

**LEFLORE COUNTY
RURAL WATER DISTRICT #2
FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

LEFLORE COUNTY RURAL WATER DISTRICT #2
DECEMBER 31, 2015 AND 2014
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Leflore County Rural Water District #2
Pocola, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of **Leflore County Rural Water District #2** (the District), which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of revenues and expenses, changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Leflore County Rural Water District #2's 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 auditors consider 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 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 financial position of **Leflore County Rural Water District #2** as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 and 4 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 evidence sufficient 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 a report dated March 21, 2016 on our consideration of **Leflore County Rural Water District #2'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 **Leflore County Rural Water District #2's** internal control over financial reporting and compliance.

Beall Barclay + Company, PLC
BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Fort Smith, Arkansas
March 21, 2016

LeFlore County Rural Water District No. 2

P.O. BOX 398 – POCOLA, OKLAHOMA 74902

LeFlore County Rural Water District #2 was incorporated in 1966. It is run by five Board Members, which each hold a 3 year term and is elected at the annual meeting held the Fourth Thursday in March.

MANAGEMENT DISCUSSION AND ANALYSIS

Our discussion and analysis of LeFlore County Rural Water District #2's financial performance provides an overview of the utility's financial activities for the twelve months ended December 31, 2015.

Using the Annual Audit Report

This annual audit report consists of a series of financial statements, and footnotes. The statements of net position and related statements of revenues and expenses, changes in net position, and cash flows provide information about the activities of the District as a whole and present a longer-term view of the District finances. The footnotes provide additional narrative concerning selected financial items.

Reporting the Utility as A Whole

The statements of net position, and related statements of revenues and expenses, changes in net position and cash flows report information about the District's activities and include all assets and liabilities using the accrual basis of accounting. All current revenue and expenses are taken into consideration, regardless of when cash was received or paid. These accounting practices are similar to the accounting methods used by most private sector companies.

Financial Highlights

The district had three capital improvement projects in progress for 2015. The first is the Morris Street Project: This project began in July of 2013, the District installed approximately 900 feet of 6" water line and 2 Fire Hydrants on Morris Street. This project should be completed by the end of 2016 or early 2017. The second project: The expansion of the District's parking lot which began in March 2014 and was completed in July 2015. The third project is the construction of a new office building: Construction started in September 2014 and was completed in September of 2015. The new office actually opened July 8th, 2015.

The District had changes in terms of debt during 2015. The District has one outstanding loan with Welch State Bank for the purchase of a new backhoe.

Payroll expenses for the District were slightly higher than the previous year's payroll expenses due to employees receiving merit raises, cost of living raises, and some overtime worked throughout the year.

The capital projects are as follows:

The Morris Street Project: The District installed approximately 900 feet of 6" water line and 2 fire hydrants. Expenses on this project for 2015 were approximately \$11,811.00.

The Parking Lot expansion: Expenses on this project for 2015 were approximately \$404.00.

The New Office Building: Expenses on this project for 2015 were \$55,961.00

Other capital improvements for the year 2015:

The Water District purchased the following items in 2015: Approximately 199 Radio Read Meters-\$35,776.00; new 2015 580SN Case Backhoe for \$78,948.00 plus \$200.00 documentation fee, less trade in of \$13,500.00, and less down payment of \$10,000.00 for a total financed of \$55,648.00.

Operating Revenues: Water sales and meter fees are the primary source of revenue for the District. Water deposits for residential and commercial customers increased effective March 1st, 2015. They are as follows: \$75.00 residential, \$100.00 commercial.

The actual number of gallons sold during 2015 was 125,076,702 gallons compared to 122,609,664 gallons during 2014. The number of gallons sold in 2015 increased due to considerable amount of customer leaks and adding new water customers.

Operating Expenses: The largest expense item of the District is water purchases. The actual number of gallons purchased during 2015 was 159,481,040 gallons compared to 146,092,230 during 2014. Water purchases increased due to the District flushing quarterly (every 3 months) required by DEQ, the Fire Department flushes all Fire Hydrants in the District twice yearly, and other testing that is required and there were several small leaks during 2015.

Non operating income: The interest earned on certificates of deposit was comparable to 2015.

Summary

The District's financial position changed during 2015 with a net income of \$25,484.00. The income and cash were used for capital improvements of \$136,946.00. It is management's opinion that the present water rates are adequate to fund operations and maintenance and needed capital improvements at this time. The District ended the year 2015 with \$100,000.00 in CDs and fixed assets of \$2,534,429.00 compared to \$2,437,057.00 in 2014. The District is in compliance with all State and Federal water quality and environmental regulations.

