



**Stephens County Rural
Water District #5**
Audit Report
For Year Ending September 30, 2014

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Independent Auditor's Report

To The Board of Directors of
Rural Water, Sewer, & Solid Waste Management Dist. #5
Stephens County, Oklahoma

I have audited the accompanying financial statements of Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma (District), as of and for the years ended September 30, 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 #5, Stephens County, Oklahoma, as of September 30, 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 November 19, 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

November 19, 2014

**Rural Water, Sewer, & Solid Waste Management
District #5, Stephens County, Oklahoma**

Statement of Net Position
As of September 30, 2014 and 2013

	2014	2013
ASSETS:		
Current Assets:		
Cash & Cash Equivalents (Note 9)	\$ 1,152,381	\$ 792,679
Accounts Receivable (Note 2)	164,062	179,262
Other Receivable	-	1,499
Interest Receivable	384	925
Prepaid Insurance	19,150	29,022
Inventory	25,084	20,027
Total Current Assets	\$ 1,361,061	\$ 1,023,414
Noncurrent Assets:		
Construction in Progress	\$ -	\$ 43,468
Capital Assets: (Note 5)		
Land, Water Rights, Deposits & Loan Fees	364,930	375,257
Other Capital Assets, net of depreciation	9,549,605	9,440,733
Total Noncurrent Assets	\$ 9,914,535	\$ 9,859,458
TOTAL ASSETS	\$ 11,275,596	\$ 10,882,872
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 46,199	\$ 34,397
Interest Payable	296	578
Current Portion of Long-term Liabilities	324,911	319,015
Total Current Liabilities	\$ 371,406	\$ 353,990
Long-Term Liabilities:		
Notes Payable - net of current portion	\$ 3,648,000	\$ 3,969,035
Net Position:		
Restricted Fund Balance (Note 9)	\$ 409,628	\$ 409,607
Unrestricted Fund Balance	(568,338)	(856,211)
Total Fund Balance	\$ (158,710)	\$ (446,604)
Member Investments	865,001	810,001
Member Investments - NE Expansion	312,835	296,835
Grants (Note 10)	5,432,911	5,182,912
Donated Assets (Note 6)	804,153	716,703
TOTAL NET POSITION	\$ 7,256,190	\$ 6,559,847
TOTAL LIABILITIES AND NET POSITION	\$ 11,275,596	\$ 10,882,872

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management
District #5, Stephens County, Oklahoma**

Comparative Statement of Activities
For the Years Ended September 30, 2014 and 2013

	2014	2013
OPERATING REVENUES:		
Water Sales	\$ 1,473,907	\$ 1,292,041
Water Sales - NE Expansion	244,106	300,515
Sale of Supplies	-	4,710
Connection Charges & Road Bores	18,640	9,075
Damage Reimbursement	399	824
Miscellaneous Revenues	6,289	13,106
Total Operating Revenues	\$ 1,743,341	\$ 1,620,271
 OPERATING EXPENSES:		
Salaries	\$ 310,599	\$ 301,508
Water Purchases	15,239	71,281
Depreciation Expense	404,233	395,028
Interest Expense	152,619	145,511
Utilities	81,246	79,088
System Repairs & Operating Supplies	121,050	108,335
Contract Trenching Expense	146,465	97,440
Insurance	36,839	34,316
Legal & Professional Fees	20,908	23,463
Vehicle & Travel Expense	47,531	55,884
Employee Benefits	54,536	53,796
Payroll Tax Expense	25,056	24,411
Rent Expense	3,495	3,602
Office Supplies, Security & Postage	29,076	24,163
Communication Expense	12,431	11,070
Director's Meetings & Fees	2,277	4,947
Loan Costs Amortization	10,326	1,721
Dues & Fees	42,455	37,089
Bad Debts	3,504	1,675
Advertising & Promotions Expense	2,937	5,505
Miscellaneous Expense	1,972	570
Total Operating Expenses	\$ 1,524,794	\$ 1,480,403
 OPERATING INCOME (LOSS)	\$ 218,547	\$ 139,868
 OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 6,474	\$ 7,477
Rent Income	4,707	-
Reimburse line relocate	59,404	15,773
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	\$ 70,585	\$ 23,250
 EXCESS REVENUES (EXPENSES)	\$ 289,132	\$ 163,118

