

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2014

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
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YEAR ENDED DECEMBER 31, 2014

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying statement of assets, liabilities and net position – modified cash basis of Rural Water District No. 1, Noble County as of December 31, 2014 and the related statement of revenues, expenses and changes in net position – modified cash basis 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 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 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 modified cash basis financial position of Rural Water District No. 1, Noble County, as of December 31, 2014; the changes in modified cash basis financial position; and cash flows thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

We draw attention to Note 3 to the financial statements. As of January 28, 2015 the District had met the project requirements and consequently, the note held by the OWRB was forgiven. Our opinion is not modified with respect to this matter.

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 March 9, 2016 on our consideration of Rural Water District No. 1, Noble 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.



Kimberly R. Mayer, CPA, P.C.
Blackwell, Oklahoma
March 9, 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
Rural Water District No. 1, Noble County

We have audited the financial statements of Rural Water District No. 1, Noble County as of and for the year ended December 31, 2014 and have issued our report thereon dated March 9, 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. 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, Noble 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, Noble County's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 1, Noble County'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 certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Compliance and Other Matters

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

We noted other matters that we reported to the management of Rural Water District No. 1, Noble County in a separate letter dated March 9, 2016.

Response to Findings

Rural Water District No. 1, Noble County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water District No. 1, Noble County'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.



Kimberlye R. Mayer, CPA, P.C.

Blackwell, Oklahoma

March 9, 2016

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2014

Material Weaknesses 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; maintaining billing registers; and reconciling the monthly bank statements. 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 sales 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.

Material Weakness in Internal Control Over Financial Reporting: Inaccurate Financial Statements:

Criteria: Internal controls should be in place to ensure that the District prepares accurate financial statements.

Condition: The District's financial statements did not accurately reflect the activity in the checking and grant accounts

Cause: Transaction errors are not properly corrected when reconciling the checking account. The activity in the grant accounts is not recorded in the financial statements.

Effect or Potential Effect: The absence of controls over the accurate preparation of financial statements significantly increases the risk that a misstatement of the financial statements could occur and not be prevented or detected by the District within a timely basis.

Recommendation: We recommend that the District strive to prepare accurate financial statements.

Board's Response: The District concurs with the recommendation, and will strive to prepare accurate financial statements.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
STATEMENT OF ASSETS, LIABILITIES AND NET POSITION
MODIFIED CASH BASIS
DECEMBER 31, 2014

ASSETS

Current Assets:	
Operating accounts	\$ 62,368
Grant accounts	
Total cash and cash equivalents	62,368
Restricted reserves:	
Reserve account	14,004
Grant accounts	68,339
Property, plant and equipment	
(net of accumulated depreciation) (Note 2)	336,848
Work in progress	1,239,141
Total Assets	\$ 1,720,700

LIABILITIES AND NET POSITION

Current Liabilities:	
Current portion of notes payable (Note 3)	\$ 6,047
Customer deposits	992
Notes payable (non-current portion) (Note 3)	1,327,657
Total Liabilities	1,334,696
Net Position:	
Net investment in capital assets	242,285
Restricted for debt service	14,004
Unrestricted	129,715
Total Net Position	386,004
Total Liabilities and Net Position	\$ 1,720,700

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

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2014

Operating Revenues:	
Water service	\$ 151,472
Other income	2,680
Total Operating Revenues	154,152
Operating Expenses:	
Water costs	55,314
Payroll	22,400
Payroll taxes	2,192
Supplies	8,181
Repairs and maintenance	41,273
Depreciation expense	18,445
Water tests and lab fees	1,408
Insurance and bonds	4,027
Professional fees	1,190
Membership dues and fees	1,457
Office supplies and postage	1,372
Rent	1,200
Utilities	4,769
Telephone	1,430
Other expenses	266
Total Operating Expenses	164,924
Operating Income (Loss)	(10,772)
Nonoperating Revenue (Expenses):	
Interest income	
Grants	31,364
Interest expense	(9,355)
Total Nonoperating Revenues and (Expenses)	22,009
Change in Net Position	11,237
Net Position, beginning of year	374,767
Net Position, end of year	\$ 386,004

