



**Rural Water, Sewer
and Solid Waste
Management Dist. #3,
Logan Co., Oklahoma**
Audit Report
For Year Ending October 31, 2015

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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, 2015 and 2014, 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 #3, Logan County, Oklahoma, as of October 31, 2015 and 2014, 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 January 6, 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

January 6, 2016

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

Statement of Net Position
As of October 31, 2015 and 2014

ASSETS:	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash & Cash Equivalents	\$ 906,200	\$ 770,275
Investments	470,288	465,478
Accounts Receivable (Note 2)	82,694	92,360
Other Receivable	-	-
Interest Receivable	294	151
Prepaid Insurance	12,344	16,523
Inventory	25,990	25,990
Total Current Assets	<u>\$ 1,497,810</u>	<u>\$ 1,370,777</u>
Noncurrent Assets:		
Construction in Progress	\$ -	\$ -
Capital Assets: (Note 5)		
Land & Easements	164,850	164,850
Other Capital Assets, net of depreciation	1,641,234	1,720,510
Total Noncurrent Assets	<u>\$ 1,806,084</u>	<u>\$ 1,885,360</u>
TOTAL ASSETS	<u><u>\$ 3,303,894</u></u>	<u><u>\$ 3,256,137</u></u>
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 22,203	\$ 22,037
Interest Payable	-	-
Customer Deposits	24,640	24,340
Current Portion of Long-term Liabilities	170,416	165,417
Total Current Liabilities	<u>\$ 217,259</u>	<u>\$ 211,794</u>
Long-Term Liabilities: (Note 9)		
Notes Payable - OWRB, net of current	<u>\$ 340,417</u>	<u>\$ 510,833</u>
Net Position:		
Restricted Fund Balance	\$ 114,608	\$ 112,040
Unrestricted Fund Balance	40,878	(149,419)
Total Fund Balance	<u>\$ 155,486</u>	<u>\$ (37,379)</u>
Member Investments	529,513	519,513
Donated Assets (Note 6)	354,669	344,826
Grants	910,000	910,000
Gain on Acquisition of Loan	796,550	796,550
TOTAL NET POSITION	<u>\$ 2,746,218</u>	<u>\$ 2,533,510</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 3,303,894</u></u>	<u><u>\$ 3,256,137</u></u>

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, 2015 and 2014

	2015	2014
OPERATING REVENUES:		
Water Sales to Members	\$ 671,487	\$ 706,761
Water Sales to Municipalities	155,974	140,523
Fees, Analysis, & Reimbursement	29,674	30,096
Insurance Proceeds	2,866	1,522
Miscellaneous Revenues	2,725	1,752
Total Operating Revenues	\$ 862,726	\$ 880,654
OPERATING EXPENSES:		
Salaries & Service Awards	\$ 176,468	\$ 176,429
Depreciation Expense	174,049	169,647
Interest Expense	19,762	24,071
Utilities	48,057	48,433
Supplies & Chemicals	58,907	80,105
Repairs & Maintenance	21,224	17,163
Insurance	26,573	25,612
Legal & Professional Fees	11,538	37,113
Transportation Expense	31,822	43,024
Employee Benefits	47,739	43,216
Payroll Tax Expense	14,025	14,507
Communication Expense	6,039	5,998
Office Supplies & Postage	6,690	7,951
Chemical Expense	23,231	21,476
Travel & Per Diem	140	871
Director's Fees & meetings	4,595	6,657
Dues & Licenses	3,831	6,194
Bad Debt Expense	775	1,877
Trencher Expenses	875	6,794
Water Analysis	3,575	5,029
Tools	5,650	1,186
Miscellaneous Expense	1,786	688
Total Operating Expenses	\$ 687,351	\$ 744,041
OPERATING INCOME (LOSS)	\$ 175,375	\$ 136,613
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 3,789	\$ 3,615
Rent	2,200	-
Gain on Sale of Assets	11,501	23,108
Total Other Revenues(Expenses)	\$ 17,490	\$ 26,723
NET INCOME	\$ 192,865	\$ 163,336

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, 2015 and 2014

	2015	2014
Balance, November 1	\$ 2,533,510	\$ 2,331,892
Net Income (Loss)	192,865	163,336
Member Investments	10,000	19,000
Donated Assets	9,843	19,282
Prior Period Adjustment (Note 10)	-	-
Total Changes in Net Assets	\$ 212,708	\$ 201,618
Balance, October 31	\$ 2,746,218	\$ 2,533,510

