



**Logan County Rural  
Water District #1**  
*Audit Report*  
For Year Ending July 31, 2014

**Scott Northrip, CPA**  
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# ***SCOTT NORTHRIP, CPA***

P.O. Box 642, Hobart, Oklahoma 73651

## **Independent Auditor's Report**

To The Board of Directors of  
Rural Water, Sewer, & Solid Waste Management Dist. #1  
Logan County, Oklahoma

I have audited the accompanying financial statements of Rural Water, Sewer, & Solid Waste Management District #1, Logan County, Oklahoma(District), as of and for the years ended July 31, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair representation of these financial statements in accordance accounting principle generally accepted in the United States of America; this includes 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**

My responsibility is to express an opinion on these financial statements based on my audit. I 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 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 involves performing procedures to obtain audit evidence supporting 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 entity'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 entity'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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rural Water, Sewer, & Solid Waste Management District #1, Logan County, Oklahoma, as of July 31, 2014 and 2013, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Requirements by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated September 4, 2014, on my consideration of the District's internal control over financial reporting and on 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 our testing of internal control over financial reporting and 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.

***Scott Northrip, CPA***

Certified Public Accountant

September 4, 2014

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

Statement of Net Position  
As of July 31, 2014 and 2013

<b>ASSETS:</b>	<b>2014</b>	<b>2013</b>
Current Assets:		
Cash & Cash Equivalents	\$ 330,578	\$ 418,495
Investments	2,467,954	2,383,877
Accounts Receivable (Note 2)	140,624	187,429
Other Receivable	-	-
Interest Receivable	11,224	12,079
Prepaid Insurance	24,251	27,624
Inventory	47,169	49,148
<b>Total Current Assets</b>	<b>\$ 3,021,800</b>	<b>\$ 3,078,652</b>
Noncurrent Assets:		
Construction in Progress (Note 12)	\$ 93,981	\$ 118,142
Capital Assets: (Note 5)		
Land & Water Rights	396,575	396,575
Other Capital Assets, net of depreciation (Note 5)	8,428,999	7,807,020
<b>Total Noncurrent Assets</b>	<b>\$ 8,919,555</b>	<b>\$ 8,321,737</b>
<b>TOTAL ASSETS</b>	<b>\$ 11,941,355</b>	<b>\$ 11,400,389</b>
<b>LIABILITIES AND NET POSITION:</b>		
Current Liabilities:		
Accounts Payable	\$ 13,947	\$ 12,297
Interest Payable	1,124	10,578
Customer Deposits	138,990	134,087
Settlement Payable (Note 4)	332,108	-
Current Portion of Long-term Liabilities	120,338	84,981
<b>Total Current Liabilities</b>	<b>\$ 606,507</b>	<b>\$ 241,943</b>
Long-Term Liabilities: (Note 9)		
Notes Payable, net of current	\$ 1,874,993	\$ 2,056,177
Net Position:		
Restricted Fund Balance (Note 11)	\$ 83,488	\$ 83,488
Unrestricted Fund Balance	2,389,527	2,573,493
<b>Total Fund Balance</b>	<b>\$ 2,473,015</b>	<b>\$ 2,656,981</b>
Member Investments	2,667,951	2,477,551
Donated Assets (Note 6)	2,949,673	2,916,520
Grants (Note 13)	1,107,441	806,442
Impact Fees	261,775	244,775
<b>TOTAL NET POSITION</b>	<b>\$ 9,459,855</b>	<b>\$ 9,102,269</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 11,941,355</b>	<b>\$ 11,400,389</b>

See accompanying notes to the financial statements.

