

***Rural Water District No. 5***  
***Coal County, Oklahoma***  
*Coalgate, Oklahoma*

***REPORT ON AUDIT OF FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION***

***For the Year Ended September 30, 2016***

***SAUNDERS & ASSOCIATES, PLLC***  
***Certified Public Accountants***

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RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

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September 30, 2016

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# *Saunders & Associates, PLLC*

## *Certified Public Accountants*

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### INDEPENDENT AUDITOR'S REPORT

To Board of Trustee  
Rural Water District No. 5, Coal County, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 5, Coal County, Oklahoma, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Rural Water District No. 5, Coal County, Oklahoma's basic financial statements as listed in the table of contents.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles 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**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our 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 we 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 about 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Rural Water District No. 5, Coal County, Oklahoma as of September 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated \*Date.2\* on our consideration of Rural Water District No. 5, Coal County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 the 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 Rural Water District No. 5, Coal County, Oklahoma's internal control over financial reporting and compliance.

SAUNDERS & ASSOCIATES, PLLC  
Certified Public Accountants  
Ada, Oklahoma

\*Date.2\*

## RURAL WATER DISTRICT NO. 5

Coal County, Oklahoma

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

September 30, 2016

Unaudited

Our discussion and analysis of the Rural Water District No. 5, Coal County, Oklahoma's financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the District's financial statements, which begin on page 7.

#### FINANCIAL HIGHLIGHTS

- The District's net position increased 2.50% (\$16,006) from \$638,753 at September 30, 2015 to \$654,759 at September 30, 2016.
- The District's total revenues increased 14.99% (\$23,890) from \$159,354 at September 30, 2015 to \$183,244 at September 30, 2016. \$35,683 of this increase was due to the receipt of FEMA funds for line repair.
- The District's total expenses increased 5.06% (\$8,068) from \$159,170 at September 30, 2015 to \$167,238 at September 30, 2016.

#### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position (on pages 7 and 8) provide information about the activities of the District and present a longer-term view of the District's finances.

#### Reporting the District as a Whole

Our analysis of the District begins on page 4. One of the most important questions asked about the District's finances is, *"Is the District as a whole better off or worse off as a result of the year's activities?"* The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position report information about the District and about its activities in a way that helps answer this question. These statements include all assets, deferred inflows, liabilities and deferred outflows using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position – the difference between assets, deferred inflows, liabilities and deferred outflows – as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the District's long-term debt and the condition of the District's water distribution system, to assess the overall health of the District.

In the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position, the District performs one type of activity:

- **Business-Type Activity** – The District charges a fee to customers to help it cover all or most of the cost of the service it provides. The District's water system is reported here.

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

September 30, 2016

Unaudited

Reporting the District's Most Significant Funds

Our analysis of the District's major fund begins on page 4. The District utilizes one type of fund.

- *Proprietary Fund* – When the District charges customers for the services it provides, these services are generally reported in proprietary funds. Generally, proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Revenues, Expenses and Changes in Fund Net Position.

THE DISTRICT AS A WHOLE

Net Position

The District's net position increased 2.5% from \$638,753 to \$654,759. (See Table 1)

**TABLE 1 – NET POSITION**

	Business-Type Activity		
	<u>09/30/16</u>	<u>09/30/15</u>	<u>% Change</u>
Capital Assets	\$ 408,590	\$ 400,755	1.95%
Current and Other Assets	<u>251,541</u>	<u>244,377</u>	<u>2.93%</u>
Total Assets	<u>\$ 660,131</u>	<u>\$ 645,132</u>	<u>2.32%</u>
Total Deferred Outflows of Resources	<u>\$ 0</u>	<u>\$ 0</u>	<u>0.00%</u>
Current Liabilities	\$ 5,372	\$ 6,379	-15.78%
Total Liabilities	<u>\$ 5,372</u>	<u>\$ 6,379</u>	<u>-15.78%</u>
Total Deferred Inflows of Resources	<u>\$ 0</u>	<u>\$ 0</u>	<u>0.00%</u>
Net Position:			
Net Investment in Capital Assets	\$ 408,590	\$ 400,755	1.95%
Unrestricted	246,169	232,997	5.65%
Restricted for Capital Improvements	0	5,000	-100.00%
Total Net Position	<u>\$ 654,759</u>	<u>\$ 638,753</u>	<u>2.50%</u>

