

**Washita County Rural
Water District #2**

Audit Report

For Year Ending December 31, 2017

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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. #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, 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 respective financial position of Rural Water, Sewer, & Solid Waste Management District #2, Washita County, Oklahoma, as of December 31, 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 January 26, 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

January 26, 2018

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

Comparative Statement of Net Position
As of December 31, 2017 and 2016

ASSETS:	2017	2016
Current Assets:		
Cash & Cash Equivalents	\$ 436,569	\$ 323,762
Investments	332,883	330,602
Accounts Receivable (Note 2)	69,750	59,011
Other Receivable	-	-
Interest Receivable	2,145	1,481
Prepaid Insurance	10,813	11,834
Inventory	56,454	59,810
Total Current Assets	\$ 908,614	\$ 786,500
Noncurrent Assets:		
Construction in Progress	\$ 37,559	\$ 23,219
Capital Assets: (Note 5)		
Land	191,690	191,690
Other Capital Assets, net of depreciation	858,159	976,302
Total Noncurrent Assets	\$ 1,087,408	\$ 1,191,211
TOTAL ASSETS	\$ 1,996,022	\$ 1,977,711
LIABILITIES AND NET POSITION:		
Current Liabilities:		
Accounts Payable	\$ -	\$ -
Interest Payable	488	1,176
Customer Deposits	2,450	2,100
Current Portion of Long-term Liabilities	38,047	36,164
Total Current Liabilities	\$ 40,985	\$ 39,440
Long-Term Liabilities:		
Notes Payable - net of current	\$ 378,467	\$ 415,789
Net Position:		
Restricted Fund Balance	\$ 57,888	\$ 57,888
Unrestricted Fund Balance	155,334	103,446
Total Fund Balance	\$ 213,222	\$ 161,334
Member Investments	366,100	364,600
Donated Assets	699,649	698,949
Grants	297,599	297,599
TOTAL NET POSITION	\$ 1,576,570	\$ 1,522,482
TOTAL LIABILITIES AND NET POSITION	\$ 1,996,022	\$ 1,977,711

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, 2017 and 2015

	2017	2016
OPERATING REVENUES:		
Water Sales	\$ 482,127	\$ 454,938
Late Fees	30,006	17,406
Sale of Supplies	-	945
Miscellaneous Revenues	5,200	5,650
Total Operating Revenues	\$ 517,333	\$ 478,939
OPERATING EXPENSES:		
Salaries	\$ 126,007	\$ 128,017
Depreciation Expense	121,674	117,920
Interest Expense	21,762	23,449
Utilities	30,167	30,985
Water Purchases	11,803	11,237
Repairs & Maintenance	39,748	4,660
Insurance	38,411	35,473
Legal & Professional Fees	9,163	9,836
Transportation Expense	8,303	5,583
Director's Fees	6,600	7,000
Payroll Tax Expense	10,325	10,318
Operating Supplies & Chemicals	28,170	19,638
Office Supplies & Postage	5,768	5,580
Retirement Benefits	3,780	4,016
Dues & Licenses	1,043	1,003
Rent Expense	818	504
Bad Debts Expense	3,090	-
FEMA Repairs	-	-
Miscellaneous Expense	2,447	3,191
Total Operating Expenses	\$ 469,079	\$ 418,410
OPERATING INCOME (LOSS)	\$ 48,254	\$ 60,529
OTHER REVENUES (EXPENSES):		
Investment Revenues	\$ 3,634	\$ 1,818
Gain on Sale of Assets	-	-
Total Other Revenues(Expenses)	\$ 3,634	\$ 1,818
NET INCOME	\$ 51,888	\$ 62,347

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, 2017 and 2016

	2017	2016
Balance, January 1	\$ 1,522,482	\$ 1,445,792
Net Income (Loss)	51,888	62,347
Member Investments	1,500	9,850
Donated Assets	700	4,493
Grants	-	-
Total Changes in Net Assets	\$ 54,088	\$ 76,690
Balance, December 31	\$ 1,576,570	\$ 1,522,482

