

RURAL WATER, SEWER, & SOLID
WASTE MANAGEMENT DISTRICT #1,
LOGAN COUNTY, OKLAHOMA
Audit Report
For the Year Ending July 31, 2016

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
Logan County, Oklahoma

I have audited the accompanying financial statements of Rural Water, Sewer, & Solid Waste Management District #1, Logan County, Oklahoma (District), as of and for the years ended July 31, 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, Logan County, Oklahoma, as of July 31, 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 August 26, 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

August 26, 2016

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

Statement of Net Position
As of July 31, 2016 and 2015

ASSETS:	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash & Cash Equivalents	\$ 379,494	\$ 118,152
Investments	2,244,196	1,971,769
Accounts Receivable (Note 2)	155,614	115,470
Other Receivable	-	-
Interest Receivable	7,924	9,405
Prepaid Insurance	26,422	26,519
Prepaid Interest	16,000	-
Inventory	51,419	52,887
Total Current Assets	<u>\$ 2,881,069</u>	<u>\$ 2,294,202</u>
Noncurrent Assets:		
Construction in Progress (Note 12)	\$ 3,350,072	\$ 1,867,943
Capital Assets: (Note 5)		
Land & Water Rights	396,575	396,575
Other Capital Assets, net of depreciation (Note 5)	8,538,728	8,179,954
Total Noncurrent Assets	<u>\$ 12,285,375</u>	<u>\$ 10,444,472</u>
TOTAL ASSETS	<u>\$ 15,166,444</u>	<u>\$ 12,738,674</u>
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 42,957	\$ 19,007
Interest Payable	4,068	7,169
Customer Deposits	148,751	145,706
Current Portion of Long-term Liabilities	161,304	174,571
Total Current Liabilities	<u>\$ 357,080</u>	<u>\$ 346,453</u>
Long-Term Liabilities: (Note 9)		
Notes Payable, net of current	<u>\$ 3,638,180</u>	<u>\$ 2,820,294</u>
Net Position:		
Restricted Fund Balance (Note 11)	\$ 64,640	\$ 64,640
Unrestricted Fund Balance	2,293,315	2,107,422
Total Fund Balance	<u>\$ 2,357,955</u>	<u>\$ 2,172,062</u>
Member Investments	3,044,671	2,885,951
Donated Assets (Note 6)	4,224,092	3,067,448
Grants	1,107,441	1,107,441
Impact Fees	437,025	339,025
TOTAL NET POSITION	<u>\$ 11,171,184</u>	<u>\$ 9,571,927</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 15,166,444</u>	<u>\$ 12,738,674</u>

See accompanying notes to the financial statements.

Rural Water, Sewer, & Solid Waste Management
District #1, Logan County, Oklahoma
Comparative Statement of Activities
For the Years Ended July 31, 2016 and 2015

	2016	2015
OPERATING REVENUES:		
Water Sales	\$ 1,262,101	\$ 1,085,392
Sewer Service Revenues	90,460	92,680
Late Fees	44,444	117,875
Connection Charges	20,820	15,840
Miscellaneous Revenues	24,919	16,063
Total Operating Revenues	\$ 1,442,744	\$ 1,327,850
 OPERATING EXPENSES:		
Salaries	\$ 260,815	\$ 253,848
Depreciation Expense	325,916	313,488
Interest Expense	88,870	62,083
Utilities	67,992	77,382
Supplies	65,567	57,805
Repairs & Maintenance	82,749	71,167
Insurance	41,233	32,852
Legal & Professional Fees	166,801	483,842
Transportation Expense	12,541	12,131
Employee Benefits	51,027	48,175
Payroll Tax Expense	20,626	20,288
Communication Expense	5,685	5,455
Office Supplies & Postage	26,923	29,612
Bad Debt Expense	7,912	134,333
Director's Fees	7,000	6,400
Dues & Licenses	7,811	7,576
Equipment Rent	9,190	8,175
Credit Card Fees	6,090	5,172
Web Host Expense	22,919	22,449
Miscellaneous Expense	4,195	5,873
Total Operating Expenses	\$ 1,281,862	\$ 1,658,106
 OPERATING INCOME (LOSS)	\$ 160,882	\$ (330,256)
 OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 25,011	\$ 23,804
Gain on Sale of Assets	-	5,500
Total Other Revenues(Expenses)	\$ 25,011	\$ 29,304
 NET INCOME	\$ 185,893	\$ (300,952)

See accompanying notes to the financial statements.

