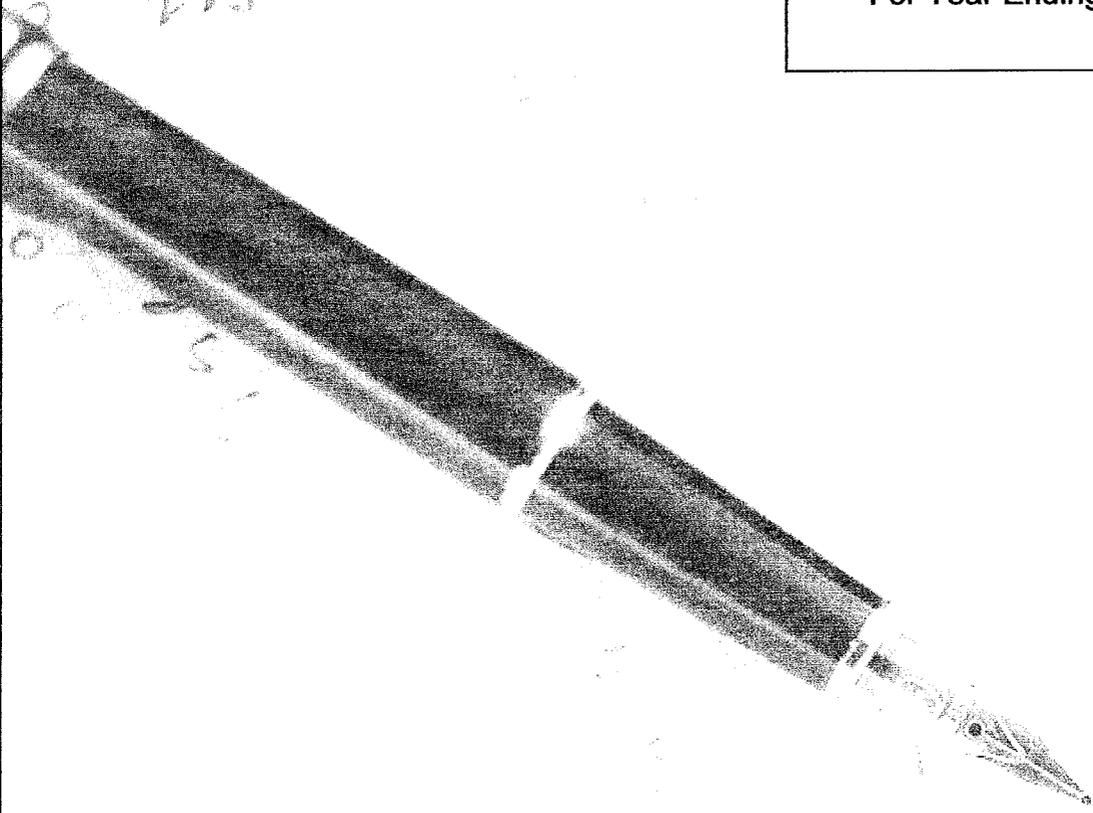


**Logan County Rural
Water District #1**
Audit Report
For Year Ending July 31, 2012

P.V.
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225



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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, 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 #1, Logan County, Oklahoma, as of July 31, 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*, I have also issued my report dated August 24, 2012, 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 24, 2012

