

**Logan County
Rural Water
District #1**

Audit Report
For Year Ending July 31, 2013

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Scott Northrip, CPA
P.O. Box 642
Hobart, OK 73651
(580) 726-5681

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 basic financial statements of Rural Water, Sewer, & Solid Waste Management District #1, Logan County, Oklahoma(District), as of and for the years ended July 31, 2013 and 2012. 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 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 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 the audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water, Sewer, & Solid Waste Management District #1, Logan County, Oklahoma, as of July 31, 2013 and 2012, 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*, I have also issued my report dated August 23, 2013, on my consideration of the District's internal control and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is 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

August 23, 2013

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

Statement of Net Assets
As of July 31, 2013 and 2012

ASSETS:	2013	2012
Current Assets:		
Cash & Cash Equivalents	\$ 418,495	\$ 787,845
Investments	2,383,877	2,084,719
Accounts Receivable (Note 2)	187,429	175,284
Other Receivable	-	-
Interest Receivable	12,079	7,065
Prepaid Insurance	27,624	21,551
Inventory	49,148	44,932
Total Current Assets	\$ 3,078,652	\$ 3,121,396
Noncurrent Assets:		
Construction in Progress (Note 12)	\$ 118,142	\$ 229,205
Capital Assets: (Note 5)		
Land & Water Rights	396,575	396,575
Other Capital Assets, net of depreciation (Note 5)	7,807,020	5,908,197
Total Noncurrent Assets	\$ 8,321,737	\$ 6,533,977
TOTAL ASSETS	\$ 11,400,389	\$ 9,655,373
LIABILITIES AND NET ASSETS:		
Current Liabilities:		
Accounts Payable	\$ 12,297	\$ 21,459
Interest Payable	10,578	1,439
Customer Deposits	134,087	126,227
Current Portion of Long-term Liabilities	84,981	56,635
Total Current Liabilities	\$ 241,943	\$ 205,760
Long-Term Liabilities: (Note 9)		
Notes Payable, net of current	\$ 2,056,177	\$ 1,110,561
Net Assets:		
Restricted Fund Balance	\$ 83,488	\$ 83,488
Unrestricted Fund Balance	2,573,493	2,402,515
Total Fund Balance	\$ 2,656,981	\$ 2,486,003
Member Investments	2,477,551	2,282,326
Donated Assets (Note 6)	2,916,520	2,754,006
Grants (Note 13)	806,442	618,942
Impact Fees	244,775	197,775
TOTAL NET ASSETS	\$ 9,102,269	\$ 8,339,052
TOTAL LIABILITIES AND NET ASSETS	\$ 11,400,389	\$ 9,655,373

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, 2013 and 2012

	2013	2012
OPERATING REVENUES:		
Water Sales	\$ 1,221,896	\$ 1,157,674
Sewer Service Revenues	77,609	76,467
Late Fees	35,326	28,885
Connection Charges	11,175	14,255
Miscellaneous Revenues	13,640	6,293
Total Operating Revenues	\$ 1,359,646	\$ 1,283,574
OPERATING EXPENSES:		
Salaries	\$ 240,317	\$ 226,397
Depreciation Expense	257,707	222,531
Interest Expense	44,885	29,730
Utilities	80,285	72,046
Supplies	99,349	78,260
Repairs & Maintenance	38,348	57,494
Insurance	32,286	22,913
Legal & Professional Fees	314,283	113,130
Transportation Expense	16,067	16,223
Employee Benefits	45,089	41,891
Payroll Tax Expense	19,014	18,662
Communication Expense	4,212	2,300
Office Supplies & Postage	23,574	28,982
Bad Debt Expense	-	-
Director's Fees	3,400	3,400
Dues & Licenses	5,030	4,132
Equipment Rent	6,475	6,019
Advertising Expenses	-	380
Settlement Trust	-	-
Miscellaneous Expense	5,498	5,753
Total Operating Expenses	\$ 1,235,819	\$ 950,243
OPERATING INCOME (LOSS)	\$ 123,827	\$ 333,331
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 34,216	\$ 23,468
Gain on Sale of Assets	12,935	-
Total Other Revenues(Expenses)	\$ 47,151	\$ 23,468
NET INCOME	\$ 170,978	\$ 356,799