Rural Water, Sewer, & Solid Waste Management
District #1, Logan County, Oklahoma
 Comparative Statement of Changes in Net Position
 For the Years Ended July 31, 2016 and 2015

	2016	2015
Balance, August 1	\$ 9,571,927	\$ 9,459,855
Net Income (Loss)	185,893	(300,952)
Member Investments	158,720	218,000
Donated Assets	1,156,644	117,774
Impact Fees	98,000	77,250
Grants	-	-
Total Changes in Net Assets	\$ 1,599,257	\$ 112,072
Balance, July 31	\$ 11,171,184	\$ 9,571,927

See accompanying notes to the financial statements.

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

Comparative Statement of Cash Flows
For the Years Ended July 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,402,600	\$ 1,218,671
Payments to suppliers	(522,048)	(1,154,209)
Payments to employees	(332,468)	(322,311)
Net Cash Provided by Operating Activities	\$ 548,084	\$ (257,849)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (684,690)	\$ (64,443)
Payments for Construction in Progress	(1,482,129)	(1,767,750)
Donated Assets	1,156,644	117,774
Principal payments on notes payable	(183,773)	(119,956)
Interest paid on notes payable	(91,971)	(62,250)
Proceeds from long-term notes	988,392	1,119,490
Proceeds from grants	-	-
Proceeds from sale of assets	-	5,500
Net Cash Used In Capital & Related Financing Activities	\$ (297,527)	\$ (771,635)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 26,492	\$ 25,623
Proceeds from impact fees	98,000	77,250
Proceeds from memberships	158,720	218,000
Net Cash Provided from Investing Activities	\$ 283,212	\$ 320,873
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 533,769	\$ (708,611)
Cash and Investment Balance - Beginning	2,089,921	2,798,532
CASH AND INVESTMENT BALANCE - ENDING	\$ 2,623,690	\$ 2,089,921
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 160,882	\$ (330,256)
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	88,870	62,083
Depreciation expense	325,916	313,488
Change in assets and liabilities:		
Accounts Receivable	(40,144)	25,154
Prepaid Insurance	97	(2,268)
Prepaid Interest	(16,000)	-
Inventory	1,468	(5,718)
Accounts Payable	23,950	5,060
Settlement Payable	-	(332,108)
Customer Deposits	3,045	6,716
Net Cash Provided from Operating Activities	\$ 548,084	\$ (257,849)

See accompanying notes to the financial statements.

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

Notes to the Financial Statements
For the Years Ended July 31, 2016 and 2015

Note 1 - Significant Accounting Policies

Organization:

Rural Water, Sewer, and Solid Waste Management District #1, 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 benefit unit. The District served 2,883 and 2,816 meters at July 31, 2016 and 2015 respectively.

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 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.

Note 2 - Accounts Receivable

The accounts receivable represents the water usage and service revenues for July 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 July 31, 2016 and 2015 amounted to \$157,199 and \$117,056, respectively with the allowance in the amount of \$1,585 for both years.

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 has filed a suit against the City of Guthrie for encroachment into the District's service area. The District is seeking compensation to offset the loss of income from the meters served by the City of Guthrie. The District's legal counsel does not anticipate any losses to be recognized in the financial statements as of the date of the audit.

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

Notes to the Financial Statements
For the Years Ended July 31, 2016 and 2015

Note 5 - Changes in Fixed Assets

	Balance 8/1/2015	Additions	Disposed	Balance 7/31/2016
Water System - Constructed	\$ 8,695,610	\$ 635,500	\$ -	\$ 9,331,110
Water System - Acquired	2,841,481	49,190	-	2,890,671
Equipment	157,497	-	-	157,497
Vehicles	67,954	-	-	67,954
Buildings	192,429	-	-	192,429
Total Assets	\$ 11,954,971	\$ 684,690	\$ -	\$ 12,639,661
Less: Accumulated Depreciation	3,775,017	325,916	-	4,100,933
Net Fixed Assets	\$ 8,179,954	\$ 358,774	\$ -	\$ 8,538,728

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 July 31, 2016 and 2015 were \$49,190 and \$0, respectively. Cash donation during 2015 of \$117,774 was a reimbursement to extend lines on Highway 33 project and donation during 2016 of \$1,156,644 was for the relocation of lines on Highway 33 and Coaltrane Rd, and extension of the water lines to On Cue, Dolese, and Hampton Inn projects.

