



**Rural Water, Sewer
and Solid Waste
Management Dist. #5,
Stephens Co.,
Oklahoma**

Audit Report

For Year Ending September 30, 2015

Scott Northrip, CPA

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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 basic financial statements of Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma(District), as of and for the years ended September 30, 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 financial position of Rural Water, Sewer, & Solid Waste Management District #5, Stephens County, Oklahoma, as of September 30, 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 November 12, 2015, 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* and should be read in conjunction with this report in considering the results of the audit.

Scott Northrip, CPA

Certified Public Accountant

November 12, 2015

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

Statement of Net Position
As of September 30, 2015 and 2014

	2015	2014
ASSETS:		
Current Assets:		
Cash & Cash Equivalents (Note 9)	\$ 1,257,392	\$ 1,152,381
Accounts Receivable (Note 2)	157,835	164,062
Other Receivable	-	-
Interest Receivable	266	384
Prepaid Insurance	10,549	19,150
Inventory	19,863	25,084
Total Current Assets	\$ 1,445,905	\$ 1,361,061
Noncurrent Assets:		
Construction in Progress	\$ 19,056	\$ -
Capital Assets: (Note 5)		
Land, Water Rights, Deposits & Loan Fees	354,604	364,930
Other Capital Assets, net of depreciation	9,408,538	9,549,605
Total Noncurrent Assets	\$ 9,782,198	\$ 9,914,535
TOTAL ASSETS	\$ 11,228,103	\$ 11,275,596
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 38,911	\$ 46,199
Interest Payable	-	296
Current Portion of Long-term Liabilities	297,000	324,911
Total Current Liabilities	\$ 335,911	\$ 371,406
Long-Term Liabilities:		
Notes Payable - net of current portion	\$ 3,351,000	\$ 3,648,000
Net Position:		
Restricted Fund Balance (Note 9)	\$ 409,662	\$ 409,628
Unrestricted Fund Balance	(400,070)	(568,338)
Total Fund Balance	\$ 9,592	\$ (158,710)
Member Investments	1,232,836	1,177,836
Grants (Note 10)	5,432,911	5,432,911
Donated Assets (Note 6)	865,853	804,153
TOTAL NET POSITION	\$ 7,541,192	\$ 7,256,190
TOTAL LIABILITIES AND NET POSITION	\$ 11,228,103	\$ 11,275,596

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, 2015 and 2014

	2015	2014
OPERATING REVENUES:		
Water Sales	\$ 1,601,710	\$ 1,697,740
Water Sales - Bulk	13,919	20,273
Sale of Supplies	480	-
Connection Charges & Road Bores	12,100	18,640
Damage Reimbursement	900	399
Miscellaneous Revenues	2,548	6,289
Total Operating Revenues	\$ 1,631,657	\$ 1,743,341
OPERATING EXPENSES:		
Salaries	\$ 322,421	\$ 310,599
Water Purchases	8,232	15,239
Depreciation Expense	416,472	404,233
Interest Expense	131,228	152,619
Utilities	86,090	81,246
System Repairs & Operating Supplies	134,642	121,050
Contract Trenching Expense	146,643	146,465
Insurance	37,285	36,839
Legal & Professional Fees	16,889	20,908
Vehicle & Travel Expense	32,945	47,531
Employee Benefits	60,970	54,536
Payroll Tax Expense	25,675	25,056
Rent Expense	6,149	3,495
Office Supplies, Security & Postage	30,806	29,076
Communication Expense	11,267	12,431
Director's Meetings & Fees	3,059	2,277
Loan Costs Amortization	10,326	10,326
Dues & Fees	50,460	42,455
Bad Debts	2,972	3,504
Advertising & Promotions Expense	2,532	2,937
Miscellaneous Expense	9,341	1,972
Total Operating Expenses	\$ 1,546,404	\$ 1,524,794
OPERATING INCOME (LOSS)	\$ 85,253	\$ 218,547
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 7,794	\$ 6,474
Rent Income	4,583	4,707
Reimburse line relocate	70,672	59,404
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	\$ 83,049	\$ 70,585
EXCESS REVENUES (EXPENSES)	\$ 168,302	\$ 289,132

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, 2015 and 2014

	2015	2014
Balance, October 1	\$ 7,256,190	\$ 6,559,847
Excess Revenues (Expenses)	168,302	289,132
Prior Period Adjustment	-	(1,238)
Member Investments	55,000	71,000
Grants	-	249,999
Donated Assets	61,700	87,450
Total Changes in Net Assets	\$ 285,002	\$ 696,343
Balance, September 30	\$ 7,541,192	\$ 7,256,190