Changes in Net Position – The District's total revenues increased by 14.99% (\$23,890). (See Table 2)

**TABLE 2 – CHANGES IN NET POSITION**

	Business-Type Activity		
	<u>09/30/16</u>	<u>09/30/15</u>	<u>% Change</u>
Operating Revenues:			
Water charges	\$ 134,744	\$ 127,635	5.56%
Water Taps	2,775	3,936	-29.49%
General Revenues:			
Interest Revenue	3,365	1,742	93.16%
Other	42,360	4,790	784.34%
Capital Contributions	0	21,251	-100.00%
Total Revenues	<u>183,244</u>	<u>159,354</u>	<u>14.99%</u>

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

September 30, 2016

Unaudited

**TABLE 2 – CHANGES IN NET POSITION, CONTINUED**

	<u>Business-Type Activity</u>		
	<u>09/30/16</u>	<u>09/30/15</u>	<u>% Change</u>
Operating Expenses:			
Operating Expenses	<u>167,238</u>	<u>159,170</u>	<u>5.06%</u>
Total Expenses	<u>167,238</u>	<u>159,170</u>	<u>5.06%</u>
Changes in Net Position	<u>\$ 16,008</u>	<u>\$ ( 184)</u>	<u>88.00%</u>

The District had 269 customers at September 30, 2016 and 264 customers at September 30, 2015.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of September 30, 2016, the District had \$1,136,853 invested in capital assets, including water distribution systems and equipment. (See table below). Capital assets increased 4.8% during the current year.

	<u>Business-Type Activity</u>		
	<u>09/30/16</u>	<u>09/30/15</u>	<u>% Change</u>
Water Distribution System	<u>\$ 1,134,988</u>	<u>\$ 1,098,017</u>	<u>3.36%</u>
Equipment	<u>1,865</u>	<u>1,865</u>	<u>0.00%</u>
Total	<u>\$ 1,136,853</u>	<u>\$ 1,099,882</u>	<u>3.36%</u>

More detailed information about the District's capital assets is presented in Note 1 and Note 2 of the financial statements.

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

September 30, 2016

Unaudited

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Manager's Office at Route 1 Box 1145, Coalgate, Oklahoma.

Frank Cometti  
Manager



## BASIC FINANCIAL STATEMENTS

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

STATEMENT OF NET POSITION

PROPRIETARY FUND

September 30, 2016

	<u>Water</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 237,753
Accounts Receivable	13,788
Other Receivable	0
Total Current Assets	<u>251,541</u>
Non-Current Assets:	
Property, Plant and Equipment:	
Water Distribution System	1,134,988
Equipment	1,865
Less: Accumulated Depreciation	<u>(728,263)</u>
Total Non-Current Assets	<u>408,590</u>
Total Assets	<u>660,131</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>0</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	<u>5,372</u>
Total Current Liabilities	<u>5,372</u>
DEFERRED INFLOWS OF RESOURCES	<u>0</u>
NET POSITION:	
Net Investment in Capital Assets	408,590
Unrestricted	<u>246,169</u>
TOTAL NET POSITION	<u>\$ 654,759</u>

\* The accompanying notes are an integral part of the financial statements.

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN FUND NET POSITION

PROPRIETARY FUND

For the Year Ended September 30, 2016

	<u>Water</u>
Operating Revenues:	
Water Charges	\$ 134,744
Water Taps	2,775
Other	<u>42,360</u>
Total Operating Revenues	<u>179,879</u>
Operating Expenses:	
Contractual Services	47,610
Repairs and Maintenance	18,650
Materials and Supplies	53,145
Other Services and Charges	18,697
Depreciation	<u>29,136</u>
Total Operating Expenses	<u>167,238</u>
Operating Income (Loss)	<u>12,641</u>
Non-Operating Revenue (Expense):	
Interest Revenue	<u>3,365</u>
Total Non-Operating Revenues (Expense)	<u>3,365</u>
Income (Loss) Before Contributions	<u>16,006</u>
Other Financing Sources (Uses):	
Capital Contributions	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>
Change in Net Position	16,006
Net Position, September 30, 2015	<u>638,753</u>
NET POSITION, SEPTEMBER 30, 2016	<u>\$ 654,759</u>

\* The accompanying notes are an integral part of the financial statements.

