

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

Audit Report

For Year Ending October 31, 2014

3650
1875
1700
1070
5400
6170
6945
6900
6630
4685
475
300
350
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1690
1690
1690
1690

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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 accompanying financial statements of Rural Water, Sewer, & Solid Waste Management District #3, Logan County, Oklahoma (District), as of and for the years ended October 31, 2014 and 2013, 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.

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 #3, Logan County, Oklahoma, as of October 31, 2014 and 2013, 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 December 30, 2014, 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

December 30, 2014

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

Statement of Net Position
As of October 31, 2014 and 2013

ASSETS:	2014	2013
Current Assets:		
Cash & Cash Equivalents	\$ 770,275	\$ 678,119
Investments	465,478	467,862
Accounts Receivable (Note 2)	92,360	83,169
Other Receivable	-	-
Interest Receivable	151	183
Prepaid Insurance	16,523	15,884
Inventory	25,990	23,000
Total Current Assets	\$ 1,370,777	\$ 1,268,217
Noncurrent Assets:		
Construction in Progress	\$ -	\$ -
Capital Assets: (Note 5)		
Land & Easements	164,850	164,850
Other Capital Assets, net of depreciation	1,720,510	1,787,926
Total Noncurrent Assets	\$ 1,885,360	\$ 1,952,776
TOTAL ASSETS	\$ 3,256,137	\$ 3,220,993
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 22,037	\$ 24,081
Interest Payable	-	-
Customer Deposits	24,340	23,770
Current Portion of Long-term Liabilities	165,417	165,000
Total Current Liabilities	\$ 211,794	\$ 212,851
Long-Term Liabilities: (Note 9)		
Notes Payable - OWRB, net of current	\$ 510,833	\$ 676,250
Net Position:		
Restricted Fund Balance	\$ 112,040	\$ 117,116
Unrestricted Fund Balance	(149,419)	(317,831)
Total Fund Balance	\$ (37,379)	\$ (200,715)
Member Investments	519,513	500,513
Donated Assets (Note 6)	344,826	325,544
Grants	910,000	910,000
Gain on Acquisition of Loan	796,550	796,550
TOTAL NET POSITION	\$ 2,533,510	\$ 2,331,892
TOTAL LIABILITIES AND NET POSITION	\$ 3,256,137	\$ 3,220,993

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, 2014 and 2013

	2014	2013
OPERATING REVENUES:		
Water Sales to Members	\$ 706,761	\$ 688,671
Water Sales to Municipalities	140,523	150,291
Fees, Analysis, & Reimbursement	30,096	20,628
Insurance Proceeds	1,522	2,697
Miscellaneous Revenues	1,752	112
Total Operating Revenues	\$ 880,654	\$ 862,399
 OPERATING EXPENSES:		
Salaries & Service Awards	\$ 176,429	\$ 159,327
Depreciation Expense	169,647	157,995
Interest Expense	24,071	25,243
Utilities	48,433	43,929
Supplies	80,105	45,338
Repairs & Maintenance	17,163	14,124
Insurance	25,612	23,354
Legal & Professional Fees	37,113	11,520
Transportation Expense	43,024	47,700
Employee Benefits	43,216	45,446
Payroll Tax Expense	14,507	13,062
Communication Expense	5,998	5,329
Office Supplies & Postage	7,951	6,769
Chemical Expense	21,476	17,521
Travel & Per Diem	871	292
Director's Fees & meetings	6,657	2,753
Dues & Licenses	6,194	3,351
Bad Debt Expense	1,877	1,520
Trencher Expenses	6,794	4,672
Water Analysis	5,029	1,934
Tools	1,186	-
Miscellaneous Expense	688	1,649
Total Operating Expenses	\$ 744,041	\$ 632,828
 OPERATING INCOME (LOSS)	\$ 136,613	\$ 229,571
 OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 3,615	\$ 3,340
Rent	-	1,100
Gain on Sale of Assets	23,108	
Total Other Revenues(Expenses)	\$ 26,723	\$ 4,440
 NET INCOME	\$ 163,336	\$ 234,011

See accompanying notes to the financial statements.

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

Comparative Statement of Changes in Net Position
For the Years Ended October 31, 2014 and 2013

	2014	2013
Balance, November 1	\$ 2,331,892	\$ 2,069,462
Net Income (Loss)	163,336	234,011
Member Investments	19,000	22,000
Donated Assets	19,282	6,419
Prior Period Adjustment (Note 10)	-	-
Total Changes in Net Assets	\$ 201,618	\$ 262,430
Balance, October 31	\$ 2,533,510	\$ 2,331,892

