

**KREMLIN-HILLSDALE RURAL WATER DISTRICT NO. 1
GARFIELD COUNTY, OKLAHOMA**

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2015

KREMLIN-HILLSDALE RURAL WATER DISTRICT NO. 1,
GARFIELD COUNTY, OKLAHOMA
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Independent Auditor's Report

Board of Directors
Kremlin-Hillsdale Rural Water District No. 1,
Garfield County, Oklahoma

Report on the Financial Statements

We have audited the accompanying statement of net position of Kremlin-Hillsdale Rural Water District No. 1, Garfield County, Oklahoma as of December 31, 2015 and the related statements of revenues, expenses and changes in net position and of cash flows for the year 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. 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 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 *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 opinion.

Opinion

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Kremlin-Hillsdale Rural Water District No. 1, Garfield County, Oklahoma, as of December 31, 2015; the changes in financial position; and, cash flows thereof, for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

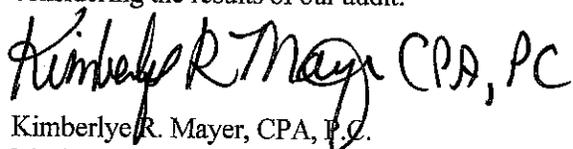
Other Matters

Required Supplementary Information

Kremlin-Hillsdale Rural Water District No. 1, Garfield 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 March 1, 2016 on our consideration of Kremlin-Hillsdale Rural Water District No. 1, Garfield 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.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
March 1, 2016

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
Kremlin-Hillsdale Rural Water District No. 1,
Garfield County, Oklahoma

We have audited the financial statements of Kremlin-Hillsdale Rural Water District No. 1, Garfield County, Oklahoma as of and for the year ended December 31, 2015 and have issued our report thereon dated March 1, 2016. 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 Kremlin-Hillsdale Rural Water District No. 1, Garfield 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 Kremlin-Hillsdale Rural Water District No. 1, Garfield County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Kremlin-Hillsdale Rural Water District No. 1, Garfield County, Oklahoma'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 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. *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 preceding paragraph 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.

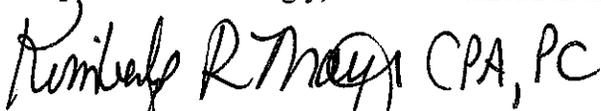
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kremlin-Hillsdale Rural Water District No. 1, Garfield 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*.

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.



Kimberlye R. Mayer, CPA, P.C.

Blackwell, Oklahoma

March 1, 2016

FINANCIAL STATEMENTS

AND

NOTES

KREMLIN-HILLSDALE RURAL WATER DISTRICT NO. 1
GARFIELD COUNTY, OKLAHOMA
STATEMENT OF NET POSITION
DECEMBER 31, 2015

ASSETS

Current Assets:	
Cash and cash equivalents (Note 1)	\$ 136,666
Certificates of deposit	35,000
Accounts receivable, net	54,408
Prepaid expenses	1,021
Inventory	16,835
Total Current Assets	243,930
Reserve Accounts (Note 1):	
Debt service reserve	24,556
Debt service	6,348
Total Reserve Accounts	30,904
Water system and equipment (net of accumulated depreciation) (Note 3)	723,706
Total Assets	\$ 998,540

LIABILITIES AND NET POSITION

Current Liabilities:	
Accounts payable	\$ 16,828
Unearned Revenue	49,871
Current portion of long-term debt (Note 4)	32,814
Total Current Liabilities	99,513
Long-Term Debt:	
Non-current portion of long-term debt (Note 4)	146,498
Total Liabilities	246,011
Net Position:	
Net investment in capital assets	544,394
Restricted for debt service	30,904
Unrestricted assets	177,231
Total Net Position	752,529
Total Liabilities and Net Position	\$ 998,540

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

KREMLIN-HILLSDALE RURAL WATER DISTRICT NO. 1
GARFIELD COUNTY, OKLAHOMA
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
YEAR ENDED DECEMBER 31, 2015

Operating Revenues:	
Water service	\$ 123,003
Operating Expense:	
Contract labor	28,643
Utilities	6,738
Repairs, maintenance and supplies	43,265
Water rights	5,848
Water testing and fees	2,725
Chemicals	4,823
Meetings and travel	731
Professional fees	8,580
Insurance	1,744
Office and postage	708
Depreciation	21,710
Other expense	186
Total Operating Expense	<u>125,701</u>
Income (Loss) From Operations	(2,698)
Non-operating Revenue (Expense):	
Interest income	340
Membership fees	
Farm rent	5,628
Royalties and lease bonuses	3,360
Interest expense	(5,787)
Trustee fees	(750)
Total Non-operating Revenue (Expense)	<u>2,791</u>
Change in Net Position	93
Net Position, beginning of year	<u>752,436</u>
Net Position, end of year	<u><u>\$ 752,529</u></u>

