

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
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YEARS ENDED DECEMBER 31, 2015 AND 2014

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Independent Auditor's Report

Board of Directors
Garfield County Rural Water District No. 7

Report on the Financial Statements

We have audited the accompanying statements of assets, liabilities and net position of Garfield County Rural Water District No. 7 as of December 31, 2015 and 2014 and the related 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 opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of Garfield County Rural Water District No. 7, as of December 31, 2015 and 2014; the changes in modified cash basis financial position; and, 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 April 28, 2016 on our consideration of Garfield County Rural Water District No. 7'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
April 28, 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
Garfield County Rural Water District No. 7

We have audited the financial statements of Garfield County Rural Water District No. 7 as of and for the year ended December 31, 2015 and have issued our report thereon dated April 28, 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 have been 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 Garfield County Rural Water District No. 7'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 Garfield County Rural Water District No. 7's internal control. Accordingly, we do not express an opinion on the effectiveness of the Garfield County Rural Water District No. 7'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 Garfield County Rural Water District No. 7'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.

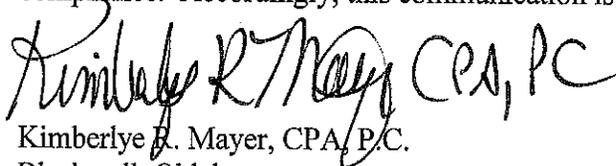
However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

Garfield County Rural Water District No. 7's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Garfield County Rural Water District No. 7'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

April 28, 2016

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 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 invoices and receiving payments; making and recording deposits; maintaining registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions over cash receipts.

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

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
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	\$ 13,961	\$ 37,227
Certificates of deposit	<u>96,502</u>	<u>106,083</u>
Total Current Assets	110,463	143,310
Capital assets (Note 2)		
(net of accumulated depreciation of \$133,122)	<u>137,979</u>	<u>104,865</u>
Total Assets	<u>\$ 248,442</u>	<u>\$ 248,175</u>

LIABILITIES AND NET POSITION

Liabilities:		
Customer deposits	\$ 3,150	\$ 2,025
Net Position:		
Net investment in capital assets	137,979	104,865
Unrestricted	<u>107,313</u>	<u>141,285</u>
Total Net Position	<u>245,292</u>	<u>246,150</u>
Total Liabilities and Net Position	<u>\$ 248,442</u>	<u>\$ 248,175</u>

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

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 MODIFIED CASH BASIS
 YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Operating Revenues:		
Water sales	\$ 136,174	\$ 130,509
Service fees	4,367	
Other income	1,396	1,050
Total Operating Revenues	141,937	131,559
Operating Expenses:		
Operator fees	14,220	12,160
Bookkeeper fees	7,250	7,367
Water costs	62,218	66,313
Utilities	2,284	1,644
Telephone	583	572
Water tests	1,280	800
Office and postage	2,174	2,436
Repairs and maintenance	39,459	6,344
Professional fees	2,522	1,225
Insurance	1,680	1,388
Meetings and travel	1,986	1,400
Dues, fees and memberships	961	584
Other expenses	1,056	278
Depreciation	6,859	6,729
Total Operating Expenses	144,532	109,240
Operating Income (Loss)	(2,595)	22,319
Nonoperating Revenue (Expenses):		
Interest income	737	426
Membership and tap fees	1,000	750
Total Nonoperating Revenues	1,737	1,176
Change in Net Position	(858)	23,495
Net Position, beginning of year	246,150	222,655
Net Position, end of year	\$ 245,292	\$ 246,150

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

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
 STATEMENTS OF CASH FLOWS
 MODIFIED CASH BASIS
 YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
Cash Flows From Operating Activities:		
Cash received from customers	\$ 143,062	\$ 132,284
Other operating cash receipts		
Cash payments to suppliers for goods and services	(137,673)	(102,511)
Net cash provided (used) by operating activities	5,389	29,773
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
(Increase) decrease in capital assets	(39,973)	
Membership fees	1,000	750
Net cash provided (used) by financing activities	(38,973)	750
 Cash flows from investing activities:		
Interest income	737	426
(Increase) decrease in CD's	9,581	(45,416)
Net cash provided (used) by investing activities	10,318	(44,990)
 Net increase (decrease) in cash and cash equivalents	(23,266)	(14,467)
Beginning cash and cash equivalents	37,227	51,694
Ending cash and cash equivalents	\$ 13,961	\$ 37,227
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ (2,595)	\$ 22,319
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	6,859	6,729
Increase (decrease) in customer deposits	1,125	725
Net cash provided (used) by operating activities	\$ 5,389	\$ 29,773

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

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Garfield County Rural Water District No. 7 was created in 1965 under the Rural Water District Act, Title 82, as amended, of the laws of the State of Oklahoma. The District is exempt from federal and state income taxes. The purpose of the District is to provide water services to the owners and occupants of land located within the District, and others as authorized by law. Membership in the water district consists of water users who have paid the required membership fees.

The District is an entity governed 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, revenues, and expenses when they result from cash transactions with a 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 on 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 purposes of the Statement of Cash Flows, the District considers all accounts and certificates of deposit with a maturity of three months or less to be cash equivalents.

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 2 – WATERLINE SYSTEM AND EQUIPMENT:

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 year ended December 31, 2015 and 2014 was \$6,859 and \$6,729. The balances for depreciable assets by major category as of December 31, 2015 are as follows:

	12/31/14	Deletions	Additions	12/31/15
Water system	\$ 230,618	\$	\$ 29,824	\$ 260,442
Equipment	510		10,149	10,659
Accumulated depreciation	(126,263)		(6,859)	(133,122)
Total	<u>\$ 104,865</u>	<u>\$</u>	<u>\$ 33,114</u>	<u>\$ 137,979</u>

NOTE 3 – 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 amounts 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 years ended December 31, 2015 and 2014.

NOTE 4 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis 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 5 – 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.

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE 6 -- 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 and certificates of deposit. 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 -- EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through April 28, 2016, the date which the financial statements were available to be issued.