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, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 871,463	\$ 869,040
Payments to suppliers	(321,274)	(217,644)
Payments to employees	(234,152)	(217,835)
Net Cash Provided by Operating Activities	\$ 316,037	\$ 433,561
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (112,687)	\$ (79,786)
Donated Assets	19,282	6,419
Payments for Construction in Progress	-	-
Purchase of land	-	-
Principal payments on notes payable	(165,000)	(160,417)
Interest paid on notes payable	(24,071)	(25,243)
Proceeds from sale of assets	33,564	-
Net Cash Used In Capital & Related Financing Activities	\$ (248,912)	\$ (259,027)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Revenues	\$ 3,647	\$ 3,301
Rent	-	1,100
Proceeds from memberships	19,000	22,000
Net Cash Provided from Investing Activities	\$ 22,647	\$ 26,401
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 89,772	\$ 200,935
Cash and Investment Balance - Beginning	1,145,981	945,046
CASH AND INVESTMENT BALANCE - ENDING	\$ 1,235,753	\$ 1,145,981
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 136,613	\$ 229,571
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	24,071	25,243
Depreciation expense	169,647	157,995
Change in assets and liabilities:		
Accounts Receivable	(9,191)	6,641
Other Receivable	-	-
Prepaid Insurance	(639)	93
Inventory	(2,990)	-
Accounts Payable	(2,044)	13,358
Customer Deposits	570	660
Net Cash Provided from Operating Activities	\$ 316,037	\$ 433,561

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, 2014 and 2013

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 980 meters at October 31, 2014 and billed 84.4 million gallons 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 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, 2014 and 2013 amounted to \$94,192 and \$85,002, respectively with the allowance in the amount of \$1,833 and \$1,833.

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, 2014 and 2013

Note 5 - Changes in Fixed Assets

	Balance 11/1/2013	Additions	Disposed	Balance 10/31/2014
Water System Plant Assets	\$ 5,258,359	\$ 19,282	\$ -	\$ 5,277,641
Water Rights & Easements	56,050	-	-	56,050
Office Furniture & Fixtures	24,388	-	-	24,388
Equipment	109,246	33,409	(4,220)	138,435
Vehicles	92,569	59,996	(47,002)	105,563
Loan Origination Fees	112,829	-	-	112,829
Buildings	30,145	-	-	30,145
Total Assets	\$ 5,683,586	\$ 112,687	\$ (51,222)	\$ 5,745,051
Less: Accumulated Depreciation	3,895,660	169,647	(40,766)	4,024,541
Net Fixed Assets	\$ 1,787,926	\$ (56,960)	\$ (10,456)	\$ 1,720,510

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, 2014 and 2013 were \$19,282 and \$6,419, respectively.

Note 7 - Components of Cash and Investments

	Date of Maturity	Interest Rate	10/31/2014 Balance	
Checking - Farmers & Merchants Bank	-	0.00%	\$ 28,318	
Hi-Fi Account - Community State Bank	-	0.10%	194,646	
Money Market - Stillwater National Bank	-	0.15%	229,679	Reserved
Savings - Farmers & Merchants Bank	-	0.15%	6,674	Reserved
Market Investors - Farmers & Merchants	-	0.10%	210,595	Reserved
MMDA - Exchange Bank	-	0.15%	100,163	Reserved
Petty Cash	-	0.00%	200	Reserved
CD - Interbank	6/14/2015	0.40%	106,754	Reserved
CD - Interbank	4/2/2015	0.40%	16,870	Reserved
CD - First Bank & Trust	6/11/2016	1.00%	124,424	Reserved
CD - Exchange Bank	12/24/2014	0.80%	104,390	Reserved
OWRB Reserve Acct - Bank of Oklahoma	-	0.02%	112,040	Restricted
Reserve Certificates - ORWAAG	-	2.17%	1,000	Reserved
Total Cash and Investments			\$ 1,235,753	

The OWRB Reserve account is restricted for debt service and is not available for use.
The accounts marked reserved have been reserved for future improvements.

**Rural Water, Sewer & Solid Waste Management
District #3, Logan County, Oklahoma**
Notes to the Financial Statements
For the Years Ended October 31, 2014 and 2013

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.

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 fixed at a rate of 2.82%.

	10/31/2014 Balance	10/31/2013 Balance
OWRB	\$ 676,250	\$ 841,250
Less: Current Portion	165,417	165,000
Long-Term Balance	\$ 510,833	\$ 676,250

Payment Period		Interest Rate	Monthly Payment
Begin	End		
10/1/2013	3/31/2014	2.82%	15,775.83
4/1/2014	9/30/2014	2.82%	15,330.69
10/1/2014	3/31/2015	2.82%	15,425.83

Current Portion:

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	
Year Ending	10/31/2019	-	

Note 10 - Prior Period Adjustment

There were no prior period adjustments for the years ending October 31, 2014 or 2013.

SCOTT NORTHRIP, CPA

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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. #3
Logan 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 #3, Logan County, Oklahoma (District), as of and for the years ending October 31, 2014 and 2013, and have issued my report thereon dated December 30, 2014.

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

December 30, 2014