

**RURAL WATER MANAGEMENT DISTRICT NO. 15,  
OSAGE COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS**

**YEARS ENDED JUNE 30, 2016 AND 2015**

RURAL WATER MANAGEMENT DISTRICT NO. 15,  
OSAGE COUNTY, OKLAHOMA  
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## Independent Auditor's Report

Board of Directors  
Rural Water Management District No. 15,  
Osage County, Oklahoma

### Report on the Financial Statements

We have audited the accompanying financial statements of Rural Water Management District No. 15, Osage County, Oklahoma, which comprise the statements of net position as of June 30, 2016 and 2015 and the related statements of revenues and expenses and changes in net position 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 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 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 audits 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 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 financial position of Rural Water Management District No. 15, Osage County, Oklahoma, as of June 30, 2016 and 2015; the changes in financial position; and cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America.


## Other Matters

### *Required Supplementary Information*

Rural Water Management District No. 15, Osage County, Oklahoma has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basis 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 basis 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 January 5, 2017 on our consideration of Rural Water Management District No. 15, Osage County, Oklahoma'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.



Kimberly R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
January 5, 2017

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 Management District No. 15,  
Osage County, Oklahoma

We have audited the financial statements of Rural Water Management District No. 15, Osage County, Oklahoma as of and for the year ended June 30, 2016 and have issued our report thereon dated January 5, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rural Water Management District No. 15, Osage County, Oklahoma'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 Management District No. 15, Osage County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water Management District No. 15, Osage County, Oklahoma's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

**Compliance and Other Matters**

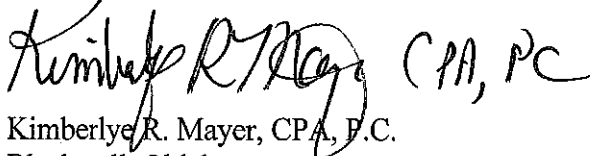
As part of obtaining reasonable assurance about whether Rural Water Management District No. 15, Osage County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with 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*.

### **Response to Findings**

Rural Water Management District No. 15, Osage County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water Management District No. 15, Osage County, Oklahoma'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 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.



Kimberly R. Mayer, CPA, P.C.

Blackwell, Oklahoma

January 5, 2017

RURAL WATER MANAGEMENT DISTRICT NO. 15, OSAGE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEARS ENDED JUNE 30, 2016 AND 2015

Material Weakness Communicated In Prior Year:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria:

The segregation of duties and responsibilities between different individuals and the 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 is responsible for water service billings and receiving payments; making and recording deposits; and maintaining billing registers. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause:

The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect:

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

Recommendation:

The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response:

The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES



RURAL WATER MANAGEMENT DISTRICT NO. 15,  
OSAGE COUNTY, OKLAHOMA  
STATEMENTS OF NET POSITION  
JUNE 30, 2016 AND 2015

ASSETS		
	2016	2015
Current Assets:		
Cash and cash equivalents (Note 6)	\$ 335,319	\$ 443,210
Certificates of deposit	695,428	692,524
Accounts receivable	208,744	167,578
ODOT receivables	28,128	
Prepaid expenses	39,489	32,039
Inventory	78,462	71,170
Notes receivable (current portion)(Note 5)	11,809	11,353
Total Current Assets	<u>1,397,379</u>	<u>1,417,874</u>
Restricted Assets:		
Loan trust accounts	102,065	99,980
Other Assets:		
Intangible assets (net of accumulated amortization) (Note 3)	855,783	855,783
Deposits	1,189	1,189
Total Other Assets	<u>856,972</u>	<u>856,972</u>
Non-current Assets:		
Capital assets (net of accumulated depreciation)(Note 2):		
Property and equipment	7,209,890	6,303,854
Construction in progress	12,619	643,154
Notes receivable, (noncurrent portion)(Note 5)	468,954	471,583
Total Noncurrent Assets	<u>7,691,463</u>	<u>7,418,591</u>
Total Assets	<u>\$ 10,047,879</u>	<u>\$ 9,793,417</u>
LIABILITIES AND NET POSITION		
Current Liabilities:		
Accounts payable	\$ 94,414	\$ 50,534
Accrued interest due	13,028	14,497
Notes payable (current portion) (Note 4)	174,442	161,797
Total Current Liabilities	<u>281,884</u>	<u>226,828</u>
Non-current Liabilities:		
Notes payable, long term (Note 4)	3,438,150	3,562,056
Total Non-current Liabilities	<u>3,438,150</u>	<u>3,562,056</u>
Total Liabilities	3,720,034	3,788,884
Net Position:		
Net investment in capital assets	4,452,672	4,165,610
Restricted for debt service	582,828	582,916
Unrestricted	1,292,345	1,256,007
Total Net Position	<u>6,327,845</u>	<u>6,004,533</u>
Total Liabilities and Net Position	<u>\$ 10,047,879</u>	<u>\$ 9,793,417</u>

