

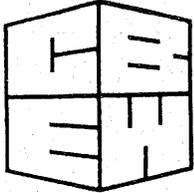
**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**BASIC FINANCIAL STATEMENTS
August 31, 2015**

RURAL WATER DISTRICT #21
OSAGE COUNTY
Shidler, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

October 15, 2015

Board of Directors
Rural Water District No. 21
Osage County
Shidler, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water District No. 21, Osage County, Shidler, Oklahoma (the District), as of and for the years ended August 31, 2015 and 2014, 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 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 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. 21, Osage County, Shidler, Oklahoma as of August 31, 2015 and 2014, 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.

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 October 15, 2015, on our consideration of the Rural Water District No. 21, Osage County, Shidler, Oklahoma'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. 21, Osage County, Shidler, Oklahoma's internal control over financial reporting and compliance.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**STATEMENT OF NET POSITION
August 31, 2015 and 2014**

	<u>August 31, 2015</u>	<u>August 31, 2014</u>
Current assets:		
Cash and cash equivalents (Note 1)	\$ 358,444	\$ 336,561
Investments	41,440	41,256
Receivables (net of allowance for uncollectible of \$9024)	1,969	7,323
Prepaid insurance	1,392	-
Temporarily restricted:		
Cash and cash equivalents (Note 2)	247,836	236,068
Total current assets	<u>651,081</u>	<u>621,208</u>
Capital assets:		
Land	6,000	6,000
Construction in Progress	-	2,034,793
Water system, equipment and vehicles net of depreciation (Note 4)	2,498,180	407,318
Total capital assets	<u>2,504,180</u>	<u>2,448,111</u>
Total assets	<u>3,155,261</u>	<u>3,069,319</u>
Deferred outflows of resources:		
Total deferred outflows	<u>-</u>	<u>-</u>
Current liabilities:		
Accounts payable	13,288	8,936
Payroll taxes payable	697	772
Interest payable	12,792	11,366
Current portion of notes payable (Note 3)	147,766	85,000
Total current liabilities	<u>174,543</u>	<u>106,074</u>
Long-term liabilities:		
Notes payable (Note 3)	1,636,208	1,660,540
Total long-term liabilities	<u>1,636,208</u>	<u>1,660,540</u>
Total liabilities	<u>1,810,751</u>	<u>1,766,614</u>
Deferred inflows of resources:		
Total deferred inflows	<u>-</u>	<u>-</u>
Net position:		
Net investment in capital assets	867,972	787,571
Temporarily restricted (Note 2)	247,836	236,068
Unrestricted	228,702	279,066
Total net position	<u>\$ 1,344,510</u>	<u>\$ 1,302,705</u>

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

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**STATEMENT OF ACTIVITIES
For the Years Ended August 31, 2015 and 2014**

	<u>August 31, 2015</u>	<u>August 31, 2014</u>
Revenues:		
Water sales	\$ 367,373	\$ 370,337
Membership income	11,250	1,000
Other Income	18,102	12,007
	<u>396,725</u>	<u>383,344</u>
Expenses:		
Accounting and legal	20,686	9,482
Cleaning	-	3,992
Contract services	50,340	54,166
Depreciation	84,432	82,288
Fees and publications	7,480	7,648
Insurance	5,483	4,146
Lab tests	2,747	5,722
Miscellaneous	15,154	2,077
Office supplies and postage	2,377	3,393
Payroll taxes	2,350	1,601
Repair and maintenance	19,482	29,701
Salaries	21,135	21,120
Supplies	23,231	7,533
Telephone	1,914	1,336
Utilites	57,283	50,487
	<u>314,091</u>	<u>284,692</u>
Total expenses		
	<u>82,634</u>	<u>98,652</u>
Operating income (loss)		
	<u>82,634</u>	<u>98,652</u>
Other income and expense:		
Debt issue costs	-	(10,814)
Interest income	6,007	3,327
Interest expense	(46,836)	(31,745)
	<u>(40,829)</u>	<u>(39,232)</u>
Total other income and expense		
	<u>(40,829)</u>	<u>(39,232)</u>
Change in net position - net income (loss)	41,805	59,420
Net position - beginning of year	<u>1,302,705</u>	<u>1,243,285</u>
Net position - end of year	<u>\$ 1,344,510</u>	<u>\$ 1,302,705</u>

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

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**STATEMENT OF CHANGES IN NET POSITION
For the Years Ended August 31, 2015 and 2014**

