

R & C WATER AUTHORITY
ANNUAL FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

R & C WATER AUTHORITY
ANNUAL FINANCIAL REPORT
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	Page
INTRODUCTORY SECTION:	
Table of Contents	i
FINANCIAL SECTION:	
Independent Auditor's Report	1-2
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 <i>Government Auditing Standards</i> .	3-5
Financial Statements:	6
Statements of Assets, Liabilities, and Net Position -- Modified Cash Basis	7
Statements of Revenues, Expenses and Changes in Net Position - Modified Cash Basis	8
Statements of Cash Flows -- Modified Cash Basis	9
Notes to Financial Statements	10-12

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Independent Auditor's Report

Board of Trustees
R & C Water Authority

Report on the Financial Statements

We have audited the accompanying financial statements of R & C Water Authority which comprise the statements of assets, liabilities and net position, as of December 31, 2014 and 2013 and the related statements of revenues, expenses and changes in net position and 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 Authority'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 Authority'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

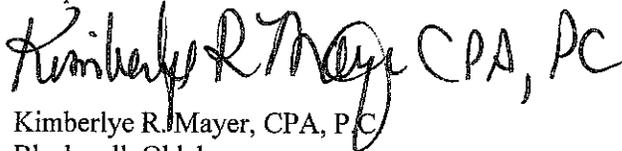
In our opinions, the financial statements referred to above, present fairly, in all material respects, the financial position - modified cash basis of R & C Water Authority, as of December 31, 2014 and 2013; the changes in financial position - modified cash basis; and of cash flows thereof, for the years then ended in conformity with the basis of accounting described in Note 1.

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 June 5, 2015 on our consideration of R & C Water Authority'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* in considering R & C Water Authority's internal control over financial reporting and compliance.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
June 5, 2015

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 Trustees
R & C Water Authority

We have audited the financial statements of R & C Water Authority as of and for the year ended December 31, 2014 and have issued our report thereon dated June 5, 2015. 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. The financial statements were prepared on the modified cash basis of accounting which is a comprehensive 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 R & C Water Authority'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 R & C Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the R & C Water Authority'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 Authority'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 R & C Water Authority'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*.

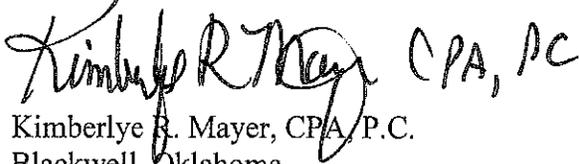
Response to Findings

R & C Water Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. R & C Water Authority'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.

We noted other matters that we reported to R & C Water Authority in a separate letter dated June 5, 2015.

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

June 5, 2015

R & C WATER AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2014

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; 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 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

R & C WATER AUTHORITY
 STATEMENTS OF ASSETS, LIABILITIES AND NET POSITION
 MODIFIED CASH BASIS
 DECEMBER 31, 2014 AND 2013

ASSETS

	<u>2014</u>	<u>2013</u>
Current Assets		
Cash and cash equivalents (Note 2)	\$ 96,039	\$ 92,859
Certificates of deposit	<u>56,963</u>	<u>56,538</u>
Total Current Assets	153,002	149,397
Waterline system (net of accumulated depreciation) (Note 3)	<u>126,620</u>	<u>101,389</u>
Total Assets	<u><u>\$ 279,622</u></u>	<u><u>\$ 250,786</u></u>

LIABILITIES AND NET POSITION

Liabilities	\$	\$
Net Position:		
Net investment in capital assets	126,620	101,389
Unrestricted	<u>153,002</u>	<u>149,397</u>
Total Net Position	<u>279,622</u>	<u>250,786</u>
Total Liabilities and Net Position	<u><u>\$ 279,622</u></u>	<u><u>\$ 250,786</u></u>