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

RURAL WATER MANAGEMENT DISTRICT NO. 15  
OSAGE COUNTY, OKLAHOMA  
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION  
YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Operating Revenue:		
Water service	\$ 1,981,094	\$ 1,845,941
Service fees	5,400	5,850
Late penalties	63,800	64,650
Other revenues	40,441	28,323
Total Operating Revenue	<u>2,090,735</u>	<u>1,944,764</u>
Operating Expense:		
Payroll	419,854	362,982
Payroll taxes	31,034	30,959
Employee benefits	123,123	133,626
Water costs	700,242	657,439
Advertising, promotion & memberships	4,661	5,167
Service charges	4,224	4,309
Fuel	16,974	23,912
Repairs and maintenance	67,473	44,687
Insurance	48,097	46,114
Licenses, fees & permits	12,098	17,197
Professional fees	27,751	25,320
Bad debts expense	4,371	8,657
Office and postage	42,476	38,192
Meetings, training & travel	5,682	8,643
Utilities & telephone	63,986	61,763
Other expenses	4,772	4,223
Depreciation	222,425	223,556
Total Operating Expense	<u>1,799,243</u>	<u>1,696,746</u>
Income (Loss) From Operations	291,492	248,018
Non-operating Revenue (Expense):		
Gain on sale of assets	7,200	
Interest income	29,864	29,432
Membership fees	108,000	119,950
Interest expense	(113,244)	(111,165)
Total Non-operating Revenue (Expense)	<u>31,820</u>	<u>38,217</u>
Change in Net Position	323,312	286,235
Net Position, beginning of year	6,004,533	5,718,298
Net Position, end of year	<u>\$ 6,327,845</u>	<u>\$ 6,004,533</u>

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

RURAL WATER MANAGEMENT DISTRICT NO. 15,  
OSAGE COUNTY, OKLAHOMA  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash Flows From Operating Activities:		
Cash received from customers	\$ 2,021,441	\$ 1,943,516
Cash payments to suppliers for goods and services	(1,129,295)	(1,121,839)
Cash payments to employees for services	(419,854)	(362,982)
Net cash provided (used) by operating activities	<u>472,292</u>	<u>458,695</u>
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(468,135)	(860,067)
New borrowings	153,362	504,350
Funds from acquisition of water district		
Principal paid on notes and loans	(264,623)	(224,265)
Interest paid on notes and loans	(114,713)	(109,499)
Principal received on notes	2,173	10,915
Interest received on notes	8,742	27,766
New memberships	108,000	119,950
Net cash provided (used) by financing activities	<u>(575,194)</u>	<u>(530,850)</u>
Cash flows from investing activities:		
(Increase)Decrease in Certificates of Deposit	(2,904)	(757)
(Increase) decrease in reserve accounts	(2,085)	(1,193)
Net cash provided (used) by investing activities	<u>(4,989)</u>	<u>(1,950)</u>
Net increase (decrease) in cash and cash equivalents	(107,891)	(74,105)
Beginning cash and cash equivalents	443,210	517,315
Ending cash and cash equivalents	<u>\$ 335,319</u>	<u>\$ 443,210</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Income (Loss) from operations	\$ 291,492	\$ 248,018
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	222,425	223,556
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(69,294)	(1,248)
(Increase) decrease in inventory	(7,292)	(4,138)
(Increase) decrease in prepaids	(7,450)	(778)
Increase (decrease) in payables	42,411	(6,715)
Net cash provided (used) by operating activities	<u>\$ 472,292</u>	<u>\$ 458,695</u>

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

RURAL WATER MANAGEMENT DISTRICT NO. 15,  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The water system was originally created as a nonprofit entity. In 1989 the Rural Water Management District No. 15, Osage County, Oklahoma was created under the provisions of Title 82 of the Oklahoma Statutes, Section 1324.1 – 1324.35 and the laws of the State of Oklahoma. All of the assets, easements and property as well as the debt, liabilities and obligations of the nonprofit entity were transferred to Rural Water Management District No. 15, Osage County, Oklahoma. The purpose of the District is to furnish and supply to owners and occupants of property within the corporate limits water, sewer and related facilities and services. In 1998 the District's system increased when it purchased RWD #11, Osage County. On July 1, 2013, the District finalized the purchase of RWD #9, Osage County.

