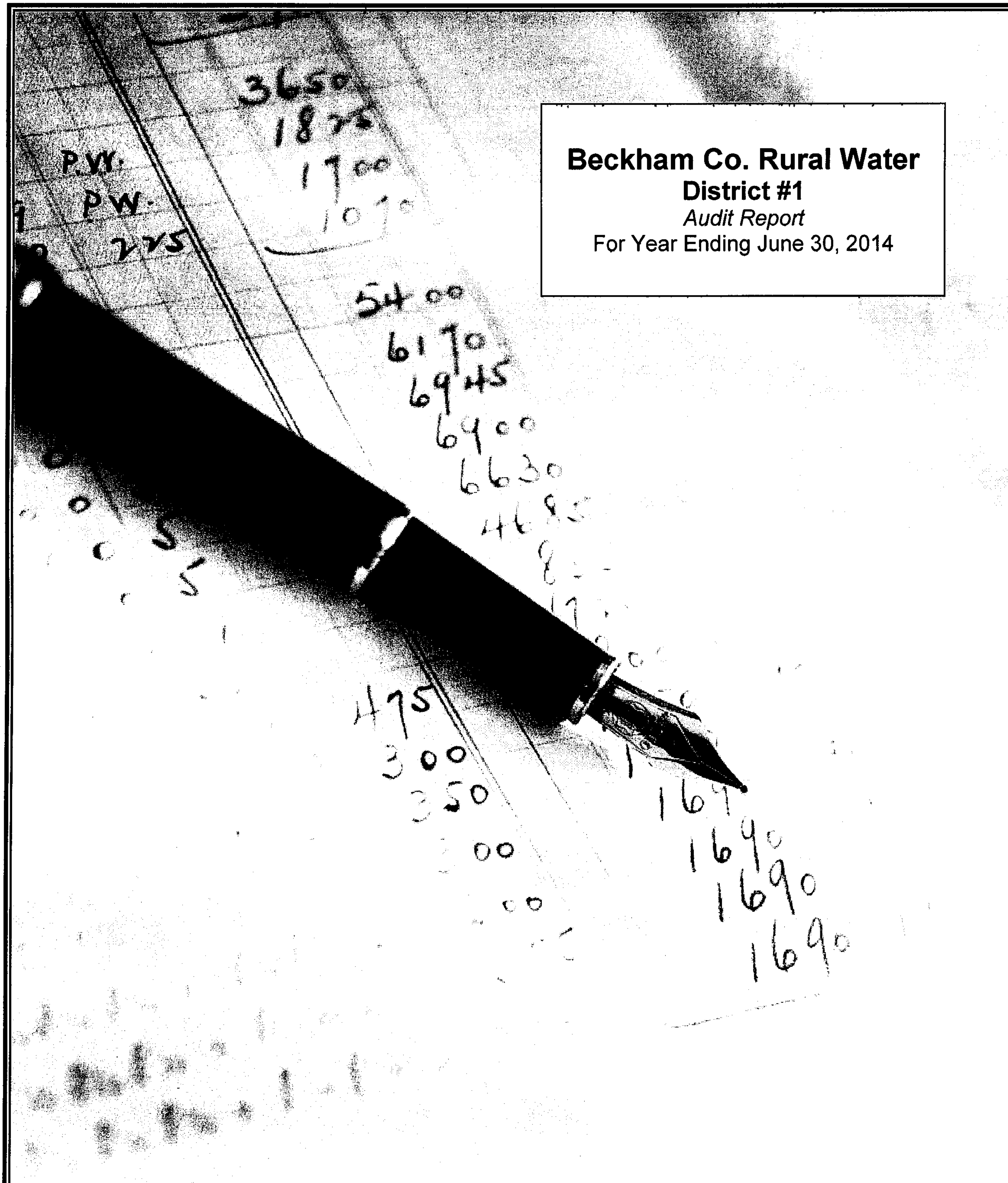

Beckham Co. Rural Water District #1

Audit Report

For Year Ending June 30, 2014

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Independent Auditor's Report