Note 7 - Components of Cash and Investments

	Date of Maturity	Interest Rate	7/31/2016 Balance	7/31/2015 Balance
Petty Cash	-	0.00%	\$ 144	\$ 107
Hi-Fi Account - Oklahoma State Bank	-	0.20%	191,736	51,304
Checking - Oklahoma State Bank	-	0.00%	125,842	5,000
Savings - Bancfirst	-	0.05%	61,772	61,741
CD's & MM- Edward Jones	Various	Various	1,979,731	1,707,766
CD - Oklahoma State Bank	11/17/2018	1.38%	113,000	113,000
CD - Oklahoma State Bank	9/18/2016	0.60%	50,462	50,000
CD - Farmers & Merchants Bank	10/23/2016	0.50%	50,000	50,000
CD - Farmers & Merchants Bank	10/23/2016	0.50%	50,000	50,000
MM - Morgan Stanley	Various	Various	3	3
Reserve Certificates - ORWAAG	-	1.24%	1,000	1,000
Total Cash and Investments			\$ 2,623,690	\$ 2,089,921

Note 8 - Retirement

The District provides a Simplified Employee Plan (SEP) retirement plan for its participating employees. The plan is administered by Edward Jones. The District contributions up to 5% of the employee wages. The District contributed \$12,300 and \$12,067 during the years ending July 31, 2016 and 2015.

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

Notes to the Financial Statements
For the Years Ended July 31, 2016 and 2015

Note 9 - Long Term Liabilities

Berkadia Mortgage

The District has four long-term notes with Berkadia Mortgage. The four notes were from the original construction of the District plus improvements. The notes are secured by the assets. The interest accrues at a fixed annual rate of 5% for a term of 40 years.

Oklahoma Water Resources Board

The District has borrowed \$584,566 from Oklahoma Water Resources Board for system booster station and extension as of July 31, 2012. The maximum loan is \$637,500. The note matures on 9-15-31. The note has accrued interest at a fixed rate of 3.03%. Interest and administrative fees of \$7,606.92 during construction has been capitalized .

The District borrowed \$1,250,000 from Oklahoma Water Resources Board for the new water tower and for the installation of electronic read meters. The note has a term of 20 years and accrues interest at a fixed rate of 2.46%. The District makes monthly payments of \$5,618.16.

The District borrowed \$1,200,000 from Oklahoma Water Resources Board for constructing new water lines. The note has a term of 20 years and accrues interest at a fixed rate of 2.6%. The District began monthly payments on April 15, 2016 in the amount of \$6,396.41. Interest of \$6,212.58 was capitalized during year ending 7-31-15.

The District borrowed \$1,500,000 from Oklahoma Water Resources Board for constructing new water lines. The note has a term of 29.5 years and accrues interest at a fixed rate of 2.75%. The District will make monthly payments upon completion of the project which is after the year end. Interest of \$2,861.16 was capitalized during year ending 7-31-16.

Rural Development

The District borrowed \$300,000 for the construction of a new water tower and water well. The District began making monthly payments of \$1,374 on May 1, 2003. The interest accrues at a fixed rate of 4.625% annually. The note is secured by the assets.

