 2011

Note 1 - Significant Accounting Policies

Organization:

Rural Water District #4, Comanche Co., OK, (District) was formed under the Oklahoma Rural Water Act to provide water in a designated area in and around Comanche County Oklahoma to individuals and businesses that purchase a membership. The District served 1,252 and 1,221 meters at August 31, 2012 and 2011 respectively.

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 nonexistant. The accounts receivable balances at August 31, 2012 and 2011. 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 \$15,324 for debt service as required by Berkadia's mortgage as of August 31, 2012 and 2011. The amount decreased when one of the notes was paid in full.

Rural Water District #4, Comanche County

Notes to the Financial Statements
For the Years Ended August 31, 2012 and 2011

Note 6 - Changes in Capital Assets

	Balance 9/1/2011	Additions	Disposed	Balance 8/31/2012
Water System Plant Assets	\$ 4,461,988	\$ 219,476	\$ -	\$ 4,681,464
Office Furniture & Fixtures	13,725	-	-	13,725
Equipment	88,512	-	-	88,512
Buildings & Improvements	260,810	-	-	260,810
Total Assets	\$ 4,825,035	\$ 219,476	\$ -	\$ 5,044,511
Less: Accumulated Depreciation	1,448,277	105,597	-	1,553,874
Net Fixed Assets	\$ 3,376,758	\$ 113,879	\$ -	\$ 3,490,637

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 August 31, 2012 and 2011 were \$15,390 and \$0, respectively.

Note 8 - Components of Cash and Investments

	Date of Maturity	Interest Rate	8/31/2012 Balance
Checking - Bank of the Wichitas	-	0.05%	\$ 463,198
CD - IBC Bank	2/28/2012	0.50%	108,796
Checking - Bank of the Wichitas (Const)	-	0.00%	18
Total Cash and Investments			\$ 572,012

Note 9 - Retirement

The District provides a 401(a) retirement plan for its employees and matches contributions up to 10%. The District contributed \$8,438 and \$8,438 for the years August 31, 2012 and 2011.

Rural Water District #4, Comanche County

Notes to the Financial Statements

For the Years Ended August 31, 2012 and 2011

Note 10 - Long Term Liabilities

The District has two 40 year notes with Berkadia Mortgage and two notes with Bank of the Wichitas. The loans are fixed interest notes. The notes are secured by the assets of the District. Berkadia 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. The District has elected to pay extra principal payments on the BOW notes.

	Date of Note	Annual Payments	Balance 8/31/2012	Balance 8/31/2011	Interest Rate
Berkadia	1/1/1988	\$ 15,324	\$ 91,071	\$ 101,570	5.00%
BOW (1)	3/12/2009	-	1	1	6.00%
BOW (2)	6/17/2008	138,441	1,235,630	1,372,824	4.25%
		\$ 153,765	\$ 1,326,702	\$ 1,474,395	
Less: Current Portion			104,368	97,880	
Net Balance			\$ 1,222,334	\$ 1,376,515	

Current Portion:	Berkadia	BOW (1)	BOW (2)
Year Ending 2013	10,939	-	93,429
Year Ending 2014	11,494	-	97,484
Year Ending 2015	12,085	-	101,715
Year Ending 2016	12,804	-	106,129
Year Ending 2017	13,465	-	110,736

Note 11 - Prior Period Adjustments

There were no prior period adjustments in the financial statements for the years ending August 31, 2012 or 2011.

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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 District #4, Comanche County

We have audited the basic financial statements of the Rural Water District #4 Comanche County (District) for the year ended August 31, 2012, and have issued our report thereon dated November 8, 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 Over Financial Reporting

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. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Scott Northrip, CPA

Certified Public Accountant

November 8, 2012