

Clarita-Olney Water Co., Inc.
Clarita, Oklahoma

REPORT ON AUDIT OF FINANCIAL STATEMENTS

For the Year Ended June 30, 2015

SAUNDERS & ASSOCIATES, PLLC
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CLARITA-OLNEY WATER CO., INC.

Clarita, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Clarita-Olney Water Company, Inc.

We have audited the accompanying financial statements of the business-type activities of the Clarita-Olney Water Company, Inc., as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Clarita-Olney Water Company, Inc.'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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Clarita-Olney Water Company, Inc. as of June 30, 2015, and the respective 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 5 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 January 19, 2016 on our consideration of the Clarita-Olney Water Company, Inc.'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 the Clarita-Olney Water Company, Inc.'s internal control over financial reporting and compliance.



SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants
Ada, Oklahoma

January 19, 2016

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2015

Unaudited

Our discussion and analysis of the financial performance of the Clarita-Olney Water Co., Inc. provides an overview of the Corporation's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the Corporation's financial statements, which begin on page 6.

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 6 and 7) provide information about the activities of the Corporation for the year ended June 30, 2015. The statement of cash flows on page 8 provides information related to cash received and expended by the corporation.

Reporting the Corporation as a Whole

Our analysis of the Corporation as a whole begins on page 4. One of the most important questions asked about the Corporation's finances is, "*Is the Corporation 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 Corporation as a whole 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 Corporation's net position and changes therein. You can think of the Corporation's net position – the difference between assets, deferred inflows, liabilities and deferred outflows – as one way to measure the Corporation's financial health, or financial position. Over time, increases or decreases in the Corporation'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 Corporation's long-term debt and the condition of the Corporation's water distribution system, to assess the overall health of the Corporation.

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

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

Reporting the Corporation's Most Significant Funds

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

- **Proprietary Funds** – When the Corporation charges customers for the services it provides, these services are generally reported in proprietary funds.

CLARITA-OLNEY WATER CO., INC.

Clarita, Oklahoma

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2015

Unaudited

THE CORPORATION AS A WHOLE

Net Position

The Corporation's net position increased 3.1% from \$620,390 to \$639,599. (See Table 1) Capital assets increased 53.9% due to the extension of water lines. Current assets decreased by 48.1%, which resulted from the use of funds in the extension of the water lines.

TABLE 1 – NET POSITION

	<u>Business-Type Activities</u>		<u>Total % Change</u>
	<u>06/30/15</u>	<u>06/30/14</u>	
Capital Assets	\$ 515,891	\$ 335,165	53.9%
Current and Other Assets	<u>177,878</u>	<u>342,472</u>	<u>-48.1%</u>
Total Assets	<u>693,769</u>	<u>677,637</u>	<u>2.4%</u>
Total Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0.0%</u>
Liabilities	<u>54,170</u>	<u>57,247</u>	<u>-5.4%</u>
Total Liabilities	<u>54,170</u>	<u>57,247</u>	<u>-5.4%</u>
Total Deferred Inflows of Resources	<u>0</u>	<u>0</u>	<u>0.0%</u>
Net Position:			
Net Investment in Capital Assets	515,890	286,728	80.0%
Unrestricted	<u>123,709</u>	<u>333,662</u>	<u>-63.0%</u>
Total Net Position	<u>\$ 639,599</u>	<u>\$ 620,390</u>	<u>3.1%</u>

TABLE 2 – CHANGES IN NET POSITION

	<u>Business-Type Activities</u>		<u>Total % Change</u>
	<u>06/30/15</u>	<u>06/30/14</u>	
Water Charges	\$ 197,972	\$ 153,674	28.8%
Interest Revenue	<u>777</u>	<u>1,839</u>	<u>-57.7%</u>
Total Revenues	<u>198,749</u>	<u>155,513</u>	<u>-27.8%</u>
Operating Expenses:			
Operating Expense	<u>179,540</u>	<u>171,244</u>	<u>4.8%</u>
Total Expenses	<u>179,540</u>	<u>171,244</u>	<u>4.8%</u>
Changes in Net Position	<u>\$ (19,209)</u>	<u>\$ (15,731)</u>	<u>222.1%</u>

Business-Type Activities

Revenues of the Corporation's business-type activities increased by 27.8% (\$198,749 in 2015 compared to \$155,513 in 2014 and expenses increased by 4.8% (\$179,540 in 2015 compared to \$171,244 in 2014). The increase is due to a water rate increase effective 3/1/15 and a new meter increase on the Burr Valley Extension.

