

MAJOR COUNTY RURAL WATER
DISTRICT #1,

Audit Report

For the Year Ending December 31, 2015

Prepared by:
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SCOTT NORTHRIP, CPA

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Independent Auditor's Report

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

I have audited the accompanying financial statements of Rural Water, Sewer, and Solid Waste Management District #1, Major County, Oklahoma (District), as of and for the years ended December 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 with the modified cash basis of accounting as described in Note 1; 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, and Solid Waste Management District #1, Major County, Oklahoma as of December 31, 2015 and 2014, and the respective changes in its net position and its cash flows for the years then ended in accordance with the modified cash basis of accounting as described in Note 1 of the financial statements.

Other Reporting Requirements by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated May 12, 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

May 12, 2016

**Rural Water Sewer, & Solid Waste Management
District #1, Major County, OK**

Statement of Net Position (Modified Cash Basis)

As of December 31, 2015 and 2014

ASSETS:	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash & Cash Equivalents (Note 6)	\$ 640,242	\$ 515,546
Investments (Note 7)	1,000	1,000
Total Current Assets	<u>\$ 641,242</u>	<u>\$ 516,546</u>
Noncurrent Assets:		
Easements	\$ 13,000	\$ 13,000
Capital Assets: (Note 5)		
Other Capital Assets, net of depreciation	1,260,311	1,310,701
Total Noncurrent Assets	<u>\$ 1,273,311</u>	<u>\$ 1,323,701</u>
TOTAL ASSETS	<u>\$ 1,914,553</u>	<u>\$ 1,840,247</u>
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ -	\$ -
Interest Payable	-	-
Current Portion of Long-term Liabilities	-	-
Total Current Liabilities	<u>\$ -</u>	<u>\$ -</u>
Long-Term Liabilities:		
Notes Payable - net of current portion	<u>\$ -</u>	<u>\$ -</u>
Net Assets:		
Invested in Capital Assets	\$ 1,273,311	\$ 1,323,701
Unrestricted Fund Balance	641,242	516,546
Total Fund Balance	<u>\$ 1,914,553</u>	<u>\$ 1,840,247</u>
TOTAL NET POSITION	<u>\$ 1,914,553</u>	<u>\$ 1,840,247</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,914,553</u>	<u>\$ 1,840,247</u>

See accompanying notes to the financial statements.

**Rural Water Sewer, & Solid Waste Management
District #1, Major County, OK**

Combined Statement of Revenues & Expenses (Modified Cash Basis)
For the Years Ended December 31, 2015 and 2014

	2015	2014
OPERATING REVENUES:		
Water Sales	\$ 307,839	\$ 316,056
Late Fees	1,207	1,170
Sale of Supplies	7,285	4,153
Miscellaneous Revenues	1,663	1,420
Total Operating Revenues	\$ 317,994	\$ 322,799
OPERATING EXPENSES:		
Salaries	\$ 70,025	\$ 69,495
Depreciation Expense	80,436	78,512
Utilities	30,606	33,869
Repairs & Supplies	27,505	26,510
Insurance	10,161	10,349
Legal & Professional Fees	4,088	2,782
Transportation Expense	6,123	9,188
Contract Services	2,005	3,828
Chemicals	4,494	4,217
Water Contracts	582	3,138
Communication Expenses	2,066	1,896
Office Supplies & Postage	3,060	4,501
Dues & Licenses	2,190	1,892
Director's Fees	1,380	1,600
Employee Benefits	13,637	13,527
Travel	562	618
Miscellaneous Expense	-	134
Total Operating Expenses	\$ 258,920	\$ 266,056
OPERATING INCOME (LOSS)	\$ 59,074	\$ 56,743
OTHER REVENUES (EXPENSES):		
Interest Revenues	\$ 2,232	\$ 1,619
Proceeds from Benefit Units	13,000	9,000
Total Other Revenues (Expenses)	\$ 15,232	\$ 10,619
NET INCOME	\$ 74,306	\$ 67,362
Net Position, beginning of year	1,840,247	1,772,885
Net Position, end of year	\$ 1,914,553	\$ 1,840,247

See accompanying notes to the financial statements.

