



**Stephens County Rural
Water District #5**
Audit Report
For Year Ending September 30, 2013

Scott Northrip, CPA

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Independent Auditor's Report

To The Board of Directors of
Rural Water, Sewer, & Solid Waste Management Dist. #5
Stephens County, Oklahoma

I have audited the basic financial statements of Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma (District), as of and for the years ended September 30, 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 #5, Stephens County, Oklahoma, as of September 30, 2013 and 2012, and the results of its operations, 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 November 7, 2013, 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* and should be read in conjunction with this report in considering the results of the audit.

Scott Northrip, CPA

Certified Public Accountant
November 7, 2013

**Rural Water, Sewer, & Solid Waste Management
District #5, Stephens County, Oklahoma**

Statement of Net Position
As of September 30, 2013 and 2012

	2013	2012
ASSETS:		
Current Assets:		
Cash & Cash Equivalents (Note 9)	\$ 792,679	\$ 761,818
Accounts Receivable (Note 2)	179,262	113,426
Other Receivable	1,499	1,499
Interest Receivable	925	894
Prepaid Insurance	29,022	25,368
Inventory	20,027	22,138
Total Current Assets	\$ 1,023,414	\$ 925,143
Noncurrent Assets:		
Construction in Progress	\$ 43,468	\$ -
Capital Assets: (Note 5)		
Land, Water Rights, Deposits & Loan Fees	375,257	73,061
Other Capital Assets, net of depreciation	9,440,733	9,700,687
Total Noncurrent Assets	\$ 9,859,458	\$ 9,773,748
TOTAL ASSETS	\$ 10,882,872	\$ 10,698,891
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 34,397	\$ 62,137
Interest Payable	578	5,807
Current Portion of Long-term Liabilities	319,015	279,332
Total Current Liabilities	\$ 353,990	\$ 347,276
Long-Term Liabilities:		
Notes Payable - net of current portion	\$ 3,969,035	\$ 4,028,340
Net Position:		
Restricted Fund Balance (Note 9)	\$ 409,607	\$ 310,728
Unrestricted Fund Balance	(856,211)	(920,451)
Total Fund Balance	\$ (446,604)	\$ (609,723)
Member Investments	810,001	771,001
Member Investments - NE Expansion	296,835	288,835
Grants (Note 10)	5,182,912	5,182,912
Donated Assets (Note 6)	716,703	690,250
TOTAL NET POSITION	\$ 6,559,847	\$ 6,323,275
TOTAL LIABILITIES AND NET POSITION	\$ 10,882,872	\$ 10,698,891

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management
District #5, Stephens County, Oklahoma**

Comparative Statement of Activities
For the Years Ended September 30, 2013 and 2012

	2013	2012
OPERATING REVENUES:		
Water Sales	\$ 1,292,041	\$ 1,159,065
Water Sales - NE Expansion	300,515	268,470
Sale of Supplies	4,710	1,260
Connection Charges & Road Bores	9,075	66,280
Damage Reimbursement	824	7,142
Miscellaneous Revenues	13,106	17,426
Total Operating Revenues	\$ 1,620,271	\$ 1,519,643
OPERATING EXPENSES:		
Salaries	\$ 301,508	\$ 280,920
Water Purchases	71,281	72,803
Depreciation Expense	395,028	386,514
Interest Expense	145,511	199,923
Utilities	79,088	69,378
System Repairs & Operating Supplies	108,335	71,862
Contract Trenching Expense	97,440	161,856
Insurance	34,316	34,379
Legal & Professional Fees	23,463	17,503
Vehicle & Travel Expense	55,884	53,351
Employee Benefits	53,796	58,952
Payroll Tax Expense	24,411	22,759
Rent Expense	3,602	3,601
Office Supplies, Security & Postage	24,163	32,147
Communication Expense	11,070	11,075
Director's Meetings & Fees	4,947	4,442
Test Hole Costs	-	-
Dues & Fees	38,810	33,843
Bad Debts	1,675	2,589
Advertising & Promotions Expense	5,505	788
Miscellaneous Expense	570	1,560
Total Operating Expenses	\$ 1,480,403	\$ 1,520,245
OPERATING INCOME (LOSS)	\$ 139,868	\$ (602)
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 7,477	\$ 7,297
Reimburse line relocate	15,773	21,540
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	\$ 23,250	\$ 28,837
EXCESS REVENUES (EXPENSES)	\$ 163,118	\$ 28,235