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Balance, August 1	\$ 8,339,052	\$ 7,735,878
Net Income (Loss)	170,978	356,799
Member Investments	195,225	133,875
Donated Assets	162,514	-
Impact Fees	47,000	-
Grants	<u>187,500</u>	<u>112,500</u>
Total Changes in Net Assets	<u>\$ 763,217</u>	<u>\$ 603,174</u>
Balance, July 31	<u><u>\$ 9,102,269</u></u>	<u><u>\$ 8,339,052</u></u>

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, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,347,501	\$ 1,298,146
Payments to suppliers	(640,398)	(415,799)
Payments to employees	(304,420)	(286,950)
Net Cash Provided by Operating Activities	\$ 402,683	\$ 595,397
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (1,838,130)	\$ (505,554)
Payments for Construction in Progress	(35,320)	(77,086)
Purchase of land & water rights	-	-
Principal payments on notes payable	(88,539)	(72,968)
Interest paid on notes payable	(45,248)	(29,983)
Proceeds from long-term notes	1,062,500	483,071
Proceeds from grants	187,500	112,500
Proceeds from sale of assets	12,935	-
Net Cash Used In Capital & Related Financing Activities	\$ (744,302)	\$ (90,020)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 29,202	\$ 22,054
Proceeds from impact fees	47,000	-
Proceeds from memberships	195,225	133,875
Net Cash Provided from Investing Activities	\$ 271,427	\$ 155,929
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ (70,192)	\$ 661,306
Cash and Investment Balance - Beginning	2,872,564	2,211,258
CASH AND INVESTMENT BALANCE - ENDING	\$ 2,802,372	\$ 2,872,564
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 123,827	\$ 333,331
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	44,885	29,730
Depreciation expense	257,707	222,531
Change in assets and liabilities:		
Accounts Receivable	(12,145)	14,572
Prepaid Insurance	(6,073)	(2,729)
Inventory	(4,216)	8,663
Accounts Payable	(9,162)	(4,528)
Customer Deposits	7,860	(6,173)
Net Cash Provided from Operating Activities	\$ 402,683	\$ 595,397

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, 2013 and 2012

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 2,619 and 2,485 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, 2013 and 2012 amounted to \$189,014 and \$176,869, 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.

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

Notes to the Financial Statements
For the Years Ended July 31, 2013 and 2012

Note 5 - Changes in Fixed Assets

	Balance 8/1/2012	Additions	Disposed	Balance 7/31/2013
Water System - Constructed	\$ 5,836,164	\$ 1,974,024	\$ -	\$ 7,810,188
Water System - Acquired	2,637,132	162,514	-	2,799,646
Equipment	127,077	-	-	127,077
Vehicles	69,693	19,992	(20,097)	69,588
Buildings	192,429	-	-	192,429
Total Assets	\$ 8,862,495	\$ 2,156,530	\$ (20,097)	\$ 10,998,928
Less: Accumulated Depreciation	2,954,298	257,707	(20,097)	3,191,908
Net Fixed Assets	\$ 5,908,197	\$ 1,898,823	\$ -	\$ 7,807,020

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, 2013 and 2012 were \$162,514 and \$0, respectively.

Note 7 - Components of Cash and Investments

	Date of Maturity	Interest Rate	7/31/2013 Balance
Petty Cash	-	0.00%	\$ 97
Hi-Fi Account - Oklahoma State Bank	-	0.25%	127,803
Checking - Oklahoma State Bank	-	0.00%	100
Savings - Bancfirst	-	0.05%	290,494
CD's - Edward Jones	Various	Various	1,470,765
CD - Oklahoma State Bank	6/7/2014	1.15%	113,000
CD - Oklahoma State Bank	10/3/2014	1.15%	20,000
CD - Oklahoma State Bank	9/13/2013	0.50%	50,000
CD - Oklahoma State Bank	5/19/2014	1.15%	22,000
CD - Oklahoma State Bank	8/7/2014	1.15%	20,000
CD - Farmers & Merchants Bank	8/22/2013	1.15%	50,000
CD - Farmers & Merchants Bank	8/22/2013	1.15%	50,000
CD - Farmers & Merchants Bank	8/1/2014	0.90%	50,000
CD - Farmers & Merchants Bank	8/1/2014	0.90%	50,000
CD - Farmers & Merchants Bank	7/10/2014	0.55%	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	279,113
Reserve Certificates - ORWAAG	-	1.24%	1,000
Total Cash and Investments			\$ 2,802,372

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

Notes to the Financial Statements
For the Years Ended July 31, 2013 and 2012

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 \$12,004 and \$10,798 during the years ending July 31, 2013 and 2012.

