

**RURAL WATER DISTRICT NO. 1  
OKFUSKEE COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS**

**YEARS ENDED OCTOBER 31, 2016 AND 2015**

RURAL WATER DISTRICT NO. 1, OKFUSKEE COUNTY  
ANNUAL FINANCIAL STATEMENTS  
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## Independent Auditor's Report

Board of Directors  
Rural Water District No. 1, Okfuskee County

### Report on the Financial Statements

We have audited the accompanying statements of assets, liabilities and net position – modified cash basis of Rural Water District No. 1, Okfuskee County as of October 31, 2016 and 2015 and the statements of revenues, expenses and changes in net position – modified cash basis and of cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 opinions 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 *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 whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such an 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.

## Opinions

In our opinions, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of Rural Water District No. 1, Okfuskee County, as of October 31, 2016 and 2015; the changes in modified cash basis financial position; and cash flows thereof, for the years then ended in conformity with the basis of accounting described in Note 1.

## Other Matters

### *Report on Supplementary and Other Information*

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental information, as listed in the Table of Contents, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

## Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

## Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated July 9, 2018 on our consideration of Rural Water District No. 1, Okfuskee County's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants 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* and should be read in conjunction with this report in considering the results of our audit.

Handwritten signature of Kimberley R. Mayer, CPA, P.C. in black ink.

Kimberly R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
July 9, 2018

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 No. 1, Okfuskee County

We have audited the financial statements of Rural Water District No. 1, Okfuskee County as of and for the year ended October 31, 2016, and have issued our report thereon dated July 9, 2018. 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. The financial statements were prepared on the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rural Water District No. 1, Okfuskee 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 Rural Water District No. 1, Okfuskee County's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 1, Okfuskee County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Rural Water District No. 1, Okfuskee County'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*.

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

  
Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
July 9, 2018

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 1, OKFUSKEE COUNTY, OKLAHOMA  
STATEMENTS OF ASSETS, LIABILITIES AND NET POSITION  
MODIFIED CASH BASIS  
OCTOBER 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and cash equivalents	\$ 36,078	\$ 17,441
Restricted Reserves (Note 1):		
Reserve account	<u>23,576</u>	<u>18,481</u>
Total Current Assets	<u>59,654</u>	<u>35,922</u>
Property, plant and equipment		
(net of accumulated depreciation) (Note 2)	884,925	925,996
Work in progress	<u>13,032</u>	<u>13,032</u>
Total Assets	<u><u>\$ 957,611</u></u>	<u><u>\$ 974,950</u></u>

LIABILITIES AND NET POSITION

Current Liabilities:		
Current portion of notes payable (Note 3)	\$ 21,526	\$ 20,611
Non-Current Liabilities:		
Notes payable (Note 3)	<u>497,868</u>	<u>519,313</u>
Total Liabilities	<u>519,394</u>	<u>539,924</u>
Net Position:		
Net Investment in capital assets	378,563	399,104
Restricted for debt service	23,576	18,481
Unrestricted	<u>36,078</u>	<u>17,441</u>
Total Net Position	<u>438,217</u>	<u>435,026</u>
Total Liabilities and Net Position	<u><u>\$ 957,611</u></u>	<u><u>\$ 974,950</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 1, OKFUSKEE COUNTY, OKLAHOMA  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
MODIFIED CASH BASIS  
YEARS ENDED OCTOBER 31, 2016 AND 2015