Rural Water Sewer, & Solid Waste Management District #1, Major County, OK

Comparative Statement of Cash Flows (Modified Cash Basis)
For the Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 317,994	\$ 322,799
Payments to suppliers	(94,822)	(104,522)
Payments to employees	(83,662)	(83,022)
Net Cash Provided by Operating Activities	\$ 139,510	\$ 135,255
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	\$ (30,046)	\$ (3,001)
Payments for Construction in Progress	-	-
Principal payments on notes payable	-	-
Interest paid on notes payable	-	-
Proceeds from sale of assets	-	-
Net Cash Used In Capital & Related Financing Activities	\$ (30,046)	\$ (3,001)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 2,232	\$ 1,619
Proceeds from benefit units	\$ 13,000	\$ 9,000
Net Cash Provided from Investing Activities	\$ 15,232	\$ 10,619
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 124,696	\$ 142,873
Cash and Investment Balance - Beginning	515,546	372,673
CASH AND INVESTMENT BALANCE - ENDING	\$ 640,242	\$ 515,546
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 59,074	\$ 56,743
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Depreciation expense	80,436	78,512
Change in current assets and liabilities:		
Accounts Receivable	-	-
Accounts Payable	-	-
Net Cash Provided from Operating Activities	\$ 139,510	\$ 135,255

See accompanying notes to the financial statements.

Rural Water, Sewer and Solid Waste Management District #1, Major County, OK

Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 1 - Significant Accounting Policies

Organization:

Rural Water, Sewer, and Solid Waste Management District #1, Major County, OK, was formed under the provisions of the Rural Water District Act, Title 82 of the laws of the State of Oklahoma. The District was formed for the purpose of constructing a water and distribution system to provide water for the designated area in Major County, OK to all members that have purchased a benefit unit. The District is governed by a board of directors elected by the members of the District.

Basis of Accounting:

The District is a proprietary fund type of entity and uses the modified cash basis of accounting which reports revenues when received and expenses when paid. The District is not required by state law to adopt a budget or report on budget comparisons in this report. This basis of accounting is considered as a comprehensive basis other than accounting principles generally accepted in the United States of America.

Capital Assets and Depreciation:

The District records its capital assets at their historical cost. 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 - Prior Period Adjustments

There were no prior period adjustments in the financial statements for the years ending December 31, 2015 or 2014.

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 entered into a Consent Order with the Water Quality Division of DEQ to eliminate effluent permit violations on the water system. The District agreed to pursue all possible options to bring their system into compliance.

**Rural Water, Sewer and Solid Waste Management
District #1, Major County, OK**

Notes to the Financial Statements
For the Years Ended December 31, 2015 and 2014

Note 5 - Capital Assets

	Balance 1/1/2015	Additions	Discarded	Balance 12/31/2015
Water System	\$ 2,420,507	23,346	-	\$ 2,443,853
Buildings	84,532	-	-	84,532
Equipment	40,487	-	-	40,487
Vehicles	84,532	6,700	-	91,232
Office Furniture	7,052	-	-	7,052
Total Assets	2,637,110	30,046	-	2,667,156
Less: Accumulated Depreciation	1,326,409	80,436	-	1,406,845
Net Fixed Assets	\$ 1,310,701	(50,390)	-	\$ 1,260,311

Note 6 - Components of Cash and Equivalents

	Date of Maturity	Interest Rate	Balance
Petty Cash	-	0.00%	\$ 26
Checking - CNB of Okarche	-	0.00%	71,740
Money Market - CNB of Okarche	-	0.20%	82,825
Money Market - CNB of Okarche(Isabella)	-	0.15%	82,048
Savings - CNB of Okarche (CDBG)	-	0.17%	531
CD - CNB of Okarche	11/15/2016	0.50%	101,249
CD - CNB of Okarche	11/15/2016	0.50%	101,249
CD - Fairview Savings & Loan	7/24/2016	0.65%	200,574
Total Cash and Investments			\$ 640,242

CNB of Okarche has pledged securitites of \$500,000 to insure balance over FDIC protection.

Note 7 - Investments

The District invested \$1,000 in the ORWAAG Insurance program. The investment is interest bearing and received \$21.81 and \$21.48 during the years ending Decembr 31, 2015 and 2014, respectively.

Note 8 - Retirement Benefits

The District contributes to the participating employees 401K plan at a rate of 3% of the gross wages. The plan is administered by Primerica Shareholder Serives.

Note 9 - Evaluation of Subsequent Events

The District's subsequent events have been evaluated through May 12, 2016, the date of the financial statements.

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 District #1
Major 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 (District), as of and for the years ending December 31, 2015 and 2014, and have issued my report thereon dated May 12, 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 identify deficiencies in internal control that we consider to be material weaknesses. We considered the deficiencies described in the accompanying schedule of findings and responses to be material.

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

May 12, 2016