CLARITA-OLNEY WATER CO., INC.

Clarita, Oklahoma

MANAGEMENT DISCUSSION AND ANALYSIS

June 30, 2015

Unaudited

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2015, the Corporation had \$1,062,403 invested in capital assets, including water distribution systems and equipment (see table below).

	<u>06/30/15</u>	<u>06/30/14</u>	<u>% Change</u>
Water Distribution System	\$ 1,028,475	\$ 830,999	23.8%
Building	14,500	14,500	0.00%
Equipment	<u>19,428</u>	<u>19,428</u>	<u>0.00%</u>
Total	<u>\$ 1,062,403</u>	<u>\$ 864,927</u>	<u>22.8%</u>

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

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Corporation's finances and to show the Corporation'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 PO Box 81, Clarita, Oklahoma.

Alton Davidson
Manager

BASIC FINANCIAL STATEMENTS

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

June 30, 2015

	<u>Water</u>
ASSETS	
Current Assets:	
Cash	\$ 58,351
Accounts Receivable	13,394
Interest Receivable	577
Total Current Assets	<u>72,322</u>
Non-Current Assets:	
Investments	105,556
Water Distribution System	892,732
Construction in Progress - Water Distribution System	135,743
Building	14,500
Equipment	19,428
Less: Accumulated Depreciation	<u>(546,512)</u>
Total Non-Current Assets	<u>621,447</u>
Total Assets	<u>693,769</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>0</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	10,883
Current Portion of Long-Term Debt	6,250
Rental Deposits	1,100
Total Current Liabilities	<u>18,233</u>
Non-Current Liabilities:	
Long-Term Debt	42,187
Less: Current Portion	<u>(6,250)</u>
Total Non-Current Liabilities	<u>35,937</u>
Total Liabilities	<u>54,170</u>
DEFERRED INFLOWS OF RESOURCES	<u>0</u>
NET POSITION	
Net Investment in Capital Assets	515,890
Unrestricted	<u>123,709</u>
TOTAL NET POSITION	<u>\$ 639,599</u>

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

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

For the Year Ended June 30, 2015

	<u>Water</u>
Operating Revenues:	
Water Charges	\$ <u>197,972</u>
Total Operating Revenues	<u>197,972</u>
Operating Expenses:	
Personnel Services	43,200
Maintenance and Operations	21,789
Materials and Supplies	97,801
Depreciation	<u>16,750</u>
Total Operating Expenses	<u>179,540</u>
Operating Income (Loss)	<u>18,432</u>
Non-Operating Revenue (Expense):	
Interest Revenue	<u>777</u>
Total Non-Operating Revenues (Expense)	<u>777</u>
Income (Loss) Before Other Financing Sources and and (Uses)	<u>19,209</u>
Other Financing Sources (Uses):	
Capital Contributions	0
Operating Transfers In (Out)	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>
Change in Net Position	19,209
Net Position, June 30, 2014	<u>620,390</u>
NET POSITION, June 30, 2015	<u>\$ <u>639,599</u></u>

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

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2015

	Water
Cash Flows From Operating Activities:	
Receipts from customers	\$ 205,246
Payments to suppliers	(116,567)
Payments for labor	(43,200)
Other receipts (payments)	150
	45,629
Net Cash Provided (Used) by Operating Activities	45,629
Cash Flows From Non-Capital Financing Activities:	
Debt Principal Reduction	(6,250)
	(6,250)
Net Cash Provided (Used) by Non-Capital Financing Activities	(6,250)
Cash Flows From Capital and Related Financing Activities:	
Purchase of Capital Assets	(197,476)
	(197,476)
Net Cash Provided (Used) by Capital and Related Financing Activities (Depreciation)	(197,476)
Cash Flows Provided by Investing Activities:	
Disposal of Investments	101,283
Interest	200
	101,483
Net Cash Provided (Used) by Investing Activities	101,483
Net Increase (Decrease) in Cash	(56,614)
Cash, June 30, 2014	114,965
CASH, JUNE 30, 2015	\$ 58,351

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

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended June 30, 2015

	<u>Enterprise Funds</u>
Cash Consists of:	
Demand Deposits	\$ <u>58,351</u>
TOTAL CASH, END OF YEAR	\$ <u><u>58,351</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ 18,432
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	16,750
Change in Assets and Liabilities:	
Customer Deposits	150
Payable	3,023
Receivables	<u>7,274</u>
Net Cash Provided by Operating Activities	\$ <u><u>45,629</u></u>

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

CLARITA-OLNEY WATER CO., INC.

