

AUDIT REPORT  
DELAWARE COUNTY RURAL WATER DISTRICT #1  
FEBRUARY 29, 2016

KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: [KERSHAWCPA.COM](http://KERSHAWCPA.COM)  
E-MAIL: [RK@KERSHAWCPA.COM](mailto:RK@KERSHAWCPA.COM)

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

DELAWARE COUNTY RURAL WATER DISTRICT #1  
FEBRUARY 29, 2016

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DELAWARE COUNTY RURAL WATER DISTRICT #1  
FEBRUARY 29, 2016

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
JOE HUTCHISON	CHAIRMAN	FEBRUARY 2016
PATRICK SANDERS	VICE CHAIRMAN	FEBRUARY 2016
GAIL SPERRY	SECRETARY/TREASURER	FEBRUARY 2017
LARRY SLOAN	MEMBER	FEBRUARY 2017
CHARLES WELCH	MEMBER	FEBRUARY 2018

Unaudited

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## INDEPENDENT AUDITOR'S REPORT

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Delaware County Rural Water District #1, as of and for the fiscal year ended February 29, 2016, 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 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 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 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

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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 adverse audit opinion.

## *Basis for Adverse Opinion*

Expense payments of \$22,347.49 or more were recorded as being paid to a former employee, his relative, and certain vendor/payees. However, audit evidence revealed these payments were unauthorized. Moreover, the former employee misrepresented that some of the payments were paid to certain vendors, when in fact the payments actually went to said former employee or his relative. The effect of these unauthorized and misrepresented transactions are considered material to the financial statements.

## *Opinion*

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion" paragraph, the financial statements referred to above do not present fairly, in all material respects, the financial position of the Delaware County Rural Water District #1, as of February 29, 2016, or the changes in financial position or cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## *Other Matters*

## *Required Supplementary Information*

Management has omitted the Management's Discussion and Analysis that 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.

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## *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 it.

## *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2017, on our consideration of the Delaware County Rural Water District #1's internal control over financial reporting and 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 Delaware County Rural Water District #1's internal control over financial reporting and compliance.

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

March 8, 2017

## DELAWARE COUNTY RURAL WATER DISTRICT #1

## STATEMENT OF NET POSITION

FEBRUARY 29, 2016

		Total 2/29/2016	Total (Memo Only) 2/28/2015
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash in Bank	\$	12,053	\$ 4,647
Certificates of Deposit		-	-
Accounts Receivable		68,508	19,827
Inventory		10,366	10,366
Prepaid Insurance		2,118	2,275
Total Current Assets		93,045	37,115
<b>Restricted Assets:</b>			
BOK Debt Service Fund - Nt 2011		5,173	5,173
BOK Reserve Account		32,169	30,659
BOK Debt Service Fund		2	2,260
Total Restricted Assets		37,343	38,092
<b>Capital Assets:</b>			
Land		8,652	8,652
Building		6,228	6,228
Machinery & Equipment		15,021	15,021
Water System		2,538,962	2,538,962
Construction in Progress		-	-
Less: Accumulated Depreciation		(919,496)	(856,022)
Total Capital Assets		1,649,367	1,712,841
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>1,779,755</b>	<b>\$ 1,788,047</b>
<b>LIABILITIES &amp; NET POSITION</b>			
<b>LIABILITIES:</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$	14,282	\$ 29,989
Accrued Interest Payable		3,412	3,486
Current Portion of Long-Term Debt		134,097	31,648
Total Current Liabilities		151,791	65,123
<b>Long-Term Liabilities:</b>			
Notes Payable - OWRB		308,488	340,136
Less: Current Portion of Long-Term Debt		(134,097)	(31,648)
Total Long-Term Liabilities		174,391	308,488
<b>TOTAL LIABILITIES</b>		<b>326,182</b>	<b>373,611</b>
<b>NET ASSETS:</b>			
Net investment in capital assets		1,340,878	1,372,705
Restricted for debt service		37,343	38,092
Unrestricted		75,351	3,640
<b>TOTAL NET POSITION</b>		<b>1,453,573</b>	<b>1,414,436</b>
<b>TOTAL LIABILITIES &amp; NET POSITION</b>	<b>\$</b>	<b>1,779,755</b>	<b>\$ 1,788,047</b>

