
**RURAL WATER DISTRICT NO. 16,
PITTSBURG COUNTY, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2015 AND 2014**

RURAL WATER DISTRICT NO. 16, PITTSBURG COUNTY, OKLAHOMA
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Independent Auditor's Report

Board of Directors
Rural Water District No. 16, Pittsburg County, Oklahoma

Report on Financial Statements

We have audited the accompanying statements of assets, liabilities and net position – modified cash basis of Rural Water District No. 16, Pittsburg County, Oklahoma as of May 31, 2015 and 2014 and the related statements of revenues and expenses, and changes in net position and cash flows – modified cash basis 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 financial position - modified cash basis of Rural Water District No. 16, Pittsburg County, Oklahoma as of May 31, 2015 and 2014; 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 August 4, 2015 on our consideration of Rural Water District No. 16, Pittsburg 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* in considering Rural Water District No. 16, Pittsburg County, Oklahoma's internal control over financial reporting and compliance.

 Kimberlye E. Mayer, CPA, P.C.

Blackwell, Oklahoma
August 4, 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 Directors
Rural Water District 16, Pittsburg County, Oklahoma

We have audited the financial statements of Rural Water District No. 16, Pittsburg County, Oklahoma as of and for the year ended May 31, 2015, and have issued our report thereon dated August 4, 2015. 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 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 16, Pittsburg 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 16, Pittsburg County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District 16, Pittsburg County, Oklahoma'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 16, Pittsburg County, Oklahoma's financial statements are free of material misstatement, we performed tests

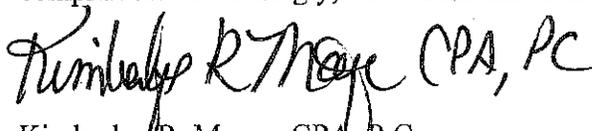
of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, 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*.

Response to Findings

Rural Water District 16, Pittsburg County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water District 16, Pittsburg County, Oklahoma'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.



Kimberley R. Mayer, CPA, P.C.
Blackwell, Oklahoma
August 4, 2015

RURAL WATER DISTRICT NO. 16, PITTSBURG COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED MAY 31, 2015

Material Weakness Communicated in a Prior Year:

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

RURAL WATER DISTRICT NO. 16, PITTSBURG COUNTY, OKLAHOMA
 STATEMENTS OF ASSETS, LIABILITIES AND NET POSITION
 MODIFIED CASH BASIS
 MAY 31, 2015 AND 2014

ASSETS:

	<u>2015</u>	<u>2014</u>
Current Assets:		
Cash and cash equivalents	\$ 325,706	\$ 213,946
Certificates of deposit	<u>14,942</u>	<u>14,942</u>
Total Current Assets	340,648	228,888
Land, property and equipment (Note 2)	500,704	530,445
Work in progress	<u> </u>	<u> </u>
Total Assets	<u><u>\$ 841,352</u></u>	<u><u>\$ 759,333</u></u>

LIABILITIES AND NET POSITION:

Liabilities:	\$	\$
Net Position:		
Net investment in capital assets	500,704	530,445
Unrestricted	<u>340,648</u>	<u>228,888</u>
Total Net position	<u>841,352</u>	<u>759,333</u>
Total Liabilities and Net Position	<u><u>\$ 841,352</u></u>	<u><u>\$ 759,333</u></u>

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

RURAL WATER DISTRICT NO. 16, PITTSBURG COUNTY, OKLAHOMA
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 MODIFIED CASH BASIS
 YEARS ENDED MAY 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Water sales	\$ 254,639	\$ 270,845
Late penalties	11,004	11,324
Miscellaneous revenues	958	395
Total Operating Revenues	<u>266,601</u>	<u>282,564</u>
 Operating Expenses:		
Salaries and wages	61,905	60,405
Payroll taxes	5,361	4,893
Repairs and maintenance	14,142	10,643
Equipment rental	8,800	10,370
Insurance and bonds	5,552	5,731
Professional fees	2,209	2,024
Mileage paid	1,698	
Office and postage	5,687	3,654
Water costs	44,184	119,141
Telephone	2,024	1,429
Utilities	1,999	1,809
Water tests and fees	5,452	3,877
Dues and membership fees	959	877
Depreciation	29,741	29,371
Other expenses	132	604
Total Operating Expenses	<u>189,845</u>	<u>254,828</u>
 Operating Income (Loss)	 76,756	 27,736
 Nonoperating Revenue (Expenses):		
Interest income	563	452
Membership fees	4,700	7,000
Total Nonoperating Revenues	<u>5,263</u>	<u>7,452</u>
 Change in Net Position	 82,019	 35,188
 Net Position, beginning of year	 <u>759,333</u>	 <u>724,145</u>
 Net Position, end of year	 <u>\$ 841,352</u>	 <u>\$ 759,333</u>

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

RURAL WATER DISTRICT NO.16, PITTSBURG COUNTY, OKLAHOMA
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEARS ENDED MAY 31, 2015 AND 2014

	2015	2014
Cash Flows From Operating Activities:		
Cash received from customers	\$ 266,601	\$ 282,564
Cash payments to suppliers for goods and services	(98,199)	(165,052)
Cash payments to employees	(61,905)	(60,405)
Net cash provided (used) by operating activities	106,497	57,107
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
(Increase) decrease in capital assets		(13,268)
Membership fees	4,700	7,000
Net cash provided (used) by financing activities	4,700	(6,268)
 Cash flows from investing activities:		
Interest income	563	452
(Increase) decrease in CD's		
Net cash provided (used) by investing activities	563	452
 Net increase (decrease) in cash and cash equivalents	111,760	51,291
Beginning cash and cash equivalents	213,946	162,655
Ending cash and cash equivalents	\$ 325,706	\$ 213,946
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 76,756	\$ 27,736
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	29,741	29,371
Net cash provided (used) by operating activities	\$ 106,497	\$ 57,107

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

RURAL WATER DISTRICT NO. 16, PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2015 AND 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 16, Pittsburg County, Oklahoma was created under the Rural Water Sewer, Gas and Solid Waste Management District Act, Title 82, 1324.3 et seq., 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 position, revenues, and 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 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 checking and savings accounts and certificates of deposit with a maturity of three months or less to be cash equivalents.

Budget

The District is not legally required to adopt a budget.

RURAL WATER DISTRICT NO. 16, PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2015 AND 2014

NOTE 2 – LAND, PROPERTY 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 May 31, 2015 and 2014 was \$29,741 and \$29,371. The balances for depreciable assets by major category as of May 31, 2015 are as follows:

	<u>5/31/14</u>	<u>Deletions</u>	<u>Additions</u>	<u>5/31/15</u>
Land	\$ 500	\$	\$	\$ 500
Waterline system	1,041,179			1,041,179
Office equipment	4,574			4,574
Buildings and improvements	31,613			31,613
Accumulated depreciation	(547,421)		(29,741)	(577,162)
Total	<u>\$ 530,445</u>	<u>\$</u>	<u>\$ (29,741)</u>	<u>\$ 500,704</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 May 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 May 31, 2015 and 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.

RURAL WATER DISTRICT NO. 16, PITTSBURG COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2015 AND 2014

NOTE 6 - FAIR VALUE OF INSTRUMENTS:

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 values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial statements approximates fair value because of the short maturity of these instruments.

NOTE 7 - EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through August 4, 2015, the date which the financial statements were available to be issued.