LEFLORE COUNTY RURAL WATER DISTRICT #2
BALANCE SHEETS
DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash on hand	\$ 299	\$ 299
Cash and cash equivalents		
Revenue	96,863	101,453
Operations and maintenance	9,751	4,022
Certificates of deposit	100,000	100,000
Accounts receivable	55,957	54,107
Interest receivable	59	59
Inventory	73,615	77,227
Prepaid expenses	8,929	8,790
	<u>345,473</u>	<u>345,957</u>
RESTRICTED ASSETS		
Cash and cash equivalents		
Revenue - meter deposits	55,325	50,185
	<u>55,325</u>	<u>50,185</u>
PROPERTY AND EQUIPMENT		
Construction in progress	35,567	36,701
Real estate and right-of-way	17,250	17,250
Buildings and improvements	128,092	58,176
Office furniture and equipment	17,423	14,907
Vehicles and equipment	209,474	183,400
Water system and towers	2,126,623	2,126,623
	<u>2,534,429</u>	<u>2,437,057</u>
Less accumulated depreciation	1,013,684	995,205
	<u>1,520,745</u>	<u>1,441,852</u>
OTHER ASSETS		
Utility deposits	75	75
	<u>75</u>	<u>75</u>
	<u>\$ 1,921,618</u>	<u>\$ 1,838,069</u>

See Independent Auditors' Report and Notes to Financial Statements.

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

(Payable from Current Assets)

	2015	2014
Accounts payable	\$ 32,788	\$ 35,913
Payroll taxes withheld and accrued	4,912	4,453
Accrued wages	<u>3,068</u>	<u>1,402</u>
Total Current Liabilities (Payable from Current Assets)	<u>40,768</u>	<u>41,768</u>

CURRENT LIABILITIES

(Payable from Restricted Assets)

Current portion of capital lease obligation	10,521	-
Customer deposits	<u>55,325</u>	<u>50,185</u>
Total Current Liabilities (Payable from Current Assets)	<u>65,846</u>	<u>50,185</u>

CAPITAL LEASE OBLIGATION

	<u>43,404</u>	<u>-</u>
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NET POSITION

Invested in capital assets	1,520,745	1,441,852
Unrestricted	<u>250,855</u>	<u>304,264</u>
	<u>1,771,600</u>	<u>1,746,116</u>
	<u>\$ 1,921,618</u>	<u>\$ 1,838,069</u>

See Independent Auditors' Report and Notes to Financial Statements.

LEFLORE COUNTY RURAL WATER DISTRICT #2
STATEMENTS OF REVENUES AND EXPENSES
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
REVENUES		
Water sales, net of bad debts of \$1,156 and \$2,683, respectively	\$ 645,460	\$ 612,415
Late fees	18,554	17,714
Meter fees	17,383	13,092
	<u>681,397</u>	<u>643,221</u>
COSTS OF REVENUES		
Water purchases	225,201	198,351
Line maintenance	100,954	128,598
	<u>326,155</u>	<u>326,949</u>
GROSS PROFIT	<u>355,242</u>	<u>316,272</u>
OPERATING EXPENSES		
Contract labor	1,380	-
Deferred compensation	10,672	10,200
Depreciation	58,053	58,257
Dues and permits	2,741	4,055
Insurance	53,225	54,468
Interest	278	-
Miscellaneous	1,757	4,681
Office supplies	6,388	4,071
Payroll taxes	11,746	11,135
Postage	9,626	7,496
Printing and publication	319	331
Professional services	11,932	11,287
Telephone	1,428	1,919
Travel	367	-
Truck - gas and oil	8,630	11,644
Truck repairs	2,342	1,293
Uniforms	2,850	-
Utilities	7,581	8,269
Wages	141,975	134,823
	<u>333,290</u>	<u>323,929</u>
OPERATING INCOME (LOSS)	<u>21,952</u>	<u>(7,657)</u>

See Independent Auditors' Report and Notes to Financial Statements.