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

Comparative Statement of Activities  
For the Years Ended July 31, 2014 and 2013

	2014	2013
<b>OPERATING REVENUES:</b>		
Water Sales	\$ 1,145,110	\$ 1,221,896
Sewer Service Revenues	78,850	77,609
Late Fees	59,793	35,326
Connection Charges	15,802	11,175
Miscellaneous Revenues	27,593	13,640
<b>Total Operating Revenues</b>	<b>\$ 1,327,148</b>	<b>\$ 1,359,646</b>
 <b>OPERATING EXPENSES:</b>		
Salaries	\$ 243,933	\$ 240,317
Depreciation Expense	297,516	257,707
Interest Expense	65,231	44,885
Utilities	67,866	80,285
Supplies	50,894	99,349
Repairs & Maintenance	63,890	38,348
Insurance	38,581	32,286
Legal & Professional Fees	236,153	314,283
Transportation Expense	13,295	16,067
Employee Benefits	44,971	45,089
Payroll Tax Expense	19,611	19,014
Communication Expense	5,185	4,212
Office Supplies & Postage	31,695	23,574
Bad Debt Expense	-	-
Director's Fees	7,300	3,400
Dues & Licenses	3,637	5,030
Equipment Rent	8,488	6,475
Advertising Expenses	-	-
Settlement Trust	332,108	-
Miscellaneous Expense	5,107	5,498
<b>Total Operating Expenses</b>	<b>\$ 1,535,461</b>	<b>\$ 1,235,819</b>
 <b>OPERATING INCOME (LOSS)</b>	<b>\$ (208,313)</b>	<b>\$ 123,827</b>
 <b>OTHER REVENUES (EXPENSES):</b>		
Investment Revenues	\$ 24,347	\$ 34,216
Gain on Sale of Assets	-	12,935
<b>Total Other Revenues(Expenses)</b>	<b>\$ 24,347</b>	<b>\$ 47,151</b>
 <b>NET INCOME</b>	<b>\$ (183,966)</b>	<b>\$ 170,978</b>

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management  
District #1, Logan County, Oklahoma**  
Comparative Statement of Changes in Net Assets  
For the Years Ended July 31, 2014 and 2013

	<b>2014</b>	<b>2013</b>
<b>Balance, August 1</b>	\$ 9,102,269	\$ 8,339,052
Net Income (Loss)	(183,966)	170,978
Member Investments	190,400	195,225
Donated Assets	33,153	162,514
Impact Fees	17,000	47,000
Grants	300,999	187,500
<b>Total Changes in Net Assets</b>	<b>\$ 357,586</b>	<b>\$ 763,217</b>
<b>Balance, July 31</b>	<b>\$ 9,459,855</b>	<b>\$ 9,102,269</b>

See accompanying notes to the financial statements.

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

Comparative Statement of Cash Flows  
For the Years Ended July 31, 2014 and 2013

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 1,373,953	\$ 1,347,501
Payments to suppliers	(520,186)	(640,398)
Payments to employees	(308,515)	(304,420)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 545,252</b>	<b>\$ 402,683</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of fixed assets	\$ (838,569)	\$ (1,838,130)
Payments for Construction in Progress	(23,610)	(35,320)
Purchase of land & water rights	-	-
Principal payments on notes payable	(145,828)	(88,539)
Interest paid on notes payable	(74,686)	(45,248)
Proceeds from long-term notes	-	1,062,500
Proceeds from grants	300,999	187,500
Proceeds from sale of assets	-	12,935
<b>Net Cash Used In Capital &amp; Related Financing Activities</b>	<b>\$ (781,694)</b>	<b>\$ (744,302)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment Receipts	\$ 25,202	\$ 29,202
Proceeds from impact fees	17,000	47,000
Proceeds from memberships	190,400	195,225
<b>Net Cash Provided from Investing Activities</b>	<b>\$ 232,602</b>	<b>\$ 271,427</b>
<b>INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	<b>\$ (3,840)</b>	<b>\$ (70,192)</b>
Cash and Investment Balance - Beginning	2,802,372	2,872,564
<b>CASH AND INVESTMENT BALANCE - ENDING</b>	<b>\$ 2,798,532</b>	<b>\$ 2,802,372</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ (208,313)	\$ 123,827
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	65,231	44,885
Depreciation expense	297,516	257,707
Change in assets and liabilities:		
Accounts Receivable	46,805	(12,145)
Prepaid Insurance	3,373	(6,073)
Inventory	1,979	(4,216)
Accounts Payable	1,650	(9,162)
Settlement Payable	332,108	-
Customer Deposits	4,903	7,860
<b>Net Cash Provided from Operating Activities</b>	<b>\$ 545,252</b>	<b>\$ 402,683</b>

See accompanying notes to the financial statements.

