

**Beckham Co. Rural Water  
District #1**  
*Audit Report*  
For Year Ending June 30, 2016

3650  
1875  
1700  
1070

P.W.  
P.W.  
275

5400  
6170  
6945  
6900  
6630  
4685

475  
300  
350  
300  
00

167  
1690  
1690  
1690

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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. #1  
Beckham County, Oklahoma

I have audited the accompanying financial statements of Rural Water, Sewer, & Solid Waste Management District #1, Beckham County, Oklahoma (District), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair representation of these financial statements in accordance accounting principle generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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 involves performing procedures to obtain audit evidence supporting the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

## **Auditor's Opinion**

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rural Water, Sewer, & Solid Waste Management District #1, Beckham County, Oklahoma, as of June 30, 2016 and 2015, and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Reporting Requirements by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated July 25, 2016, 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* in considering the District's internal control over financial reporting and compliance.

***Scott Northrip, CPA***

Certified Public Accountant

July 25, 2016

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

Comparative Statement of Net Position  
As of June 30, 2016 and 2015

<b>ASSETS:</b>	<b>2016</b>	<b>2015</b>
Current Assets:		
Cash & Cash Equivalents	\$ 598,921	\$ 587,678
Accounts Receivable-Net (Note 2)	64,040	61,545
Interest Receivable	735	643
Prepaid Insurance	26,671	26,668
Other Receivable	-	-
Inventory	117,832	110,252
<b>Total Current Assets</b>	<b>\$ 808,199</b>	<b>\$ 786,786</b>
Noncurrent Assets:		
Construction in Progress	\$ 15,628	\$ 10,480
Other Noncurrent Assets	2,975	2,975
Capital Assets:		
Land & Water Rights	292,647	228,005
Other Capital Assets, net of depreciation	5,525,826	5,658,637
<b>Total Noncurrent Assets</b>	<b>\$ 5,837,076</b>	<b>\$ 5,900,097</b>
<b>TOTAL ASSETS</b>	<b>\$ 6,645,275</b>	<b>\$ 6,686,883</b>
<b>LIABILITIES AND NET POSITION:</b>		
Current Liabilities:		
Accounts Payable	\$ 20,210	\$ 26,816
Interest Payable	4,835	4,920
Customer Deposits	12,500	12,300
Line of credit - Southwest State Bank	1	1
Current Portion of Long-term Liabilities	58,351	55,907
<b>Total Current Liabilities</b>	<b>\$ 95,897</b>	<b>\$ 99,944</b>
Long-Term Liabilities: (Note 10)		
Notes Payable - net of current portion	\$ 3,108,145	\$ 3,166,388
Net Position:		
Restricted Fund Balance	\$ 200,000	\$ 200,000
Unrestricted Fund Balance	475,457	465,741
<b>Total Fund Balance</b>	<b>\$ 675,457</b>	<b>\$ 665,741</b>
Member Investments	505,000	500,000
Donated Assets (Note 7)	1,047,384	1,041,418
Gain on Acquisition of Loans (Note 12)	894,056	894,056
Grants	319,336	319,336
<b>TOTAL NET POSITION</b>	<b>\$ 3,441,233</b>	<b>\$ 3,420,551</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 6,645,275</b>	<b>\$ 6,686,883</b>

