

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

Audit Report

For Year Ending September 30, 2017

Scott Northrip, CPA

P.O. Box 642

Hobart, OK 73651

(580) 726-5681

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. #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, 2017 and 2016 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, 2017 and 2016, 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 16, 2017, 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 16, 2017

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

Comparative Statement of Net Position
As of September 30, 2017 and 2016

	2017	2016
ASSETS:		
Current Assets:		
Cash & Cash Equivalents (Note 9)	\$ 1,497,385	\$ 1,446,344
Accounts Receivable (Note 2)	136,009	135,258
Other Receivable	-	-
Interest Receivable	146	148
Prepaid Insurance	13,849	14,969
Inventory	38,092	37,048
Total Current Assets	\$ 1,685,481	\$ 1,633,767
Noncurrent Assets:		
Construction in Progress	\$ 447,746	\$ 41,910
Capital Assets: (Note 5)		
Land, Water Rights, Deposits & Loan Fees	333,951	344,278
Other Capital Assets, net of depreciation	8,976,481	9,373,663
Total Noncurrent Assets	\$ 9,758,178	\$ 9,759,851
TOTAL ASSETS	\$ 11,443,659	\$ 11,393,618
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 57,317	\$ 36,535
Interest Payable	574	624
Current Portion of Long-term Liabilities	343,922	338,057
Total Current Liabilities	\$ 401,813	\$ 375,216
Long-Term Liabilities:		
Notes Payable - net of current portion	\$ 2,866,587	\$ 3,210,149
Net Position:		
Restricted Fund Balance (Note 9)	\$ 411,235	\$ 409,686
Unrestricted Fund Balance	(95,921)	(187,718)
Total Fund Balance	\$ 315,314	\$ 221,968
Member Investments	1,314,086	1,276,586
Grants (Note 10)	5,669,071	5,432,911
Donated Assets (Note 6)	876,788	876,788
TOTAL NET POSITION	\$ 8,175,259	\$ 7,808,253
TOTAL LIABILITIES AND NET POSITION	\$ 11,443,659	\$ 11,393,618

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, 2017 and 2016

	2017	2016
OPERATING REVENUES:		
Water Sales	\$ 1,612,617	\$ 1,599,173
Water Sales - Bulk	2,823	1,738
Sale of Supplies	2,989	50
Connection Charges & Road Bores	10,400	8,825
Damage Reimbursement	3,368	86,558
Miscellaneous Revenues	436	5,623
Total Operating Revenues	\$ 1,632,633	\$ 1,701,967
OPERATING EXPENSES:		
Salaries	\$ 335,517	\$ 332,917
Water Purchases	8,441	7,073
Depreciation Expense	423,729	421,153
Interest Expense	134,503	139,219
Utilities	75,841	84,222
System Repairs & Trenching Expense	307,984	261,882
Insurance	40,996	34,039
Legal & Professional Fees	8,105	10,655
Vehicle & Travel Expense	31,144	31,704
Employee Benefits	50,140	49,749
Payroll Tax Expense	26,919	26,765
Rent Expense	7,601	5,452
Office Supplies, Security & Postage	27,036	28,461
Communication Expense	10,550	10,412
Director's Meetings & Fees	4,523	4,373
Loan Costs Amortization	10,326	10,326
Dues & Fees	48,714	47,121
Bad Debts	846	611
Advertising & Promotions Expense	2,307	2,888
Miscellaneous Expense	5,207	2,244
Total Operating Expenses	\$ 1,560,429	\$ 1,511,266
OPERATING INCOME (LOSS)	\$ 72,204	\$ 190,701
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 5,392	\$ 4,527
Rent Income	6,190	5,213
Reimburse line relocate	9,560	11,935
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	\$ 21,142	\$ 21,675
EXCESS REVENUES (EXPENSES)	\$ 93,346	\$ 212,376

See accompanying notes to the financial statements.

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

Comparative Statement of Changes in Net Position
For the Years Ended September 30, 2017 and 2016

	2017	2016
Balance, October 1	\$ 7,808,253	\$ 7,541,192
Excess Revenues (Expenses)	93,346	212,376
Prior Period Adjustment	-	-
Member Investments	37,500	43,750
Grants	236,160	-
Donated Assets	-	10,935
Total Changes in Net Assets	\$ 367,006	\$ 267,061
Balance, September 30	\$ 8,175,259	\$ 7,808,253

