

**Stephens County Rural
Water District #5**
Audit Report
For Year Ending September 30, 2018

P.V.
P.W.
275

3600
1875
1700
1000

54.00
61.70
69.45
64.00
66.30
42.90

175
500
350

00
00

167
1690
1690
1690

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, 2018 and 2017 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, 2018 and 2017, 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 14, 2018, 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 14, 2018

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

Comparative Statement of Net Position
As of September 30, 2018 and 2017

	2018	2017
ASSETS:		
Current Assets:		
Cash & Cash Equivalents (Note 9)	\$ 1,750,789	\$ 1,497,385
Accounts Receivable (Note 2)	124,716	136,009
Other Receivable	-	-
Interest Receivable	147	146
Prepaid Insurance	13,860	13,849
Inventory	43,891	38,092
Total Current Assets	\$ 1,933,403	\$ 1,685,481
Noncurrent Assets:		
Construction in Progress	\$ 1,307	\$ 447,746
Capital Assets: (Note 5)		
Land, Water Rights, Deposits & Loan Fees	323,625	333,951
Other Capital Assets, net of depreciation	9,309,066	8,976,481
Total Noncurrent Assets	\$ 9,633,998	\$ 9,758,178
TOTAL ASSETS	\$ 11,567,401	\$ 11,443,659
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ 48,682	\$ 57,317
Interest Payable	521	574
Current Portion of Long-term Liabilities	354,834	343,922
Total Current Liabilities	\$ 404,037	\$ 401,813
Long-Term Liabilities:		
Notes Payable - net of current portion	\$ 2,451,902	\$ 2,806,587
Net Position:		
Restricted Fund Balance (Note 9)	\$ 414,288	\$ 411,235
Unrestricted Fund Balance	258,890	(35,921)
Total Fund Balance	\$ 673,178	\$ 375,314
Member Investments	1,378,586	1,314,086
Grants (Note 10)	5,782,910	5,669,071
Donated Assets (Note 6)	876,788	876,788
TOTAL NET POSITION	\$ 8,711,462	\$ 8,235,259
TOTAL LIABILITIES AND NET POSITION	\$ 11,567,401	\$ 11,443,659

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, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Water Sales	\$ 1,707,230	\$ 1,612,617
Water Sales - Bulk	6,749	2,823
Sale of Supplies	-	2,989
Connection Charges & Road Bores	12,150	10,400
Damage Reimbursement	79,557	3,368
Miscellaneous Revenues	1,790	436
Total Operating Revenues	\$ 1,807,476	\$ 1,632,633
 OPERATING EXPENSES:		
Salaries	\$ 349,261	\$ 335,517
Water Purchases	4,984	8,441
Depreciation Expense	434,609	423,729
Interest Expense	122,293	134,503
Utilities	81,359	75,841
System Repairs, Supplies & Trenching Expense	256,537	307,984
Insurance	42,502	40,996
Legal & Professional Fees	8,204	8,105
Vehicle & Travel Expense	36,275	31,144
Employee Benefits	58,742	50,140
Payroll Tax Expense	27,956	26,919
Rent Expense	6,341	7,601
Office Supplies, Security & Postage	20,919	27,036
Communication Expense	10,814	10,550
Director's Meetings & Fees	4,491	4,523
Loan Costs Amortization	10,326	10,326
Dues & Fees	38,226	48,714
Bad Debts	7,937	846
Advertising & Promotions Expense	200	2,307
Miscellaneous Expense	5,112	5,207
Total Operating Expenses	\$ 1,527,088	\$ 1,560,429
 OPERATING INCOME (LOSS)	\$ 280,388	\$ 72,204
 OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 7,534	\$ 5,392
Rent Income	5,711	6,190
Reimburse line relocate	4,231	9,560
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	\$ 17,476	\$ 21,142
 EXCESS REVENUES (EXPENSES)	\$ 297,864	\$ 93,346

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, 2018 and 2017

	2018	2017
Balance, October 1	\$ 8,235,259	\$ 7,868,253
Excess Revenues (Expenses)	297,864	93,346
Prior Period Adjustment	-	-
Member Investments	64,500	37,500
Grants	113,839	236,160
Donated Assets	-	-
Total Changes in Net Assets	\$ 476,203	\$ 367,006
Balance, September 30	\$ 8,711,462	\$ 8,235,259