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management
District #5, Stephens County, Oklahoma**

Comparative Statement of Changes in Net Assets
For the Years Ended September 30, 2013 and 2012

	2013	2012
Balance, October 1	\$ 6,323,275	\$ 6,173,201
Excess Revenues (Expenses)	163,118	28,235
Member Investments	47,000	64,800
Grants	-	-
Donated Assets	26,454	57,039
Total Changes in Net Assets	\$ 236,572	\$ 150,074
Balance, September 30	\$ 6,559,847	\$ 6,323,275

See accompanying notes to the financial statements.

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Comparative Statement of Cash Flows
For the Years Ended September 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,554,435	\$ 1,548,268
Payments to suppliers	(593,654)	(568,960)
Payments to employees & benefits	(379,715)	(362,631)
Net Cash Provided by Operating Activities	\$ 581,066	\$ 616,677
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (135,074)	\$ (490,840)
Payments for construction in progress	(43,468)	-
Donated Assets	26,454	57,039
Principal payments on notes payable	(4,135,586)	(346,529)
Interest paid on notes payable	(150,740)	(199,315)
Purchase of water rights & loan fees	(302,196)	-
Proceeds from Long-term notes	4,120,000	-
Proceeds from sale of assets	-	-
Net Cash Used In Capital & Related Financing Activities	\$ (620,610)	\$ (979,645)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 7,632	\$ 7,632
Proceeds from memberships	47,000	64,800
Miscellaneous Receipts	15,773	21,540
Net Cash Provided from Investing Activities	\$ 70,405	\$ 93,972
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 30,861	\$ (268,996)
Cash and Investment Balance - Beginning	761,818	1,030,814
CASH AND INVESTMENT BALANCE - ENDING	\$ 792,679	\$ 761,818
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Excess Operating Revenues (Expenses)	\$ 139,868	\$ (602)
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	145,511	199,923
Depreciation expense	395,028	386,514
Change in current assets and liabilities:		
Accounts Receivable	(65,836)	28,625
Other Receivable	-	-
Prepaid Insurance	(3,654)	2,242
Inventory	(2,111)	(4,736)
Accounts Payable	(27,740)	4,711
Net Cash Provided from Operating Activities	\$ 581,066	\$ 616,677

See accompanying notes to the financial statements.

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Notes to the Financial Statements
For the Years Ended September 30, 2013 and 2012

Note 1 - Significant Accounting Policies

Organization:

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma (District) is an Oklahoma non-profit corporation formed under the Oklahoma Rural Water Act for the purpose of supplying water to the rural areas in and around Stephens County, Oklahoma. The District is governed by a Board of Directors who have been elected from and by the members of the District at the annual membership meeting. The District served 2,050 meters at September 30, 2013 and sold 155.6 million gallons of water during the year.

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 Stephens County, Oklahoma.

Inventory:

The District carries an inventory of supply parts used to repair the water system. The inventory is reported at the market value as of September 30, 2013 and 2012.

Note 2 - Accounts Receivable

The accounts receivable represents the water usage and service revenues for September plus any unpaid balances from the previous months. The District uses the direct method to account for bad debts. The accounts receivable balances at September 30, 2013 and 2012 amounted to \$182,122 and \$116,285, respectively with the deduction of the allowance for bad debts of \$2,859 for both years. The meters are read by the District monthly.

