

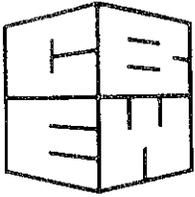
**RURAL WATER DISTRICT NO. 20  
OKMULGEE COUNTY  
Morris, Oklahoma**

**BASIC FINANCIAL STATEMENTS  
June 30, 2016**

RURAL WATER DISTRICT #20  
OKMULGEE COUNTY  
Morris, Oklahoma

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**CBEW**  
**Professional**  
**Group, LLP**  
Certified Public Accountants

424 E. BROADWAY • P.O. BOX 888 • DRUMRIGHT, OKLAHOMA 74030 • 918-352-2121 • FAX 918-352-2200

DON K. ETHRIDGE, CPA  
WALTER H. WEBB, CPA  
JANE FRAZIER, CPA  
CHARLES E. CROOKS, CPA  
TRISHA J. RIEMAN, CPA

## INDEPENDENT AUDITOR'S REPORT

August 7, 2016

Board of Directors  
Rural Water District No. 20  
Okmulgee County  
Morris, Oklahoma

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Rural Water District No. 20, Okmulgee County, Morris, Oklahoma (the District), as of and for the year ended June 30, 2016 and 2015 and the related notes to the financial statements, as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our 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 audit 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Rural Water District No. 20, Okmulgee County, Morris, Oklahoma as of June 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Rural Water District No. 20,  
Okmulgee County, Morris, Oklahoma  
August 7, 2016

***Other Matters***

*Required Supplementary Information*

The District has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 (GASB), 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2016, on our consideration of the Rural Water District No. 20'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 results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rural Water District No. 20's internal control over financial reporting and compliance.

***CBEW Professional Group, LLP***

CBEW Professional Group, LLP  
Certified Public Accountants

RURAL WATER DISTRICT NO. 20  
OKMULGEE COUNTY  
Morris, Oklahoma

STATEMENT OF NET POSITION  
June 30, 2016 and 2015

	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
<b>Current assets:</b>		
Cash and cash equivalents (Note 1)	\$ 147,341	\$ 137,226
Investments	114,013	114,006
Receivables (net of allowance for uncollectible)	43,216	41,366
Prepaid insurance	4,522	4,299
Inventory	15,396	19,201
Temporarily restricted:		
Cash and cash equivalents (Note 2)	13,922	13,915
Investments	48,526	48,533
<b>Total current assets</b>	<u>386,936</u>	<u>378,546</u>
<b>Capital assets:</b>		
Land	17,443	17,443
Water system, equipment and vehicles net of depreciation (Note 4)	1,052,767	1,114,415
<b>Total capital assets</b>	<u>1,070,210</u>	<u>1,131,858</u>
<b>Other assets:</b>		
Utility deposits	90	90
<b>Total other assets</b>	<u>90</u>	<u>90</u>
<b>Total assets</b>	<u>1,457,236</u>	<u>1,510,494</u>
<b>Deferred outflows of resources:</b>		
<b>Total deferred outflows</b>	<u>-</u>	<u>-</u>
<b>Current liabilities:</b>		
Accounts payable	24,794	31,702
Accrued compensation	1,960	-
Payroll taxes payable	6,598	2,963
Interest payable	439	484
Current portion of notes payable (Note 3)	49,261	46,008
<b>Total current liabilities</b>	<u>83,052</u>	<u>81,157</u>
<b>Long-term liabilities:</b>		
Notes payable (Note 3)	420,299	469,493
<b>Total long-term liabilities</b>	<u>420,299</u>	<u>469,493</u>
<b>Total liabilities</b>	<u>503,351</u>	<u>550,650</u>
<b>Deferred inflows of resources:</b>		
<b>Total deferred inflows</b>	<u>-</u>	<u>-</u>
<b>Net position:</b>		
Net investment in capital assets	649,911	662,365
Temporarily restricted (Note 2)	62,448	62,448
Unrestricted	241,524	235,031
<b>Total net position</b>	<u>\$ 953,883</u>	<u>\$ 959,844</u>