Clarita, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Clarita-Olney Water Company, Inc. was incorporated under the laws of the State of Oklahoma in accordance with Title 82 of the Oklahoma Statutes, as a subdivision of the State of Oklahoma. The Clarita-Olney Water Company, Inc. was organized for the purpose of constructing and operating a water supply distribution system serving the members of the Corporation. The Corporation was organized November 14, 1968.

The Corporation'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 and used by the Corporation are discussed in subsequent sections.

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

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

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.

The emphasis in fund financial statements is on the major fund in the business-type activity category. The Corporation has no other funds.

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 activities 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.

Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Financial Statement Amounts:

Cash - For purposes of the Statement of Cash Flows, cash consists of demand deposits maintained at financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Deposits are carried at cost.

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 Corporation has no items that qualified for reporting in these categories.

Investments - Investments consist of certificates of deposits maintained at financial institutions insured by the Federal deposit Insurance Corporation (FDIC). Deposits are carried at cost, which approximates fair market value.

	<u>Matures</u>	<u>Cost</u>
36 Month CD	02/17/18	\$105,556

Concentration of Credit Risk - Bank balances at year end are categorized as follows to give an indication of the level of risk assumed by the organization.

Unreconciled

<u>Category</u>	<u>Carrying Amount</u>
1) Insured or collateralized with securities held by the organization or by its agent in the organization's name.	\$ 163,907
2) Collateralized with securities held by the pledging financial institution's trust department.	0
3) Uncollateralized	0
TOTAL	<u>\$ 163,907</u>

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Receivables – Accounts receivable consist of June customer water billings which were received in July.

Accounts Payable – Accounts payable consist of June water supply usage which was paid in July of \$9,295 and other vendor payables of \$1,588.

Proprietary Fund Net Position – Proprietary 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 Corporation's creditors (for example, through debt covenants), by the 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.

Revenues and Expenses – The Corporation's proprietary funds distinguish between operating and non-operating revenues and expenses. Operating revenues and expenses of the Corporation (including tap fees for the water fund) and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as non-operating.

Revenues – Substantially all revenues are accrued. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB 33. In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

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

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

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	50 years
Building	15 years
Equipment	3 to 7 years

Compensated Absences – The Corporation has no employees. All personnel services are provided in the capacity of contract labor.

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

NOTE 2: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

Business-Type Activities:

	<u>Balance</u> <u>06/30/14</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance</u> <u>06/30/15</u>
Water Distribution System	\$ 804,120	\$ 88,612	\$ 0	\$ 892,732
Construction in Progress – Water Distribution System	26,879	135,743	(26,879)	135,743
Equipment	19,428	0	0	19,428
Building	14,500	0	0	14,500
Total	864,927	224,355	(26,879)	1,062,403
Accumulated Depreciation	(529,762)	(16,750)	0	(546,512)
Net Business-Type Capital Assets	<u>\$ 335,165</u>	<u>\$ 207,605</u>	<u>\$ (26,879)</u>	<u>\$ 515,891</u>

NOTE 3: LITIGATION

At June 30, 2015 the Corporation was not involved in any pending or threatened litigation, which would have a material impact on these financial statements.

NOTE 4: WATER CONTRACT

The Corporation and the City of Coalgate have jointly negotiated a contract whereby the Corporation agrees to purchase its water needs from the City of Coalgate. The current price is \$2.50 per 1,000 gallons used.

NOTE 5: LONG-TERM DEBT

On February 1, 2002 the Corporation entered into a CDBG-CD promissory note agreement with the Coal County Public Facilities Authority for the purpose of water system improvements. The original amount of the note was \$125,000. The note carries a 0% fixed interest rate and matures on February 1, 2022. Scheduled principal payments for the note total \$6,250 annually.