The District is a governed entity administered by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board is comprised of five elected board members. Of the five, three are elected as officers of the District.

Basis of Accounting

The accounting policies of Rural Water Management District No. 15, Osage County, Oklahoma conform to the basic principles of governmental accounting and financial reporting set forth by the Governmental Accounting Standards Board.

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 accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Restricted Assets

Restricted assets are cash and cash equivalents, whose use is limited by legal requirements. Restricted cash with fiscal agent represents amounts required by debt covenant to be segregated for debt payments and accrued interest on the notes.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets is 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.

Inventory

Inventory is stated at the lower of cost or market.

RURAL WATER MANAGEMENT DISTRICT NO. 15,  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 2 - PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended June 30, 2016 and 2015 was \$222,425 and \$223,556 respectively. The following is a summary by category of changes in property and equipment:

Category	6/30/15	Additions	Deletions	6/30/15
Land	\$ 100,631	\$	\$	\$ 100,631
Vehicles	192,899	28,710	(82,815)	138,794
Buildings and improvements	831,631			831,631
Water system	7,213,929	1,072,198		8,286,127
Office equipment	47,914	8,843	(11,301)	45,456
Machinery and equipment	353,162	45,567		398,729
Accumulated depreciation	(2,436,312)	(222,425)	67,259	(2,591,478)
Net	<u>\$ 6,303,854</u>	<u>\$ 932,893</u>	<u>\$ (26,857)</u>	<u>\$ 7,209,890</u>

NOTE 3 - INTANGIBLE ASSETS:

The District acquired certain rights with the Corps of Engineers (Corps) as part of the assets assumed from the nonprofit entity. The rights include:

*Storage Space Rights:* The District has the right to utilize a fixed percentage of the usable storage space in Skiatook Lake, or approximately 2,000 acre-feet, to impound water for anticipated future demand or need and to withdraw this water from the lake. An associated note payable in the amount of \$563,867 was assumed by the District for these rights. During and upon repayment of this note, the District indefinitely retains the right to the storage space. In prior years, before a change in accounting pronouncements, amortization of \$183,257 was recognized.

*Conduit Rights:* The District has the right to use a conduit constructed by the Corps for the withdrawal of water from the Skiatook Lake. An associated note payable in the amount of \$703,960 was assumed by the District for these rights. During and upon repayment of the note the District indefinitely retains the right to use the conduit. In prior years, before a change in accounting pronouncements, amortization of \$228,787 was recognized.

Management has performed its annual evaluation of these intangible assets and has determined that no impairments are necessary as the fair market values exceed the carrying costs as of June 30, 2016.

RURAL WATER MANAGEMENT DISTRICT NO. 15,  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENT  
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 4 – NOTES PAYABLE:

*Corps Storage Space Usage:* This contract was assumed when the District acquired the obligation from the nonprofit entity. Under this contract the District is to reimburse the Corps for the construction costs of the water storage space in Skiatook Lake. No principal was due or interest accrued during the first ten years of the contract. After the first ten years of the contract, in 1995, annual interest payments at 4.012% were paid. Principal payments will commence upon usage of the storage space with the full contract being repaid on or before October 1, 2034.

*Corps Conduit Usage:* This contract was assumed when the District acquired the obligation from the nonprofit entity. Under this contract the District is to reimburse the Corps for the construction costs of the conduit at Skiatook Lake. No principal was due or interest accrued during the first ten years of the contract. After the first ten years of the contract annual interest payments at 4.012% would accrue until usage of the conduit. Principal and interest payments will commence upon usage of the storage space with the full contract being repaid on or before September 2040. The District has begun usage of the conduit and are making annual payments of \$31,570.

*OWRB 2002:* In November 2002, the District entered into a \$435,000 note payable agreement for construction projects. The interest rate is variable and periodically adjusted by the OWRB. Monthly payments are remitted to a local trustee who administers the semiannual payments to OWRB. The note matures in September 2032. The note is secured by the District's revenues.