	2015	2014
NON-OPERATING REVENUE		
Miscellaneous income	2,871	2,353
Interest and royalty income	<u>661</u>	<u>716</u>
	<u>3,532</u>	<u>3,069</u>
CHANGE IN NET POSITION	<u><u>\$ 25,484</u></u>	<u><u>\$ (4,588)</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

**LEFLORE COUNTY RURAL WATER DISTRICT #2
STATEMENTS OF CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	2015	2014
BALANCE, BEGINNING OF YEAR	\$ 1,746,116	\$ 1,750,704
Change in net position	<u>25,484</u>	<u>(4,588)</u>
BALANCE, END OF YEAR	<u><u>\$ 1,771,600</u></u>	<u><u>\$ 1,746,116</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

LEFLORE COUNTY RURAL WATER DISTRICT #2
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	\$ 684,687	\$ 645,816
Payments to vendors	(447,938)	(437,182)
Payments to employees	(150,981)	(145,037)
	<u>85,768</u>	<u>63,597</u>
Net Cash From Operating Activities		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital expenditures	(81,298)	(41,488)
Principal payments on long-term debt	(1,723)	-
Net Cash (Used For) Capital and Related Financing Activities	<u>(83,021)</u>	<u>(41,488)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts of miscellaneous income	2,871	2,353
Receipts of interest and royalty income	661	716
	<u>3,532</u>	<u>3,069</u>
Net Cash From Investing Activities		
NET CHANGE IN CASH AND CASH EQUIVALENTS	6,279	25,178
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>155,959</u>	<u>130,781</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 162,238</u>	<u>\$ 155,959</u>

See Independent Auditors' Report and Notes to Financial Statements.

	2015	2014
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:		
Operating income (loss)	<u>\$ 21,952</u>	<u>\$ (7,657)</u>
Adjustments to reconcile operating income (loss) to net cash from operating activities:		
Depreciation	58,053	58,257
Change in:		
Accounts receivable	(1,850)	(560)
Inventory	3,612	9,332
Prepaid expenses	(139)	(709)
Accounts payable	(3,125)	1,266
Payroll taxes withheld and accrued	459	527
Accrued wages	1,666	(14)
Customer deposits	<u>5,140</u>	<u>3,155</u>
Total adjustments	<u>63,816</u>	<u>71,254</u>
Cash From Operating Activities	<u><u>\$ 85,768</u></u>	<u><u>\$ 63,597</u></u>

See Independent Auditors' Report and Notes to Financial Statements.

LEFLORE COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Leflore County Rural Water District #2 (the District) was organized to provide suitable water to customers in the City of Pocola, Oklahoma and the surrounding community. Treated water is acquired solely from the Poteau Valley Improvement Authority and transmitted in District water lines to the customers.

Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, net position, revenues, and expenditures/expenses. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in these financial statements is a proprietary fund, described as follows:

Proprietary Funds

Enterprise funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public safety, management control, accountability, or other purposes.

Basis of Accounting

The District's policy is to prepare its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recognized in the period in which they are earned. Expenses are recognized in the period in which they are incurred. Operating revenues in the Enterprise fund are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Subsequent Events

Subsequent events are evaluated through the date the financial statements were available to be issued, which is the date of the Independent Auditors' Report.

LEFLORE COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property and Equipment

Property and equipment is stated at cost. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the assets, which range from three to fifty years. At December 31, 2015 and 2014, the District had fully depreciated assets still in use with an original cost of approximately \$363,000 and \$159,000, respectively. Property and equipment includes construction in progress of \$35,567 and \$36,701 at December 31, 2015 and 2014, respectively. These amounts will not be depreciated until they are completed and placed in service.

Inventory

Inventory is stated at the lower of cost (first-in, first-out method) or market. Inventory consists primarily of pipe and related supplies.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

For purposes of the Statements of Cash Flows, cash equivalents are short-term highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash. At December 31, 2015 and 2014, the District had no cash equivalents. Those accounts considered to be cash and cash equivalents are shown under that heading and as "Cash on hand" in the accompanying Statements of Net Position.

Accounts Receivable

The District considers accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts is deemed necessary. If accounts become uncollectible, they will be charged to operations when that determination is made. Determination of uncollectibility is made by management based on knowledge of individual customers and consideration of such factors as current economic conditions. Credit extended to customers is generally uncollateralized. Past-due status is based on contractual terms. Past-due accounts are charged a \$5 late fee for accounts not paid by the 15th of the month following the billing.

LEFLORE COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

The District is a public body and, as such, is exempt from income taxes under Section 501(a) of the Internal Revenue Code and a similar state statute.

Long-Lived Assets

Financial Accounting Standards Board (FASB) Accounting Standards Codification (Codification) Topic *Property, Plant and Equipment*, Section *Subsequent Measurement* requires that long-lived assets and certain identifiable intangibles held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The application of this Codification Topic has not materially affected the District's reported earnings, financial condition or cash flows.