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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 1,818,769	\$ 1,631,882
Payments to suppliers	(538,346)	(558,437)
Payments to employees & benefits	(435,959)	(412,576)
Net Cash Provided by Operating Activities	\$ 844,464	\$ 660,869
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (319,448)	\$ (26,547)
Payments for construction in progress	(1,307)	(405,836)
Donated Assets	-	-
Principal payments on notes payable	(343,773)	(337,697)
Interest paid on notes payable	(122,346)	(134,553)
Purchase of water rights & loan fees	-	-
Proceeds from Long-term notes	-	-
Proceeds from Grants	113,839	236,160
Net Cash Used In Capital & Related Financing Activities	\$ (673,035)	\$ (668,473)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 7,533	\$ 5,395
Proceeds from memberships	64,500	37,500
Prior Period Adjustment	-	-
Miscellaneous Receipts	9,942	15,750
Net Cash Provided from Investing Activities	\$ 81,975	\$ 58,645
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 253,404	\$ 51,041
Cash and Investment Balance - Beginning	1,497,385	1,446,344
CASH AND INVESTMENT BALANCE - ENDING	\$ 1,750,789	\$ 1,497,385
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Excess Operating Revenues (Expenses)	\$ 280,388	\$ 72,204
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	122,293	134,503
Depreciation expense & Loan Amortization	444,935	434,055
Change in current assets and liabilities:		
Accounts Receivable	11,293	(751)
Other Receivable	-	-
Prepaid Insurance	(11)	1,120
Inventory	(5,799)	(1,044)
Accounts Payable	(8,635)	20,782
Net Cash Provided from Operating Activities	\$ 844,464	\$ 660,869

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, 2018 and 2017

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 2,219 meters at September 30, 2018 and sold 140.4 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, 2018 and 2017.

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, 2018 and 2017 amounted to \$127,576 and \$138,868, 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, 2018 and 2017

Note 5 - Fixed Assets

	Balance 10/1/2017	Additions	Disposed	Balance 9/30/2018
Water System Plant Assets	\$ 15,542,887	\$ 727,168	\$ -	\$ 16,270,055
Machinery & Equipment	37,995	7,344	-	45,339
Office Furniture & Fixtures	46,367	-	-	46,367
Vehicles	157,593	32,682	-	190,275
Office Buildings	202,941	-	-	202,941
Total Assets	\$ 15,987,783	\$ 767,194	\$ -	\$ 16,754,977
Less: Accumulated Depreciation	7,011,302	434,609	-	7,445,911
Net Fixed Assets	\$ 8,976,481	\$ 332,585	\$ -	\$ 9,309,066

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, 2018 and 2017 were \$0 and \$0, 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	9/30/2018	9/30/2017	Monthly Payment
Arvest Bank	5.25%	164,736	181,509	2,167
OWRB Series 2013	3.40%	2,565,000	2,880,000	35,927
S. Geiger	0.00%	77,000	89,000	1,000
Total		\$ 2,806,736	\$ 3,150,509	\$ 39,094
Less: Current Portion		(354,834)	(343,922)	
Long-term Portion		\$ 2,451,902	\$ 2,806,587	

Current Portion:		Arvest	OWRB	Geiger
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
Year Ending	9/30/2023	21,971	385,000	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, 2018 and 2017

Note 9 - Components of Cash and Equivalents

	Date of Maturity	Interest Rate	9/30/2018 Balance	9/30/2017 Balance
Petty Cash	-	0.00%	\$ 300	\$ 300
Checking - Arvest Bank	-	0.050%	329,126	162,181
Savings - Arvest Bank	-	0.10%	697,909	630,150
Savings - Arvest Bank	-	0.10%	50,549	44,764
Checking - Arvest Bank (Credit Card Payments)	-	0.00%	19,491	12,033
CD - Arvest Bank	8/11/2019	0.70%	116,668	115,700
CD - Arvest Bank	9/2/2020	1.10%	121,458	120,022
OWRB loan reserve - Bancfirst	-	0.30%	414,288	411,235
Reserve Certificates - ORWAAG	-	1.32%	1,000	1,000
Total Cash and Equivalents			\$ 1,750,789	\$ 1,497,385

Reserved:

Tower Maintenance	\$ 50,549
Water Rights	238,126
System Improvement	697,909
	<u>\$ 986,584</u>

Restricted:

OWRB Debt Service	\$ 414,288
	<u>\$ 414,288</u>

Note 10 - Grants

The District has been awarded a CDBG grant during the years ending September 30, 2016 in the amount of \$349,999 for improvements to the water system. The grant will be received in 2017 and 2018. The District is required to match funds totalling \$350,001. The District received \$236,160 during the year ending September 30, 2017 and \$113,839 during the year ending September 30, 2018.

Note 11 - Prior Period Adjustment

The District did not have any prior period adjustment for the years ending September 30, 2018 or 2017.

Note 12 - Evaluation of Subsequent Events

The subsequent events of the District were evaluated through November 14, 2018, 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, 2018 and 2017, and have issued my report thereon dated November 14, 2018. 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 14, 2018