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

RURAL WATER DISTRICT NO. 20  
OKMULGEE COUNTY  
Morris, Oklahoma

STATEMENT OF ACTIVITIES  
For the Years Ended June 30, 2016 and 2015

	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
<b>Revenues:</b>		
Water sales	\$ 552,312	\$ 509,725
Membership income	20,950	15,750
Capital contributions	-	-
Other income	25,499	26,845
<b>Total revenues</b>	<u>598,761</u>	<u>552,320</u>
<b>Expenses:</b>		
Advertising	666	-
Accounting and legal	4,900	4,900
Auto expense	7,965	11,188
Bad debt	1,016	452
Bank service charges	83	56
Contract services	6,803	27,088
Depreciation	61,648	66,806
Dues and subscriptions	1,477	1,712
Insurance	36,651	33,503
Lab tests	3,624	3,742
Licenses and permits	-	-
Miscellaneous	1,273	1,794
Office supplies and postage	9,570	9,944
Payroll taxes	13,375	9,741
Repair and maintenance	3,569	15,145
Salaries	145,065	123,146
Supplies	22,560	16,468
Travel	-	-
Uniforms	3,088	2,080
Utilities	9,179	13,303
Water purchases	248,608	248,707
<b>Total expenses</b>	<u>581,120</u>	<u>589,775</u>
<b>Operating income</b>	<u>17,641</u>	<u>(37,455)</u>
<b>Other income and expense:</b>		
Interest income	1,064	1,064
Interest expense	(24,666)	(29,867)
<b>Total other income and expense</b>	<u>(23,602)</u>	<u>(28,803)</u>
<b>Change in net position - net income (loss)</b>	(5,961)	(66,258)
<b>Net position - beginning of year</b>	<u>959,844</u>	<u>1,026,102</u>
<b>Net position - end of year</b>	<u>\$ 953,883</u>	<u>\$ 959,844</u>

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

**RURAL WATER DISTRICT NO. 20  
OKMULGEE COUNTY  
Morris, Oklahoma**

**STATEMENT OF CHANGES IN NET POSITION  
For the Years Ended June 30, 2016 and 2015**

	<u>Net Position (Unrestricted)</u>	<u>Net Position (Temporarily Restricted)</u>	<u>Total Net Position</u>
<b>Balance - beginning of year 6-30-14</b>	\$ 952,984	\$ 73,118	\$ 1,026,102
Change in net position	<u>(55,588)</u>	<u>(10,670)</u>	<u>(66,258)</u>
<b>Balance - end of year 6-30-15</b>	<u>\$ 897,396</u>	<u>\$ 62,448</u>	<u>\$ 959,844</u>
<b>Balance - beginning of year 6-30-15</b>	\$ 897,396	\$ 62,448	\$ 959,844
Change in net position	<u>(5,961)</u>	<u>-</u>	<u>(5,961)</u>
<b>Balance - end of year 6-30-16</b>	<u>\$ 891,435</u>	<u>\$ 62,448</u>	<u>\$ 953,883</u>