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,631,882	\$ 1,724,544
Payments to suppliers	(558,437)	(555,118)
Payments to employees & benefits	(412,576)	(409,431)
Net Cash Provided by Operating Activities	\$ 660,869	\$ 759,995
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (26,547)	\$ (386,278)
Payments for construction in progress	(405,836)	(22,854)
Donated Assets	-	10,935
Principal payments on notes payable	(337,697)	(300,794)
Interest paid on notes payable	(134,553)	(138,595)
Purchase of water rights & loan fees	-	-
Proceeds from Long-term notes	-	201,000
Proceeds from Grants	236,160	-
Net Cash Used In Capital & Related Financing Activities	\$ (668,473)	\$ (636,586)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 5,395	\$ 4,645
Proceeds from memberships	37,500	43,750
Prior Period Adjustment	-	-
Miscellaneous Receipts	15,750	17,148
Net Cash Provided from Investing Activities	\$ 58,645	\$ 65,543
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 51,041	\$ 188,952
Cash and Investment Balance - Beginning	1,446,344	1,257,392
CASH AND INVESTMENT BALANCE - ENDING	\$ 1,497,385	\$ 1,446,344
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Excess Operating Revenues (Expenses)	\$ 72,204	\$ 190,701
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	134,503	139,219
Depreciation expense & Loan Amortization	434,055	431,479
Change in current assets and liabilities:		
Accounts Receivable	(751)	22,577
Other Receivable	-	-
Prepaid Insurance	1,120	(4,420)
Inventory	(1,044)	(17,185)
Accounts Payable	20,782	(2,376)
Net Cash Provided from Operating Activities	\$ 660,869	\$ 759,995

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, 2017 and 2016

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 2,184 meters at September 30, 2017 and sold 136.0 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, 2017 and 2016.

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, 2017 and 2016 amounted to \$138,867 and \$138,117, 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, 2017 and 2016

Note 5 - Fixed Assets

	Balance			Balance
	10/1/2016	Additions	Disposed	9/30/2017
Water System Plant Assets	\$ 15,516,340	\$ 26,547	\$ -	\$ 15,542,887
Machinery & Equipment	37,995	-	-	37,995
Office Furniture & Fixtures	46,367	-	-	46,367
Vehicles	157,593	-	-	157,593
Office Buildings	202,941	-	-	202,941
Total Assets	\$ 15,961,236	\$ 26,547	\$ -	\$ 15,987,783
Less: Accumulated Depreciation	6,587,573	423,729	-	7,011,302
Net Fixed Assets	\$ 9,373,663	\$ (397,182)	\$ -	\$ 8,976,481

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, 2017 and 2016 were \$0 and \$10,935, respectively.

Note 7 - Long-Term Liabilities

The District has long-term notes payable with Arvest 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	9/30/2017	9/30/2016	Monthly Payment
Arvest Bank	5.25%	181,509	197,206	2,167
OWRB Series 2013	3.40%	2,940,000	3,250,000	34,914
S. Geiger	0.00%	89,000	101,000	1,000
Total		\$ 3,210,509	\$ 3,548,206	\$ 38,081
Less: Current Portion		(343,922)	(338,057)	
Long-term Portion		\$ 2,866,587	\$ 3,210,149	

Current Portion:		Arvest	OWRB	Geiger
Year Ending	9/30/2018	16,922	315,000	12,000
Year Ending	9/30/2019	17,834	325,000	12,000
Year Ending	9/30/2020	18,795	340,000	12,000
Year Ending	9/30/2021	19,807	350,000	12,000
Year Ending	9/30/2022	20,855	370,000	12,000

Note 8 - Retirement Plan

The District provides a money purchase retirement plan for its full time employees. The plan is administered by American United Life. 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, 2017 and 2016

Note 9 - Components of Cash and Equivalents

	Date of Maturity	Interest Rate	9/30/2017 Balance	9/30/2016 Balance
Petty Cash	-	0.00%	\$ 300	\$ 300
Checking - Arvest Bank	-	0.050%	162,181	257,472
Savings - Arvest Bank	-	0.10%	630,150	505,340
Savings - Arvest Bank	-	0.10%	44,764	38,542
Checking - Arvest Bank (Credit Card Payments)	-	0.00%	12,033	126
CD - Ft. Sill National Bank	8/11/2018	0.70%	115,700	115,053
CD - Ft. Sill National Bank	9/2/2020	1.10%	120,022	118,825
OWRB loan reserve - Bancfirst	-	0.30%	411,235	409,686
Reserve Certificates - ORWAAG	-	1.32%	1,000	1,000
Total Cash and Equivalents			\$ 1,497,385	\$ 1,446,344

Reserved:

Tower Maintenance	\$ 44,764
Water Rights	236,054
System Improvement	630,150
	<u>\$ 910,968</u>

Restricted:

OWRB Debt Service	\$ 411,235
	<u>\$ 411,235</u>

Note 10 - Grants

The District has been awarded a CDBG grant during the years ending September 30, 2016 in the amount of \$329,999 for improvements to the water system. The grant will be received in 2017 and the District is required to match funds totalling \$350,001. The District received \$236,160 during the year ending September 30, 2017 because the project was still in process.

Note 11 - Prior Period Adjustment

The District did not have any prior period adjustment for the years ending September 30, 2016 or 2015.

Note 12 - Evaluation of Subsequent Events

The subsequent events of the District were evaluated through November 16, 2017, 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, 2017 and 2016, and have issued my report thereon dated November 16, 2017. 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 16, 2017