

ELLIS COUNTY RURAL WATER DISTRICT NO. 1
ANNUAL FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2015

ELLIS COUNTY RURAL WATER DISTRICT NO. 1
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YEAR ENDED OCTOBER 31, 2015

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Independent Auditor's Report

Board of Directors
Ellis County Rural Water District No. 1

We have audited the accompanying statements of assets, liabilities and net position of Ellis County Rural Water District No. 1 as of October 31, 2015 and the 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 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 Ellis County Rural Water District No. 1, as of October 31, 2015; 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.

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 23, 2016 on our consideration of Ellis County Rural Water District No. 1'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.

Handwritten signature of Kimberley R. Mayer, CPA, PC.

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
June 23, 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
Ellis County Rural Water District No. 1

We have audited the financial statements of Ellis County Rural Water District No. 1 as of and for the year ended October 31, 2015, and have issued our report thereon dated June 23, 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 Ellis County Rural Water District No. 1'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 Ellis County Rural Water District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ellis County Rural Water District No. 1'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 Ellis County Rural Water District No. 1'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.

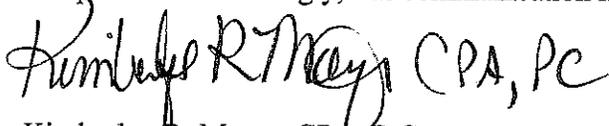
However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

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

June 23, 2016

ELLIS COUNTY RURAL WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED OCTOBER 31, 2015

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

ELLIS COUNTY RURAL WATER DISTRICT NO. 1
STATEMENT OF ASSETS, LIABILITIES AND NET POSITION
MODIFIED CASH BASIS
OCTOBER 31, 2015

ASSETS

Current Assets:	
Cash and cash equivalents (Note 2)	\$ 29,895
Reserve Accounts:	
USDA Reserve	11,389
Asset Account	
Water system and equipment (net of accumulated depreciation) (Note 3)	<u>1,332,185</u>
Total Assets	<u><u>\$ 1,373,469</u></u>

LIABILITIES AND NET POSITION

Current Liabilities:	
Notes payable, current portion (Note 4)	\$ 5,714
Non-current Liabilities:	
Notes payable, long term (Note 4)	<u>345,838</u>
Total Liabilities	351,552
Net Position:	
Net investment in capital assets	980,633
Restricted for debt service	11,389
Unrestricted	<u>29,895</u>
Total Net Position	<u><u>1,021,917</u></u>
Total Liabilities and Net Position	<u><u>\$ 1,373,469</u></u>

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

ELLIS COUNTY RURAL WATER DISTRICT NO. 1
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
YEAR ENDED OCTOBER 31, 2015

Operating Revenue:	
Water service	\$ 52,358
Late fees	557
Other income	
Total Operating Revenues	52,915
Operating Expense:	
Insurance and bonds	4,165
Repairs, maintenance and supplies	19,552
Professional fees	1,605
Office and postage	1,675
Vehicle expenses	1,877
Utilities	1,750
Water tests and fees	1,367
Other expense	231
Depreciation expense	54,463
Total Operating Expense	86,685
Income (Loss) From Operations	(33,770)
Non-operating Revenue (Expense):	
Interest income	53
Membership fees	
Interest expense	(12,127)
Total Non-operating Revenue (Expense)	(12,074)
Change in Net Position	(45,844)
Net Position, beginning of year	1,067,761
Net Position, end of year	\$ 1,021,917

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

ELLIS COUNTY RURAL WATER DISTRICT NO. 1
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
YEAR ENDED OCTOBER 31, 2015

Cash Flows From Operating Activities:	
Cash received from customers	\$ 52,915
Cash payments to suppliers for goods and services	(32,222)
Net cash provided (used) by operating activities	<u>20,693</u>
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(11,507)
Principle payments	(5,812)
Interest paid	(12,127)
New memberships	
Net cash provided (used) by financing activities	<u>(29,446)</u>
Cash flows from investing activities:	
Interest income	53
(Increase) decrease in reserve accounts	4,943
Net cash provided (used) by investing activities	<u>4,996</u>
Net increase (decrease) in cash and cash equivalents	(3,757)
Beginning cash and cash equivalents	<u>33,652</u>
Ending cash and cash equivalents	<u><u>\$ 29,895</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (33,770)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	54,663
Changes in assets and liabilities:	
Net cash provided (used) by operating activities	<u><u>\$ 20,893</u></u>

