



**Rural Water, Sewer  
and Solid Waste  
Management Dist. #3,  
Logan Co., Oklahoma**

*Audit Report*

For Year Ending October 31, 2012

Scott Northrip, CPA

P.O. Box 642

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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. #3  
Logan County, Oklahoma

I have audited the basic financial statements of Rural Water, Sewer, & Solid Waste Management District #3, Logan County, Oklahoma(District), as of and for the years ended October 31, 2012 and 2011. 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 #3, Logan County, Oklahoma, as of October 31, 2012 and 2011, and the results of its operations and 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*, I have also issued my report dated December 19, 2012, on my consideration of the Authority'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

December 19, 2012

**Rural Water, Sewer, & Solid Waste Management  
District #3, Logan County, Oklahoma**

Statement of Net Assets  
As of October 31, 2012 and 2011

<b>ASSETS:</b>	<b>2012</b>	<b>2011</b>
Current Assets:		
Cash & Cash Equivalents	\$ 579,381	\$ 517,453
Investments	365,665	485,222
Accounts Receivable (Note 2)	89,810	67,170
Other Receivable	-	-
Interest Receivable	144	225
Prepaid Insurance	15,977	14,083
Inventory	23,000	18,931
<b>Total Current Assets</b>	<b>\$ 1,073,977</b>	<b>\$ 1,103,084</b>
Noncurrent Assets:		
Construction in Progress	\$ -	\$ -
Capital Assets: (Note 5)		
Land & Easements	164,850	164,850
Other Capital Assets, net of depreciation	1,866,135	1,847,933
<b>Total Noncurrent Assets</b>	<b>\$ 2,030,985</b>	<b>\$ 2,012,783</b>
<b>TOTAL ASSETS</b>	<b>\$ 3,104,962</b>	<b>\$ 3,115,867</b>
<b>LIABILITIES AND NET ASSETS:</b>		
Current Liabilities:		
Accounts Payable	\$ 10,723	\$ 16,206
Interest Payable	-	-
Customer Deposits	23,110	22,000
Current Portion of Long-term Liabilities	160,417	131,400
<b>Total Current Liabilities</b>	<b>\$ 194,250</b>	<b>\$ 169,606</b>
Long-Term Liabilities: (Note 9)		
Notes Payable - OWRB, net of current	\$ 841,250	\$ 1,144,000
Net Assets:		
Restricted Fund Balance	\$ 117,079	\$ 238,790
Unrestricted Fund Balance	(551,805)	(880,425)
<b>Total Fund Balance</b>	<b>\$ (434,726)</b>	<b>\$ (641,635)</b>
Member Investments	478,513	441,513
Donated Assets (Note 6)	319,125	295,833
Grants	910,000	910,000
Gain on Acquisition of Loan	796,550	796,550
<b>TOTAL NET ASSETS</b>	<b>\$ 2,069,462</b>	<b>\$ 1,802,261</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,104,962</b>	<b>\$ 3,115,867</b>

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management  
District #3, Logan County, Oklahoma**

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

	<b>2012</b>	<b>2011</b>
<b>OPERATING REVENUES:</b>		
Water Sales to Members	\$ 672,606	\$ 598,891
Water Sales to Municipalities	137,359	127,873
Fees, Analysis, & Reimbursement	36,638	16,710
Insurance Proceeds	1,043	22,293
Miscellaneous Revenues	487	1,174
<b>Total Operating Revenues</b>	<b>\$ 848,133</b>	<b>\$ 766,941</b>
<b>OPERATING EXPENSES:</b>		
Salaries & Service Awards	\$ 161,544	\$ 148,777
Depreciation Expense	149,351	142,318
Interest Expense	17,096	19,404
Utilities	43,640	46,667
Supplies	56,840	54,766
Repairs & Maintenance	32,060	41,767
Insurance	22,720	22,040
Legal & Professional Fees	10,526	8,480
Transportation Expense	41,073	34,711
Employee Benefits	57,936	53,230
Payroll Tax Expense	12,643	12,117
Communication Expense	5,006	5,230
Office Supplies & Postage	7,256	8,836
Chemical Expense	21,712	20,900
Travel & Per Diem	1,644	719
Director's meetings	120	132
Dues & Licenses	1,861	4,819
Bad Debt Expense	392	-
Trencher Expenses	-	-
Water Analysis	1,661	4,578
Miscellaneous Expense	989	1,379
<b>Total Operating Expenses</b>	<b>\$ 646,070</b>	<b>\$ 630,870</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ 202,063</b>	<b>\$ 136,071</b>
<b>OTHER REVENUES (EXPENSES):</b>		
Investment Revenues	\$ 3,236	\$ 6,731
Rent	1,100	1,100
Gain on Sale of Assets	510	2,050
<b>Total Other Revenues(Expenses)</b>	<b>\$ 4,846</b>	<b>\$ 9,881</b>
<b>NET INCOME</b>	<b>\$ 206,909</b>	<b>\$ 145,952</b>