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

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2014

Cash Flows From Operating Activities:	
Cash received from customers	\$ 154,152
Cash payments to suppliers for goods and services	(124,079)
Cash payments to employees	(22,400)
Net cash provided (used) by operating activities	<u>7,673</u>
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(478,601)
Grants	31,364
Loan proceeds	468,589
Principle payments	(8,260)
Interest payments on debt	(9,355)
Net cash provided (used) by financing activities	<u>3,737</u>
Cash flows from investing activities:	
Interest income	
(Increase) decrease in restricted accounts	(2,438)
Net cash provided (used) by investing activities	<u>(2,438)</u>
Net increase (decrease) in cash and cash equivalents	8,972
Beginning cash and cash equivalents	53,396
Ending cash and cash equivalents	<u>\$ 62,368</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income or loss	\$ (10,772)
Adjustments to reconcile income (loss) to net cash provided (used) by operating activities:	
Depreciation	18,445
Changes in assets and liabilities:	
Increase in customer deposits	
Net cash provided (used) by operating activities	<u>\$ 7,673</u>

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

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water District No. 1, Noble County was incorporated on February 26, 1965. 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 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 \$14,004. As of December 31, 2014, these reserve funds, which consisted of a savings account, totaled \$14,004.

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

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 year ended December 31, 2014 \$18,445. The balances for depreciable assets by major category are as follows:

	Balance 12/31/13	Additions	Balance 12/31/14
Building	\$ 8,132	\$ 4,165	\$ 12,297
Water distribution system	625,790	5,449	631,239
Equipment	53,286		53,286
	687,208	9,614	696,822
Less accumulated depreciation	(341,529)	(18,445)	(359,974)
Net	\$ 345,679	\$ (8,831)	\$ 336,848

NOTE 3 - NOTES PAYABLE:

The District borrowed money for improvements to the waterline system. The balance of this note at December 31, 2014 was \$1,012. The note carries an interest rate of 6.75% and matures April 18, 2015.

The District borrowed \$238,000 from the United States Department of Agriculture-Rural Development for improvements to the waterline system. The loans consist of two promissory notes that carry interest rates of 5% and 5.5% and have terms of 40 years each. During the year ended December 31, 2014, principle payments of \$4,855 were made on these notes.

To finance water system improvements, the District entered into a loan agreement with OWRB for \$1,161,825. The interest rate is 2.06% and matures on March 15, 2034. This loan is under the EPA's Drinking Water State Revolving Fund Program and qualifies for debt forgiveness, if certain project requirements are met, which will be determined at the end of the project.

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2014

NOTE 3 – NOTES PAYABLE (continued):

As of December 31, 2014, \$1,155,115 had been borrowed from this loan. At the date of this report, the full amount of the loan, \$1,161,825 had been received. On January 28, 2015, this loan was forgiven.

The following is a schedule of the notes and the payments due:

	91-03	91-05	OWRB	Bank
Balance at 12/31/13	\$ 144,949	\$ 37,482	\$ 686,526	\$ 4,418
Principle payments	(3,783)	(1,071)		(3,406)
Loan proceeds			468,588	
Balance at 12/31/14	<u>\$ 141,166</u>	<u>\$ 36,411</u>	<u>\$ 1,155,115</u>	<u>\$ 1,012</u>

	Total	Principle	Interest	Debt Forgiven
Payments:				
12/31/15	\$ 11,928	\$ 6,047	\$ 5,881	1,155,115
12/31/16	10,908	5,299	5,609	
12/31/17	10,908	5,575	5,333	
12/31/18	10,908	5,867	5,041	
12/31/19	10,908	6,174	4,734	
12/31/20-12/31/24	54,540	36,072	18,468	
12/31/25-12/31/29	54,540	46,558	7,982	
12/31/30-12/31/34	58,040	57,222	818	
12/31/35	9,910	9,775	135	
	<u>\$ 232,590</u>	<u>\$ 178,589</u>	<u>\$ 54,001</u>	<u>\$ 1,155,115</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.

RURAL WATER DISTRICT NO. 1, NOBLE COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

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. There were no claims during the year ended December 31, 2014.

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 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 7 – CONTINGENCIES:

As of December 31, 2014 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 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.

NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through March 9, 2016, the date which the financial statements were available to be issued.