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

KREMLIN-HILLSDALE RURAL WATER DISTRICT NO. 1
GARFIELD COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015

Cash Flows From Operating Activities:	
Cash received from customers	\$ 117,385
Other operating cash receipts	
Cash payments to suppliers for goods and services	(105,734)
Net cash provided (used) by operating activities	11,651
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	
Principal payments	(35,790)
Interest payments	(5,787)
Trustee fees	(750)
Other revenues	8,988
New memberships	
Net cash provided (used) by financing activities	(33,339)
Cash flows from investing activities:	
Interest income received	340
Increase in reserve accounts	(303)
Net cash provided (used) by investing activities	37
Net increase (decrease) in cash and cash equivalents	(21,651)
Beginning cash and cash equivalents	158,317
Ending cash and cash equivalents	\$ 136,666

Reconciliation of operating income (loss) to	
net cash provided (used) by operating activities:	
Operating income (loss)	\$ (2,698)
Adjustments to reconcile operating income (loss) to	
net cash provided (used) by operating activities:	
Depreciation	21,710
(Increase) decrease in receivables	(17,304)
(Increase) decrease in prepaid expenses	(6)
(Increase) decrease in inventory	(3,434)
Increase (decrease) in payables	8,086
Increase (decrease) in unearned revenue	5,297
Net cash provided (used) by operating activities	\$ 11,651

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

KREMIN-HILLSDALE RURAL WATER DISTRICT NO. 1,
GARFIELD COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Kremlin-Hillsdale Rural Water District No. 1, Garfield County, Oklahoma was incorporated on April 3, 1972. The District was created under the Rural Water District Act, Title 82, Section 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 build and acquire pipelines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District, and others as authorized by the By-Laws.

Basis of Accounting

The accounting policies of the District 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 incurred.

Cash and Deposits

Cash and deposits are 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 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 investments 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.

KREMLIN-HILLSDALE RURAL WATER DISTRICT NO. 1
GARFIELD COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

Inventories

Inventories are valued at lower of cost or market.

NOTE 2 – 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 3 - WATER SYSTEM AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased. Assets donated are recorded at fair market value when received. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended December 31, 2015 was \$21,710. The balances for depreciable assets by major category are as follows:

	12/31/14	Additions	Deletions	12/31/15
Water system	\$ 862,937	\$ 6,389	\$	\$ 869,326
Land	417,982			417,982
	<u>1,280,919</u>	<u>6,389</u>	<u></u>	<u>1,287,308</u>
Less accumulated depreciation	(541,892)	(21,710)		(563,602)
Net	<u>\$ 739,027</u>	<u>\$ (15,321)</u>	<u>\$</u>	<u>\$ 723,706</u>

NOTE 4 – NOTES PAYABLE:

The District borrowed \$270,000 from the Oklahoma Rural Water Resources Board on March 31, 1992 for improvements to the waterline system. The loan is secured by revenues of the system and a first mortgage and security agreement. The loan matures on August 15, 2019. The interest rates are variable and are adjusted quarterly. Semi-annual payments of principle and interest are required to be made to OWRB by the trustee bank. The current interest rate is 1.51%.

The District borrowed \$317,985 from a financial institution for water system improvements. The interest rate is 4%; monthly payments are \$1,938 and the note matures in December 2019. The following is a detail of these notes:

	ORWB	Bank
Principle balance 12/31/14	\$ 99,200	\$ 115,902
Principle payments	(16,900)	(18,890)
Principle balance 12/31/15	<u>\$ 82,300</u>	<u>\$ 97,012</u>

KREMLIN-HILLSDALE RURAL WATER DISTRICT NO. 1
GARFIELD COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 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>
12/31/16	\$ 42,685	\$ 39,083	\$ 3,602
12/31/17	47,445	43,371	4,074
12/31/18	48,907	45,936	2,971
12/31/19	52,384	50,922	1,462
	<u>\$ 191,421</u>	<u>\$ 179,312</u>	<u>\$ 12,109</u>

NOTE 5 – ACCOUNTS RECEIVABLE:

The accounts receivable at December 31, 2015 consist of amounts due from customers for water services.

NOTE 6 – ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 7 – 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.

KREMLIN-HILLSDALE RURAL WATER DISTRICT NO. 1
GARFIELD COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The District's financial instruments include cash and cash equivalents, inventory, certificates of deposit, 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 assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 9 – CONTINGENCIES:

As of December 31, 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 10 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through March 1, 2016, the date which the financial statements were available to be issued.