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management**  
**District #3, Logan County, Oklahoma**  
 Comparative Statement of Changes in Net Assets  
 For the Years Ended October 31, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>Balance, November 1</b>	\$ 1,802,261	\$ 1,615,692
Net Income (Loss)	206,909	145,952
Member Investments	37,000	28,000
Donated Assets	23,292	12,617
Prior Period Adjustment (Note 10)	-	-
<b>Total Changes in Net Assets</b>	<b>\$ 267,201</b>	<b>\$ 186,569</b>
<b>Balance, October 31</b>	<b>\$ 2,069,462</b>	<b>\$ 1,802,261</b>

See accompanying notes to the financial statements.

**Rural Water, Sewer & Solid Waste Management  
District #3, Logan County, Oklahoma**

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

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 825,493	\$ 771,574
Payments to suppliers	(257,836)	(250,225)
Payments to employees	(232,123)	(214,124)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 335,534</b>	<b>\$ 307,225</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of fixed assets	\$ (167,553)	\$ (44,564)
Donated Assets	23,292	12,617
Payments for Construction in Progress	-	-
Purchase of land	-	-
Principal payments on notes payable	(273,733)	(121,500)
Interest paid on notes payable	(17,096)	(19,404)
Proceeds from sale of assets	510	2,050
<b>Net Cash Used In Capital &amp; Related Financing Activities</b>	<b>\$ (434,580)</b>	<b>\$ (170,801)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment Revenues	\$ 3,317	\$ 6,644
Rent	1,100	1,100
Proceeds from memberships	37,000	28,000
<b>Net Cash Provided from Investing Activities</b>	<b>\$ 41,417</b>	<b>\$ 35,744</b>
<b>INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	<b>\$ (57,629)</b>	<b>\$ 172,168</b>
Cash and Investment Balance - Beginning	1,002,675	830,507
<b>CASH AND INVESTMENT BALANCE - ENDING</b>	<b>\$ 945,046</b>	<b>\$ 1,002,675</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ 202,063	\$ 136,071
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	17,096	19,404
Depreciation expense	149,351	142,318
Change in assets and liabilities:		
Accounts Receivable	(22,640)	3,434
Other Receivable	-	1,199
Prepaid Insurance	(1,894)	510
Inventory	(4,069)	(551)
Accounts Payable	(5,483)	4,040
Customer Deposits	1,110	800
<b>Net Cash Provided from Operating Activities</b>	<b>\$ 335,534</b>	<b>\$ 307,225</b>

See accompanying notes to the financial statements.

# Rural Water, Sewer & Solid Waste Management District #3, Logan County, Oklahoma

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

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

### **Organization:**

Rural Water, Sewer, and Solid Waste Management District #3, 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 membership. The District served 953 meters at October 31, 2012 and billed 87.9 million gallons during the year ended.

### **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 5 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.

### **Inventory:**

The District carries an inventory of supplies used to upgrade and repair the water system. The inventory is not being counted annually and is estimated by management of the District.

## **Note 2 - Accounts Receivable**

The accounts receivable represents the water usage and service revenues for October 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 October 31, 2012 and 2011 amounted to \$91,642 and \$68,610, respectively with the allowance in the amount of \$1,833 and \$1,441.