NOTE 2: EMPLOYEE BENEFITS

In October 1987, the District established a deferred compensation (defined contribution) plan for its employees. Under this plan, up to 10% of the gross wages of all participating employees may be withheld to be contributed to the plan, and the District contributes 8% of each employee's gross wages to the plan. Net deferred compensation charged against income amounted to \$10,672 and \$10,200 during the years ended December 31, 2015 and 2014, respectively.

Employees must be employed ten years to be fully vested. New employees hired from the date of the plan forward have the option of whether or not to participate in the plan with the written consent of the District. The unvested portion of deferred compensation is jointly held, by the District and the employee, in individual savings accounts totaling \$31,590 and \$23,780 during the years ended December 31, 2015 and 2014, respectively. There were no unvested deferred compensation amounts that were forfeited and returned to the District during the years ended December 31, 2015 and 2014.

NOTE 3: CONCENTRATION OF CREDIT RISK AND MAJOR SUPPLIERS

The District has no formal policy on managing credit risk. Financial instruments that potentially subject the District to credit risk consist primarily of accounts receivable. The District provides water services to commercial and residential users within the Pocola area. At December 31, 2015 and 2014, the District has extended credit to regular customers (accounts receivable) of \$55,957 and \$54,107, respectively.

The District purchases all of its water from one supplier.

Significant losses are covered by commercial insurance for all major programs for which the District retains risk of loss. For insured programs, there have been no significant reductions in insurance coverage.

LEFLORE COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 4: CASH AND CASH EQUIVALENTS

Deposits in financial institutions are financial instruments that could potentially subject the District to a risk of accounting loss to the extent of the uninsured/uncollateralized portion of those deposits. The District maintains deposit balances in two financial institutions and at times may exceed federally insured limits. The District did not have any uninsured/uncollateralized deposits at December 31, 2015.

NOTE 5: NONCASH INVESTING AND FINANCING ACTIVITIES

During the year ended December 31, 2015, the District purchased assets in the amount of \$136,946 of which \$55,648 was financed. Fully depreciated equipment with an original cost of \$39,574 was also used as a trade-in on new equipment.

NOTE 6: CAPITAL ASSETS

A summary of changes in property and equipment follows:

	<u>Balance January 1, 2015</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance December 31, 2015</u>
Construction in progress	\$ 36,701	\$ 68,175	\$ 69,309	\$ 35,567
Real estate and right-of-way	17,250	-	-	17,250
Buildings and improvements	58,176	69,916	-	128,092
Office furniture and equipment	14,907	2,516	-	17,423
Vehicles and equipment	183,400	65,648	39,574	209,474
Water system and towers	<u>2,126,623</u>	<u>-</u>	<u>-</u>	<u>2,126,623</u>
	<u>\$ 2,437,057</u>	<u>\$ 206,255</u>	<u>\$ 108,883</u>	<u>\$ 2,534,429</u>
Accumulated depreciation	<u>\$ 995,205</u>	<u>\$ 58,053</u>	<u>\$ 39,574</u>	<u>\$ 1,013,684</u>

LEFLORE COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 6: CAPITAL ASSETS - CONTINUED

	<u>Balance January 1, 2014</u>	<u>Additions</u>	<u>Deletions/ Transfers</u>	<u>Balance December 31, 2014</u>
Construction in progress	\$ 116,129	\$ 23,996	\$ 103,424	\$ 36,701
Real estate and right-of-way	17,250	-	-	17,250
Buildings and improvements	50,373	8,811	1,008	58,176
Office furniture and equipment	16,285	-	1,378	14,907
Vehicles and equipment	180,227	3,173	-	183,400
Water system and towers	<u>2,017,698</u>	<u>108,925</u>	<u>-</u>	<u>2,126,623</u>
	<u>\$ 2,397,962</u>	<u>\$ 144,905</u>	<u>\$ 105,810</u>	<u>\$ 2,437,057</u>
Accumulated depreciation	<u>\$ 939,341</u>	<u>\$ 58,257</u>	<u>\$ 2,393</u>	<u>\$ 995,205</u>

NOTE 7: CAPITAL LEASE OBLIGATION

A backhoe was obtained under a capital lease and has been capitalized and included under property and equipment on the Balance Sheets. At December 31, 2015, the cost of equipment under the capital lease was \$65,648 and accumulated depreciation was \$3,282.