	<u>Net Position (Unrestricted)</u>	<u>Net Position (Temporarily Restricted)</u>	<u>Total Net Position</u>
Balance - beginning of year 8-31-13	1,014,504	228,781	1,243,285
Change in net position	<u>52,134</u>	<u>7,286</u>	<u>59,420</u>
Balance - end of year 8-31-14	<u>\$ 1,066,638</u>	<u>\$ 236,067</u>	<u>\$ 1,302,705</u>
Balance - beginning of year 8-31-14	1,066,638	236,067	1,302,705
Change in net position	<u>30,036</u>	<u>11,769</u>	<u>41,805</u>
Balance - end of year 8-31-15	<u>\$ 1,096,674</u>	<u>\$ 247,836</u>	<u>\$ 1,344,510</u>

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

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**STATEMENT OF CASH FLOWS
For the Years Ended August 31, 2015 and 2014**

	August 31 2015	August 31 2014
Cash flows from operating activities:		
Cash received from customers	\$ 402,079	\$ 376,021
Cash payments to suppliers for goods and contractors and other services	(226,775)	(200,620)
Net cash provided by operating activities	175,304	175,401
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(140,500)	(1,381,459)
Principal paid on debt	(85,000)	(80,000)
Proceeds received from notes	123,434	1,335,427
Uses of (payments to) reserve accounts	(11,769)	(7,281)
Interest paid on debt	(45,410)	(20,378)
Net cash used in capital and related financing activities	(159,244)	(153,691)
Cash flows from investing activities:		
(Purchase) Liquidation of investments	(184)	(203)
Interest income	6,007	3,327
Net cash provided by investing activities	5,823	3,124
Net increase (decrease) in cash	21,883	24,834
Cash and cash equivalents at beginning of year	336,561	311,727
Cash and cash equivalents at end of year	\$ 358,444	\$ 336,561
Reconciliation of operation income to net cash provided by operating activities:		
Operating income (loss)	\$ 82,634	\$ 98,652
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	84,432	82,288
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	5,354	(7,323)
(Increase) decrease in prepaid expenses	(1,392)	-
Increase (decrease) in accounts payable	4,352	1,798
Increase (decrease) in payroll taxes payable	(75)	(14)
Total adjustments	92,670	76,749
Net cash provided by operating activities	\$ 175,304	\$ 175,401

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

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
August 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District No. 21, Osage County, Oklahoma (the District) was created pursuant to 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 Board of Directors consists of 7 members, 4 of which are elected as officers of the District. The vacant Board seats are elected at the annual meeting in October, and following, the Board of Directors meet and elect a president, vice-president, 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. 21 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 and amortization) of providing water services is financed through user charges.

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. Amortization expense is provided for easements based upon a 40 year life.

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.

For financial statement presentation and for purposes of statements of cash flows, the District's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with a maturity date of three months or less.

Custodial Credit Risk

At August 31, 2015, the District held deposits of approximately \$647,721 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.

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.

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
August 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

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 District.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The cash and investments held at August 31, 2015 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Certificate of deposit	12.00	N/A	41,440	41,440
Total investments			<u>\$ 41,440</u>	<u>\$ 41,440</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: 100% in Certificates of deposit (\$41,440).

2. Restricted Cash and Investments

The restricted cash is the result of financial requirements of various note indentures between the District and the Oklahoma Water Resources Board (OWRB) consist of funds held in reserve funds. Under the terms and provisions of the OWRB promissory note, these special funds are maintained with the Trustee bank for the benefit of the holders of the bond and are not subject to lien or attachment by any other creditors. Monies contained in the funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the bonds. The funds are temporarily restricted but with prior written approval

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
August 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

2. Restricted Cash and Investments (Continued)

from OWRB, the funds can also be used for making improvements to the water system or for debt service. Under the terms and provisions of the promissory note, these funds may be maintained so long as the notes are outstanding. In addition, certain funds are restricted for customer deposits and are reflected as an asset and a corresponding liability.

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. Capital Assets

Additions to the water treatment and 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. The District maintains a capitalization threshold of \$1,000 and an estimated useful life in excess of two (2) years.

5. Capital Assets

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

Water treatment and delivery system	35-40 years
Buildings and improvements	10-40 years
Machinery and equipment	5-10 years
Office equipment	3-7 years
Boat ramps and docks	15-30 years

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
August 31, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

6. 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. Net position are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

7. 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.

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
August 31, 2015**

2. LONG-TERM DEBT

Long-term debt consists of two notes with the United States Department of Agriculture, Rural Development. The note is secured by the water system, water treatment plant and revenues.

The notes are listed as follows:

Loan OWRB – Original amount of \$930,000, payable in annual installments of varying amounts of principal and semi-annual installments of interest for 18 years at a fixed interest rate of 2.841% to combine all existing debt into one loan, maturing in October of 2017.