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

Notes to the Financial Statements  
For the Years Ended July 31, 2014 and 2013

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

### **Organization:**

Rural Water, Sewer, and Solid Waste Management District #1, Logan County, Oklahoma (District) is an Oklahoma trust formed under the Oklahoma Rural Water Act to provide water, sewer, and solid waste management in a designated area in and around Logan County, Oklahoma to individuals and businesses that purchase a benefit unit. The District served 2,710 and 2,619 meters at July 31, 2013 and 2012 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 40 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 July plus any unpaid balances from the previous months. The District uses the reserve method to account for bad debts. No provision was made since the allowance is more than the the accounts receivable balances over 90 days old. The accounts receivable balances at July 31, 2014 and 2013 amounted to \$142,209 and \$189,014, respectively with the allowance in the amount of \$1,585 for both years.

## **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 has filed a suit against the City of Guthrie for encroachment into the District's service area. The District is seeking compensation to offset the loss of income from the meters served by the City of Guthrie. The District's legal counsel does not anticipate any losses to be recognized in the financial statements as of the date of the audit.

The District has to reimburse legal fees on another suit of \$332,107.94. The reimbursement was not required until after the end of the year ending July 31, 2014.

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

Notes to the Financial Statements  
For the Years Ended July 31, 2014 and 2013

## **Note 5 - Changes in Fixed Assets**

	Balance 8/1/2013	Additions	Disposed	Balance 7/31/2014
Water System - Constructed	\$ 7,810,188	\$ 885,422	\$ -	\$ 8,695,610
Water System - Acquired	2,799,646	33,153	-	2,832,799
Equipment	127,077	920	-	127,997
Vehicles	69,588	-	-	69,588
Buildings	192,429	-	-	192,429
<b>Total Assets</b>	<b>\$ 10,998,928</b>	<b>\$ 919,495</b>	<b>\$ -</b>	<b>\$ 11,918,423</b>
Less: Accumulated Depreciation	3,191,908	297,516	-	3,489,424
<b>Net Fixed Assets</b>	<b>\$ 7,807,020</b>	<b>\$ 621,979</b>	<b>\$ -</b>	<b>\$ 8,428,999</b>

## **Note 6 - 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 July 31, 2014 and 2013 were \$332,153 and \$162,514, respectively.

## **Note 7 - Components of Cash and Investments**

	Date of Maturity	Interest Rate	7/31/2014 Balance	7/31/2013 Balance
Petty Cash	-	0.00%	\$ 102	\$ 97
Hi-Fi Account - Oklahoma State Bank	-	0.20%	268,666	127,803
Checking - Oklahoma State Bank	-	0.00%	100	100
Savings - Bancfirst	-	0.05%	61,710	290,494
CD's - Edward Jones	Various	Various	1,710,765	1,470,765
CD - Oklahoma State Bank	6/7/2016	0.68%	113,000	113,000
CD - Oklahoma State Bank	10/3/2014	1.15%	20,000	20,000
CD - Oklahoma State Bank	3/27/2015	0.65%	50,000	50,000
CD - Oklahoma State Bank	5/28/2015	0.43%	22,000	22,000
CD - Oklahoma State Bank	8/7/2014	1.15%	20,000	20,000
CD - Farmers & Merchants Bank	9/23/2015	1.04%	50,000	50,000
CD - Farmers & Merchants Bank	9/23/2015	1.04%	50,000	50,000
CD - Farmers & Merchants Bank	8/1/2014	0.90%	50,000	50,000
CD - Farmers & Merchants Bank	8/1/2014	0.90%	50,000	50,000
CD - Farmers & Merchants Bank	8/10/2014	0.55%	50,000	50,000
CD - IBC Bank	7/3/2014	1.00%	-	83,000
CD - IBC Bank	4/17/2014	1.00%	-	75,000
CD's - Morgan Stanley	Various	Various	281,189	279,113
Reserve Certificates - ORWAAG	-	1.24%	1,000	1,000
<b>Total Cash and Investments</b>			<b>\$ 2,798,532</b>	<b>\$ 2,802,372</b>

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

Notes to the Financial Statements  
For the Years Ended July 31, 2014 and 2013

## **Note 8 - Retirement**

The District provides a Simplified Employee Plan (SEP) retirement plan for its participating employees. The plan is administered by Edward Jones. The District contributions up to 5% of the employee wages. The District contributed \$11,459 and \$12,004 during the years ending July 31, 2014 and 2013.