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, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	\$ 506,594	\$ 469,247
Payments to suppliers	(163,673)	(42,001)
Payments to employees & benefits	(157,243)	(158,157)
Net Cash Provided by Operating Activities	\$ 185,678	\$ 269,089
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	\$ (3,531)	\$ (28,569)
Donated Assets	700	4,493
Payments for Construction in Process	(14,340)	(22,219)
Proceeds from Grants	-	-
Principal payments on notes payable	(35,439)	(34,482)
Interest paid on notes payable	(22,449)	(23,406)
Proceeds from sale of assets	-	-
Net Cash Used In Capital & Related Financing Activities	\$ (75,059)	\$ (104,183)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Receipts	\$ 2,969	\$ 1,698
Proceeds from memberships	1,500	9,850
Net Cash Provided from Investing Activities	\$ 4,469	\$ 11,548
INCREASE (DECREASE) IN CASH AND INVESTMENTS	\$ 115,088	\$ 176,454
Cash and Investment Balance - Beginning	654,364	477,910
CASH AND INVESTMENT BALANCE - ENDING	\$ 769,452	\$ 654,364
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 48,254	\$ 60,529
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:		
Interest Expense	21,762	23,449
Depreciation expense	121,674	117,920
Change in assets and liabilities:		
Accounts Receivable	(10,739)	(9,692)
Other Receivable	-	81,106
Prepaid Insurance	1,021	(1,760)
Inventory	3,356	(2,513)
Accounts Payable	-	-
Customer Deposits	350	50
Net Cash Provided from Operating Activities	\$ 185,678	\$ 269,089

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, 2017 and 2016

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 776 meters and sold 66,680,000 gallons of water for the year ending December 31, 2017 which represented an increase of 6 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 2017 or 2016 even though it was less than the accounts receivable balances over 90 days old. The accounts receivable balances at December 31, 2017 and 2016 amounted to \$72,823 and \$62,084, 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, 2017 and 2016

Note 5 - Changes in Fixed Assets

	Balance 1/1/2017	Additions	Disposed	Balance 12/31/2017
Water System Plant Assets	\$ 2,777,476	\$ 700	\$ -	\$ 2,778,176
Extensions	656,139	-	-	656,139
Office Furniture & Fixtures	17,832	2,831	(3,637)	17,026
Equipment	143,548	-	-	143,548
Vehicles	44,061	-	-	44,061
Buildings	179,325	-	-	179,325
Total Assets	\$ 3,818,381	\$ 3,531	\$ (3,637)	\$ 3,818,275
 <u>Accumulated Depreciation:</u>				
Water System Plant Assets	\$ 2,303,380	\$ 72,983	\$ -	\$ 2,376,363
Extensions	329,363	16,825	-	346,188
Office Furniture & Fixtures	17,650	320	(3,637)	14,333
Equipment	83,013	11,564	-	94,577
Vehicles	17,517	11,015	-	28,532
Buildings	91,156	8,967	-	100,123
Total Accumulated Deprec.	\$ 2,842,079	\$ 121,674	\$ (3,637)	\$ 2,960,116
 Net Fixed Assets	 \$ 976,302	 \$ (118,143)	 \$ -	 \$ 858,159

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, 2017 and 2016 were \$700 and \$4,493, respectively.

Note 7 - Components of Cash and Investments

	Date of Maturity	Interest Rate	12/31/2017 Balance
Checking - Bank of Cordell	-	0.30%	\$ 436,269
Petty Cash	-	0.00%	300
CD - Bank of Hydro	3/6/2018	0.75%	123,217
CD - Bank of Cordell	4/19/2018	0.50%	58,000
CD - First National Bank	2/27/2019	0.55%	151,666
Total Cash and Investments			\$ 769,452

Designation:

Operating	\$ 436,569
Reserved for System Improvements	274,995
Restricted for Debt Service - Rural Development	57,888
	\$ 769,452

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

Notes to the Financial Statements
For the Years Ended December 31, 2017 and 2016

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. The funds are managed by Edward Jones.

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 12/31/2017	Balance 12/31/2016
			-	-
91-11	2/21/1983	32,664	119,269	145,080
91-13	5/23/1997	25,224	297,245	306,873
		<u>\$ 57,888</u>	<u>\$ 416,514</u>	<u>\$ 451,953</u>
Less: Current Portion			38,047	36,164
Net Long-Term Liabilities			<u>\$ 378,467</u>	<u>\$ 415,789</u>

Current Portion:		Note 91-11	Note 91-13
Year Ending	12/31/2018	-	27,392
Year Ending	12/31/2019	-	28,785
Year Ending	12/31/2020	-	30,259
Year Ending	12/31/2021	-	31,810
Year Ending	12/31/2022	-	1,023

Note 10 - Prior Period Adjustments

There were no prior period adjustments in the financial statements for the years ending December 31, 2017 or 2016.

Note 11 - Evaluation of Subsequent Events

The subsequent events were evaluated through January 26, 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 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, 2017 and 2016, and have issued my report thereon dated January 26, 2018.

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 26, 2018