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

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

| ASSETS: | 2012 | 2011 |
|--|---------------------|---------------------|
| Current Assets: | | |
| Cash & Cash Equivalents | \$ 787,845 | \$ 623,682 |
| Investments | 2,084,719 | 1,587,576 |
| Accounts Receivable (Note 2) | 175,284 | 189,856 |
| Other Receivable | - | - |
| Interest Receivable | 7,065 | 5,651 |
| Prepaid Insurance | 21,551 | 18,822 |
| Inventory | 44,932 | 53,595 |
| Total Current Assets | \$ 3,121,396 | \$ 2,479,182 |
| Noncurrent Assets: | | |
| Construction in Progress (Note 12) | \$ 229,205 | \$ 501,725 |
| Capital Assets: (Note 5) | | |
| Land & Water Rights | 396,575 | 396,575 |
| Other Capital Assets, net of depreciation (Note 5) | 5,908,197 | 5,275,568 |
| Total Noncurrent Assets | \$ 6,533,977 | \$ 6,173,868 |
| TOTAL ASSETS | \$ 9,655,373 | \$ 8,653,050 |
| LIABILITIES AND NET ASSETS: | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 21,459 | \$ 25,987 |
| Interest Payable | 1,439 | 1,691 |
| Customer Deposits | 126,227 | 132,400 |
| Current Portion of Long-term Liabilities | 56,635 | 53,881 |
| Total Current Liabilities | \$ 205,760 | \$ 213,959 |
| Long-Term Liabilities: (Note 9) | | |
| Notes Payable, net of current | \$ 1,110,561 | \$ 703,213 |
| Net Assets: | | |
| Restricted Fund Balance | \$ 83,488 | \$ 83,488 |
| Unrestricted Fund Balance | 2,402,515 | 2,045,716 |
| Total Fund Balance | \$ 2,486,003 | \$ 2,129,204 |
| Member Investments | 2,282,326 | 2,148,451 |
| Donated Assets (Note 6) | 2,754,006 | 2,754,006 |
| Grants (Note 13) | 618,942 | 506,442 |
| Impact Fees | 197,775 | 197,775 |
| TOTAL NET ASSETS | \$ 8,339,052 | \$ 7,735,878 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 9,655,373 | \$ 8,653,050 |

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, 2012 and 2011

| | 2012 | 2011 |
|---------------------------------------|---------------------|---------------------|
| OPERATING REVENUES: | | |
| Water Sales | \$ 1,157,674 | \$ 1,162,327 |
| Sewer Service Revenues | 76,467 | 74,018 |
| Late Fees | 28,885 | 23,826 |
| Connection Charges | 14,255 | 14,160 |
| Miscellaneous Revenues | 6,293 | 6,964 |
| Total Operating Revenues | \$ 1,283,574 | \$ 1,281,295 |
| OPERATING EXPENSES: | | |
| Salaries | \$ 226,397 | \$ 221,524 |
| Depreciation Expense | 222,531 | 213,022 |
| Interest Expense | 29,730 | 32,299 |
| Utilities | 72,046 | 76,860 |
| Supplies | 78,260 | 51,946 |
| Repairs & Maintenance | 57,494 | 43,169 |
| Insurance | 22,913 | 28,887 |
| Legal & Professional Fees | 113,130 | 253,012 |
| Transportation Expense | 16,223 | 14,804 |
| Employee Benefits | 41,891 | 35,963 |
| Payroll Tax Expense | 18,662 | 17,895 |
| Communication Expense | 2,300 | 2,303 |
| Office Supplies & Postage | 28,982 | 26,874 |
| Bad Debt Expense | - | - |
| Director's Fees | 3,400 | 3,700 |
| Dues & Licenses | 4,132 | 11,260 |
| Equipment Rent | 6,019 | 6,174 |
| Advertising Expenses | 380 | 752 |
| Settlement Trust | - | 27,500 |
| Miscellaneous Expense | 5,753 | 3,700 |
| Total Operating Expenses | \$ 950,243 | \$ 1,071,644 |
| OPERATING INCOME (LOSS) | \$ 333,331 | \$ 209,651 |
| OTHER REVENUES (EXPENSES): | | |
| Investment Revenues | \$ 23,468 | \$ 31,703 |
| Gain on Sale of Assets | - | - |
| Total Other Revenues(Expenses) | \$ 23,468 | \$ 31,703 |
| NET INCOME | \$ 356,799 | \$ 241,354 |

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, 2012 and 2011

| | 2012 | 2011 |
|------------------------------------|---------------------|---------------------|
| Balance, August 1 | \$ 7,735,878 | \$ 7,014,323 |
| Net Income (Loss) | 356,799 | 241,354 |
| Member Investments | 133,875 | 172,964 |
| Donated Assets | - | 238,895 |
| Impact Fees | - | 9,900 |
| Grants | 112,500 | 58,442 |
| Total Changes in Net Assets | \$ 603,174 | \$ 721,555 |
| Balance, July 31 | \$ 8,339,052 | \$ 7,735,878 |