*2014 Note:* In May 2007, the District entered into a revolving loan agreement to finance construction projects which were completed in the year ending June 30, 2009 at a cost of \$2,665,758. The note carries an interest rate of 3.78% and payments are made semi-annually over 20 years. The note is secured by the District's revenues. This note was refinanced in February of 2014 with an interest rate of 2.95%. Payments are semiannual over 10 years.

*OWRB 2014a Drinking Water SRF:* In October 2014, the District entered into a \$815,000 note payable agreement for construction projects. The interest rate is 2.17% and the administration fee is .5%. The maturity date of this note is 20 years after the project is completed. Monthly payments are remitted to a trustee bank who administers the semiannual payments to OWRB. At June 30, 2016, \$657,712 had been advanced from this note.

The following is a schedule of the notes payable at June 30, 2016 and 2015:

	<u>6/30/2015</u>	<u>Principle Payments</u>	<u>Principle Borrowings</u>	<u>6/30/2016</u>
Corps storage space	\$ 563,867	\$	\$	\$ 563,867
Corps conduit	482,936	2,173		480,763
OWRB 2002	282,700	11,700		271,000
NOTE 2014	1,890,000	210,000		1,680,000
OWRB 2014a	<u>504,350</u>	<u>40,750</u>	<u>153,362</u>	<u>616,962</u>
	<u>\$ 3,723,853</u>	<u>\$ 264,623</u>	<u>\$ 153,362</u>	<u>\$3,612,592</u>

RURAL WATER MANAGEMENT DISTRICT NO. 15,  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 4 – NOTES PAYABLE (Continued):

The following is a summary of the District's future annual debt requirements:

<u>Year Ending</u>	<u>Payments</u>	<u>Principle</u>	<u>Interest</u>
6/30/17	\$ 304,368	\$ 187,154	\$ 117,214
6/30/18	304,672	192,955	111,717
6/30/19	305,172	199,159	106,013
6/30/20	305,647	205,429	100,218
6/30/21	306,153	212,199	93,954
6/30/22-6/30-26	1,539,469	1,170,211	369,258
6/30/27-6/30/31	975,294	773,872	201,422
6/30/32-6/30/36	243,778	115,413	128,365
6/30/37-6/30/41	721,717	556,200	165,517
	<u>\$ 5,006,270</u>	<u>\$ 3,612,592</u>	<u>\$ 1,393,678</u>

NOTE 5 – NOTES RECEIVABLE:

In connection with the conduit contract, the District entered into contracts with the cities of Skiatook, Sand Springs and Sapulpa, which allowed these cities to use the conduit on Skiatook Lake. The District allocates its annual payment to the Corps between these three cities based on their respective usage. Notes receivable bearing an interest rate of 4.012% and a 50-year term has been recognized by the District. The balance of this note at June 30, 2016 is \$480,763.

NOTE 6 - CASH AND CASH EQUIVALENTS:

The District considers all checking and savings accounts (except restricted accounts) and deposits with a maturity of three months or less to be cash equivalents.

NOTE 7 - RETIREMENT PLANS:

The District maintains a retirement plan for its qualified employees. The District contributes 3% to the eligible employees gross wages to this plan. The amount contributed by the District during the year ended June 30, 2016 and 2015 was \$10,747 and \$11,064 respectively.

RURAL WATER MANAGEMENT DISTRICT NO. 15,  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENT  
YEARS ENDED JUNE 30, 2016 AND 2015

NOTE 8 - INVESTMENTS:

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.

NOTE 9 - DEPOSITS, INVESTMENTS AND COLLATERAL:

At June 30, 2016, all of the District's deposits were covered by the Federal Depository Insurance Corporation or collateralized. The District's primary financial institution has established a deposit and investment account for funds in excess of the insured limits, where funds can be transferred to a securities account carried and administered by a third party investment company.

NOTE 10 – ESTIMATES:

The preparation of financial statements in conformity with the 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.

NOTE 11 – CONTINGENCIES:

As of June 30, 2016 and 2015 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 12 – 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. The District has had no claims that exceeded its insurance coverage.



RURAL WATER MANAGEMENT DISTRICT NO. 15,  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENT  
YEARS ENDED JUNE 30, 2016 AND 2015

**NOTE 13 – 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, certificates of deposit, inventory, 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 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 14 – EVALUATION OF SUBSEQUENT EVENTS:**

The District has evaluated subsequent events through January 5, 2017 the date which the financial statements were available to be issued.