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, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 872,392	\$ 871,463
Payments to suppliers	(250,663)	(321,274)
Payments to employees	(238,232)	(234,152)
Net Cash Provided by Operating Activities	\$ 383,497	\$ 316,037
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (94,773)	\$ (112,687)
Donated Assets	9,843	19,282
Payments for Construction in Progress	-	-
Purchase of land	-	-
Principal payments on notes payable	(165,417)	(165,000)
Interest paid on notes payable	(19,762)	(24,071)
Proceeds from sale of assets	11,501	33,564
Net Cash Used In Capital & Related Financing Activities	\$ (258,608)	\$ (248,912)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Revenues	\$ 3,646	\$ 3,647
Rent	2,200	-
Proceeds from memberships	10,000	19,000
Net Cash Provided from Investing Activities	\$ 15,846	\$ 22,647
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 140,735	\$ 89,772
Cash and Investment Balance - Beginning	1,235,753	1,145,981
CASH AND INVESTMENT BALANCE - ENDING	\$ 1,376,488	\$ 1,235,753
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 175,375	\$ 136,613
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	19,762	24,071
Depreciation expense	174,049	169,647
Change in assets and liabilities:		
Accounts Receivable	9,666	(9,191)
Other Receivable	-	-
Prepaid Insurance	4,179	(639)
Inventory	-	(2,990)
Accounts Payable	166	(2,044)
Customer Deposits	300	570
Net Cash Provided from Operating Activities	\$ 383,497	\$ 316,037

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, 2015 and 2014

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 993 meters at October 31, 2015 and billed 82.1 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, 2015 and 2014 amounted to \$84,527 and \$94,192, 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, 2015 and 2014

Note 5 - Changes in Fixed Assets

	Balance 11/1/2014	Additions	Disposed	Balance 10/31/2015
Water System Plant Assets	\$ 5,277,641	\$ 47,884	\$ -	\$ 5,325,525
Water Rights & Easements	56,050	-	-	56,050
Office Furniture & Fixtures	24,388	-	-	24,388
Equipment	138,435	13,544	-	151,979
Vehicles	105,563	33,345	(26,917)	111,991
Loan Origination Fees	112,829	-	-	112,829
Buildings	30,145	-	-	30,145
Total Assets	\$ 5,745,051	\$ 94,773	\$ (26,917)	\$ 5,812,907
Less: Accumulated Depreciation	4,024,541	174,049	(26,917)	4,171,673
Net Fixed Assets	\$ 1,720,510	\$ (79,276)	\$ -	\$ 1,641,234

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, 2015 and 2014 were \$9,844 and \$19,282, respectively.

Note 7 - Components of Cash and Investments

	Date of Maturity	Interest Rate	10/31/2015 Balance	
Checking - Farmers & Merchants Bank	-	0.00%	\$ 25,924	
Hi-Fi Account - Community State Bank	-	0.10%	225,253	
Money Market - Stillwater National Bank	-	0.15%	229,998	Reserved
Savings - Farmers & Merchants Bank	-	0.10%	7,013	Reserved
Market Investors - Farmers & Merchants	-	0.10%	257,313	Reserved
MMDA - Exchange Bank	-	0.15%	160,500	Reserved
Petty Cash	-	0.00%	200	Reserved
CD - Interbank	6/14/2016	0.40%	107,038	Reserved
CD - Interbank	4/2/2016	0.40%	16,937	Reserved
CD - First Bank & Trust	6/11/2016	1.00%	125,674	Reserved
CD - Exchange Bank	12/24/2015	0.55%	105,030	Reserved
OWRB Reserve Acct - Bank of Oklahoma	-	0.02%	114,608	Restricted
Reserve Certificates - ORWAAG	-	2.26%	1,000	Reserved
Total Cash and Investments			\$ 1,376,488	

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, 2015 and 2014

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%.

	10/31/2015 Balance	10/31/2014 Balance
OWRB	\$ 510,833	\$ 676,250
Less: Current Portion	170,416	165,417
Long-Term Balance	\$ 340,417	\$ 510,833

Payment Period		Interest Rate	Monthly Payment
Begin	End		
10/1/2014	3/31/2015	2.82%	15,425.83
4/1/2015	9/30/2015	2.82%	15,425.83
10/1/2015	3/31/2016	2.82%	15,512.50

Current Portion:

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	-	
Year Ending	10/31/2020	-	

Note 10 - Prior Period Adjustment

There were no prior period adjustments for the years ending October 31, 2015 or 2014.

Note 11 - Evaluation of Subsequent Events

The subsequent events were evaluated through January 6, 2016, the date of the report.

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. #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, 2015 and 2014, and have issued my report thereon dated January 6, 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

January 6, 2016