

RURAL WATER DISTRICT #1,
CADDO COUNTY, LOOKEBA, OKLAHOMA

FINANCIAL STATEMENTS
AND AUDITOR'S REPORT

DECEMBER 31, 2015 AND 2014

**RURAL WATER DISTRICT #1
CADDO COUNTY, LOOKEBA, OKLAHOMA
DIRECTORS AND OFFICERS
DECEMBER 31, 2015**

Chairman
Vice-Chairman
Secretary
Treasurer
Member
Member

Frank Klassen
Drake Farmer
Blanca Rodriquez
Bill Johnston
Jeff Hollis
Johnny Klassen

**RURAL WATER DISTRICT #1
CADDO COUNTY, LOOKEBA, OKLAHOMA
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water District #1, Caddo County
Lookeba, Oklahoma

We have audited the basic financial statements of the Rural Water District #1, Caddo County, (the District), a component unit of the Town of Lookeba, Oklahoma, as of and for the year ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Rural Water District #1, Caddo County, basic 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amount 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 principles 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 Rural Water District #1, Caddo County, as of December 31, 2015 and 2014, and the changes in financial position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

The District has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated September 9, 2016 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 the District's internal control over financial reporting and compliance.

McCulley & McCulley

Weatherford, Oklahoma

September 9, 2016

**RURAL WATER DISTRICT #1, CADDO COUNTY
LOOKEBA, OKLAHOMA
BALANCE SHEETS
DECEMBER 31, 2015 AND 2014**

	DECEMBER 31,	
	2015	2014
ASSETS		
CURRENT ASSETS		
Petty Cash	\$ 100	\$ 100
Cash in Bank	75,846	75,939
Certificate of Deposits	33,674	33,615
Restricted Assets:		
Cash in Bank	4,872	5,031
Accounts Receivable, Net of Allowance for Loss	5,329	5,564
Prepaid Assets	620	720
Accrued Interest Receivable	23	23
TOTAL CURRENT ASSETS	<u>120,465</u>	<u>120,992</u>
NONCURRENT ASSETS		
Capital Assets, Net of Accumulated Depreciation	<u>156,329</u>	<u>168,748</u>
TOTAL ASSETS	<u>\$ 276,793</u>	<u>\$ 289,740</u>
LIABILITIES AND NET POSITION		
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable	\$ 4,200	\$ 5,414
Customer Meter Deposits	<u>4,872</u>	<u>5,031</u>
TOTAL CURRENT LIABILITIES	<u>9,072</u>	<u>10,445</u>
LONG-TERM LIABILITIES		
TOTAL LONG-TERM LIABILITIES	<u>0</u>	<u>0</u>
NET POSITION		
Net Investment in Capital Assets	156,329	168,748
Unrestricted	<u>111,392</u>	<u>110,547</u>
TOTAL NET POSITION	<u>267,721</u>	<u>279,295</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 276,793</u>	<u>\$ 289,740</u>

The accompanying notes are an integral part of these statements.

**RURAL WATER DISTRICT #1, CADDO COUNTY
 LOOKEBA, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET POSITION
 FOR THE YEAR ENDING DECEMBER 31, 2015 AND 2014**

	DECEMBER 31,	
	2015	2014
OPERATING REVENUES		
Water Sales	\$ 27,902	\$ 32,164
Sewer Sales	5,913	5,818
Garbage Sales	27,970	29,986
Late Charges and Penalties	2,756	2,940
Insurance Rebate		483
Other Revenue	569	70
TOTAL OPERATING REVENUES	65,110	71,461
OPERATING EXPENSES		
Director Fees	2,500	1,500
Compensation and Benefits	24,432	24,427
Depreciation	12,419	15,390
Bad Debt Expense	2,097	
Repairs and Maintenance	3,207	4,834
Insurance	1,710	1,710
Utilities	5,410	6,107
Professional Services	1,800	1,700
Office Supplies	912	1,456
Licenses, Dues, and Subscriptions	225	266
Solid Waste Disposal	15,998	17,481
Miscellaneous Expense	6,138	6,421
TOTAL OPERATING EXPENSES	76,848	81,292
OPERATING (LOSS)	(11,738)	(9,831)
NONOPERATING REVENUES (EXPENSES)		
Interest Income	164	180
TOTAL NONOPERATING REVENUES (EXPENSES)	164	180
CHANGE IN NET POSITION	(11,574)	(9,651)
NET POSITION		
Beginning of Year	279,295	288,946
End of Year	\$ 267,721	\$ 279,295

The accompanying notes are an integral part of these statements.