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, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b>OPERATING REVENUES:</b>		
Water Sales	\$ 907,233	\$ 915,750
Sale of Supplies	6,566	24,676
Installation & Fees	13,394	9,755
<b>Total Operating Revenues</b>	<b>\$ 927,193</b>	<b>\$ 950,181</b>
<b>OPERATING EXPENSES:</b>		
Salaries	\$ 198,214	\$ 201,004
Depreciation Expense	210,107	202,083
Interest Expense	136,968	139,309
Utilities	49,261	51,161
Installation & Supplies	116,086	199,077
Director's Fees, Travel & Benefits	5,981	6,939
Insurance	32,811	29,465
Employee Benefits	47,021	36,992
Outside Services	37,304	37,019
Transportation Expense	18,865	27,498
Office Supplies & Postage	13,524	14,469
Legal & Professional Fees	7,428	9,340
Dues & Licenses	8,660	11,599
Payroll Tax Expense	16,085	16,564
Water Purchases	21,924	9,852
Bad Debts Expense	993	2,820
Miscellaneous Expense	5,549	2,929
Communication Expense	5,954	4,820
Advertising Expense	-	509
<b>Total Operating Expenses</b>	<b>\$ 932,735</b>	<b>\$ 1,003,449</b>
<b>OPERATING INCOME (LOSS)</b>	<b>\$ (5,542)</b>	<b>\$ (53,268)</b>
<b>OTHER REVENUES (EXPENSES):</b>		
Investment Revenues	\$ 4,838	\$ 4,824
Donations	(200)	(4,100)
Insurance Refunds	7,737	25,715
Other Income	2,883	680
Gain on Sale of Assets	-	-
<b>Total Other Revenues(Expenses)</b>	<b>\$ 15,258</b>	<b>\$ 27,119</b>
<b>NET INCOME</b>	<b>\$ 9,716</b>	<b>\$ (26,149)</b>

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, 2016 and 2015

	<b>2016</b>	<b>2015</b>
<b>Balance, July 1</b>	<b>\$ 3,420,551</b>	<b>\$ 3,377,889</b>
Net Income (Loss)	9,716	(26,149)
Prior Period Adjustment (Note 11)	-	-
Member Investments	5,000	22,300
Donated Assets (Note 7)	5,966	25,076
Grants	-	21,435
<b>Total Changes in Net Position</b>	<b>\$ 20,682</b>	<b>\$ 42,662</b>
<b>Balance, June 30</b>	<b>\$ 3,441,233</b>	<b>\$ 3,420,551</b>

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, 2016 and 2015

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 924,698	\$ 966,598
Payments to suppliers	(338,329)	(425,637)
Payments to employees	(261,320)	(254,560)
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 325,049</b>	<b>\$ 286,401</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	\$ (77,296)	\$ (142,144)
Donated Assets	5,966	25,076
Payments for Construction in Progress	(5,148)	(10,480)
Purchase of Land and Water Rights	(64,642)	(1,000)
Principal payments on notes payable	(55,799)	(53,462)
Interest paid on notes payable	(137,053)	(139,390)
Proceeds from Grants	-	21,435
Proceeds from sale of assets	-	-
<b>Net Cash Used In Capital &amp; Related Financing Activities</b>	<b>\$ (333,972)</b>	<b>\$ (299,965)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment Receipts	\$ 4,746	\$ 4,798
Other Proceeds & Disbursements	10,420	22,295
Proceeds from memberships	5,000	22,300
<b>Net Cash Provided from Investing Activities</b>	<b>\$ 20,166</b>	<b>\$ 49,393</b>
<b>INCREASE (DECREASE) IN CASH AND INVESTMENTS</b>	<b>\$ 11,243</b>	<b>\$ 35,829</b>
Cash and Investment Balance - Beginning	587,678	551,849
<b>CASH AND INVESTMENT BALANCE - ENDING</b>	<b>\$ 598,921</b>	<b>\$ 587,678</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ (5,542)	\$ (53,268)
Adjustments to reconcile operating income to net cash provided (used):		
Interest Expense	136,968	139,309
Depreciation expense	210,107	202,083
Change in assets and liabilities:		
Accounts Receivable	(2,495)	16,417
Other Receivables	-	-
Prepaid Insurance	(3)	(2,645)
Inventory	(7,580)	12,397
Accounts Payable	(6,606)	(30,592)
Customer Deposits	200	2,700
<b>Net Cash Provided from Operating Activities</b>	<b>\$ 325,049</b>	<b>\$ 286,401</b>

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, 2016 and 2015

## **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 1,218 and 1,229 meters at June 30, 2016 and 2015.

### **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 nonexistent. The accounts receivable balances at June 30, 2016 and 2015 were \$61,545 and \$61,545. 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 was approved for a REAP Grant of \$69,750 for water system improvements to be awarded in the year ending June 30, 2017.