## **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.

# Rural Water, Sewer & Solid Waste Management District #3, Logan County, Oklahoma

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

## Note 5 - Changes in Fixed Assets

	Balance 11/1/2011	Additions	Disposed	Balance 10/31/2012
Water System Plant Assets	\$ 5,094,908	\$ 100,571	\$ -	\$ 5,195,479
Water Rights & Easements	56,050	-	-	56,050
Office Furniture & Fixtures	24,388	-	-	24,388
Equipment	78,440	39,100	(25,200)	92,340
Vehicles	64,687	27,882	-	92,569
Loan Origination Fees	112,829	-	-	112,829
Buildings	30,145	-	-	30,145
<b>Total Assets</b>	<b>\$ 5,461,447</b>	<b>\$ 167,553</b>	<b>\$ (25,200)</b>	<b>\$ 5,603,800</b>
Less: Accumulated Depreciation	3,613,514	149,351	(25,200)	3,737,665
<b>Net Fixed Assets</b>	<b>\$ 1,847,933</b>	<b>\$ 18,202</b>	<b>\$ -</b>	<b>\$ 1,866,135</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 October 31, 2012 and 2011 were \$23,292 and \$12,617, respectively.

## Note 7 - Components of Cash and Investments

	Date of Maturity	Interest Rate	Balance	
Checking - Farmers & Merchants Bank	-	0.00%	\$ 10,032	
Hi-Fi Account - Community State Bank	-	0.15%	216,265	
Money Market - Stillwater National Bank	-	0.30%	153,834	
Savings - Farmers & Merchants Bank	-	0.15%	5,494	
Market Investors - Farmers & Merchants	-	0.10%	193,556	
Petty Cash	-	0.00%	200	
CD - Interbank	6/14/2013	0.50%	105,727	
CD - Interbank	4/2/2013	0.50%	16,710	
CD - First Bank & Trust	6/11/2013	0.70%	22,670	
CD - Exchange Bank	12/24/2012	1.00%	102,479	
OWRB Reserve Acct - Bank of Oklahoma	-	0.10%	117,079	Restricted
Reserve Certificates - ORWAAG	-	2.17%	1,000	
<b>Total Cash and Investments</b>			<b>\$ 945,046</b>	

## Note 8 - Retirement

The District provides a Simple IRA retirement plan for its participating employees. The plan is administered by the American Funds. The District matches contributions up to 2% of the employee wages.

## Rural Water, Sewer & Solid Waste Management District #3, Logan County, Oklahoma

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

### Note 9 - Long Term Liabilities

The District borrowed \$2,650,000 from Oklahoma Water Resources Board for system improvements and to pay off loans from Farmers Home Administration. The loan was financed through the sale of bonds administered by the Bank of Oklahoma. Note payments are made the Bank of Oklahoma monthly. Interest is variable and is adjusted semi-annually which changes the amount of the monthly payments since the principle is fixed. The note is secured by the system assets of the District.

	10/31/2012 Balance	10/31/2011 Balance
OWRB	\$ 1,001,667	\$ 1,275,400
Less: Current Portion	160,417	131,400
Long-Term Balance	\$ 841,250	\$ 1,144,000

Payment Period		Interest Rate	Monthly Payment
Begin	End		
9/1/2010	11/30/2010	1.45%	11,551.50
12/1/2010	2/28/2011	1.55%	11,591.60
3/1/2011	5/31/2011	1.45%	11,824.03
6/1/2011	8/31/2011	1.37%	11,698.63
9/1/2011	2/28/2012	1.38%	12,091.00
2/28/2012	3/28/2012	1.38%	12,270.12

The District refinanced the loan with OWRB to a fixed interest rate on 3-28-12 for 6.5 years.

4/1/2012	9/30/2012	2.82%	15,525.10
10/1/2012	9/30/2013	2.82%	15,445.83

Current Portion:

Year Ending	10/31/2013	160,417	
Year Ending	10/31/2014	165,000	
Year Ending	10/31/2015	165,417	
Year Ending	10/31/2016	170,416	
Year Ending	10/31/2017	175,417	
Year Ending	10/31/2018	165,000	

### Note 10 - Prior Period Adjustment

There were no prior period adjustments for the years ending October 31, 2012 or 2011.

# **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. #3  
Logan County, Oklahoma

I have audited the basic financial statements of Rural Water, Sewer, and Solid Waste Management District #3, Logan County, Oklahoma (District), as of and for the year ending October 31, 2012, and have issued my report thereon dated December 19, 2012. 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 and Other Matters

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 as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, I 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.

## Report on Compliance and Internal Controls-Continued

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.

My consideration of the 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, Oklahoma Water Resources Board 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

December 19, 2012