Loan OWRB – Original amount of \$1,600,000, \$1,538,974 of which has been received, payable in semi-annual installments of varying amounts of principal and semi-annual installments of interest for 20 years at a fixed interest rate of 1.73% to construct a water treatment plant, maturing in September of 2033. As of June 25, 2015, the remaining loan funds of \$46,026 have been de-obligated.

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

	Balance August 31, 2014	Additions	Reductions	Balance August 31, 2015	Current Portion
OWRB	\$ 320,000	\$ -	\$ 75,000	\$ 245,000	\$ 80,000
OWRB	1,425,540	123,434	10,000	1,538,974	67,766
Total	<u>\$ 1,745,540</u>	<u>\$ 123,434</u>	<u>\$ 85,000</u>	<u>\$ 1,783,974</u>	<u>\$ 147,766</u>

Annual cash requirements to amortize these notes are as follows:

Year Ending August 31,	Payments Due
2016	\$ 174,691
2017	174,907
2018	180,260
2019	95,622
2020	95,975
2021-2025	485,799
2026-2030	496,401
2031-2033	354,458
Total	<u>2,058,114</u>
Less interest	(274,140)
Note balance	<u>\$ 1,783,974</u>

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
August 31, 2015**

3. CAPTIAL ASSETS

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

	Balance August 31, 2014	Additions	Deletions	Balance August 31, 2015
Non-depreciable assets:				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Construction in process	2,034,793	140,500	2,175,293	-
Total non-depreciable assets	<u>2,040,793</u>	<u>140,500</u>	<u>2,175,293</u>	<u>6,000</u>
Depreciable assets:				
Water System & Equipment	2,855,265	2,175,294	-	5,030,559
Buildings & Improvements	28,367	-	-	28,367
Office Equipment	8,339	-	-	8,339
Total depreciable assets	<u>2,891,971</u>	<u>2,175,294</u>	<u>-</u>	<u>5,067,265</u>
Less accumulated depreication	<u>(2,484,653)</u>	<u>(84,432)</u>	<u>-</u>	<u>(2,569,085)</u>
Net depreciable assets	<u>407,318</u>	<u>2,090,862</u>	<u>-</u>	<u>2,498,180</u>
Total net capital assets	<u>\$ 2,448,111</u>	<u>\$ 2,231,362</u>	<u>\$ 2,175,293</u>	<u>\$ 2,504,180</u>

4. RISK MANAGEMENT

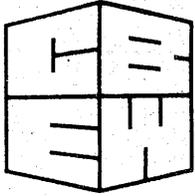
The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, property damage, 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.

5. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and have determined that no additional information will need to be added to the financial statements.

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
August 31, 2015**



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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**

October 15, 2015

Board of Directors
Rural Water District No. 21
Osage County
Shidler, 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. 21, Osage County, Shidler, Oklahoma (the District), as of and for the years ended August 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 15, 2015. 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. 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 and responses that we consider to be significant deficiencies as findings 2015-1 and 2015-2.

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 questioned costs. 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. 21
OSAGE COUNTY
Shidler, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended August 31, 2015**

FINDINGS - FINANCIAL STATEMENT AUDIT

2015-1. 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 District'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 2014.

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 District might consider soliciting the assistance of independent volunteer labor to perform certain functions including acting 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.

2015-2. Internal Control – Material Adjusting Journal Entries

Criteria: The District's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the District's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the District's accounting records. For trial balances to be both complete and accurate, the District must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, District management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

**RURAL WATER DISTRICT NO. 21
OSAGE COUNTY
Shidler, Oklahoma**

**SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended August 31, 2015**

Condition: The District's trial balances for the year ended August 31, 2015, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: fixed asset purchases, depreciation, amortization, note payments and interest expense. This finding was also noted in 2014.

Cause: Although the District's accounting and financial reporting staff and board possess the necessary skills and experience to review and understand the financial statement presentation they don't spend sufficient time in balancing and/or reconciling specific accounts at year end to provide assurance that the trial balances used for preparing GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances. However, management was able to review, understand and accept the adjusting entries proposed by the auditor in order to take responsibility for them and the financial statements.

Effect or Potential Effect: As a result of this condition, the District has not adhered to its internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP and instead place reliance on its external auditors. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as required by the GAO "Yellow Book."

Recommendation: The Board should reevaluate its internal controls over the completeness and accuracy of trial balances and adhere to its policy of having a Board member to periodically review the interim financial statements in sufficient depth (particularly at year end) to insure that material adjusting journal entries are made timely. Additionally accounting staff should strive to obtain the necessary expertise through continuing education to apply GAAP in the development of working trial balances that will be used to prepare the District's annual financial statements. This could also be achieved through employment of additional qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Responsible Official's Response: The District concurs with the recommendation, and will strive to prepare and post material adjusting journal entries to the financial statements.