	<u>Principal</u> <u>Balance</u> <u>06/30/14</u>	<u>Additions</u>	<u>Retirements</u>	<u>Principal</u> <u>Balance</u> <u>06/30/15</u>
Note Payable CDBG – CD	\$ 48,437	\$ 0	\$(6,250)	\$ 42,187

Future Debt Service Requirement – Debt service requirements for the remainder of the note are as follows:

<u>June 30</u>	
2016	\$ 6,250
2017	6,250
2018	6,250
2019	6,250
2020	6,250
2021 - 2022	10,937
TOTAL	<u>\$ 42,187</u>

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 June 30, 2015, 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

Date of Management Evaluation – Management of the Corporation has evaluated subsequent events through January 19, 2016, which is the date the financial statements were available to be issued.

Saunders & Associates, PLLC

Certified Public Accountants

630 East 17th Street * P. O. Box 1406 * Ada, Oklahoma 74820 * (580) 332-8548 * FAX: (580) 332-2272
Website: www.saunderscpas.com

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 Directors
Clarita-Olney Water Company, Inc.

We have audited the financial statements of the business-type activities of Clarita-Olney Water Company, Inc. as of and for the year ended June 30, 2015, which collectively comprise Clarita-Olney Water Company, Inc.'s basic financial statements and have issued our report thereon dated January 19, 2016. 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clarita-Olney Water Company, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Clarita-Olney Water Company, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Clarita-Olney Water Company, Inc.'s internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist and were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies 06-1 and 07-1 described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Clarita-Olney Water Company, Inc.'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*.

Clarita-Olney Water Company, Inc.'s Response to Findings

The organization's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Clarita-Olney Water Company, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance with applicable provisions of laws, regulations, contracts, and grant agreements and the results of our testing, and to provide an opinion on Clarita-Olney Water Company, Inc.'s compliance but not to provide an opinion on the effectiveness of Clarita-Olney Water Company, Inc.'s internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clarita-Olney Water Company, Inc.'s compliance and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.



SAUNDERS & ASSOCIATES, PLLC

Certified Public Accountants

Ada, Oklahoma

January 19, 2016

CLARITA-OLNEY WATER CO., INC.

Clarita, Oklahoma

STATUS OF PRIOR AUDIT FINDINGS

June 30, 2015

06-1 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 finding 06-1.

07-1 INEFFECTIVE CONTROLS OVER SELECTION AND APPLICATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPALS

Condition: Significant control deficiencies exist which adversely affect the organization's ability to initiate, authorize, record, process and report financial data reliably in accordance with accounting principles generally accepted in the United States of America. Recurring adjustments are required to be made to the financial statements which are compiled by auditors. Cash receipts and cash disbursements journals are not maintained by the organization. In addition, financial statements are not originated and maintained by the organization.

Current Status: The organization now maintains a cash receipts/disbursements ledger, however, ineffective controls still exist. See current audit finding 07-1.

CLARITA-OLNEY WATER CO., INC.
Clarita, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES

For the Year Ended June 30, 2015

06-1 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 Clarita-Olney Water Company to safeguard its assets and one of the best 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: Our water department is small and can't afford to hire additional personnel. All money is collected through Shamrock Bank in Coalgate. The bookkeeper only gets receipts from the bank to post payments to the accounts.

07-1 INEFFECTIVE CONTROLS OVER SELECTION AND APPLICATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Criteria: It is the responsibility of Clarita-Olney Water Company to safeguard assets and funds under its stewardship. It is the responsibility of the organization to be knowledgeable about the selection and application of the appropriate GAAP that impact the organization.

Condition: Significant control deficiencies exist which adversely affect the organization's ability to initiate, authorize, record, process and report financial data reliably in accordance with accounting principles generally accepted in the United States of America. Recurring adjustments are required to be made to the financial statements which are compiled by auditors. In addition, financial statements are not originated and maintained by the organization.

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 a compilation of the financial statements by an outside fee accountant. This process will enhance internal control over financial reporting within the organization.

Response: Financial statements are presented at each meeting, and two signatures are required on all checks.