	Note Number	Balance 7/31/2016	Balance 7/31/2015	Annual Payment
Berkadia	1	53,284	70,461	18,500
Berkadia	3	11,016	26,291	16,212
Berkadia	4	61,948	71,827	13,440
Rural Development		235,023	240,862	16,488
OWRB - Series 2009		482,940	507,572	40,080
OWRB - Series 2011		914,640	958,362	67,418
OWRB - Series 2015		1,127,037	1,119,490	84,879
OWRB - Series 2015b		913,596	-	-
TOTAL		3,799,484	2,994,865	257,017
Less: Current Portion		161,304	174,571	
NET LONG-TERM NOTES		<u>\$ 3,638,180</u>	<u>\$ 2,820,294</u>	

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

Notes to the Financial Statements
For the Years Ended July 31, 2016 and 2015

Note 9 - Long Term Liabilities - continued

Current Portion:	Berkadia	OWRB09	RD	OWRB11	OWRB 15	OWRB 15b
Year Ending 7-31-17	37,859	25,438	5,674	44,885	47,448	-
Year Ending 7-31-18	28,224	26,226	6,003	46,011	48,707	-
Year Ending 7-31-19	29,667	27,037	6,293	47,166	50,000	-
Year Ending 7-31-20	14,483	27,840	6,582	48,297	51,225	-
Year Ending 7-31-21	12,955	28,736	6,910	49,562	52,685	-

Note 10 - Prior Period Adjustment

The District didn't make any prior period adjustments during the years ending July 31, 2016 or 2015.

Note 11 - Restricted and Reserved Assets

Restricted for Debt Service

CD's for Berkadia Mortgage	\$ 48,152
CD's for Rural Development loan	16,488

Total Restricted Assets	\$ 64,640
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Reserved for Future Improvements

CD's for System Improvements & Water rights	1,707,765
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Total Reserved Assets	1,707,765
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Note 12 - Construction in Progress

The District has 6 projects in progress as of July 31, 2016 which were not completed as of the end of the year. The projects will be capitalized and begin depreciating upon completion of the projects. The Meridian project has a carryover amount of \$919,594, Air Depot extension project carries over \$50,131, and line relocate project at Coltrane has a cost of \$816,848, Highway 33 line project of \$1,463,223, and line extension to On Cue of \$15,572.44, and line extension to Silent Harvest of \$84,702.91 to make the total construction in progress of \$3,350,072.

Note 13 - Evaluation of Subsequent Events

The subsequent events of the District were reviewed through August 26, 2016, the date of the 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
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 #1, Logan County, Oklahoma (District), as of and for the years ending July 31, 2016 and 2015, and have issued my report thereon dated August 26, 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

August 26, 2016

**Rural Water, Sewer, & Solid Waste Management
 District #1, Logan County, Oklahoma**
 Statement of Federal Financial Assistance
 For the Year Ended July 31, 2016

Pass through entity:	Amount Received	Amount Disbursed	CFDA Number
Oklahoma Water Resources Board:			
Loan #ORF-15-0004-DW Grant	\$ 913,596.25	\$ 913,596.25	66.468
	-	-	
Total	<u>\$ 913,596.25</u>	<u>\$ 913,596.25</u>	

Note - The loan proceeds were used to construct a new water lines.

SCOTT NORTHRIP, CPA

P.O. Box 642, Hobart, Oklahoma 73651

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited Rural Water, Sewer, and Solid Waste Management District #1 (District)'s compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on District's major federal program for the year ended July 31, 2016. The District's major federal programs are identified in the Schedule of Financial Assistance on page 13.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended July 31, 2016.

Report on Internal Control Over Compliance

Management of the District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance 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 on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Scott Northrip

Certified Public Accountant

August 26, 2016

**Rural Water, Sewer, & Solid Waste Management
District #1, Logan County, Oklahoma**
Schedule of Findings and Questioned Costs
For the Year Ended July 31, 2016

SECTION I - SUMMARY OF AUDITORS RESULTS

Type of report issued on the financial statements?	Unmodified
Any significant deficiencies in internal controls of financial statements?	No
Any material weaknesses in internal controls of financial statements?	No
Any significant deficiencies in internal controls of major programs?	No
Any material weaknesses in internal controls of major programs?	No
Type of report issued on compliance for major programs?	Unmodified
Any audit findings relating to major programs?	No
Major Programs: Safe Drinking Water State Revolving Fund - CFDA Number 66.468	
Dollar threshold used to distinguish between Type A and Type B program?	\$500,000
Does the auditee qualify as a low-risk auditee?	Yes

SECTION II - AUDIT FINDINGS

Internal control findings?	None
Compliance findings?	None
Questioned Costs?	None
Fraud?	None
Federal awards findings?	None