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

ELLIS COUNTY RURAL WATER DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Ellis County Rural Water District No. 1 was organized and established under the provisions of Title 82 of the laws of the State of Oklahoma. The purpose of this District is to furnish and supply to owners and occupants of property within the corporate limits water and related facilities and services.

The District is a governed entity administered by a Board of Directors that act as the authoritative and legislative body of the entity. The Board is comprised of elected board members.

Basis of Accounting

The accounting policies of Ellis County Rural Water District No. 1 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.

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 State 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.

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 2 – CASH AND CASH EQUIVALENTS:

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments (excluding the reserve accounts) with a maturity of three months or less to be cash equivalents.

ELLIS COUNTY RURAL WATER DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED OCTOBER 31, 2015

NOTE 3 – WATERLINE 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 October 31, 2015 was \$54,463. The balances for depreciable assets by major category are as follows:

	10/31/14	(Deletions) Addition	10/31/14
Water system	\$ 1,608,631	\$ 11,507	\$ 1,620,138
Machinery & equipment	36,548		36,548
Vehicles	20,466		20,466
Office equipment	2,555		2,555
	<u>1,668,200</u>	<u>11,507</u>	<u>1,679,707</u>
Less accumulated depreciation	(293,059)	(54,463)	(347,522)
Net	<u>\$ 1,375,141</u>	<u>\$ (42,956)</u>	<u>\$ 1,332,185</u>

NOTE 4 – NOTES PAYABLE:

On July 23, 2008 the District entered into note agreements with USDA-Rural Development for funds to construct a water system. The following schedule details these notes:

	91-01	91-04
Date of note	7/23/08	7/23/08
Date payments began	8/23/10	8/23/10
Interest rate	4.125%	2.750%
Term of note	40 years	40 years
Loan amount	\$ 183,000	\$ 197,000
Principle balance 10/31/14	\$ 173,674	\$ 183,690
New borrowings		
Principle payments	(2,446)	(3,366)
Principle balance 10/31/15	<u>\$ 171,228</u>	<u>\$ 180,324</u>

ELLIS COUNTY RURAL WATER DISTRICT NO. 1
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED OCTOBER 31, 2015

NOTE 4 – NOTES PAYABLE (continued):

The following is a schedule of the debt service requirements:

Year	Payments	Principle	Interest
10/31/16	\$ 17,940	\$ 5,714	\$ 12,226
10/31/17	17,940	5,908	12,032
10/31/18	17,940	6,105	11,835
10/31/19	17,940	6,313	11,627
10/31/20	17,940	6,526	11,414
10/31/21 - 10/31/25	89,700	36,214	53,486
10/31/26 - 10/31/30	89,700	43,234	46,466
10/31/31 - 10/31/35	89,700	51,604	38,096
10/31/36 - 10/31/40	89,700	61,232	28,468
10/31/41 - 10/31/45	89,700	72,742	16,958
10/31/46 - 10/31/49	66,913	55,960	10,953
	<u>\$ 605,113</u>	<u>\$ 351,552</u>	<u>\$ 253,561</u>

NOTE 5 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires the use of 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 6 – 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.

ELLIS COUNTY RURAL WATER DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2015

NOTE 7 – FAIR VALUE 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, reserve accounts 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 8 – RESERVE ACCOUNTS:

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 \$17,940. As of October 31, 2015, these reserve funds totaled \$0.

United States Department of Agriculture-Rural Development requires monies to be set aside for a short-lived assets account. The amount to be reserved each year is \$2,267. The balance of this account at October 31, 2015 was \$11,389.

NOTE 9 – CONTINGENCIES:

As of October 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 June 23, 2016, the date which the financial statements were available to be issued.