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management
District #5, Stephens County, Oklahoma**

Comparative Statement of Changes in Net Assets
For the Years Ended September 30, 2014 and 2013

	2014	2013
Balance, October 1	\$ 6,559,847	\$ 6,323,275
Excess Revenues (Expenses)	289,132	163,118
Prior Period Adjustment	(1,238)	-
Member Investments	71,000	47,000
Grants	249,999	-
Donated Assets	87,450	26,454
Total Changes in Net Assets	\$ 696,343	\$ 236,572
Balance, September 30	\$ 7,256,190	\$ 6,559,847

See accompanying notes to the financial statements.

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Comparative Statement of Cash Flows
For the Years Ended September 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,760,040	\$ 1,554,435
Payments to suppliers	(550,808)	(593,654)
Payments to employees & benefits	(390,191)	(379,715)
Net Cash Provided by Operating Activities	\$ 819,041	\$ 581,066
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (513,105)	\$ (135,074)
Payments for construction in progress	43,468	(43,468)
Donated Assets	87,450	26,454
Principal payments on notes payable	(315,139)	(4,135,586)
Interest paid on notes payable	(152,900)	(150,740)
Purchase of water rights & loan fees	-	(302,196)
Proceeds from Long-term notes	-	4,120,000
Proceeds from Grants	249,999	-
Net Cash Used In Capital & Related Financing Activities	\$ (600,227)	\$ (620,610)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 7,015	\$ 7,632
Proceeds from memberships	71,000	47,000
Prior Period Adjustment	(1,238)	-
Miscellaneous Receipts	64,111	15,773
Net Cash Provided from Investing Activities	\$ 140,888	\$ 70,405
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 359,702	\$ 30,861
Cash and Investment Balance - Beginning	792,679	761,818
CASH AND INVESTMENT BALANCE - ENDING	\$ 1,152,381	\$ 792,679
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Excess Operating Revenues (Expenses)	\$ 218,547	\$ 139,868
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	152,619	145,511
Depreciation expense & Loan Amortization	414,559	395,028
Change in current assets and liabilities:		
Accounts Receivable	15,200	(65,836)
Other Receivable	1,499	-
Prepaid Insurance	9,872	(3,654)
Inventory	(5,057)	(2,111)
Accounts Payable	11,802	(27,740)
Net Cash Provided from Operating Activities	\$ 819,041	\$ 581,066

See accompanying notes to the financial statements.

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma

Notes to the Financial Statements
For the Years Ended September 30, 2014 and 2013

Note 1 - Significant Accounting Policies

Organization:

Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma (District) is an Oklahoma non-profit corporation formed under the Oklahoma Rural Water Act for the purpose of supplying water to the rural areas in and around Stephens County, Oklahoma. The District is governed by a Board of Directors who have been elected from and by the members of the District at the annual membership meeting. The District served 2,088 meters at September 30, 2014 and sold 148.2 million gallons of water 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 Stephens County, Oklahoma.

Inventory:

The District carries an inventory of supply parts used to repair the water system. The inventory is reported at the market value as of September 30, 2014 and 2013.

Note 2 - Accounts Receivable

The accounts receivable represents the water usage and service revenues for September plus any unpaid balances from the previous months. The District uses the direct method to account for bad debts. The accounts receivable balances at September 30, 2014 and 2013 amounted to \$166,921 and \$182,122, respectively with the deduction of the allowance for bad debts of \$2,859 for both years. The meters are read by the District monthly.

