

**Washita County Rural
Water District #2**
Audit Report
For Year Ending December 31, 2015

Scott Northrip, CPA
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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. #2
Washita County, Oklahoma

I have audited the accompanying financial statements of Rural Water, Sewer, & Solid Waste Management District #2, Washita 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 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 #2, Washita County, Oklahoma, as of December 31, 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 January 25, 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

January 25, 2016

**Rural Water, Sewer, & Solid Waste Management
District #2, Washita County, Oklahoma**

Comparative Statement of Net Position
As of December 31, 2015 and 2014

ASSETS:	2015	2014
Current Assets:		
Cash & Cash Equivalents	\$ 147,921	\$ 236,341
Investments	329,989	179,078
Accounts Receivable (Note 2)	49,319	44,612
Other Receivable	81,106	-
Interest Receivable	1,360	995
Prepaid Insurance	10,075	8,945
Inventory	57,297	56,495
Total Current Assets	\$ 677,067	\$ 526,466
Noncurrent Assets:		
Construction in Progress	\$ 1,000	\$ -
Capital Assets: (Note 5)		
Land	191,690	191,690
Other Capital Assets, net of depreciation	1,065,653	1,157,006
Total Noncurrent Assets	\$ 1,258,343	\$ 1,348,696
TOTAL ASSETS	\$ 1,935,410	\$ 1,875,162
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ -	\$ -
Interest Payable	1,133	1,138
Customer Deposits	2,050	1,850
Current Portion of Long-term Liabilities	34,412	32,727
Total Current Liabilities	\$ 37,595	\$ 35,715
Long-Term Liabilities:		
Notes Payable - net of current	\$ 452,023	\$ 486,451
Net Position:		
Restricted Fund Balance	\$ 57,888	\$ 57,888
Unrestricted Fund Balance	41,099	(17,010)
Total Fund Balance	\$ 98,987	\$ 40,878
Member Investments	354,750	341,350
Donated Assets	694,456	673,169
Grants	297,599	297,599
TOTAL NET POSITION	\$ 1,445,792	\$ 1,352,996
TOTAL LIABILITIES AND NET POSITION	\$ 1,935,410	\$ 1,875,162

See accompanying notes to the financial statements.

Rural Water, Sewer, & Solid Waste Management
District #2, Washita County, Oklahoma
 Comparative Statement of Activities
 For the Years Ended December 31, 2015 and 2014

	2015	2014
OPERATING REVENUES:		
Water Sales	\$ 438,101	\$ 438,089
Late Fees	13,351	11,952
Sale of Supplies	1,203	1,820
Miscellaneous Revenues	14,010	13,921
Total Operating Revenues	\$ 466,665	\$ 465,782
OPERATING EXPENSES:		
Salaries	\$ 128,647	\$ 122,070
Depreciation Expense	114,315	114,023
Interest Expense	25,140	26,719
Utilities	30,117	34,449
Water Purchases	10,663	11,820
Repairs & Maintenance	822	19,571
Insurance	30,828	27,925
Legal & Professional Fees	11,106	8,127
Transportation Expense	7,990	8,522
Director's Fees	7,200	6,800
Payroll Tax Expense	10,352	9,899
Operating Supplies & Chemicals	28,286	27,090
Office Supplies & Postage	6,095	7,108
Retirement Benefits	3,860	3,663
Dues & Licenses	1,267	992
Equipment Rent	1,214	2,886
Bad Debts Expense	-	845
FEMA Repairs	-	-
Miscellaneous Expense	2,519	1,040
Total Operating Expenses	\$ 420,421	\$ 433,549
OPERATING INCOME (LOSS)	\$ 46,244	\$ 32,233
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 1,865	\$ 2,251
Gain on Sale of Assets	10,000	-
Total Other Revenues(Expenses)	\$ 11,865	\$ 2,251
NET INCOME	\$ 58,109	\$ 34,484

See accompanying notes to the financial statements.

**Rural Water, Sewer, & Solid Waste Management
District #2, Washita County, Oklahoma**
Comparative Statement of Changes in Net Position
For the Years Ended December 31, 2015 and 2014

	2015	2014
Balance, January 1	\$ 1,352,996	\$ 1,299,891
Net Income (Loss)	58,109	34,484
Member Investments	13,400	10,950
Donated Assets	21,287	7,671
Grants	-	-
Total Changes in Net Assets	\$ 92,796	\$ 53,105
Balance, December 31	\$ 1,445,792	\$ 1,352,996

See accompanying notes to the financial statements.

**Rural Water, Sewer & Solid Waste Management
District #2, Washita County, Oklahoma**

Comparative Statement of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 461,958	\$ 462,126
Payments to suppliers	(208,210)	(149,768)
Payments to employees & benefits	(155,594)	(147,269)
Net Cash Provided by Operating Activities	\$ 98,154	\$ 165,089
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (23,961)	\$ (7,671)
Donated Assets	21,287	7,671
Payments for Land	-	-
Proceeds from Grants	-	-
Principal payments on notes payable	(32,742)	(30,650)
Interest paid on notes payable	(25,146)	(27,238)
Proceeds from sale of assets	10,000	-
Net Cash Used In Capital & Related Financing Activities	\$ (50,562)	\$ (57,888)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 1,499	\$ 2,248
Proceeds from memberships	13,400	10,950
Net Cash Provided from Investing Activities	\$ 14,899	\$ 13,198
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 62,491	\$ 120,399
Cash and Investment Balance - Beginning	415,419	295,020
CASH AND INVESTMENT BALANCE - ENDING	\$ 477,910	\$ 415,419
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 46,244	\$ 32,233
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	25,140	26,719
Depreciation expense	114,315	114,023
Change in assets and liabilities:		
Accounts Receivable	(4,707)	(5,156)
Other Receivable	(81,106)	1,500
Prepaid Insurance	(1,130)	(710)
Inventory	(802)	(3,070)
Accounts Payable	-	-
Customer Deposits	200	(450)
Net Cash Provided from Operating Activities	\$ 98,154	\$ 165,089

See accompanying notes to the financial statements.