**RURAL WATER DISTRICT #1, CADDO COUNTY
LOOKEBA, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING DECEMBER 31, 2015 AND 2014**

	DECEMBER 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES	\$	\$
Cash Received from Customers	65,232	72,981
Cash Paid to Employees and Benefits	(26,932)	(25,927)
Cast Paid for Goods and Services	(38,656)	(38,670)
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	(356)	8,384
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Capital Assets	0	(5,950)
Interest Received on Cash and Certificate of Deposits	164	203
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	164	(5,747)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(193)	2,637
CASH AND CASH EQUIVALENTS		
Beginning of Year	114,685	112,048
End of Year	\$ 114,492	\$ 114,685
Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities:		
Operating (Loss)	\$ (11,738)	\$ (9,831)
Adjustments to Operating (Loss) to Net Cash Provided by (Used for) Operating Activities		
Depreciation	12,419	15,390
Changes in Assets and Liabilities:		
Decrease in Accounts Receivable	122	1,520
Increase in Allowance for Bad Debts	113	808
(Increase) Decrease in Prepaid Assets	100	(35)
Increase (Decrease) in Accounts Payable	(1,214)	162
Increase (Decrease) in Customer Deposits	(159)	370
Total Adjustments	11,382	18,215
Net Cash Provided by (Used for) Operating Activities	\$ (356)	\$ 8,384

The accompanying notes are an integral part of these statements.

**RURAL WATER DISTRICT #1
CADDO COUNTY, LOOKEBA, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2015 AND 2014**

Note 1 - Significant Accounting Policies

The accounting policies of the Rural Water District #1, Caddo County, (the District) conform to generally accepted accounting principles of the United States of America as applicable to an enterprise fund of government organizations. The following is a summary of the more significant current accounting policies.

A. The Reporting Entity.

The District provides water, sewer, and garbage services to its members within its geographic boundaries. The District is governed by a seven member Board of Directors who is elected by the participating members. These financial statements include all of the funds under the control of the Board of Directors relevant to the operations of the District. These members of the Board of Directors are also members of the Town Board of Trustees. Based upon the Bylaws of the District, and the use of common offices, employees, and Board members, it appears that the District should be a component unit of the Town of Lookeba, Oklahoma. Financial information concerning the Town of Lookeba, Oklahoma, is available from the Town of Lookeba, Oklahoma.

B. Basis of Presentation.

The activities of the District are organized into a single fund, an enterprise fund (proprietary fund type).

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 (expenses, including depreciation) 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 changes in net position is appropriate for capital maintenance, accountability, or other purposes.

**RURAL WATER DISTRICT #1
CADDO COUNTY, LOOKEBA, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2015 AND 2014**

Note 1 - Significant Accounting Policies - (continued).

C. Basis of Accounting.

Basis of accounting refers as to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement focus applied.

Enterprise funds use the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the obligation is incurred.

D. Capital Assets.

All capital assets are valued at historical cost. Where cost could not be determined from the available records, estimated historical cost was used to record the estimated value of the assets. Assets are depreciated on the straight-line basis over the estimated useful life of the asset. A summary of capital assets and the service lives by type of asset at December 31, 2015 and 2014, are as follows:

	<u>Estimated Useful Life</u>
Water and Sewer Improvements	10 - 40 yrs.
Furniture and Equipment	3 - 7 yrs.

E. Allowance for Losses.

Allowance for losses on receivables are recorded when management believes a receivable is uncollectible. Management periodically reviews its receivables to determine what is collectible.

**RURAL WATER DISTRICT #1
CADDO COUNTY, LOOKEBA, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2015 AND 2014**

Note 1 - Significant Accounting Policies - (continued).

F. Net Position

Net position (formerly called net assets) is classified into three components:

1. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes payable attributable to these assets.
2. Restricted - Consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Restricted assets have constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional revisions or enabling legislation.
3. Unrestricted - Net amount of the assets, deferred outflows or resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

Note 2 - Cash and Certificate of Deposits.

The District's cash in bank and certificate of deposits at December 31, 2014 and 2013, are secured by federal deposit insurance or collateralized by the bank. Certificate of deposits are recorded at cost, which approximates market value. Certificates of deposits are authorized and legal investments. The District's petty cash, cash in bank (including restricted assets), and certificate of deposits are considered to be cash equivalents for purposes of the Statement of Cash Flows.

Note 3 - Accounts Receivable.

