

AUDIT REPORT

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA

NOVEMBER 30, 2015

KERSHAW CPA & ASSOCIATES, PC

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LEFLORE COUNTY, OKLAHOMA
NOVEMBER 30, 2015

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LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOVEMBER 30, 2015

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
GARRY IVEY	CHAIRMAN
KEITH WRIGHT	VICE-CHAIRMAN
ROBERT JORDAN	SECRETARY/TREASURER
SAM GENTRY	MEMBER
JEAN WHIGHAM	MEMBER
KAREN MILLS	MEMBER
CHARLES COOK	MEMBER

STAFF

SETH MCKENZIE	MAINTENANCE/OPERATOR
ELIZABETH PECK, CPA	MANAGER

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Leflore County Rural Water District #1
Leflore County, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of Leflore County Rural Water District #1, as of and for the fiscal year ended November 30, 2015, and the related notes to the 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 the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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, and in accordance with Oklahoma Statutes. 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 District'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

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the effectiveness of the District'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 respective modified cash basis financial position of Leflore County Rural Water District #1, as of November 30, 2015, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Supplementary and Other Information

The introductory section listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the District. Such additional information has not been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on such information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 24, 2016, on our consideration of Leflore County Rural Water District #1'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 compliance with *Government Auditing Standards* in considering Leflore County Rural Water District #1's internal control over financial reporting and compliance.

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Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.
Kershaw CPA & Associates, PC

August 24, 2016

EXHIBIT A

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
NOVEMBER 30, 2015

	Total 2015	Total (Memo Only) 2014
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents:		
Operations & Maintenance Account	\$ 18,993	\$ 12,157
Revenue Account	139,543	126,834
Water Deposit Account	10,486	14,429
Other current asset	100	-
Total Current Assets	<u>169,123</u>	<u>153,419</u>
<u>Capital Assets:</u>		
Construction Assets	1,441,369	1,343,200
Donated Assets	43,391	43,391
Less: Accumulated Depreciation	<u>(773,894)</u>	<u>(703,828)</u>
Total Capital Assets	<u>710,866</u>	<u>682,763</u>
<u>Other Assets:</u>		
ORWA Assurance	<u>1,000</u>	<u>1,000</u>
Total Other Assets	<u>1,000</u>	<u>1,000</u>
TOTAL ASSETS	<u><u>\$ 880,988</u></u>	<u><u>\$ 837,182</u></u>
<u>LIABILITIES</u>		
<u>Current Liabilities:</u>		
Refundable Water Deposits	\$ 39,077	\$ 42,746
Current Portion of Long-Term Debt	<u>-</u>	<u>-</u>
Total Current Liabilities	<u>39,077</u>	<u>42,746</u>
<u>Long-Term Liabilities:</u>		
Unclaimed Refundable Water Deposits	3,659	3,659
Notes Payable	-	-
Less: Current Portion of Long-Term Debt	<u>-</u>	<u>-</u>
Total Long-Term Liabilities	3,659	3,659
TOTAL LIABILITIES	42,736	46,405
<u>NET POSITION</u>		
Net investment in capital assets	710,866	682,763
Restricted for refundable deposits	10,486	14,429
Unrestricted	<u>116,901</u>	<u>93,586</u>
TOTAL NET POSITION	<u>838,253</u>	<u>790,778</u>
TOTAL LIABILITIES & NET POSITION	<u><u>\$ 880,988</u></u>	<u><u>\$ 837,182</u></u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT B

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
- MODIFIED CASH BASIS -
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2015

	Total FYE 11/30/2015	Total (Memo Only) FYE 11/30/2014
<u>Operating Revenues:</u>		
Water Sales	\$ 312,865	\$ 258,071
Meter Tap Fees	16,000	4,500
Other Income	1,000	900
Total Operating Revenues	329,865	263,471
<u>Operating Expenses:</u>		
Water Purchased	85,568	82,035
Labor	32,035	32,269
Supplies	10,684	12,548
Bookkeeping	37,344	36,676
Office	1,817	615
Meter Reading	11,984	13,992
Utilities	19,106	18,014
Professional Fees	3,280	3,080
Insurance and Bond	2,839	2,444
Minute Clerk	480	480
Board of Directors Fees	180	180
Miscellaneous	4,181	5,189
Returned Checks	2,432	723
Dues	664	594
Repairs & Maintenance	-	-
Depreciation Expense	70,065	67,682
Total Operating Expenses	282,658	276,521
Operating Income (Loss)	47,207	(13,049)
<u>Non-Operating Revenues (Expenses):</u>		
Interest Income	379	307
Interest Expense	-	-
Total Non-operating Revenues (Expenses)	379	307
Net Income (Loss) Before Contributions	47,587	(12,742)
Donated Assets	-	-
Change in Net Position	47,587	(12,742)
Total Net Position - Beginning	790,778	803,520
Total Net Position - Prior Year Adjustment	(112)	-
Total Net Position - Ending	\$ 838,253	\$ 790,778