To The Board of Directors of
Rural Water, Sewer, and Solid Waste Management
District #1, Beckham County, Oklahoma

We have audited the accompanying basic financial statements of Rural Water, Sewer, and Solid Waste Management District #1, Beckham County, Oklahoma (District #1) as of June 30, 2014 and 2013, and for the years then ended. These financial statements are the responsibility of the District #1's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We 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. Those standards require that we 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. We believe that the audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of District #1 as of June 30, 2014, and 2013 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,* we have also issued our report dated August 11, 2014, on our consideration of the internal control and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. These reports are 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

Scott Northrip
Certified Public Accountant

August 11, 2014

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

Comparative Statement of Net Position
As of June 30, 2014 and 2013

ASSETS:	2014	2013
Current Assets:		
Cash & Cash Equivalents	$ 551,849	$ 554,226
Accounts Receivable-Net (Note 2)	77,962	68,590
Intertest Receivable	616	621
Prepaid Insurance	24,023	22,945
Other Receivable	-	-
Inventory	122,649	65,917
Total Current Assets	$ 777,099	$ 712,299
Noncurrent Assets:		
Construction in Progress	$ -	$ 4,000
Other Noncurrent Assets	2,975	2,975
Capital Assets:		
Land & Water Rights	227,005	222,505
Other Capital Assets, net of depreciation	5,718,576	5,622,830
Total Noncurrent Assets	$ 5,948,556	$ 5,852,310
TOTAL ASSETS	**$ 6,725,655**	**$ 6,564,609**
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	$ 57,407	$ 26,067
Interest Payable	5,001	5,080
Advanced Collections	-	4,567
Customer Deposits	9,600	7,400
Line of credit - Southwest State Bank	1	1
Current Portion of Long-term Liabilities	53,565	51,321
Total Current Liabilities	$ 125,574	$ 94,436
Long-Term Liabilities: (Note 10)		
Notes Payable - net of current portion	$ 3,222,192	$ 3,275,658
Net Position:		
Restricted Fund Balance	$ 200,000	$ 200,000
Unrestricted Fund Balance	491,890	523,781
Total Fund Balance	$ 691,890	$ 723,781
Member Investments	477,700	422,100
Donated Assets (Note 7)	1,016,342	954,348
Gain on Acquisition of Loans (Note 12)	894,056	894,056
Grants	297,901	200,230
TOTAL NET POSITION	$ 3,377,889	$ 3,194,515
TOTAL LIABILITIES AND NET POSITION	**$ 6,725,655**	**$ 6,564,609**

See accompanying notes to the financial statements.

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

Comparative Statement of Activities
For the Years Ended June 30, 2014 and 2013

	2014	2013
OPERATING REVENUES:		
Water Sales	$ 880,287	$ 793,097
Sale of Supplies	18,696	7,043
Installation & Repairs	19,148	8,293
Total Operating Revenues	**$ 918,131**	**$ 808,433**
OPERATING EXPENSES:		
Salaries	$ 156,734	$ 142,889
Depreciation Expense	196,578	185,283
Interest Expense	141,551	143,700
Utilities	44,995	50,168
Installation & Repairs	201,180	109,471
Director's Fees, Travel & Benefits	7,381	5,478
Insurance	29,498	24,578
Employee Benefits	22,828	36,247
Outside Services	36,818	34,871
Transportation Expense	39,763	32,607
Office Supplies & Postage	11,677	11,868
Legal & Professional Fees	26,080	13,808
Dues & Licenses	19,862	7,596
Payroll Tax Expense	13,246	11,903
Water Purchases	8,496	-
Bad Debts Expense	-	-
Miscellaneous Expense	2,296	2,633
Communication Expense	4,145	3,213
Advertising Expense	299	298
Total Operating Expenses	**$ 963,427**	**$ 816,611**
OPERATING INCOME (LOSS)	**$ (45,296)**	**$ (8,178)**
OTHER REVENUES (EXPENSES):		
Investment Revenues	$ 4,831	$ 7,352
Donations	(6,000)	(4,200)
Insurance Refunds	6,766	6,023
Other Income	1,785	4,486
Gain on Sale of Assets	6,023	-
Total Other Revenues(Expenses)	$ 13,405	$ 13,661
NET INCOME	**$ (31,891)**	**$ 5,483**

See accompanying notes to the financial statements.