The capital lease obligation is with Welch State Bank with monthly payments of \$1,000, including interest at 3%, maturing 2020. Maturities of the capital lease obligation are as follows:

Years ending December 31,

2016	\$10,521
2017	10,846
2018	11,177
2019	11,517
2020	9,864

Interest paid during the years ended December 31, 2015 and 2014 amounted to \$278 and \$-0-, respectively.

LEFLORE COUNTY RURAL WATER DISTRICT #2
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 7: CAPITAL LEASE OBLIGATION - CONTINUED

The following is a schedule of the future minimum payments required by these capital leases by year, along with their present values at December 31, 2015.

Years ending December 31,

2016	\$ 12,002
2017	12,002
2018	12,002
2019	12,002
2020	<u>10,002</u>
Total minimum capital lease payments	58,010
Less amount representing interest	<u>4,085</u>
Present value of future minimum lease payments	53,925
Less current portion	<u>10,521</u>
	<u><u>\$ 43,404</u></u>



**INDEPENDENT AUDITORS' 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**

Board of Directors
Leflore County Rural Water District #2
Pocola, Oklahoma

We have audited, 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, the financial statements of **Leflore County Rural Water District #2** as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 21, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Leflore County Rural Water District #2'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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. However, as described in the accompanying schedule of findings and responses as items 2015-001 and 2015-002, we did identify certain deficiencies in internal control over financial reporting 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 District'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. As described above, we identified certain deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Leflore County Rural Water District #2'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*.

We have noted certain matters that we have reported to management of **Leflore County Rural Water District #2** in a separate letter dated March 21, 2016.

The District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Beall Barclay & Company, PLC
BEALL BARCLAY & COMPANY, PLC
Certified Public Accountants

Fort Smith, Arkansas
March 21, 2016

LEFLORE COUNTY RURAL WATER DISTRICT #2
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015

2015-001: Preparation of Financial Statements

Condition: As a part of the audit engagement, we assisted management in the preparation of the District's financial statements. Although management reviewed and approved the financial statements and related footnotes, management's current system of internal control lacks adequate controls to ensure the propriety and completeness of disclosure in the footnotes.

Criteria and Cause: Internal control over financial reporting includes management's controls over the preparation of financial statements and related footnotes. An auditor can assist in assembling or drafting the financial statements and related footnotes; however, an auditor cannot be part of the District's internal control. Management does not have internal controls in place to ensure the propriety and completeness of the information in the financial statements, including disclosure in the related footnotes.

Effect: Under the current process, errors or omissions in the footnote disclosures to the financial statements might not be prevented or detected and corrected on a timely basis by the District's management.

Recommendation: We recommend that management continue to evaluate the cost/benefit of improving internal control over the preparation of financial statements and implement additional controls as considered necessary.

Views of Responsible Officials and Corrective Actions: Management feels that its current controls over the preparation of financial statements are adequate and that implementing additional controls is not practical or feasible with the District's current staff and resources. Management will continue to evaluate the cost/benefit of improving internal controls over the preparation of financial statements and implement additional controls as considered necessary.

2015-002: Segregation of Duties

Condition: During the year ended December 31, 2015, there was not a complete segregation of duties related to certain financial transactions, including receiving cash, preparing deposits, reconciling bank statements, and recording all transactions and adjustments to the general ledger.

Criteria and Cause: A proper segregation of duties is an integral part of any internal control system. Ideally, duties should be segregated to prevent one person from being in a position to authorize transactions, record transactions and maintain custody of assets of the District. Our review of the District's financial reporting system disclosed that, primarily due to the limited number of accounting personnel, there are inherent limitations in the District's controls in this regard.

LEFLORE COUNTY RURAL WATER DISTRICT #2
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015

Effect: A lack of proper segregation of duties increases the risk that errors or fraud may occur and not be detected in a timely manner.

Recommendation: While we realize that the District does not presently have the staff necessary to achieve a complete segregation of duties, and that the employment of additional personnel for the purpose of segregating duties may not be possible from a cost-benefit standpoint, we believe there are certain instances where duties can and should be reassigned to ensure that no one employee has access to both physical assets and the related accounting records or to all phases of a transaction. We recommend that the Board work closely with management to determine ways to reassign duties with existing personnel to maximize segregation of duties.

Views of Responsible Officials and Corrective Actions: The District does not presently have the staff necessary to achieve a complete segregation of duties, and the employment of additional personnel for the purpose of segregating duties may not be possible from a cost-benefit standpoint. However, the District will continually evaluate the cost/benefit of improving internal controls and implement additional controls as considered necessary and appropriate.