Rural Water, Sewer & Solid Waste Management District #2, Washita County, Oklahoma

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 #2, Washita County, Oklahoma (District) is an Oklahoma trust formed under the Oklahoma Rural Water Act to provide water, sewer, and solid waste management in a designated area in and around Washita County, Oklahoma to individuals and businesses that purchase a membership. The District served 765 meters and sold 60,250,000 gallons of water for the year ending December 31, 2015 which represented an increase of 13 meters from previous 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 the State of Oklahoma.

Note 2 - Accounts Receivable

The accounts receivable represents the water usage and service revenues for December plus any unpaid balances from the previous months. The District uses the reserve method to account for bad debts. No provision was made during the years 2015 or 2014 even though it was less than the accounts receivable balances over 90 days old. The accounts receivable balances at December 31, 2015 and 2014 amounted to \$52,392 and \$47,685, respectively with the allowance in the amount of \$3,073 and \$3,073, respectively.

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 didn't have any contingencies as of the date of the audit.

**Rural Water, Sewer & Solid Waste Management
District #2, Washita County, Oklahoma**

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

Note 5 - Changes in Fixed Assets

	Balance 1/1/2015	Additions	Disposed	Balance 12/31/2015
Water System Plant Assets	\$ 2,756,189	\$ 21,287	\$ -	\$ 2,777,476
Extensions	656,139	-	-	656,139
Office Furniture & Fixtures	17,657	175	-	17,832
Equipment	156,528	1,500	(15,000)	143,028
Vehicles	16,012	-	-	16,012
Buildings	179,325	-	-	179,325
Total Assets	\$ 3,781,850	\$ 22,962	\$ (15,000)	\$ 3,789,812
 <u>Accumulated Depreciation:</u>				
Water System Plant Assets	\$ 2,157,414	\$ 72,983	\$ -	\$ 2,230,397
Extensions	295,715	16,824	-	312,539
Office Furniture & Fixtures	17,372	153	-	17,525
Equipment	75,115	11,386	(15,000)	71,501
Vehicles	6,005	4,003	-	10,008
Buildings	73,223	8,966	-	82,189
Total Accumulated Deprec.	\$ 2,624,844	\$ 114,315	\$ (15,000)	\$ 2,724,159
 Net Fixed Assets	 \$ 1,157,006	 \$ (91,353)	 \$ -	 \$ 1,065,653

Note 6 - Donated Assets

Donated assets are the estimated value of water lines installed by members from the existing lines of the system to the member's meter. The value of the lines donated to the District for the years ending December 31, 2015 and 2014 were \$21,287 and \$7,671, respectively.

Note 7 - Components of Cash and Investments

	Date of Maturity	Interest Rate	12/31/2015 Balance
Checking - Bank of Cordell	-	0.25%	\$ 147,621
Petty Cash	-	0.00%	300
CD - Bank of Hydro	4/19/2016	0.50%	58,000
CD - Bank of Cordell	3/16/2016	0.50%	121,989
CD - First National Bank	2/27/2017	0.55%	150,000
Total Cash and Investments			\$ 477,910

Designation:

Operating	\$ 147,921
Reserved for System Improvements	272,101
Restricted for Debt Service - Rural Development	57,888
	\$ 477,910

**Rural Water, Sewer & Solid Waste Management
District #2, Washita County, Oklahoma**

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

Note 8 - Retirement

The District provides a Simple IRA retirement plan for its participating employees. The District matches contributions up to 3% of the employee wages.

Note 9 - Long Term Liabilities

The District has two 40 year notes with Rural Development, an agency of the United States Department of Agriculture. The loans are all 5% fixed interest notes. The notes are secured by the assets of the District. Rural Development requires the District to reserve enough funds to pay an amount equal to a year's total payments. The District makes monthly payments on each of the notes.

Note Number	Date of Note	Annual Payment	Balance 12/31/2015	Balance 12/31/2014
			-	-
91-11	2/21/1983	32,664	169,859	193,413
91-13	5/23/1997	25,224	316,576	325,765
		<u>\$ 57,888</u>	<u>\$ 486,435</u>	<u>\$ 519,178</u>
Less: Current Portion			34,412	32,727
Net Long-Term Liabilities			<u>\$ 452,023</u>	<u>\$ 486,451</u>

Current Portion:		Note 91-11	Note 91-13
Year Ending	12/31/2016	-	24,782
Year Ending	12/31/2017	-	26,046
Year Ending	12/31/2018	-	27,392
Year Ending	12/31/2019	-	28,785
Year Ending	12/31/2020	-	30,259

Note 10 - Prior Period Adjustments

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

Note 11 - Evaluation of Subsequent Events

The subsequent events were evaluated through January 25, 2016, the date of the report.

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. #2
Washita 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 #2, Washita County, Oklahoma (District), as of and for the years ending December 31, 2015 and 2014, and have issued my report thereon dated January 25, 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 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

January 25, 2016