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 has a term of 20 years and accrues interest at a fixed rate of 2.46%. The note has not been finalized as of the date of the audit and the monthly payments have not been established.

Interest and administrative fees of \$16,591.63 during construction has been capitalized .

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 7/31/2013	Balance 7/31/2012
Berkadia	1	97,432	111,311
Berkadia	2	28,844	47,012
Berkadia	3	56,095	69,101
Berkadia	4	90,540	99,383
Rural Development		251,024	255,823
OWRB - Series 2009		554,723	584,566
OWRB - Series 2011		1,062,500	-
TOTAL		2,141,158	1,167,196
Less: Current Portion		84,981	56,635
NET LONG-TERM NOTES		<u>\$ 2,056,177</u>	<u>\$ 1,110,561</u>

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

Notes to the Financial Statements
For the Years Ended July 31, 2013 and 2012

Note 9 - Long Term Liabilities - continued

Current Portion:		Berkadia	OWRB09	RD	OWRB11
Year Ending	7/31/2014	56,769	23,216	4,996	*
Year Ending	7/31/2015	49,198	23,935	5,232	*
Year Ending	7/31/2016	41,534	24,633	5,482	*
Year Ending	7/31/2017	40,379	25,438	5,674	*
Year Ending	7/31/2018	29,102	26,226	6,003	*

* - the note had not been finalized as of the date of the audit.

Note 10 - Prior Period Adjustment

The District didn't make any prior period adjustments during the years ending July 31, 2013 or 2012.

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	<u><u>\$ 83,488</u></u>

Reserved for Future Improvements

CD's for System Improvements & Water rights	<u>1,998,500</u>
Total Reserved Assets	<u><u>1,998,500</u></u>

Note 12 - Construction in Progress

The District has 3 projects in progress as of July 31, 2013 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 sewer project has a carryover amount of \$65,771, Air Depot extension project carries over \$50,131, and line relocate project at Coltrane carries over \$20,240.

Note 13 - Grants

The District received grant proceeds during the year ending July 31, 2012 from Oklahoma Water Resources Board of \$112,500 for the booster station project. The District received a grant of \$187,500 from the Oklahoma Water Resources Board which reduced the note.

SCOTT NORTHRIP, CPA

P.O. Box 642, Hobart, Oklahoma 73651

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND 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 Dist. #1
Logan County, Oklahoma

I have audited the basic financial statements of Rural Water, Sewer, and Solid Waste Management District #1, Logan County, Oklahoma (District), as of and for the year ending July 31, 2013, and have issued my report thereon dated August 23, 2013. 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.

Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed test 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, my objective was not to provide an opinion on overall compliance with such provisions. Accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that require to be reported under *Government Auditing Standards*.

Internal Control

In planning and performing the audit, I considered the District's internal control over financial reporting in order to determine the auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design of operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned function.

Report on Compliance and Internal Controls-Continued

I noted no matters involving internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal controls that, in my judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements or its ability to administer its programs in accordance with applicable laws and regulations.

This report is intended for the information of the Board of Directors, Berkadia Mortgage, Oklahoma Water Resources Board, Rural Development, and the State of Oklahoma. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Scott Northrip

Certified Public Accountant

August 23, 2013

**Rural Water, Sewer, & Solid Waste Management
 District #1, Logan County, Oklahoma**
 Statement of Financial Assistance
 For the Year Ended July 31, 2013

Pass through entity:	Amount Received	Amount Disbursed	CFDA Number
Oklahoma Water Resources Board:			
Loan #ORF-11-0012-DW	\$ 1,250,000.00	\$ 1,250,000.00	66.468
Grant	-	-	
Total	\$ 1,250,000.00	\$ 1,250,000.00	

Note - The loan proceeds were used to construct a new water tower and purchase new electronic read water meters.

SCOTT NORTHRIP, CPA

P.O. Box 642, Hobart, Oklahoma 73651

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Rural Water, Sewer, and Solid Waste Management District #1 (District)'s compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on District's major federal program for the year ended July 31, 2013. The District's major federal programs are identified in the Schedule of Financial Assistance on page 12.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended July 31, 2013.

Report on Internal Control Over Compliance

Management of the District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Scott Northrip

Certified Public Accountant

August 23, 2013