	2016	2015
Operating Revenues:		
Water, sewer and garbage services	\$ 191,357	\$ 175,259
Late fees	1,339	911
Other income	27	27
Total Operating Revenues	<u>192,696</u>	<u>176,197</u>
Operating Expenses:		
Payroll	32,050	30,074
Payroll taxes	3,051	2,599
Chemicals	2,214	2,665
Repairs, maintenance and supplies	14,697	14,703
Depreciation expense	41,782	46,017
Garbage collection fees	15,157	14,136
Insurance and bonds	7,398	4,703
Professional fees	3,694	
Office and postage	1,869	2,212
Lease and rental payments	6,000	6,000
Utilities and telephone	21,104	22,797
Truck expenses	7,895	9,133
Licenses, permits, lab and DEQ fees	7,774	6,250
Lagoon testing	645	2,795
Other expenses	994	2,067
Total Operating Expenses	<u>166,324</u>	<u>166,151</u>
Operating Income (Loss)	26,372	10,046
Nonoperating Revenue (Expenses):		
Interest income	46	31
Relocation income	33,894	
Grant and donations income	750	1,000
Relocation expense	(33,894)	
Interest expense	(23,977)	(24,834)
Total Nonoperating Revenues	<u>(23,181)</u>	<u>(23,803)</u>
Change in Net Position	3,191	(13,757)
Net Position, beginning of year	<u>435,026</u>	<u>448,783</u>
Net Position, end of year	<u><u>\$ 438,217</u></u>	<u><u>\$ 435,026</u></u>

The accompanying report and notes are an integral part of these financial statements.



RURAL WATER DISTRICT NO. 1, OKFUSKEE COUNTY, OKLAHOMA  
STATEMENTS OF CASH FLOWS  
MODIFIED CASH BASIS  
YEARS ENDED OCTOBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 192,696	\$ 176,197
Cash payments to suppliers for goods and services	(92,492)	(90,060)
Cash payments to employees	(32,050)	(30,074)
Net cash provided (used) by operating activities	<u>68,154</u>	<u>56,063</u>
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(711)	(6,532)
Principle payments	(20,530)	(19,440)
Interest payments on debt	(23,977)	(24,834)
Grant and donations income	750	1,000
Net cash provided (used) by financing activities	<u>(44,468)</u>	<u>(49,806)</u>
Cash flows from investing activities:		
Interest income	46	31
(Increase) decrease in restricted accounts	(5,095)	4,905
Net cash provided (used) by investing activities	<u>(5,049)</u>	<u>4,936</u>
Net increase (decrease) in cash and cash equivalents	18,637	11,193
Beginning cash and cash equivalents	17,441	6,248
Ending cash and cash equivalents	<u>\$ 36,078</u>	<u>\$ 17,441</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 26,372	\$ 10,046
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	41,782	46,017
Changes in assets and liabilities:	<u>          </u>	<u>          </u>
Net cash provided (used) by operating activities	<u>\$ 68,154</u>	<u>\$ 56,063</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 1, OKFUSKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED OCTOBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water District No. 1, Okfuskee County was incorporated in May 1967. The District was created under the Rural Water District Act, Title 82, Sections 1301-1321, as amended, of the laws of the state of Oklahoma. The purpose of the District is to acquire water and water rights; to construct and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of rural residents whose lands are located within the District.

The District is a governed entity by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/funds equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Restricted Reserves

United States Department of Agriculture-Rural Development requires monies to be held in reserve accounts. These reserve funds are to equal the note payments for one year. To be fully funded, these reserve funds must total \$44,508. As of October 31, 2016 and 2015, these reserve funds, which consisted of a money market account, totaled \$23,576 and \$18,481 respectively.

RURAL WATER DISTRICT NO. 1, OKFUSKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED OCTOBER 31, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Cash and Investments

For the purposes of the Statement of Cash Flows, the District considers demand accounts (excluding restricted reserves), subject to withdrawal by check, as cash equivalents.

NOTE 2 - PROPERTY, PLANT AND EQUIPMENT:

Equipment purchases, waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Depreciation is calculated on a straight-line basis. Total depreciation for the years ended October 31, 2016 and 2015 was \$41,782 and \$46,017 respectively. The balances for depreciable assets by major category are as follows:

	Balance 10/31/15	(Deletions) Additions	Balance 10/31/16
Land and lagoon	\$ 53,079	\$	\$ 53,079
Office building	18,383	710	19,093
Water & sewer system	1,907,754	11,180	1,918,934
Machinery & equipment	103,697	6,723	110,420
Office furniture & equipment	45,183	(45,183)	
	2,128,096	(26,570)	2,101,526
Less accumulated depreciation	(1,202,100)	(14,501)	(1,216,601)
Net	<u>\$ 925,996</u>	<u>\$ (41,071)</u>	<u>\$ 884,925</u>

