

RURAL WATER DISTRICT No 16
ROGERS COUNTY, OKLAHOMA

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED DECEMBER 31, 2013

RURAL WATER DISTRICT NO 16, ROGERS COUNTY, OKLAHOMA

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LANGLEY & LITTLEFIELD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

6757 N 431, PRYOR, OK 74361

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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Board of Directors
Rural Water District No 16, Rogers County, Oklahoma
Rogers County, Oklahoma

We have audited the statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows, which collectively comprise the basic financial statements of the Rural Water District No 16, Rogers County, Oklahoma as of December 31, 2013. These financial statements are the responsibility of the Rural Water District No 16, Rogers County, Oklahoma's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 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 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 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 respective financial position of the statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows, which collectively comprise the basic financial statements of the Rural Water District No 16, Rogers County, Oklahoma as of December 31, 2013, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER-MATTERS

Management has not presented the management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

As disclosed in Note 7, the District is heavily reliant on the acquisition of certain contracts to continue as a going concern.

Sincerely,

A handwritten signature in cursive script that reads "Langley & Littlefield, LLC". The signature is written in dark ink on a light-colored background.

LANGLEY & LITTLEFIELD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
PRYOR, OKLAHOMA

MAY 8, 2014

RURAL WATER DISTRICT NO 16, ROGERS COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
DECEMBER 31,

Assets		2013
Current Assets		
Cash and cash equivalents	\$	8,195
Accounts receivable		<u>2,300</u>
Total Current Assets		10,495
Restricted Assets		
Cash and cash equivalents		1,950
Capital Assets		
Construction in process		<u>12,787</u>
Total Assets		<u><u>25,232</u></u>
Liabilities and Net Assets		
Current Liabilities		
Deferred Revenue - Capital Contributions		<u>1,950</u>
Total Current Liabilities		1,950
Net Assets		
Unrestricted		<u>23,282</u>
Total Net Assets		<u>23,282</u>
Total Liabilities and Net Assets	\$	<u><u>25,232</u></u>

The accompanying notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO 16, ROGERS COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
DECEMBER 31,

	<u>2013</u>
Support and Revenue	
Memberships	<u>\$ 1,350</u>
Total Support and Revenue	<u>1,350</u>
Expenses	
Accounting services	500
Engineering services	(1,800)
Legal services	176
Professional fees	(5,475)
Filing fees	100
Total Expenses	<u>(6,499)</u>
Net Operating Income (Loss)	7,849
Other Income/(Expenses)	
Capital grants	12,787
Increase (Decrease) in Net Assets	<u>20,636</u>
Net Assets, beginning of year	<u>2,646</u>
Net Assets, end of year	<u><u>\$ 23,282</u></u>

The accompanying notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO 16, ROGERS COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
 December 31,

	2013
Cash flows from operating activities	
Receipts from customers	\$ 1,500
(Payments to) refunds from suppliers	1,230
Net cash provided by operating activities	<u>2,730</u>
Cash flows from capital and related financing activities	
Capital grants	12,787
Acquisition of capital assets	<u>(12,787)</u>
Net cash provided (used) by capital and related financing activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	<u>2,730</u>
Cash and cash equivalents, beginning of year	<u>7,415</u>
Cash and cash equivalents, end of year	<u><u>\$ 10,145</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	7,849
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation/amortization expense	-
Change in assets and liabilities:	
(Increase)/Decrease in accounts receivable, net	(950)
Increase/(Decrease) in accounts payable	(4,319)
Increase/(Decrease) in deferred revenues	150
Net cash provided by operating activities	<u><u>\$ 2,730</u></u>

The accompanying notes are an integral part of these financial statements.

Note 1 - Nature of Organization

The Rural Water District No 16, Rogers County, Oklahoma (the District) is a non-profit governmental organization. The purpose of the District is to provide a direct source of water for the use and benefit of its members. This will be accomplished by installing a water distribution system which will tie directly to Rogers County Rural Water District No 3's existing water system. Water will be 100% provided by Rogers County, Rural Water District No 3. The District was organized by the Board of County Commissioners of Rogers County, Oklahoma in March of 2011. District members fall within territorial boundaries within Rogers County as assigned by the Board of County Commissioners of Rogers County, Oklahoma. At December 31, 2013, the District does not maintain an operating facility, rather is in process of obtaining funding to further its future purpose discussed previously.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. The activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other amounts. Actual results may differ from those estimates.