RURAL WATER DISTRICT NO. 5

Coal County, Oklahoma

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

For the Year Ended September 30, 2016

	<u>Water</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts From Customers	\$ 135,745
Other Receipts	46,073
Payments to Suppliers	(91,499)
Payments for Labor	(47,610)
Net Cash Provided (Used) by Operating Activities	<u>42,709</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:	
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>0</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Capital Contribution	0
Purchase of Capital Assets	(36,971)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(36,971)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest earned	<u>3,365</u>
Net Cash Provided (Used) by Investing Activities	<u>3,365</u>
Net Increase (Decrease) in Cash and Cash Equivalents	9,103
Cash and Cash Equivalents, September 30, 2015	<u>228,650</u>
CASH AND CASH EQUIVALENTS, SEPTEMBER 30, 2016	<u>\$ 237,753</u>
Cash Consists of:	
Demand Deposits	\$ 34,389
Certificates of Deposit	<u>203,364</u>
TOTAL CASH, END OF YEAR	<u>\$ 237,753</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ 12,641
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation Expense	29,136
(Increase) Decrease in Customer Receivables	(1,774)
(Increase) Decrease in Other Receivables	3,713
Increase (Decrease) in Accounts Payable	<u>(1,007)</u>
Net Cash Provided by Operating Activities	<u>\$ 42,709</u>

\* The accompanying notes are an integral part of the financial statements.

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 5, Coal County, Oklahoma operates under the Nontaxable Governmental Entity form of government. The District was formed in 1979, pursuant to the Oklahoma Rural Water, Sewer and Solid Waste Management District Act for the purpose of constructing and operating a water supply and distribution system serving the members of the district. The following is a summary of the more significant accounting policies of the District.

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (*Statements and Interpretations*). The more significant accounting policies in GAAP which are used by the District are discussed in subsequent sections.

Reporting Entity - For financial reporting purposes, the District complies with *Governmental Accounting Standards Board (GASB) Cod. Sec. 2100*, in defining the District's financial reporting entity. All of the officials and activities described above are included in the District's reporting entity.

Basic Financial Statements - Fund Financial Statements - The financial transactions of the District are reported in an individual fund in the fund financial statements. The fund is accounted for by providing a set of self-balancing accounts that comprises its assets, deferred inflows, liabilities, deferred outflows, reserves, fund equity, revenues and expenditures/expenses.

The following fund type is used by the District:

**Proprietary Fund** – The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the District.

**Enterprise Funds** are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues. (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

Basis of Accounting - Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**Accrual** - Business-type activity in the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Financial Statement Amounts:

Cash and Cash Equivalents – For purposes of the Statement of Cash Flows, demand deposits and certificates of deposit are considered cash equivalents. At September 30, 2016, all deposits were fully insured by the FDIC.

Deferred Inflows/Outflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. Additionally, that statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The District has no items that qualified for reporting in these categories.

Operating Revenues and Expenses – Operating revenues and expenses consist of charges for services and the cost of providing those services, including depreciation. All other revenues and expenses are reported as non-operating.

Expenditures – Expenditures are recognized when the related fund liability is incurred.

Capital Assets – Capital assets purchased or acquired with a useful life in excess of one year are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives.

Water Distribution Systems	40 years
Equipment	5 years

Proprietary Fund Net Position – Fund net position is divided into three components:

- Net Investment in Capital Assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted Net Position – consist of assets that are restricted by the District's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors as applicable.
- Unrestricted – all other net position is reported in this category.

Restricted Resources – When an expense is incurred that can be paid using either restricted or unrestricted resources (Net Position), the District's policy is to first apply the expense toward restricted resources and then toward unrestricted resources.