NOTE 3 - NOTES PAYABLE:

The District has incurred indebtedness for the expansion and improvements of the water and sewer system. The following is a summary of the notes payable:

	93-05	91-08	93-11
Date of note	07/24/78	11/12/93	10/10/02
Original amount	\$ 211,000	\$ 55,000	\$ 559,000
Interest rate	4.125%	5.0%	4.5%
Maturity date	07/24/18	11/12/33	10/10/42
Monthly payment	\$ 900	\$ 271	\$ 2,538
Balance at 10/31/14	\$ 36,634	\$ 39,243	\$ 483,487
Principle payments	\$ 9,467	\$ 1,320	\$ 8,653
Balance at 10/31/15	\$ 27,167	\$ 37,923	\$ 474,834
Principle payments	\$ 9,864	\$ 1,387	\$ 9,280
Balance at 10/31/16	<u>\$ 17,303</u>	<u>\$ 36,536</u>	<u>\$ 465,554</u>

RURAL WATER DISTRICT NO. 1, OKFUSKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED OCTOBER 31, 2016 AND 2015

NOTE 3 – NOTES PAYABLE (continued):

The following are the annual debt service requirements:

<u>10/31</u>	<u>Payment</u>	<u>Principle</u>	<u>Interest</u>
2017	\$ 44,508	\$ 21,526	\$ 22,982
2018	40,908	18,796	22,112
2019	33,708	12,320	21,388
2020	33,708	12,895	20,813
2021	33,708	13,496	20,212
2022 - 2026	168,540	77,529	91,011
2027 - 2031	168,540	97,382	71,158
2032 - 2036	156,725	109,397	47,328
2037 - 2041	152,280	133,379	18,901
2042	23,105	22,674	431
Totals	<u>855,730</u>	<u>519,394</u>	<u>336,336</u>

NOTE 4 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting 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.

NOTE 5 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

RURAL WATER DISTRICT NO. 1, OKFUSKEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED OCTOBER 31, 2016 AND 2015

NOTE 6 – FAIR VALUES OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

**Level 1:** Quoted prices in active markets for identical securities.

**Level 2:** Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

**Level 3:** Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

The District's financial instruments include cash and cash equivalents and reserves. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value 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.

NOTE 7 – CONTINGENCIES:

As of October 31, 2016 the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 8 – NET POSITION:

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through July 9, 2018 the date which the financial statements were available to be issued.

## SUPPLEMENTAL INFORMATION

RURAL WATER DISTRICT NO. 1, OKFUSKEE COUNTY, OKLAHOMA  
 COMBINING STATEMENT OF REVENUE AND EXPENSES  
 MODIFIED CASH BASIS  
 YEAR ENDED OCTOBER 31, 2016

	<u>Water System</u>	<u>Sewer System</u>	<u>Other Operations</u>	<u>Total</u>
Operating Revenues:				
Water, sewer and garbage services \$	160,118	\$ 17,438	\$ 15,140	\$ 192,696
Operating Expenses:				
Personnel costs	29,133	3,159	2,809	35,101
Chemicals	2,214			2,214
Repairs and maintenance	10,422	4,275		14,697
Depreciation expense	38,858	2,924		41,782
Garbage collection fees			15,157	15,157
Insurance and bonds	7,009	206	183	7,398
Professional fees	3,066	332	296	3,694
Office supplies	1,869			1,869
Lease and rental payments	6,000			6,000
Utilities and telephone	21,104			21,104
Truck expenses	4,737	3,158		7,895
Licenses, permits and DEQ fees	2,146	5,628		7,774
Lagoon testing		645		645
Other expenses	994			994
Total Operating Expenses	<u>127,552</u>	<u>20,327</u>	<u>18,445</u>	<u>166,324</u>
Operating Income (Loss)	32,566	(2,889)	(3,305)	26,372
Doantions income			750	750
Interest expense	(23,977)			(23,977)
Interest income	46			46
Change in Net Position	<u>\$ 8,635</u>	<u>\$ (2,889)</u>	<u>\$ (2,555)</u>	<u>\$ 3,191</u>