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

RURAL WATER DISTRICT NO. 20  
OKMULGEE COUNTY  
Morris, Oklahoma

**STATEMENT OF CASH FLOWS**  
For the Years Ended June 30, 2016 and 2015

	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 596,911	\$ 551,229
Cash payments to suppliers for goods and contractors and other services	<u>(517,201)</u>	<u>(521,103)</u>
<b>Net cash provided by operating activities</b>	<u>79,710</u>	<u>30,126</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition & construction of capital assets	-	(3,995)
Principal paid on debt	(45,941)	(42,966)
Proceeds received from notes	-	-
Interest paid on debt	<u>(24,711)</u>	<u>(29,910)</u>
<b>Net cash used in capital and related financing activities</b>	<u>(70,652)</u>	<u>(76,871)</u>
<b>Cash flows from investing activities:</b>		
(Purchase) liquidation of investments	-	8,233
Interest income	1,064	1,064
<b>Net cash provided by investing activities</b>	<u>1,064</u>	<u>9,297</u>
<b>Net increase (decrease) in cash</b>	10,122	(37,448)
<b>Cash and cash equivalents at beginning of year</b>	<u>151,141</u>	<u>188,589</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 161,263</u>	<u>\$ 151,141</u>
<b>Reconciliation of operation income to net cash provided by operating activities:</b>		
Operating income (loss)	<u>\$ 17,641</u>	<u>\$ (37,455)</u>
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	61,648	66,806
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(1,850)	(1,091)
(Increase) decrease in prepaid expenses	(223)	(322)
(Increase) decrease in grants receivable	-	-
(Increase) decrease in inventory	3,805	-
Increase (decrease) in accounts payable	(6,907)	2,160
Increase (decrease) in accrued comp	1,961	-
Increase (decrease) in payroll taxes payable	<u>3,635</u>	<u>28</u>
<b>Total adjustments</b>	<u>62,069</u>	<u>67,581</u>
<b>Net cash provided by operating activities</b>	<u>\$ 79,710</u>	<u>\$ 30,126</u>

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

**RURAL WATER DISTRICT NO. 20  
OKMULGEE COUNTY  
Morris, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Rural Water District No. 20, Okmulgee County, Oklahoma (the District), was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The membership consists of approximately 984 users, each entitled to one vote. The Board of Directors consists of 5 members serving 3-year terms. The vacant Board seats are elected at the annual meeting in July, and following, the Board of Directors meet and elect a chairman, vice-chairman, and secretary-treasurer. All Board members serve without pay.

The more significant of the government's accounting policies are described below.

**A. Reporting Entity**

Rural Water District No. 20 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges. The District purchases most of its water from the City of Okmulgee.

**B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net position. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives. Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**C. Assets, Liabilities and Equity**

**1. Deposits and Investments**

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

All the bank deposits are held at one financial institution and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

*Custodial Credit Risk*

At June 30, 2016, the District held deposits of approximately \$323,802 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely 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.

**RURAL WATER DISTRICT NO. 20  
OKMULGEE COUNTY  
Morris, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities and Equity (Continued)**

**1. Deposits and Investments (Continued)**

*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 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.).

The investments held at June 30, 2016 are as follows:

Type	(Months)	Rating	Value	Cost
Investments				
Money Market	N/A	AAAm	\$ 161,263	\$ 161,263
Certificate of deposit	3.00	N/A	162,539	162,539
Total investments			<u>\$ 323,802</u>	<u>\$ 323,802</u>

*Concentration of Investment Credit Risk*

The District places no limit on the amount it may invest in any one issuer. The District has the following of credit risk: 50% in Certificates of deposit (\$162,539) and 50% in Money Market funds (\$161,263).

**RURAL WATER DISTRICT NO. 20  
OKMULGEE COUNTY  
Morris, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities and Equity (Continued)**

**2. Fair Value Measurements**

Fair value disclosures are provided as required by FASB ASC 820-10 *Fair Value Measurements*. This standard established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

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Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities

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Level 2 Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly

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Level 3 Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable

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The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of June 30, 2016 and 2015:

**Assets at Fair Value  
as of June 30, 2016**

	Level 1	Level 2	Level 3	Total
CDs and bonds	\$ 162,539	\$ -	\$ -	\$ 162,539
<b>Total assets at fair value</b>	<b>\$ 162,539</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 162,539</b>

**Assets at Fair Value  
as of June 30, 2015**

	Level 1	Level 2	Level 3	Total
CDs and bonds	\$ 162,539	\$ -	\$ -	\$ 162,539
<b>Total assets at fair value</b>	<b>\$ 162,539</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 162,539</b>

**RURAL WATER DISTRICT NO. 20  
OKMULGEE COUNTY  
Morris, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities and Equity (Continued)**

**3. Fair Value of Financial Instruments**

The District's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**4. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles 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 the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**5. Inventories**

Inventories consist primarily of water line supplies for the addition of new water lines and repair of old water lines. Inventory is valued at cost, principally on a first-in, first-out basis, but not in excess of market.

