

AUDIT REPORT

RURAL WATER DISTRICT #1
MCINTOSH COUNTY, OKLAHOMA

DECEMBER 31, 2015



KERSHAW CPA & ASSOCIATES, PC

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RURAL WATER DISTRICT #1
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2015

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RURAL WATER DISTRICT #1
MCINTOSH COUNTY, OKLAHOMA
DECEMBER 31, 2015

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>
LEONARD CLINESMITH	CHAIRMAN
DON SEALE	VICE CHAIRMAN
DOYLE TOMSIC	SECRETARY/TREASURER
JOHN STAGGS	BOARD MEMBER
TOM HARKINS	BOARD MEMBER
JOE DETERMAN	BOARD MEMBER

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Rural Water District #1, McIntosh County, Oklahoma, as of and for the fiscal year ended December 31, 2015, as listed in the table of contents and the related notes to the financial statements.

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 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, 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 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

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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 modified audit opinion.

Basis for Qualified Opinion

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The District has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the District is not readily determinable.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Rural Water District #1, McIntosh County, Oklahoma, as of December 31, 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 an assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 1, 2016, on our consideration of the 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

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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 Rural Water District #1's internal control over financial reporting and compliance.

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

March 1, 2016

RURAL WATER DISTRICT #1
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2015

	<u>2015</u>
<u>ASSETS</u>	
<u>Current Assets:</u>	
Cash and cash equivalents - Unrestricted	\$ 75,218
Cash and cash equivalents - Restricted	<u>32,556</u>
Total Current Assets	<u>107,774</u>
<u>Capital Assets:</u>	
Office Building	10,000
Less: Accumulated Depreciation	<u>-</u>
Total Capital Assets	<u>10,000</u>
<u>Other Assets:</u>	
ORWA Assurance Bond	<u>1,000</u>
Total Other Assets	<u>1,000</u>
TOTAL ASSETS	<u>\$ 118,774</u>
<u>LIABILITIES & NET POSITION</u>	
<u>Current Liabilities:</u>	
Renter Deposit Payable	\$ 2,500
Current Portion of Long-Term Debt	<u>3,600</u>
Total Current Liabilities	<u>6,100</u>
<u>Long-term Liabilities:</u>	
Note Payable - Water Leak	7,800
Less: Current Portion of Long-Term Debt	<u>(3,600)</u>
Total Long-term Liabilities	<u>4,200</u>
TOTAL LIABILITIES	<u>10,300</u>
<u>Net Assets:</u>	
Net investment in capital assets	2,200
Restricted for capital improvements	30,056
Unrestricted	<u>76,218</u>
TOTAL NET POSITION	<u>108,474</u>
TOTAL LIABILITIES & NET POSITION	<u>\$ 118,774</u>

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

**RURAL WATER DISTRICT #1
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2015**

	<u>2015</u>
<u>Operating Revenue:</u>	
Water Sales	\$ 48,351
Other Income	-
Total Operating Revenue	<u>48,351</u>
<u>Operating Expenses:</u>	
Water Purchases	15,059
Contract Labor	14,400
Insurance	1,028
Lab Fees	2,741
Licenses	-
Maintenance	2,334
Membership Dues	273
Mileage	1,582
Miscellaneous	520
Office Supplies	462
Postage	576
Professional Fees	1,700
Rent	168
Supplies	86
Utilities	1,476
Total Operating Expenses	<u>42,404</u>
Operating Income (Loss)	<u>5,947</u>
<u>Other Revenues and (Expenses):</u>	
Interest Income	436
Embezzlement Recovery Income	-
Total Other Revenues and (Expenses)	<u>436</u>
Net Income (Loss) Before Contributions	6,383
Capital Contributions	-
Change in Net Position	6,383
Total Net Position, Beginning of Year	102,091
Total Net Position, Prior Year Adjustment	-
Total Net Position, End of Year	<u><u>\$ 108,474</u></u>