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

Comparative Statement of Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	2014	2013
Balance, July 1	$ 3,194,515	$ 3,059,526
Net Income (Loss)	(31,891)	5,483
Prior Period Adjustment (Note 11)	-	-
Member Investments	55,600	23,400
Donated Assets (Note 7)	61,994	6,106
Grants	97,671	100,000
Total Changes in Net Position	$ 183,374	$ 134,989
Balance, June 30	$ 3,377,889	$ 3,194,515

See accompanying notes to the financial statements.

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

Comparative Statement of Cash Flows
For the Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 908,759	$ 799,927
Payments to suppliers	(461,327)	(312,484)
Payments to employees	(192,808)	(191,039)
Net Cash Provided by Operating Activities	**$ 254,624**	**$ 296,404**
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	$ (319,886)	$ (342,769)
Donated Assets	61,994	6,106
Payments for Construction in Progress	4,000	(4,000)
Purchase of Land and Water Rights	(4,500)	(1,500)
Principal payments on notes payable	(51,223)	(49,077)
Interest paid on notes payable	(141,629)	(143,775)
Proceeds from Grants	97,671	100,000
Proceeds from sale of assets	33,586	-
Net Cash Used In Capital & Related Financing Activities	**$ (319,987)**	**$ (435,015)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	$ 4,835	$ 7,510
Other Proceeds & Disbursements	2,551	6,309
Proceeds from memberships	55,600	23,400
Net Cash Provided from Investing Activities	**$ 62,986**	**$ 37,219**
INCREASE (DECREASE) IN CASH AND INVESTMENTS	**$ (2,377)**	**$ (101,392)**
Cash and Investment Balance - Beginning	554,226	655,618
CASH AND INVESTMENT BALANCE - ENDING	**$ 551,849**	**$ 554,226**
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	$ (45,296)	$ (8,178)
Adjustments to reconcile operating income to net cash provided (used):		
Interest Expense	141,551	143,700
Depreciation expense	196,578	185,283
Change in assets and liabilities:		
Accounts Receivable	(9,372)	(8,506)
Other Receivables	-	-
Prepaid Insurance	(1,078)	(2,131)
Inventory	(56,732)	(12,548)
Accounts Payable	31,340	647
Advanced Collections	(4,567)	(2,763)
Customer Deposits	2,200	900
Net Cash Provided from Operating Activities	$ 254,624	$ 296,404

See accompanying notes to the financial statements.

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

Notes to the Financial Statements

For the Years Ended June 30, 2014 and 2013

Note 1 - Significant Accounting Policies

Organization:

Rural Water, Sewer & Solid Waste Management District #1, Beckham Co., OK, (District) was formed under the Oklahoma Rural Water Act to provide water in a designated area in and around Beckham County, Oklahoma to individuals and businesses that purchase a membership. The District served 1,049 and 1,015 meters at June 30, 2014 and 2013.

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 50 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 June plus any unpaid balances from the previous months. The District uses the direct method to account for bad debts. No provision for an allowance has been made based on the history of the District's bad debts being very small or nonexistant. The accounts receivable balances at June 30, 2014 and 2013 were $79,946 and $70,575. The meters are read monthly.

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.

Note 5 - Restricted Assets

The District has restricted certificates of deposit in the amount of $200,000 for debt service as required by Rural Development's mortgage as of June 30, 2014 and 2013.

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

Notes to the Financial Statements
For the Years Ended June 30, 2014 and 2013

Note 6 - Changes in Capital Assets

	Balance 7/1/2013	Additions	Disposed	Balance 6/30/2014
Water System Plant Assets	$ 8,056,060	$ 256,986	$ -	$ 8,313,046
Office Furniture & Fixtures	36,394	-	-	36,394
Equipment	176,677	35,889	(78,750)	133,816
Vehicles	43,420	27,011	(14,863)	55,568
Buildings & Improvements	298,778	-	-	298,778
Total Assets	$ 8,611,329	$ 319,886	$ (93,613)	$ 8,837,602
Less: Accumulated Depreciation	2,988,499	196,578	(66,051)	3,119,026
Net Fixed Assets	$ 5,622,830	$ 123,308	$ (27,562)	$ 5,718,576

Note 7 - 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 June 30, 2014 and 2013 were $61,994 and $6,106, respectively.