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, 2012 and 2011

| | 2012 | 2011 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from customers | \$ 1,298,146 | \$ 1,196,575 |
| Payments to suppliers | (415,799) | (530,552) |
| Payments to employees | (286,950) | (275,382) |
| Net Cash Provided by Operating Activities | \$ 595,397 | \$ 390,641 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase of fixed assets | \$ (505,554) | \$ (357,188) |
| Payments for Construction in Progress | (77,086) | (144,218) |
| Purchase of land & water rights | - | (70,051) |
| Principal payments on notes payable | (72,968) | (67,954) |
| Interest paid on notes payable | (29,983) | (32,063) |
| Proceeds from long-term notes | 483,071 | 120,245 |
| Proceeds from grants | 112,500 | 58,442 |
| Proceeds from sale of assets | - | - |
| Net Cash Used In Capital & Related Financing Activities | \$ (90,020) | \$ (492,787) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment Receipts | \$ 22,054 | \$ 32,055 |
| Proceeds from impact fees | - | 9,900 |
| Proceeds from memberships | 133,875 | 172,964 |
| Net Cash Provided from Investing Activities | \$ 155,929 | \$ 214,919 |
| INCREASE (DECREASE) IN CASH AND INVESTMENTS | \$ 661,306 | \$ 112,773 |
| Cash and Investment Balance - Beginning | 2,211,258 | 2,098,485 |
| CASH AND INVESTMENT BALANCE - ENDING | \$ 2,872,564 | \$ 2,211,258 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities: | | |
| Operating Income (Loss) | \$ 333,331 | \$ 209,651 |
| Adjustments to reconcile operating income to net cash provided (used) by Operating Activities: | | |
| Interest Expense | 29,730 | 32,299 |
| Depreciation expense | 222,531 | 213,022 |
| Change in assets and liabilities: | | |
| Accounts Receivable | 14,572 | (84,720) |
| Prepaid Insurance | (2,729) | 1,247 |
| Inventory | 8,663 | (799) |
| Accounts Payable | (4,528) | 5,131 |
| Customer Deposits | (6,173) | 14,810 |
| Net Cash Provided from Operating Activities | \$ 595,397 | \$ 390,641 |

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, 2012 and 2011

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 2,485 and 2,383 meters at July 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 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, 2012 and 2011 amounted to \$176,869 and \$191,441, 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, 2012 and 2011

Note 5 - Changes in Fixed Assets

| | Balance 8/1/2011 | Additions | Disposed | Balance 7/31/2012 |
|--------------------------------|---------------------|-------------------|-------------|----------------------|
| Water System - Constructed | \$ 4,981,004 | \$ 855,160 | \$ - | \$ 5,836,164 |
| Water System - Acquired | 2,637,132 | - | - | 2,637,132 |
| Equipment | 127,077 | - | - | 127,077 |
| Vehicles | 69,693 | - | - | 69,693 |
| Buildings | 192,429 | - | - | 192,429 |
| Total Assets | \$ 8,007,335 | \$ 855,160 | \$ - | \$ 8,862,495 |
| Less: Accumulated Depreciation | 2,731,767 | 222,531 | - | 2,954,298 |
| Net Fixed Assets | \$ 5,275,568 | \$ 632,629 | \$ - | \$ 5,908,197 |

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, 2012 and 2011 were \$0 and \$238,896, respectively.

