

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

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

RURAL WATER DISTRICT NO. 1,
KAY COUNTY, OKLAHOMA
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Kimberlye R. Mayer, CPA, P.C.

723 West Doolin

Blackwell, OK 74631

(580) 363-1453
Fax (580) 363-0068

Independent Auditor's Report

Board of Directors
Rural Water District No. 1, Kay County, Oklahoma

Report on the Financial Statements

We have audited the accompanying statements of assets, liabilities and net position of Rural Water District No. 1, Kay County, Oklahoma as of December 31, 2015 and 2014 and the statements of revenues, 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 the modified cash basis of accounting as described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

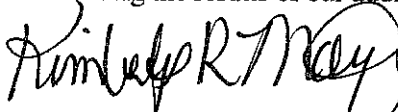
In our opinions, the financial statements referred to above, present fairly, in all material respects, the respective modified cash basis financial position of Rural Water District No. 1, Kay County, Oklahoma, as of December 31, 2015 and 2014; the respective changes in modified cash basis financial position; and, when applicable, cash flows thereof, for the year 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.

Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 6, 2016 on our consideration of Rural Water District No. 1, Kay 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.

 CPA, PC

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
June 6, 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, Kay County, Oklahoma

We have audited the financial statements of Rural Water District No. 1, Kay County, Oklahoma as of and for the year ended December 31, 2015, and have issued our report thereon dated June 6, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were prepared using 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, Kay 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 District No. 1, Kay County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 1, Kay 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 and deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

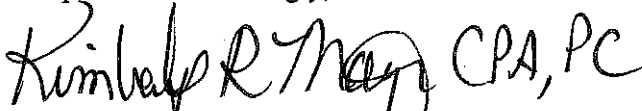
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 1, Kay 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.

A handwritten signature in black ink that reads "Kimberlee R. Mayer CPA, PC". The signature is written in a cursive, flowing style.

Kimberlee R. Mayer, CPA, P.C.

Blackwell, Oklahoma

June 6, 2016

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 1
KAY COUNTY, OKLAHOMA
STATEMENTS OF ASSETS, LIABILITIES AND NET POSITION
MODIFIED CASH BASIS
DECEMBER 31, 2015 AND 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash and cash equivalents	\$ 633,352	\$ 492,949
ORWAAG deposits	1,000	1,000
Inventory	9,611	9,611
Total Current Assets	<u>643,963</u>	<u>503,560</u>
Construction in progress	249,772	237,691
Capital assets (net of accumulated depreciation) (Note 2)	<u>905,353</u>	<u>954,279</u>
Total Assets	<u><u>\$ 1,799,088</u></u>	<u><u>\$ 1,695,530</u></u>

LIABILITIES AND NET POSITION

Liabilities:	\$	\$
Net Position:		
Net investment in capital assets	1,155,125	1,191,970
Unrestricted	643,963	503,560
Total Net Positon	<u>1,799,088</u>	<u>1,695,530</u>
Total Liabilities and Net Position	<u><u>\$ 1,799,088</u></u>	<u><u>\$ 1,695,530</u></u>

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

RURAL WATER DISTRICT NO. 1
KAY COUNTY, OKLAHOMA
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Water service	\$ 433,920	\$ 408,116
Late charges	4,172	4,130
Other income	2,200	
Total Operating Revenues	<u>440,292</u>	<u>412,246</u>
Operating Expenses		
Water purchases	195,319	198,494
Electricity	19,059	19,532
Repairs and maintenance	4,320	10,452
Permits, fees and water tests	5,526	4,780
Travel expenses	262	522
Office supplies and postage	4,974	6,662
Sensus annual support	2,500	2,400
Operator fees	51,450	43,800
Insurance and bonds	5,081	5,061
Professional fees		1,030
Depreciation	49,360	49,190
Miscellaneous expenses	2,416	1,218
Total Operating Expenses	<u>340,267</u>	<u>343,141</u>
Operating Income (Loss)	100,025	69,105
Nonoperating Revenue (Expenses):		
Interest income	1,033	1,029
Memberships	2,500	2,500
Total Nonoperating Revenues	<u>3,533</u>	<u>3,529</u>
Change in Net Position	103,558	72,634
Net Position, beginning of year	<u>1,695,530</u>	<u>1,622,896</u>
Net Position, end of year	<u>\$ 1,799,088</u>	<u>\$ 1,695,530</u>

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

RURAL WATER DISTRICT NO. 1
KAY COUNTY, OKLAHOMA
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 440,292	\$ 412,246
Other operating cash receipts		
Cash payments to suppliers for goods and services	<u>(290,907)</u>	<u>(293,951)</u>
Net cash provided (used) by operating activities	149,385	118,295
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(12,515)	(238,441)
Membership fees	<u>2,500</u>	<u>2,500</u>
Net cash provided (used) by financing activities	(10,015)	(235,941)
Cash flows from investing activities:		
Interest income	1,033	1,029
(Increase) decrease in certificates of deposit		
Net cash provided (used) by investing activities	<u>1,033</u>	<u>1,029</u>
Net increase (decrease) in cash and cash equivalents	140,403	(116,617)
Beginning cash and cash equivalents	492,949	609,566
Ending cash and cash equivalents	<u>\$ 633,352</u>	<u>\$ 492,949</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 100,025	\$ 69,105
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	49,360	49,190
Changes in assets and liabilities:		
(Increase) decrease in inventory		
Net cash provided (used) by operating activities	<u>\$ 149,385</u>	<u>\$ 118,295</u>

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

RURAL WATER DISTRICT NO. 1,
KAY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 1, Kay County, Oklahoma was incorporated in December 1966. The District was created under the Rural Water, Sewer, Gas and Solid Waste Management District Act, as amended, Title 82, Section 1324.1-1324.35 of the Oklahoma State Statutes. 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 owner and occupants of land located within the District, and others as authorized by the by-laws.

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 position/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a 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.

Statement of Cash Flows

For the purpose of the Statement of Flows, the District considers all checking, savings and money market accounts and deposits with a maturity of three months or less to be cash equivalents.

RURAL WATER DISTRICT NO. 1
KAY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

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

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 eternal restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 2 - WATERLINE SYSTEM:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Annual depreciation is calculated on a straight-line basis. Total depreciation for the years ended December 31, 2015 and 2014 was \$49,360 and \$4,190 respectively. The balances for depreciable assets by major category at December 31, 2015 are as follows:

	Balance 12/31/14	(Deletions) Additions	Balance 12/31/15
Land	\$ 10,522	\$	\$ 10,522
Waterline system	1,725,902	434	1,726,336
Accumulated depreciation	(782,145)	(49,360)	(831,505)
Totals	<u>\$ 954,279</u>	<u>\$ (48,926)</u>	<u>\$ 905,353</u>

NOTE 3- 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 amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 4 - RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; thefts of, damages to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for these and other risks of loss. Settled claims have not exceeded the commercial coverage in past years.

RURAL WATER DISTRICT NO. 1,
KAY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 5 – 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 inventory. 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 6 – 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 7 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through June 6, 2016 the date which the financial statements were available to be issued.