**6. Capital Assets**

Additions to the water storage delivery system and other equipment are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. Non-cash contributions relate to both existing and new members of the District. If installation of water lines is required to a member's property, the District performs this service for the member at cost. The member's payment for such installation is recorded as a capital asset contribution. The District maintains a capitalization threshold of \$500 and an estimated useful life in excess of two (2) years.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Water system	10-50 years
Buildings	10-25 years
Equipment	7-10 years
Office equipment	5-10 years
Vehicles	5 years

**7. Compensated Absences**

It is the District's policy to permit employees to accumulate earned but unused sick time. Full-time employees are granted vacation and sick leave benefits in varying amounts to specified maximums depending on tenure.

**RURAL WATER DISTRICT NO. 20  
OKMULGEE COUNTY  
Morris, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Assets, Liabilities and Equity (Continued)**

**8. Net Position**

In the basic financial statements, net position represents the difference between assets and liabilities. Net investment in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets.

**9. Resource Use Policy**

It is in the District's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including net positions, are available, the District considers restricted amounts to be spent first before any unrestricted amounts are used.

**D. Revenues, Expenses and Other Changes in Net Position**

**1. Operating Revenues and Expenses**

Operating revenues and expenses are principally from water sales and connection fees charged to new system subscribers. Customer water consumption is determined by monthly meter readings taken by the customer and once annually by District personnel. The water sales from subscriber water consumption billed but unpaid at the District's year-end are recognized as revenue in the current year and reported in the statement of net position as accounts receivable. Operating expense consist of those costs necessary to operate and maintain the water distribution system and for general administration of the District.

**2. Non-Operating Revenue and Expenses**

Non-operating revenues and expenses consist of investment earnings, interest expense incurred on the District's notes payable and gains and losses on sales or the abandonment of long-lived assets.

**3. Bad Debts**

The District uses the direct write-off method for recognizing bad debts. Under the direct write-off method, accounts receivable are charged to income during the period they are determined to be uncollectible. The use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

**2. TEMPORARILY RESTRICTED ASSETS**

Under the terms of the various note indentures with Berkadia Commercial Mortgage and Rural Development, the District is required to make monthly contributions into a reserve account until a minimum balance of \$35,772 has been reached for Berkadia Loan # 2506 and \$222.30 monthly until a balance of \$26,676 has been reached for Rural Development Loan # 99-01. The funds are temporarily restricted and are to be used for repairing or replacing damaged assets caused by unforeseen catastrophes. With prior written approval from Berkadia Commercial Mortgage and Rural Development, the reserve funds can also be used for making improvements to the water system or for debt service. The balance at the end of the year for Loan #2506 is \$35,772 and #99-01 is \$26,676 with a total combined balance of \$62,448.

**RURAL WATER DISTRICT NO. 20  
OKMULGEE COUNTY  
Morris, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**3. LONG-TERM DEBT**

Long-term debt consists of two notes, one with the Berkadia Commercial Mortgage and one with the United States Department of Agriculture, Rural Development (RD). The notes are secured by the water works system including distribution lines, pump stations, reservoirs and vehicles.

These notes are listed as follows:

Berkadia Loan # 2506 – Payable in monthly installments of \$2,029 at 7.375% interest with an original stated maturity of October 2024, the District is currently paying \$3,850 per month with a maturity in January 2019.

RD Loan # 99-01 – Original amount of \$477,000, issued May of 1999, payable in monthly installments of \$2,223 for 40 years at 4.75% interest, maturing in June of 2040

The following is a summary of long-term debt transactions during the year:

	Balance June 30, 2015	Additions	Reductions	Balance June 30, 2016	Current Portion
Berkadia Loan 2506	\$ 145,017	\$ -	\$ 36,664	\$ 108,353	\$ 39,532
USDA Rural Dev. - 99-01	370,484	-	9,277	361,207	9,729
<b>Total</b>	<b>\$ 515,501</b>	<b>\$ -</b>	<b>\$ 45,941</b>	<b>\$ 469,560</b>	<b>\$ 49,261</b>

Annual cash requirements to amortize these notes are as follows:

Year Ending June 30,	Payments Due
2017	\$ 72,876
2018	72,876
2019	53,608
2020	26,676
2021	26,676
2022-2026	133,380
2027-2031	133,380
2032-2036	133,380
2037-2038	46,360
<b>Total</b>	<b>699,212</b>
Less interest	(229,652)
<b>Note balance</b>	<b>\$ 469,560</b>

The District's debt service coverage ratios for June 30, 2016 and 2015 are 76.41% and .88% respectively.