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

RURAL WATER DISTRICT #1
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

	2015
<u>Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 48,351
Payments to Suppliers and Laborers for Goods & Services	(42,404)
Renter Deposits Received, Net of Deposits Refunded	600
Net Cash Provided (Used) by Operating Activities	<u>6,547</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Additions to Capital Assets	-
Capital Contributions	-
Loan Proceeds	-
Principal paid on Debt	(3,677)
Interest paid on Debt	-
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(3,677)</u>
<u>Cash Flows from Investing Activities:</u>	
Recovery Income	-
Interest Income	436
Net Cash Provided (Used) by Investing Activities	<u>436</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,306
Cash & Cash Equivalents, Beginning of Year	104,468
Cash & Cash Equivalents, Prior Year Adjustment	-
Cash & Cash Equivalents, End of Year	<u><u>\$ 107,774</u></u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ 5,947
Adjustments to reconcile operating income (loss) to net cash	
provided (used) by operating activities	
Depreciation	-
(Increase)Decrease in Renter Deposit Payable	600
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 6,547</u></u>

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

RURAL WATER DISTRICT #1
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES & OPERATIONS

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Organization & Reporting Entity

Rural Water District No. 1, McIntosh County, Oklahoma, was organized as a rural water district to sell water to its members.

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 position, 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. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in

RURAL WATER DISTRICT #1
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for proprietary fund types would use the accrual basis of accounting.

RURAL WATER DISTRICT #1
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

D. Financial Position

Cash and Cash Equivalents

For the purpose of financial reporting, cash and 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.

Capital Assets (Property, Plant & Equipment)

The District has not maintained capital assets records. In addition, depreciation has not been calculated or recorded for the capital assets listed in the financial statements.

Purchases of capital items in excess of \$2,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

Income Taxes

The District is conducting its affairs as a local government and has no provisions for income tax.

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.

Net Position Classifications

Net Position is classified 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 inflows and outflows of resources attributable to capital assets and related debt.

RURAL WATER DISTRICT #1
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

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.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

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. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

RURAL WATER DISTRICT #1
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

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 December 31, 2015, the District held deposits of approximately \$107,774 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:

- 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.

RURAL WATER DISTRICT #1
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

- 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

The District does not maintain Capital Assets records.

NOTE 5 - LONG TERM DEBT

In January 2014, the District had a large water leak that resulted in a large balance due to the Checotah Public Works Authority. While the PWA would not forgive the balance due, it did agree to a deferred payment plan for the delinquent amount of \$16,377, with the no interest charges. The agreement called for an initial payment of \$1,600 and monthly payments of \$300. This is in addition to paying each month's current bill.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2015:

	Balance at December 31, 2014	Additions	Deductions	Balance at December 31, 2015
Notes Payable	\$ 11,477	\$ -	\$ 3,677	\$ 7,800
Total Long-Term Debt	<u>\$ 11,477</u>	<u>\$ -</u>	<u>\$ 3,677</u>	<u>\$ 7,800</u>

Debt Services Requirements to Maturity

Year Ended December 31,	Principal	Interest	Annual Payment
2016	\$ 3,600	\$ -	\$ 3,600
2017	3,600	-	3,600
2018	600	-	600
2019	-	-	-
2020	-	-	-
Total	<u>\$ 7,800</u>	<u>\$ -</u>	<u>\$ 7,800</u>

RURAL WATER DISTRICT #1
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 6 - NET POSITION

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

NOTE 7 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2015, which would have a material effect on the financial statements.

Grant Program Involvement

In the normal course of operations, the District participates in various Federal or State grant or 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 March 1, 2016, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 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
Rural Water District #1
McIntosh 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, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of Rural Water District #1, McIntosh County, Oklahoma, as of and for the year ended December 31, 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 March 1, 2016, which was qualified for the improper capital asset recordkeeping.

Internal Control Over Financial Reporting

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

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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 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. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Item 15-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Rural Water District #1's Response to Findings

Rural Water District #1's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Rural Water District #1'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 and compliance and the results of

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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

March 1, 2016

RURAL WATER DISTRICT #1
MCINTOSH COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2015

Item 15-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the District.

Response: The Board continues to be actively involved in the operations of the District.