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, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,637,884	\$ 1,760,040
Payments to suppliers	(572,778)	(550,808)
Payments to employees & benefits	(409,066)	(390,191)
Net Cash Provided by Operating Activities	\$ 656,040	\$ 819,041
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (275,405)	\$ (513,105)
Payments for construction in progress	(19,056)	43,468
Donated Assets	61,700	87,450
Principal payments on notes payable	(324,911)	(315,139)
Interest paid on notes payable	(131,524)	(152,900)
Purchase of water rights & loan fees	-	-
Proceeds from Long-term notes	-	-
Proceeds from Grants	-	249,999
Net Cash Used In Capital & Related Financing Activities	\$ (689,196)	\$ (600,227)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 7,912	\$ 7,015
Proceeds from memberships	55,000	71,000
Prior Period Adjustment	-	(1,238)
Miscellaneous Receipts	75,255	64,111
Net Cash Provided from Investing Activities	\$ 138,167	\$ 140,888
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 105,011	\$ 359,702
Cash and Investment Balance - Beginning	1,152,381	792,679
CASH AND INVESTMENT BALANCE - ENDING	\$ 1,257,392	\$ 1,152,381
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Excess Operating Revenues (Expenses)	\$ 85,253	\$ 218,547
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	131,228	152,619
Depreciation expense & Loan Amortization	426,798	414,559
Change in current assets and liabilities:		
Accounts Receivable	6,227	15,200
Other Receivable	-	1,499
Prepaid Insurance	8,601	9,872
Inventory	5,221	(5,057)
Accounts Payable	(7,288)	11,802
Net Cash Provided from Operating Activities	\$ 656,040	\$ 819,041

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, 2015 and 2014

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 2,136 meters at September 30, 2015 and sold 137.9 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, 2015 and 2014.

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, 2015 and 2014 amounted to \$160,694 and \$166,921, 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, 2015 and 2014

Note 5 - Fixed Assets

	Balance			Balance		
	10/1/2014	Additions	Disposed	9/30/2015		
Water System Plant Assets	\$ 14,958,490	\$ 243,219	\$ -	\$ 15,201,709		
Machinery & Equipment	25,537	3,451	-	28,988		
Office Furniture & Fixtures	41,158	5,209	-	46,367		
Vehicles	126,919	25,484	(27,855)	124,548		
Office Buildings	202,113	828	-	202,941		
Total Assets	\$ 15,354,217	\$ 278,191	\$ (27,855)	\$ 15,604,553		
Less: Accumulated Depreciation	5,804,612	416,472	(25,069)	6,196,015		
Net Fixed Assets	\$ 9,549,605	\$ (138,281)	\$ (2,786)	\$ 9,408,538		

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, 2015 and 2014 were \$61,700 and \$87,450, 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	9/30/2015	9/30/2014	Monthly Payment
City National Bank	4.25%	-	107,911	9,574
OWRB Series 2013	2.40%	3,535,000	3,740,000	28,812
S. Geiger	0.00%	113,000	125,000	1,000
Total		\$ 3,648,000	\$ 3,972,911	\$ 39,386
Less: Current Portion		(297,000)	(324,911)	
Long-term Portion		\$ 3,351,000	\$ 3,648,000	

Current Portion:		City Nat'l	OWRB	Geiger
Year Ending	9/30/2016	-	285,000	12,000
Year Ending	9/30/2017	-	310,000	12,000
Year Ending	9/30/2018	-	315,000	12,000
Year Ending	9/30/2019	-	325,000	12,000
Year Ending	9/30/2020	-	340,000	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, 2015 and 2014

Note 9 - Components of Cash and Equivalents

	Date of Maturity	Interest Rate	9/30/2015 Balance
Petty Cash	-	0.00%	\$ 300
Checking - Arvest Bank	-	0.10%	296,145
Savings - Arvest Bank	-	0.20%	287,353
Savings - Arvest Bank	-	0.20%	33,319
CD - Ft. Sill National Bank	8/5/2016	3.00%	112,100
CD - Ft. Sill National Bank	9/20/2020	1.10%	117,513
OWRB loan reserve - Bancfirst	-	0.01%	409,662
Reserve Certificates - ORWAAG	-	1.27%	1,000
Total Cash and Equivalents			<u><u>\$ 1,257,392</u></u>

Reserved:

Tower Maintenance	\$ 33,319
Water Rights	229,613
System Improvement	287,353
	<u><u>\$ 550,285</u></u>

Restricted:

OWRB Loan	\$ 409,662
	<u><u>\$ 409,662</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 did not have any prior period adjustment for the year ending September 30, 2015.

Note 12 - Evaluation of Subsequent Events

The subsequent events of the District were evaluated through November 12, 2015, the date of the report.

SCOTT NORTHRIP, CPA

P.O. Box 642, Hobart, Oklahoma 73651

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OF THE FINANCIAL STATEMENTS 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 the basic financial statements of Rural Water, Sewer, and Solid Waste Management District #5, Stephens County, Oklahoma (District), as of and for the year ending September 30, 2015 and 2014, and have issued my report thereon dated November 12, 2015. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I performed test of its compliance with certain 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 such 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 that require to be reported under *Government Auditing Standards*.

Internal Control

In planning and performing the audit, I considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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.

Report on Compliance and Internal Controls-Continued

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.

My consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, CPA

Certified Public Accountant

November 12, 2015