The District adopts annual operations and capital budgets. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The current operating budget details the District's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contribution fees, special assessments, grants, borrowings and certain revenues for capital projects.

Note 2 - Summary of Significant Accounting Policies (continued)

All unexpensed and unencumbered appropriations in the operating budget lapse at the end of the fiscal year. No appropriation for a capital project in the capital budget lapses until the purpose for which the appropriation was made has been accomplished or abandoned.

The Board of Directors adopts a budget at the meeting prior to the beginning of the new fiscal year. Actual revenues and expenditures are monitored and compared with the budget during the year. Significant variations from budgeted amounts are researched and the board is informed of the results.

Cash and Cash Equivalents - Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, interest in State Treasurer's Pool, certificates of deposit, repurchase agreements and investments with a maturity of three months or less.

Investments - Investments are reported at their fair market value. The District is permitted to invest in certificates of deposit and United States general obligations. Banks must guarantee all District funds they hold with specified securities the bank owns for cumulative amounts exceeding the \$250,000 FDIC guarantee.

Restricted Assets - Restricted assets represent cash, investments and receivables maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the District or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the water system.

Receivables - Customer receivables represent membership revenues earned, but not yet collected.

Deferred Revenues - Deferred revenues represents member payments received by the District in exchange for water meters. Rural Water District No 16, Rogers, County, Oklahoma has just begun operations and is still in the engineering and planning phase and not yet in the construction phase. As such, water meters have not been purchased by the district or supplied to the members.

Capital Contributions - Contributions are recognized in the Statement of Revenues, Expenses and changes in Net Assets when earned. Contributions include tap fees, capital grants, and other supplemental support by federal, state and local grants in support of system improvements.

Net Assets - Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following three components: invested in capital assets, net of related liabilities; Restricted for capital activity and debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed by external parties, such as lenders, grantors, contributors, laws, regulations, legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other assets not included in the above categories.

Note 3 - Deposits and Investments

Deposits include demand deposits and certificates of deposit in financial institutions. All bank balances are covered by federal depository insurance or by collateral held by the bank and pledged to the District.

Note 4 - Accounts Receivable

Accounts receivable as of December 31, 2013 consists of:

	2013
Membership dues	1,350
Rogers Engineering	950
Total Accounts Receivable	<u>\$ 2,300</u>

Note 5 – Restricted Assets

Restricted assets represents amounts provided by customers for the purchase of water taps in future periods.

Note 6 – Grants

During year ended December 31, 2013, Rogers County Rural Water District No 16 has been awarded a \$25,000 grant from Grand Gateway Economic Development Association – Contract 032-WD-2013. As of December 31, 2013, \$12,787 has been used and has a balance of \$12,213 remaining. A grant in the amount of \$1,500 was awarded by Oklahoma Department of Commerce, State of Oklahoma, 15636 CDBG13 and as of December 31, 2013, no funds were drawn on this contract.

Note 7 – Subsequent Events

Subsequent events have been evaluated through the date of the auditor's report.

Note 8 – Going Concern

As of December 31, 2013 the District has received funding through grants discussed in Note 6 and is in process of obtaining additional grants and loans for the installation of a water distribution system. The continuation of the District to operate as a going concern is reliant on the realization of those items.

LANGLEY & LITTLEFIELD, PLLC

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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*

Honorable Chairman and Board of Directors
Rural Water District No 16, Rogers County, Oklahoma
Rogers County, Oklahoma

We have audited the statement of net assets, statement of revenues, expenses and changes in net assets and statement of cash flows, which collectively comprise the basic financial statements of the Rural Water District No 16, Rogers County, Oklahoma as of December 31, 2013. 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered Rural Water District No 16, Rogers 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District No 16, Rogers County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of Rural Water District No 16, Rogers 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 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.

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.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Rural Water District No 16, Rogers County, Oklahoma's financial statements are free from 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 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.

A handwritten signature in cursive script that reads "Langley & Littlefield, PLLC". The signature is written in dark ink on a light-colored background.

LANGLEY & LITTLEFIELD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS
PRYOR, OKLAHOMA

MAY 8, 2014