Note 8 - Components of Cash and Investments

	Date of Maturity	Interest Rate	Balance
Petty Cash	-	0.00%	$ 200
Checking - Southwest State Bank	-	0.15%	72,145
Checking - Great Plains National Bank	-	0.00%	1,436
Super Now - Southwest State Bank	-	0.25%	13,068
CD - Southwest State Bank	2/14/2015	0.85%	70,000
CD - Southwest State Bank	2/14/2015	0.85%	70,000
CD - Southwest State Bank	2/14/2015	0.85%	100,000
CD - Southwest State Bank	2/14/2015	0.85%	100,000
CD - Southwest State Bank	5/25/2015	0.60%	30,000
CD - Southwest State Bank	10/19/2014	0.85%	50,000
Investment - Oklahoma Rural Water Assurance	-	2.12%	45,000
Total Cash and Investments			$ 551,849

The District has pledges from Southwest State Bank that covers amount not insured by FDIC.

Note 9 - Retirement

The District provides a 401(k) retirement plan for its employees and matches contributions up to 5%. The District contributed $2,605 and $4,544 for the years June 30, 2014 and 2013, respectively.

Note 10 - Long Term Liabilities

The District has two 40 year notes with Rural Development, an agency of the United States Department of Agriculture. The loans are fixed interest notes. The notes are secured by the assets of the District. Rural Development requires the District to reserve enough funds to pay an amount equal to a year's total payments. The District makes monthly payments on the notes.

Note Number	Date of Note	Annual Payments	Balance 6/30/2014	Balance 6/30/2013	Interest Rate
91-01	11/17/2006	$ 135,408	$ 2,310,672	$ 2,347,029	4.250%
91-03	11/17/2006	57,444	965,085	979,950	4.375%
		$ 192,852	$ 3,275,757	$ 3,326,979	
Less: Current Portion			53,565	51,321	
Net Balance			$ 3,222,192	$ 3,275,658	

Current Portion:		Note 9101	Note 9103
Year Ending	6/30/2015	38,006	15,559
Year Ending	6/30/2016	39,653	16,254
Year Ending	6/30/2017	41,372	16,979
Year Ending	6/30/2018	43,164	17,737
Year Ending	6/30/2018	45,035	18,529

Note 11 - Prior Period Adjustments

There were no prior period adjustments in the financial statements for the year ending June 30, 2014 or 2013.

Note 12 - Gain on Acquisition of Loans

The District purchased notes from FmHA through the Farmers Home Administration Discount Purchase Program on July 7, 1988. The discounted principal plus accrued interest was $894,056 less than the carrying value of the notes which resulted in a gain from acquisition.

Note 13 - Grants

The District received grant proceeds from SWODA for a REAP Grant in the amount of $100,000 for the construction of a booster station during the year ending June 30, 2013. The District received proceeds from Oklahoma Dept. of Transportation for the relocation of water lines in the amount of $97,671 during the year ending June 30, 2014.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON 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
District #1, Beckham County, Oklahoma

We have audited the basic financial statements of the Rural Water, Sewer, and Solid Waste Management District #1, Beckham County, Oklahoma (District) for the year ended June 30, 2014 and 2013, and have issued our report thereon dated August 11, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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, we performed tests 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 our objective was not to provide an opinion on the overall compliance with such provisions, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control

In planning and performing our audit, we considered District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and but not for the purpose of expressing our opinions on the effectiveness of the District's internal control over financial reporting. Accordingly, we 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. 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.

Our consideration of 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 and management of the District, as well as Rural Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Scott Northrip, CPA

Scott Northrip
Certified Public Accountant

August 11, 2014