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

							<b>EXHIBIT B</b>
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<p style="text-align: center;"><b>DELAWARE COUNTY RURAL WATER DISTRICT #1</b></p> <p style="text-align: center;"><b>STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b></p> <p style="text-align: center;"><b>FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016</b></p>
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						Total (Memo Only)
					FYE 2/29/16	FYE 2/28/15
<b>Operating Revenues:</b>						
	Water Sales				\$ 398,465	\$ 341,301
	Membership Fees				8,050	11,900
	Other Income, including late fees				28,001	4,478
	Total Operating Revenues				434,516	357,679
<b>Operating Expenses:</b>						
	Water Purchases				163,757	153,428
	Accounting & Legal				7,458	3,593
	Bank Charges				710	20
	Contract Labor				63,093	51,543
	Director's Fees				2,735	1,770
	Depreciation Expense				63,474	63,474
	Dues & Subscriptions				650	1,901
	Insurance				6,485	6,552
	Equipment Rental				-	-
	Repairs & Maintenance				17,131	6,235
	Miscellaneous				3,247	5,474
	Office Expense				2,478	9,842
	Postage				2,544	3,292
	Salaries & Wages				31,948	37,334
	Payroll Tax Expense				9,497	9,455
	Telephone				5,239	5,406
	Utilities				5,159	5,557
	Total Operating Expenses				385,606	364,875
	Operating Income (Loss)				48,910	(7,196)
<b>Non-Operating Revenues (Expenses):</b>						
	Interest Income				10	19
	Interest Expense				(9,784)	(9,526)
	Total Non-operating Revenues (Expenses)				(9,774)	(9,507)
	Net Income (Loss) Before Contributions				39,137	(16,704)
<b>Capital Contributions</b>						
					-	-
<b>Change in Net Position</b>						
					39,137	(16,704)
<b>Total Net Position - Beginning</b>						
					1,414,436	1,430,139
<b>Total Net Position - Prior Year Adjustment</b>						
					-	1,001
<b>Total Net Position - Ending</b>						
					\$ 1,453,573	\$ 1,414,436

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



						EXHIBIT C
DELAWARE COUNTY RURAL WATER DISTRICT #1						
STATEMENT OF CASH FLOWS						
FOR THE FISCAL YEAR ENDED FEBRUARY 29, 2016						
						Memo Only
						2/29/16 2/28/15
<b>Cash Flows from Operating Activities:</b>						
Cash Receipts from Customers				\$ 385,835	\$ 357,679	
Payments to Suppliers for Goods & Services				(242,642)	(236,749)	
Payments to Employees & Laborers				(95,041)	(88,877)	
Net Cash Provided (Used) by Operating Activities				48,153	32,052	
<b>Cash Flows from Capital &amp; Related Financing Activities:</b>						
Additions to Capital Assets				-	-	
Grant Income				-	-	
Loan Proceeds				-	-	
Principal paid on Debt				(31,648)	(29,483)	
Interest paid on Debt				(9,858)	(9,615)	
Net Cash Provided (Used) by Capital & Related Financing Activities				(41,505)	(39,099)	
<b>Cash Flows from Investing Activities:</b>						
(Increase) in Restricted Assets				748	1	
Interest Income				10	19	
Net Cash Provided (Used) by Investing Activities				758	20	
Net Increase (Decrease) in Cash and Cash Equivalents				7,406	(7,027)	
Cash & Cash Equivalents, Beginning of Year				4,647	10,673	
Cash & Cash Equivalents, Prior Year Adjustment				-	1,001	
Cash & Cash Equivalents, End of Year				\$ 12,053	\$ 4,647	
<b>Reconciliation of operating income (loss) to net cash provided</b>						
<b>operating activities:</b>						
Operating Income (Loss)				\$ 48,910	\$ (7,196)	
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities						
Depreciation Expense				63,474	63,474	
(Increase)Decrease in Accounts Receivable				(48,681)	-	
(Increase)Decrease in Inventory				-	-	
(Increase)Decrease in Prepaid Expenses				157	(119)	
Increase(Decrease) in Accounts Payable				(15,707)	(24,107)	
Increase(Decrease) in Payroll Liabilities				-	-	
Net Cash Provided (Used) by Operating Activities				\$ 48,153	\$ 32,052	
See Accountant's Audit Report & Notes Which Accompany These Financial Statements						

DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Delaware County Rural Water District #1 is a non-profit governmental organization. The organization was incorporated on February 22, 1977. Its purpose is to provide for the use and benefit of its members a water processing and distribution system, including physical facilities necessary for its operations and maintenance.