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

EXHIBIT C

**LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2015**

	Nov. 30, 2015	Memorandum Only Nov. 30, 2014
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 329,765	\$ 263,471
Payments to Suppliers for Goods & Services	(180,558)	(176,570)
Payments to Employees & Laborers	(32,035)	(32,269)
Receipts of Customer Utility Deposits, Net of Refunds	(3,669)	2,345
Net Cash Provided (Used) by Operating Activities	113,503	56,977
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(98,168)	(90,363)
Loan Proceeds	-	-
Principal paid on Debt	-	-
Interest paid on Debt	-	-
Net Cash Provided (Used) by Capital & Related Financing Activities	(98,168)	(90,363)
<u>Cash Flows from Investing Activities:</u>		
Interest Income	379	307
(Increase)Decrease in Investments	-	-
Net Cash Provided (Used) by Investing Activities	379	307
Net Increase (Decrease) in Cash and Cash Equivalents	15,714	(33,079)
Cash & Cash Equivalents, Beginning of Year	153,419	186,498
Cash & Cash Equivalents, Prior Year Adjustment	(111)	-
Cash & Cash Equivalents, End of Year	\$ 169,023	\$ 153,419
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ 47,207	\$ (13,049)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	70,065	67,682
(Increase)Decrease in Other current assets	(100)	-
Increase(Decrease) in Renters Deposits	(3,669)	2,345
Net Cash Provided (Used) by Operating Activities	\$ 113,503	\$ 56,977

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Leflore County Rural Water District #1 (the District), organized as a non-profit organization, adopted a modified cash basis of accounting as reflected in these financial statements. The activities of the District constitute the entire reporting entity. There are no component or oversight units. The District is a political subdivision of the state of Oklahoma.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Basis of Accounting

The District has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the District's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets.

As a result of the used of this modified cash basis of accounting, certain assets and their related revenues (such as

LEFLORE COUNTY RURAL WATER DISTRICT #1
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NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2015

accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expense and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this financial report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

D. Budgetary Data

The District is required by Article 8, Section 1(g) of its by-laws to prepare annually an estimated budget for each coming year.

E. Assets, Liabilities, & Equity

Cash & Cash Equivalents

For the purpose of financial reporting, "cash & cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

Capital Assets

Capital assets have been combined and recorded at cost in the financial statements. The capitalization threshold has been set at \$1,000.00.

Beginning January 1, 2013, the District has reconstructed a depreciation schedule and has begun depreciating capital assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives is 7-20 years.

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2015

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred improvements and outflows of resources attributable to capital assets and related debt.
2. Restricted - Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

F. Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

G. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2015

make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Memorandum Totals

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations.

Finance-related Legal & Contractual Provisions

The District does not have any loan agreements which would require budget preparation or reserve accounts.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At November 30, 2015, the District held deposits of approximately \$169,023 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2015

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended November 30, 2015, was as follows:

	Balance at Nov. 30, 2014	Additions	Deductions	Balance at Nov. 30, 2015
Construction Costs	\$ 1,343,201	\$ 98,168	\$ -	\$ 1,441,369
Donated Assets	43,391	-	-	43,391
Subtotal	1,386,592	98,168	-	1,484,760
Less: Accum. Depr.	(703,829)	(70,065)	-	(773,894)
Total Capital Assets (Net of Depreciation)	\$ 682,763	\$ 28,103	\$ -	\$ 710,866

NOTE 5 - LONG-TERM DEBT

The District currently has no long-term debt.

LEFLORE COUNTY RURAL WATER DISTRICT #1
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
NOVEMBER 30, 2015

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended November 30, 2015:

	Balance at Nov. 30, 2014	Additions	Deductions	Balance at Nov. 30, 2015
Notes Payable	\$ -	\$ -	\$ -	\$ -
Total Long-Term Debt	\$ -	\$ -	\$ -	\$ -

NOTE 6 - FUND EQUITY

As described in Note 1 above, equity is classified as net position and displayed in three components:

1. Net investment in capital assets
2. Restricted
3. Unrestricted

The restricted net position includes assets restricted for the repayment of refundable water deposits.

NOTE 7 - CONTINGENCIES

Litigation

The District currently has no pending litigation.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 8 - SUBSEQUENT EVENTS

The District did not have any subsequent events through August 24, 2016, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending November 30, 2015.

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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*

To the Board of Directors
Leflore County Rural Water District #1
Leflore 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 modified cash basis financial statements of Leflore County Rural Water District #1, as of and for the year ended November 30, 2015, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued our report thereon dated August 24, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Leflore County Rural Water District #1'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 the Leflore County Rural Water District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of Leflore County Rural Water District #1'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.

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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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 the Leflore County Rural Water District #1's financial statements are free of material misstatement, we performed tests of 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.

Kershaw CPA & Associates, P.C.
Kershaw CPA & Associates, PC

August 24, 2016