**RURAL WATER DISTRICT NO. 20  
OKMULGEE COUNTY  
Morris, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2016 and 2015**

**4. CAPTIAL ASSETS**

The following is a summary of changes in property, plant and equipment.

	Balance June 30, 2015	Additions	Deletions	Balance June 30, 2016
Land	\$ 17,443	\$ -	\$ -	\$ 17,443
Buildings	59,027	-	-	59,027
Water System	2,307,775	-	-	2,307,775
Equipment	68,792	-	-	68,792
Office equipment	17,762	-	-	17,762
Vehicles	52,977	-	-	52,977
Total	<u>2,523,776</u>	<u>-</u>	<u>-</u>	<u>2,523,776</u>
Less accumulated depreciation	1,391,918	61,648	-	1,453,566
Net	<u>\$ 1,131,858</u>	<u>\$ (61,648)</u>	<u>\$ -</u>	<u>\$ 1,070,210</u>

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Land	\$ 17,443	\$ -	\$ -	\$ 17,443
Buildings	59,027	-	-	59,027
Water System	2,307,775	-	-	2,307,775
Equipment	64,797	3,995	-	68,792
Office equipment	17,762	-	-	17,762
Vehicles	52,977	-	-	52,977
Total	<u>2,519,781</u>	<u>3,995</u>	<u>-</u>	<u>2,523,776</u>
Less accumulated depreciation	1,325,111	66,807	-	1,391,918
Net	<u>\$ 1,194,670</u>	<u>\$ (62,812)</u>	<u>\$ -</u>	<u>\$ 1,131,858</u>

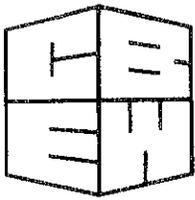
**5. RISK MANAGEMENT**

Rural Water District No. 20 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

The District is a defendant in legal actions arising from normal activities. Most of these actions are covered by insurance. Although the outcome of these lawsuits is not presently determinable, management believes that the resolution of these matters will not have a material adverse effect on the financial condition of the District.

**RURAL WATER DISTRICT NO. 20  
OKMULGEE COUNTY  
Morris, Oklahoma**

**REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*  
June 30, 2016**



**CBEW**  
**Professional**  
**Group, LLP**  
Certified Public Accountants

424 E. BROADWAY • P.O. BOX 888 • DRUMRIGHT, OKLAHOMA 74030 • 918-352-2121 • FAX 918-352-2200

DON K. ETHRIDGE, CPA  
WALTER H. WEBB, CPA  
JANE FRAZIER, CPA  
CHARLES E. CROOKS, CPA  
TRISHA J. RIEMAN, CPA

**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**

August 7, 2016

Board of Directors  
Rural Water District No. 20  
Okmulgee County  
Morris, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the Rural Water District No. 20, Okmulgee County, Morris, Oklahoma (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 7, 2016. The District did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the District'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 opinions 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses as finding 2016-001.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the District'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*.

***District's Response to Findings***

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District'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 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.

***CBEW Professional Group, LLP***

CBEW Professional Group, LLP  
Certified Public Accountants

RURAL WATER DISTRICT NO. 20  
OKMULGEE COUNTY  
Morris, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2016

2016-001. Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently the same individual that receives utility service related cash payments is also responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to subsidiary accounts receivable ledger and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This finding was also noted in 2015.

Cause: The district's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties, such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including to act as compensating procedures where applicable.

Responsible Official's Response: The district concurs with the recommendation, although, the cost to correct this condition might exceed the benefit, the district has made certain changes in procedures that will improve the overall lack of segregation of duties and has implemented compensating procedures as appropriate.