Accounts receivable consists of billed and unbilled receivables as shown below:

	December 31,	
	2015	2014
Charges for Services	\$ 6,383	\$ 6,506
Allowance for Losses	(1,054)	(942)
Net Accounts Receivable	<u>\$ 5,329</u>	<u>\$ 5,564</u>

**RURAL WATER DISTRICT #1
CADDO COUNTY, LOOKEBA, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2015 AND 2014**

Note 4 - Restricted Assets.

Restricted assets consist of cash restricted for customer deposits which are offset by a related liability payable.

Note 5 - Capital Assets.

Capital assets consist of the following:

	Dec 31, 2014	Additions	Deletions	Dec 31, 2015
Land **	\$ 2,020	\$	\$	\$ 2,020
Equipment	26,907			26,907
Sewer Improvements	10,488			10,488
Water Improvements	483,520			483,520
 Total Capital Assets	 522,935			 522,935
 Less Accumulated Depreciation for:				
Equipment	20,459	2,005		22,464
Sewer Improvements	5,778	231		6,009
Water Improvements	327,950	10,183		338,133
 Total Accumulated Depreciation	 354,187	12,419		 366,606
 Net Capital Assets	 \$ 168,748	\$ (12,419)	\$ -0-	\$ 156,329

** non-depreciable asset

**RURAL WATER DISTRICT #1
CADDO COUNTY, LOOKEBA, OKLAHOMA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2015 AND 2014**

Note 5 - Capital Assets (continued).

	Dec 31, 2013	Additions	Deletions	Dec 31, 2014
Land **	\$ 2,020	\$	\$	\$ 2,020
Equipment	31,021	5,950	(10,064)	26,907
Sewer Improvements	10,488			10,488
Water Improvements	483,520			483,520
 Total Capital Assets	 527,049	 5,950	 (10,064)	 522,935
 Less Accumulated Depreciation for:				
Equipment	28,432	2,091	(10,064)	20,459
Sewer Improvements	5,547	231		5,778
Water Improvements	314,882	13,068		327,950
Total Accumulated Depreciation	348,861	15,390	(10,064)	354,187
 Net Capital Assets	 <u>\$ 178,188</u>	 <u>\$ (9,440)</u>	 <u>\$ -0-</u>	 <u>\$ 168,748</u>

Note 6 - 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 purchases commercial insurance to manage these risks of loss and retains a deductible ranging from \$500 to \$1,000. However, the District does not bond its bookkeeper and other employees/directors. Only the Treasurer has a surety bond for \$7,500.



Certified Public Accountants

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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**

Board of Directors
Rural Water District #1, Caddo County
Lookeba, 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 Rural Water District # 1, Caddo County, 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 dated September 9, 2016. The District has elected to omit the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rural Water District # 1, Caddo County'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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting 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.

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 the District's 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 the objective of our audit. Accordingly, we do not express such an opinion.

The results of our tests disclosed the following instance of noncompliance or other matters that is required to be reported herein under Government Auditing Standards for which the ultimate resolution cannot presently be determined. Accordingly, no provision for any liability that may result has been recognized in the District's financial statements.

Compliance with District By-laws and Bonding Requirements.

CONDITION AND EFFECT - Article 8, Section 1 (e) of the By-laws of the District requires that all officers and employees charged with the responsibility for the custody of funds of the District to give adequate bond. It is mandatory for the Directors to require this bond. Noted that only the Treasurer is bonded. Other officers and the bookkeeper who handle funds are not bonded.

RECOMMENDATION - Recommend the District purchase the required bond to comply with the District's By-laws or to amend the By-laws.

RESPONSE - The Board approved acquiring this bond in 1996, but it has never been purchased.

District's Response to Findings

The District's response to the findings identified in our audit is described above. It 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 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.

McCulley & McCulley

Weatherford, Oklahoma

September 9, 2016

**RURAL WATER DISTRICT #1
CADDO COUNTY, LOOKEBA, OKLAHOMA
UPDATE ON PRIOR YEAR'S AUDIT FINDINGS
DECEMBER 31, 2015**

1. Compliance with District By-laws and Bonding Requirements.

CONDITION AND EFFECT - Article 8, Section 1 (e) of the By-laws of the District requires that all officers and employees charged with the responsibility for the custody of funds of the District to give adequate bond. It is mandatory for the Directors to require this bond. Noted that only the Treasurer is bonded. Other officers and the bookkeeper who handle funds are not bonded.

RECOMMENDATION - Recommend the District purchase the required bond to comply with the District's By-laws or to amend the By-laws.

RESPONSE - The Board approved acquiring this bond, but it has not yet been purchased.

UPDATED COMMENT - Condition is the same. Comment repeated in the audit.