## **Note 9 - Long Term Liabilities**

### **Berkadia Mortgage**

The District has four long-term notes with Berkadia Mortgage. The four notes were from the original construction of the District plus improvements. The notes are secured by the assets. The interest accrues at a fixed annual rate of 5% for a term of 40 years.

### **Oklahoma Water Resources Board**

The District has borrowed \$584,566 from Oklahoma Water Resources Board for system booster station and extension as of July 31, 2012. The maximum loan is \$637,500. The note matures on 9-15-31. The note has accrued interest at a fixed rate of 3.03%. Interest and administrative fees of \$7,606.92 during construction has been capitalized .

The District borrowed \$1,250,000 from Oklahoma Water Resources Board for the new water tower and for the installation of electronic read meters. The note has a term of 20 years and accrues interest at a fixed rate of 2.46%. The District makes monthly payments of \$5,618.16.

### **Rural Development**

The District borrowed \$300,000 for the construction of a new water tower and water well. The District began making monthly payments of \$1,374 on May 1, 2003. The interest accrues at a fixed rate of 4.625% annually. The note is secured by the assets.

	Note Number	Balance 7/31/2014	Balance 7/31/2013	Annual Payment
Berkadia	1	84,996	97,432	18,500
Berkadia	2	9,700	28,844	20,134
Berkadia	3	40,777	56,095	16,212
Berkadia	4	81,368	90,540	13,440
Rural Development		245,906	251,024	16,488
OWRB - Series 2009		531,507	554,723	40,080
OWRB - Series 2011		1,001,077	1,062,500	67,418
TOTAL		1,995,331	2,141,158	192,272
Less: Current Portion		120,338	84,981	
NET LONG-TERM NOTES		<u>\$ 1,874,993</u>	<u>\$ 2,056,177</u>	

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

Notes to the Financial Statements  
For the Years Ended July 31, 2014 and 2013

**Note 9 - Long Term Liabilities - continued**

Current Portion:		Berkadia	OWRB09	RD	OWRB11
Year Ending	7/31/2015	48,456	23,935	5,232	42,715
Year Ending	7/31/2016	40,734	24,633	5,482	43,722
Year Ending	7/31/2017	37,730	25,438	5,674	44,885
Year Ending	7/31/2018	28,130	26,226	6,003	46,011
Year Ending	7/31/2019	28,654	27,037	6,293	47,166

**Note 10 - Prior Period Adjustment**

The District didn't make any prior period adjustments during the years ending July 31, 2014 or 2013.

**Note 11 - Restricted and Reserved Assets**

**Restricted for Debt Service**

CD's for Berkadia Mortgage	\$ 67,000
Bancfirst OWRB Reserve Account	-
CD's for Rural Development loan	<u>16,488</u>

**Total Restricted Assets** \$ 83,488

**Reserved for Future Improvements**

CD's for System Improvements & Water rights 1,991,951

**Total Reserved Assets** 1,991,951

**Note 12 - Construction in Progress**

The District has 3 projects in progress as of July 31, 2014 which were not completed as of the end of the year. The projects will be capitalized and begin depreciating upon completion of the projects. The Meridian project has a carryover amount of \$6,530, Air Depot extension project carries over \$50,131, and line relocate project at Coltrane carries over \$37,320.

**Note 13 - Grants**

The District received grant proceeds during the year ending July 31, 2014 from Oklahoma Dept. of Transportation of \$26,000 for water line relocation. The District also received a CDBG grant of \$274,999 from the Oklahoma Dept. of Commerce for the Green Oaks sewer project.

# ***SCOTT NORTHRIP, CPA***

P.O. Box 642, Hobart, Oklahoma 73651

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors of  
Rural Water, Sewer, and Solid Waste Management Dist. #1  
Logan County, Oklahoma

I 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 basic financial statements of Rural Water, Sewer, and Solid Waste Management District #1, Logan County, Oklahoma (District), as of and for the years ending July 31, 2014 and 2013, and have issued my report thereon dated September 4, 2014.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed test 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, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control.

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. 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.

## Report on Compliance and Internal Controls-Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Purpose of this Report

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Scott Northrip*

Certified Public Accountant

September 4, 2014