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

R & C WATER AUTHORITY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 MODIFIED CASH BASIS
 YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Water service	\$ 154,385	\$ 146,223
Operating Expenses		
Water purchases	74,225	60,808
Bookkeeper fees	6,600	6,600
Operator fees	21,600	21,600
Repairs and maintenance	29,963	29,818
Depreciation	7,036	6,448
Insurance and bonds	796	834
Professional fees	1,060	1,060
Office & postage	2,239	1,850
Utilities	5,344	4,632
Other expenses	275	274
Total Operating Expenses	<u>149,138</u>	<u>133,924</u>
Operating Income (Loss)	5,247	12,299
Nonoperating Revenues (Expenses):		
Interest income	639	595
System development fees	22,950	8,200
Total Nonoperating Revenues (Expenses)	<u>23,589</u>	<u>8,795</u>
Changes in Net Position	28,836	21,094
Net Position, beginning of year	<u>250,786</u>	<u>229,692</u>
Net Position, end of year	<u>\$ 279,622</u>	<u>\$ 250,786</u>

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

R & C WATER AUTHORITY
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	<u>2014</u>	<u>2013</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 154,385	\$ 146,223
Cash payments to suppliers for goods and services	<u>(142,102)</u>	<u>(127,476)</u>
Net cash provided (used) by operating activities	12,283	18,747
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(32,267)	(4,879)
System development fees	<u>22,950</u>	<u>8,200</u>
Net cash provided (used) by financing activities	(9,317)	3,321
 Cash flows from investing activities:		
Interest on cash and investments	639	595
Increase in certificates of deposit	<u>(425)</u>	<u>(422)</u>
Net cash provided (used) by investing activities	<u>214</u>	<u>173</u>
 Net increase (decrease) in cash and cash equivalents	3,180	22,241
 Beginning cash and cash equivalents	<u>92,859</u>	<u>70,618</u>
 Ending cash and cash equivalents	<u>\$ 96,039</u>	<u>\$ 92,859</u>
 Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 5,247	\$ 12,299
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	7,036	6,448
Changes in assets and liabilities:	<u> </u>	<u> </u>
Net cash provided (used) by operating activities	<u>\$ 12,283</u>	<u>\$ 18,747</u>

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

R & C WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

R & C Water Authority was created under the provisions of Title 60 of the Oklahoma Statutes, 1981, the Oklahoma Trust Act, and the laws of the State of Oklahoma. The purpose of this trust is to furnish and supply to owners and occupants of property within the corporate limits of its Beneficiary (Grant County), water and related facilities and services.

The Authority is governed by an elected Board of Trustees that acts as the authoritative and legislative body of the entity.

Basis of Accounting

The Authority 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 Authority have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net position, revenues, and expenditures/expenses when they result from cash transactions with provision for depreciation. This basis is a comprehensive 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.

Income Taxes

As provided in Title 60, Oklahoma Statutes, R & C Water Authority is a tax-exempt public trust; consequently, no provision as been made for income taxes.

R & C WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 2 – CASH AND CASH EQUIVALENTS:

For the purposes of the statement of cash flows the Authority considers all checking, savings accounts and deposits with a maturity of three months or less to be cash equivalents.

NOTE 3 – WATERLINE SYSTEM:

Depreciable assets are recorded at cost when purchased or constructed. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the years ended December 31, 2014 and 2013 was \$7,036 and \$6,448 respectively. The balances for depreciable assets by major category for the year ended December 31, 2014 are as follows:

	Balance at 12/31/13	Additions	Balance at 12/31/14
Office equipment	\$ 953	\$	\$ 953
Waterline system	833,369	32,267	865,636
Accumulated depreciation	(732,933)	(7,036)	(739,969)
Net	<u>\$ 101,389</u>	<u>\$ 25,231</u>	<u>\$ 126,620</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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 5 – RISK MANAGEMENT:

The Authority is exposed to various risks or losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probably 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 reports, are considered. There were no claims during the year ended December 31, 2014.

R & C WATER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 6 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The Authority's financial instruments include cash and cash equivalents and certificates of deposit. The Authority'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 7 – CONTINGENCIES:

As of December 31, 2014 the Authority 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 positions present 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 Authority legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS:

The Authority has evaluated subsequent events through June 5, 2015, the date which the financial statements were available to be issued.