Note 3 - 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 #5, Stephens County, Oklahoma**

Notes to the Financial Statements
For the Years Ended September 30, 2014 and 2013

Note 5 - Fixed Assets

	Balance 10/1/2013	Additions	Disposed	Balance 9/30/2014
Water System Plant Assets	\$ 14,457,445	\$ 501,045	\$ -	\$ 14,958,490
Machinery & Equipment	23,477	2,060	-	25,537
Office Furniture & Fixtures	38,558	2,600	-	41,158
Vehicles	126,919	-	-	126,919
Office Buildings	194,713	7,400	-	202,113
Total Assets	\$ 14,841,112	\$ 513,105	\$ -	\$ 15,354,217
Less: Accumulated Depreciation	5,400,379	404,233	-	5,804,612
Net Fixed Assets	\$ 9,440,733	\$ 108,872	\$ -	\$ 9,549,605

Note 6 - Donated Assets

Donated assets is the estimated value of water lines installed by members from the existing water lines of the system to the member's meter. The value of the lines donated to the District for the years ending September 30, 2014 and 2013 were \$87,450 and \$26,454, respectively.

Note 7 - Long-Term Liabilities

The District has long-term notes payable with City National Bank, the Oklahoma Water Resources Board and S. Geiger. All notes are fixed interest notes except the OWRB which is adjusted annually. The notes are secured by the assets of the District.

	Interest Rate	9/30/2014	9/30/2013	Monthly Payment
City National Bank	4.25%	107,911	211,050	9,574
OWRB Series 2013	2.40%	3,740,000	3,940,000	28,812
S. Geiger	0.00%	125,000	137,000	1,000
Total		\$ 3,972,911	\$ 4,288,050	\$ 39,386
Less: Current Portion		(324,911)	(319,015)	
Long-term Portion		\$ 3,648,000	\$ 3,969,035	

Current Portion:		City Nat'l	OWRB	Geiger
Year Ending	9/30/2014	107,911	205,000	12,000
Year Ending	9/30/2015	-	285,000	12,000
Year Ending	9/30/2016	-	310,000	12,000
Year Ending	9/30/2017	-	315,000	12,000
Year Ending	9/30/2018	-	325,000	12,000

Note 8 - Retirement Plan

The District provides a money purchase retirement plan for its full time employees. The plan is administered by Lord Abbett. The District contributes 9% of the employees wages.

**Rural Water, Sewer, & Solid Waste Management
District #5, Stephens County, Oklahoma**

Notes to the Financial Statements
For the Years Ended September 30, 2014 and 2013

Note 9 - Components of Cash and Equivalents

	Date of Maturity	Interest Rate	9/30/2014 Balance
Petty Cash	-	0.00%	\$ 300
Checking - Arvest Bank	-	0.10%	345,359
Savings - Arvest Bank	-	0.15%	144,453
Savings - Arvest Bank	-	0.15%	28,338
CD - Ft. Sill National Bank	8/5/2016	3.00%	108,844
CD - Ft. Sill National Bank	8/13/2015	3.00%	114,459
OWRB loan reserve - Bancfirst	-	0.01%	409,628
Reserve Certificates - ORWAAG	-	1.27%	1,000
Total Cash and Equivalents			<u><u>\$ 1,152,381</u></u>

Reserved:

Tower Maintenance	\$ 38,338
Water Rights	114,459
System Improvement	253,297
	<u><u>\$ 406,094</u></u>

Restricted:

OWRB Loan	\$ 409,607
	<u><u>\$ 409,607</u></u>

Note 10 - Grants

The District has been awarded a CDBG grant during the years ending September 30, 2014 in the amount of \$224,999 for improvements to the water system.

Note 11 - Prior Period Adjustment

The District had a prior period adjustment for a transaction that accrued in the previous year that transferred funds from a savings account to another account during the consolidation and changes of banks. The result of the transaction was shown as income in the prior year. The amount of the transaction was \$1,237.71.

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. #5
Stephens 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 #5, Stephens County, Oklahoma (District), as of and for the years ending September 30, 2014 and 2013, and have issued my report thereon dated November 19, 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

November 19, 2014