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE 2: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016 was as follows:

	Balance 09/30/15	Additions	Disposals	Balance 09/30/16
<u>Business Type Activity:</u>				
Water Distribution System	\$ 1,098,017	\$ 50,260	\$ 0	\$ 1,134,988
Equipment	<u>1,865</u>	<u>0</u>	<u>0</u>	<u>1,865</u>
Total	1,099,892	0	0	1,136,853
Accumulated Depreciation	( 699,127)	( 29,136)	0	( 728,263)
Net Business Type Capital Assets	<u>\$ 400,755</u>	<u>\$ 22,078</u>	<u>\$ 0</u>	<u>\$ 408,590</u>

Depreciation expense was charged to activities as follows:

<u>Proprietary Fund</u>	
Operating Expense	<u>\$ 29,136</u>

NOTE 3: LITIGATION

At September 30, 2016 the District was not involved in any pending or threatened litigation, which would have a material impact on these financial statements.

NOTE 4: WATER CONTRACT

The District and the City of Coalgate have jointly negotiated a contract whereby the District agrees to purchase its water needs from the City of Coalgate. The current price is \$2.30 per 1,000 gallons used.

NOTE 5: ACCOUNTS RECEIVABLE

Accounts receivable of \$13,788 represents amounts billed to customers for water use and not received as of September 30, 2016.

NOTE 6: RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2016, the District carried insurance through various commercial carriers to cover all risks of losses. The District has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

NOTE 7: SUBSEQUENT EVENTS

Management of Rural Water District No. 5, Coal County Oklahoma has evaluated subsequent events through \*Date.2\*, which is the date the financial statements were available to be issued.

# *Saunders & Associates, PLLC*

## *Certified Public Accountants*

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### INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees  
Rural Water District No. 5, Coal County, Oklahoma

We have audited, in accordance with the 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 financial statements of Rural Water District No. 5, Coal County, Oklahoma (a non-profit organization), which comprise the statement of net position as of September 30, 2016, and the related statements of revenues, expenses and changes in fund net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated \*Date.2\*.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rural Water District No. 5, Coal County, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District No. 5, Coal County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water District No. 5, Coal County, Oklahoma'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 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.

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.

However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2007-01 that we consider to be a significant deficiency in internal control over financial reporting. 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.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Rural Water District No. 5, Coal County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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 Rural Water District No. 5, Coal County, Oklahoma's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Water District No. 5, Coal County, Oklahoma's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SAUNDERS & ASSOCIATES, PLLC  
Certified Public Accountants  
Ada, Oklahoma

\*Date.2\*

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

STATUS OF PRIOR AUDIT FINDINGS

September 30, 2016

2007-01 SEGREGATION OF DUTIES

Condition: Due to the limited number of personnel involved in the operating of the fiscal office, most of those aspects of internal accounting control, which rely upon an adequate segregation of duties, are, for all practical purposes, missing in the organization. However, we recognize that the organization's administration is not large enough to make the employment of additional persons, for the purpose of segregating duties practical from a cost-benefit standpoint.

Current Status: See current audit findings.

RURAL WATER DISTRICT NO. 5  
Coal County, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended September 30, 2016

2007-01 SEGREGATION OF DUTIES

Criteria: Effective internal controls rely upon proper segregation of duties to detect and prevent possible fraudulent activities. It is the responsibility of Rural Water District No. 5 to safeguard its assets and one of the best methods to establish good internal controls is to develop and implement adequate segregation of duties. One of the effective methods to establish good internal controls is to develop and implement adequate segregation of duties.

Condition: Due to the limited number of personnel involved in the operating of the fiscal office, most of those aspects of internal accounting control, which rely upon an adequate segregation of duties, are, for all practical purposes, missing in the organization. However, we recognize that the organization's administration is not large enough to make the employment of additional persons, for the purpose of segregating duties practical from a cost-benefit standpoint.

Cause/Effect: Inappropriate, inaccurate and/or fraudulent transactions could be made and not be detected during the normal course of business.

Recommendation: SAUNDERS & ASSOCIATES, PLLC recommends increased oversight by the Board over all financial activities.

Response: Management will work closely with the Board to mitigate weaknesses noted within internal control functions.