## **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, 2016 and 2015.

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

Notes to the Financial Statements  
For the Years Ended June 30, 2016 and 2015

**Note 6 - Changes in Capital Assets**

	Balance 7/1/2015	Additions	Disposed	Balance 6/30/2016
Water System Plant Assets	\$ 8,378,909	\$ 66,096	\$ -	\$ 8,445,005
Office Furniture & Fixtures	41,802	-	-	41,802
Equipment	167,666	11,200	-	178,866
Vehicles	71,319	-	-	71,319
Buildings & Improvements	298,778	-	-	298,778
<b>Total Assets</b>	<b>\$ 8,958,474</b>	<b>\$ 77,296</b>	<b>\$ -</b>	<b>\$ 9,035,770</b>
Less: Accumulated Depreciation	3,299,837	210,107	-	3,509,944
<b>Net Fixed Assets</b>	<b>\$ 5,658,637</b>	<b>\$ (132,811)</b>	<b>\$ -</b>	<b>\$ 5,525,826</b>

**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, 2016 and 2015 were \$5,966 and \$25,076, respectively.

**Note 8 - Components of Cash and Investments**

	Date of Maturity	Interest Rate	6/30/2016 Balance
Petty Cash	-	0.00%	\$ 200
Checking - All American Bank	-	0.15%	77,036
Checking - Great Plains National Bank	-	0.00%	1,436
Super Now - All American Bank	-	0.25%	105,249
CD - All American Bank	2/14/2017	0.85%	70,000
CD - All American Bank	2/14/2017	0.85%	70,000
CD - All American Bank	2/14/2017	0.85%	100,000
CD - All American Bank	2/14/2017	0.85%	100,000
CD - All American Bank	5/25/2017	0.85%	30,000
Investment - Oklahoma Rural Water Assurance	-	2.37%	45,000
<b>Total Cash and Investments</b>			<b>\$ 598,921</b>

The District has pledges from All American Bank that covers amount not insured by FDIC.

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

Notes to the Financial Statements  
For the Years Ended June 30, 2016 and 2015

## **Note 9 - Retirement**

The District provides a 401(k) retirement plan for its employees and matches contributions up to 5%. The District contributed \$7,460 and \$6,533 for the years June 30, 2016 and 2015, 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 6/30/2016	Balance 6/30/2015	Interest Rate
91-01	11/17/2006	\$ 135,408	\$ 2,233,161	\$ 2,272,738	4.250%
91-03	11/17/2006	57,444	933,335	949,557	4.375%
		\$ 192,852	\$ 3,166,496	\$ 3,222,295	
Less: Current Portion			58,351	55,907	
Net Long-Term Balance			<u>\$ 3,108,145</u>	<u>\$ 3,166,388</u>	

Current Portion:		Note 9101	Note 9103
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
Year Ending	6/30/2019	46,986	19,356
Year Ending	6/30/2020	49,022	20,220

## **Note 11 - Prior Period Adjustments**

There were no prior period adjustments in the financial statements for the year ending June 30, 2016 or 2015.

## **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 proceeds from Oklahoma Dept. of Transportation for the relocation of water lines in the amount of \$ 0 and \$21,435 during the years ending June 30, 2016 and June 30, 2015, respectively.

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

Notes to the Financial Statements  
For the Years Ended June 30, 2016 and 2015

**Note 14 - Construction in Progress**

The District has spent \$15,488 towards the cost of the Reap Grant project and \$139 for the Hwy 183 relocate projects that were not completed as of the date of audit.

**Note 15 - Subsequent Events**

The District's subsequent events have been evaluated through July 25, 2016, the date of financial statements.

# ***SCOTT NORTHRIP, CPA***

P.O. Box 642, Hobart, Oklahoma 73651

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

I have audited, 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, the basic financial statements of Rural Water, Sewer, and Solid Waste Management District #1, Beckham County, Oklahoma (District), as of and for the years ending June 30, 2016 and 2015, and have issued my report thereon dated July 25, 2016.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed test of its compliance with certain provisions of 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 those 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 or other matters that are required to be reported under *Government Auditing Standards*.

### **Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances 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.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

## Report on Compliance and Internal Controls-Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Scott Northrip*

Certified Public Accountant

July 25, 2016