Note 3 - 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 #5, Stephens County, Oklahoma

Notes to the Financial Statements
For the Years Ended September 30, 2013 and 2012

Note 5 - Fixed Assets

	Balance 10/1/2012	Additions	Disposed	Balance 9/30/2013
Water System Plant Assets	\$ 14,325,066	\$ 132,379	\$ -	\$ 14,457,445
Machinery & Equipment	23,477	-	-	23,477
Office Furniture & Fixtures	38,558	-	-	38,558
Vehicles	126,919	-	-	126,919
Office Buildings	192,018	2,695	-	194,713
Total Assets	\$ 14,706,038	\$ 135,074	\$ -	\$ 14,841,112
Less: Accumulated Depreciation	5,005,351	395,028	-	5,400,379
Net Fixed Assets	\$ 9,700,687	\$ (259,954)	\$ -	\$ 9,440,733

Note 6 - Donated Assets

Donated assets is the estimated value of water lines installed by members from the existing water lines of the system to the member's meter. The value of the lines donated to the District for the years ending September 30, 2013 and 2012 were \$26,454 and \$57,039, respectively.

Note 7 - Long-Term Liabilities

The District has long-term notes payable with Berkadia Mortgage, Rural Development, City National Bank, the Oklahoma Water Resources Board and S. Geiger. All notes are fixed interest notes except the OWRB which is adjusted annually. The notes are secured by the assets of the District.

	Interest Rate	9/30/2013	9/30/2012	Monthly Payment
Berkadia Mortgage	5.00%	\$ -	\$ 1,210,029	14,730
OWRB Series 2002	1.23%	-	253,900	2,066
Rural Dev. #9101	4.25%	-	1,709,592	8,096
Rural Dev. #9103	4.50%	-	805,505	3,938
City National Bank	4.25%	211,050	328,646	9,574
OWRB Series 2013	1.40%	3,940,000	-	28,612
S. Geiger	0.00%	137,000	-	1,000
Total		\$ 4,288,050	\$ 4,307,672	\$ 68,016
Less: Current Portion		(319,015)	(279,332)	
Long-term Portion		\$ 3,969,035	\$ 4,028,340	

Current Portion:		City Nat'l	OWRB	Geiger
Year Ending	9/30/2014	107,015	200,000	12,000
Year Ending	9/30/2015	104,036	205,000	12,000
Year Ending	9/30/2016	-	285,000	12,000
Year Ending	9/30/2017	-	310,000	12,000
Year Ending	9/30/2018	-	315,000	12,000

**Rural Water, Sewer, & Solid Waste Management
District #5, Stephens County, Oklahoma**

Notes to the Financial Statements
For the Years Ended September 30, 2013 and 2012

Note 8 - Retirement Plan

The District provides a money purchase retirement plan for its full time employees. The plan is administered by Lord Abbett. The District contributes 9% of the employees wages.

Note 9 - Components of Cash and Equivalents

	Date of Maturity	Interest Rate	9/30/2013 Balance
Petty Cash	-	0.00%	\$ 300
Checking - Bancfirst	-	0.10%	140,176
Savings - Bancfirst	-	0.15%	23,622
Savings - Bancfirst	-	0.15%	1,238
CD - Ft. Sill National Bank	8/5/2016	3.00%	105,674
CD - Ft. Sill National Bank	8/13/2015	3.00%	111,062
OWRB loan reserve - Bancfirst	-	0.01%	409,607
Reserve Certificates - ORWAAG	-	1.27%	1,000
Total Cash and Equivalents			<u>\$ 792,679</u>

Reserved:

Tower Maintenance	\$ 23,622
Water Rights	-
System Improvement	105,674
	<u>\$ 129,296</u>

Restricted:

OWRB Loan	\$ 409,607
	<u>\$ 409,607</u>

Note 10 - Grants

The District has been awarded a CDBG grant during the years ending September 30, 2013 in the amount of \$224,999 for improvements to the water system. The project had not begun at the date of the audit and no funds had been disbursed.

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. #5
Stephens County, Oklahoma

I have audited the basic financial statements of Rural Water, Sewer, and Solid Waste Management District #5, Stephens County, Oklahoma (District), as of and for the year ending September 30, 2013 and 2012, and have issued my report thereon dated November 7, 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 and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed test of its 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, providing an opinion on compliance with such 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 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, CPA

Certified Public Accountant

November 7, 2013