Note 7 - Components of Cash and Investments

| | Date of Maturity | Interest Rate | 7/31/2012 Balance |
|-------------------------------------|---------------------|------------------|----------------------|
| Petty Cash | - | 0.00% | \$ 88 |
| Hi-Fi Account - Oklahoma State Bank | - | 0.25% | 450,167 |
| Checking - Oklahoma State Bank | - | 0.00% | 73,239 |
| Savings - Bancfirst | - | 0.25% | 264,351 |
| CD's - Edward Jones | Various | Various | 1,124,014 |
| CD - Oklahoma State Bank | 6/7/2014 | 1.15% | 113,000 |
| CD - Oklahoma State Bank | 9/23/2012 | 0.65% | 20,000 |
| CD - Oklahoma State Bank | 3/12/2013 | 0.65% | 50,000 |
| CD - Oklahoma State Bank | 5/19/2014 | 1.15% | 22,000 |
| CD - Oklahoma State Bank | 7/28/2012 | 0.95% | 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 | 10/23/2012 | 0.75% | 50,000 |
| CD - Farmers & Merchants Bank | 10/23/2012 | 0.75% | 50,000 |
| CD - Farmers & Merchants Bank | 6/30/2013 | 1.10% | 50,000 |
| CD - IBC Bank | 3/23/2013 | 0.75% | 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 | 276,705 |
| Reserve Certificates - ORWAAG | - | 1.24% | 1,000 |
| Total Cash and Investments | | | \$ 2,872,564 |

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

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

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 \$10,798 and \$9,161 during the years ending July 31, 2012 and 2011.

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 has not been finalized as of the date of the audit and the monthly payments have not been established. The note has accrued interest at a rate of 3.03% and \$7,606.92 of interest and administrative fees during construction has been capitalized. The District has paid \$18,750 in principal during the year ending July 31, 2012.

The payments and interest rates were as follows:

| Semi-annual Period | | Interest Rate | Monthly Payment |
|--------------------|-----|---------------|-----------------|
| Begin | End | | |

This information was not available as of the date of the audit because the note had not been finalized.

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 7/31/2011 | Balance 7/31/2011 |
|----------------------------|-------------|---------------------|-------------------|
| Berkadia | 1 | 111,311 | 123,925 |
| Berkadia | 2 | 47,012 | 63,765 |
| Berkadia | 3 | 69,101 | 81,533 |
| Berkadia | 4 | 99,383 | 107,413 |
| Rural Development | | 255,823 | 260,213 |
| OWRB - Series 2011 | | 584,566 | 120,245 |
| TOTAL | | 1,167,196 | 757,094 |
| Less: Current Portion | | 56,635 | 53,881 |
| NET LONG-TERM NOTES | | \$ 1,110,561 | \$ 703,213 |

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

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

Note 9 - Long Term Liabilities - continued

| Current Portion: | | Berkadia | OWRB | RD |
|------------------|-----------|----------|------|-------|
| Year Ending | 7/31/2013 | 51,855 | - | 4,780 |
| Year Ending | 7/31/2014 | 54,472 | - | 4,996 |
| Year Ending | 7/31/2015 | 52,916 | - | 5,232 |
| Year Ending | 7/31/2016 | 40,805 | - | 5,482 |
| Year Ending | 7/31/2017 | 39,429 | - | 5,674 |

Note 10 - Prior Period Adjustment

The District didn't make any prior period adjustments during the years ending July 31, 2012 or 2011.

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 7 projects in progress as of July 31, 2012 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 water tower project has a carryover amount of \$64,315 Air Depot extension project carries over \$50,131, well #18 carryover of \$57,163, sewer project in Green Oaks carries over \$45,091, a water line extension project on Coltrane carries over \$5,600, and telemetry on towers & wells has a carry over of and an 8" water line extension carries over a cost of \$6,905.

Note 13 - Grants

The District received grant proceeds during the year ending July 31, 2011 from a CDBG block grant for the sewer lagoons project in the amount of \$58,442. 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.

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, 2012, and have issued my report thereon dated August 24, 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

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 24, 2012

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

Statement of State Financial Assistance
For the Year Ended July 31, 2012

| Pass through entity: | Amount Received | Amount Disbursed |
|--|----------------------|----------------------|
| Oklahoma Water Resources Board: | | |
| Loan #ORF-09-0016-DW | \$ 483,071.30 | \$ 483,071.30 |
| Grant | 112,500.00 | 112,500.00 |
| Total | \$ 595,571.30 | \$ 595,571.30 |