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

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The District uses the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

D. Assets, Liabilities, & Equity

Cash & Cash Equivalents

For the purpose of financial reporting, "cash & cash equivalents" includes all demand and savings accounts and certificates of

DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2016

deposit or short-term investments with an original maturity of three months or less.

Capital Assets

The District's fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets. Expenditures for major renewals and betterments which extend the useful lives of the fixed assets are capitalized. Purchases of capital items in excess of \$500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Expenditures for maintenance and repairs are expensed as incurred.

<u>Class of Asset</u>	<u>Estimated Useful Life</u>
Water Distribution Systems	40 years
Buildings	25 years
Equipment	5 years

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 inflows 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

DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2016

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.

E. 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.

F. Memorandum Only

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. 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.

Finance-related Legal & Contractual Provisions

The reserve requirement for the OWRB Note Payable is \$32,917.78, which the District has set aside in a restricted account.

DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2016

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 February 29, 2016, the District held deposits of approximately \$49,396 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.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal

DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2016

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 - RESTRICTED ASSETS

The loan agreement with the Oklahoma Water Resources Board for the District's basic financing requires that certain monies be put in a trust type account. These funds are restricted to servicing the loan with the OWRB. Monthly payments are made to a debt service account and then invested upon receipt by the loan trustee, Bank of Oklahoma NA. Semi-annual payments are then made by the trustee from this account to OWRB. Additionally, another account was required to be maintained from which note payments could be made if the District was unable to make its scheduled monthly payments. This is the debt service reserve account. When funds are received by the Trustee they are immediately invested in securities guaranteed by the United States Government. The earnings from the debt service and the debt service reserve account are accumulated in the debt service reserve account.

Balance of each account at February 29, 2016 is:

Debt Service Reserve Fund	\$32,168.67
Debt Service Fund	\$ 1.54
Debt Service Fund - Nt 2011	<u>\$ 5,173.00</u>
Total Restricted Funds	\$37,343.21

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended February 29, 2016, was as follows:

	Balance at 2/28/2015	Additions	Deductions	Balance at 2/29/2016
Land	\$ 8,652	\$ -	\$ -	\$ 8,652
Buildings	6,228	-	-	6,228
Machinery, equipment, furniture and fixtures	15,021	-	-	15,021
Water Systems	2,538,962	-	-	2,538,962
Construction in Progress	-	-	-	-
Subtotal	<u>2,568,863</u>	<u>-</u>	<u>-</u>	<u>2,568,863</u>
Less: Accum. Depr.	<u>(856,022)</u>	<u>(63,474)</u>	<u>-</u>	<u>(919,496)</u>
Total Capital Assets (Net of Depreciation)	<u>\$ 1,712,841</u>	<u>\$ (63,474)</u>	<u>\$ -</u>	<u>\$ 1,649,367</u>

DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2016

NOTE 6 - LONG-TERM DEBT

The District has a loan with Oklahoma Water Resources Board with an original loan amount of \$360,000.00. Substantially, all fixed assets, accounts receivable and assignment revenues are pledged as security on this note. The loan has a variable interest rate determined every 6 months. On February 29, 2016, the variable interest rate was 1.50%. The note will mature August 2024.

Effective February 26, 2009, the payment mode for Variable Rate Borrowers has changed from a semi-annual to a quarterly basis. OWRB made this change as a result of market conditions and to take advantage of low short-term interest rates.

On December 15, 2011, the District entered into a 2<sup>nd</sup> loan agreement with Oklahoma Water Resource Board. This loan is a Series 2011 Drinking Water SRF Promissory Note with an original loan amount of \$260,000.00, which was reduced to \$234,177.33. The proceeds of this Note will be used by the District to construct improvements to the drinking water system benefiting the customers of the District. The fixed assets, accounts receivable and assignment revenues are pledged as security on this note. The loan has an interest rate of 2.86% per annum plus an administrative fee at the rate of 0.5% per annum on the outstanding balance of disbursed loan proceeds. This loan will mature March 15, 2042.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended February 29, 2016:

	Balance at 2/28/15	Additions	Deductions	Balance at 2/29/16
OWRB Loan #1	\$ 119,700.00	\$ -	\$ 26,700.00	\$ 93,000.00
OWRB Loan #2	\$ 220,436.16	\$ -	\$ 4,947.70	\$ 215,488.46
Total Long-Term Debt	<u>\$ 340,136.16</u>	<u>\$ -</u>	<u>\$ 31,647.70</u>	<u>\$ 308,488.46</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal only for the variable rate loan and principal and interest for the fixed rate loan, for long-term debt, as of February 29, 2016, are as follows:

DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
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OWRB Loan #1:

Year Ended February 28,	Principal
2017	\$ 29,000
2018	18,000
2019	5,700
2020	6,100
2021	6,600
2022-2025	27,600
Total	<u>\$ 93,000</u>

OWRB Loan #2:

Year Ended February 28,	Principal	Interest	Admin	Total
2017	\$ 5,097	\$ 6,228	\$ 1,089	\$ 12,415
2018	5,293	6,062	1,060	12,415
2019	5,475	5,907	1,033	12,415
2020	5,663	5,747	1,005	12,415
2021	5,839	5,597	979	12,415
2022-2026	32,427	25,234	4,412	62,073
2027-2031	38,396	20,154	3,523	62,073
2032-2036	45,464	14,138	2,472	62,073
2037-2041	53,830	7,017	1,227	62,073
2042-2043	18,006	524	92	18,621
Total	<u>\$ 215,488</u>	<u>\$ 74,930</u>	<u>\$ 13,100</u>	<u>\$ 186,219</u>

NOTE 7 - 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 include assets related to Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

The District currently has no pending litigation.



DELAWARE COUNTY RURAL WATER DISTRICT #1  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 29, 2016

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 9 - EMPLOYEE RETIREMENT PLAN

The District does not provide an employee retirement plan.

NOTE 10 - SUBSEQUENT EVENTS

The District did not have any subsequent events through the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending February 29, 2016.

NOTE 11 - ACCOUNTS PAYABLE

The District had an unusually large balance due for water purchases because the bill had not been paid in full each month and had been accumulating a balance each month. As of February 29, 2016, the past due balance to Jay Utilities Authority was paid off.

# KERSHAW CPA & ASSOCIATES, PC

5300 WEST OKMULGEE AVENUE  
MUSKOGEE, OKLAHOMA 74401  
PHONE (918) 684-1040  
FAX (918) 684-1041

WEB: KERSHAWCPA.COM  
E-MAIL: RK@KERSHAWCPA.COM

607 NORTH 1<sup>ST</sup> STREET  
PONCA CITY, OKLAHOMA 74601  
PHONE (580) 762-1040  
FAX (580) 762-1047

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

To the Board of Directors  
Delaware County RWD #1  
Delaware 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 financial statements of the Delaware County Rural Water District #1, as of and for the year ended February 29, 2016, and the related notes to the financial statements, and have issued our report thereon dated March 8, 2017, which was an adverse opinion because of the unauthorized expenses. Management has omitted the MD&A required by accounting principles generally accepted in the United States of America.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Delaware 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 Delaware County Rural Water District #1's internal control. Accordingly, we do not express an opinion on the effectiveness of Delaware 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. 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 16-01.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Delaware 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

March 8, 2017

DELAWARE COUNTY RURAL WATER DISTRICT 1  
SCHEDULE OF FINDINGS  
FEBRUARY 29, 2016

INTERNAL CONTROL FINDINGS

Item 16-01 - Segregation of Duties:

Criteria - The segregation of duties is important to have adequate control over financial assets.

Condition - The District has the same employees performing work normally segregated between two or more employees, including receiving funds and posting those funds to the District's books.

Cause - The District's small size limits the amount of staffing needed to properly segregate the accounting functions.

Effect - The lack of segregation of duties could increase the risk that misstatements material to the financial statements could occur and not be detected within a timely manner.

Recommendation - The lack of segregation of duties is a common deficiency in District's the size of Delaware County RWD #1. The governing body should be aware of the increased risk and develop policies and procedures to reduce the effect of the internal control deficiency.

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