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**RURAL WATER DISTRICT NO. 16,
PITTSBURG COUNTY, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2012 AND 2011**

RURAL WATER DISTRICT NO. 16, PITTSBURG COUNTY, OKLAHOMA
TABLE OF CONTENTS
YEAR ENDED MAY 31, 2012 AND 2011

	Page
INTRODUCTORY SECTION:	
Table of Contents	i
FINANCIAL SECTION:	
Independent Auditor's Report	1
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>	2-4
Financial Statements:	
Statements of Assets, Liabilities, and Net Assets – Modified Cash Basis	5
Statements of Revenues, Expenses and Changes in Net Assets- Modified Cash Basis	6
Statements of Cash Flows – Modified Cash Basis	7
Notes to Financial Statements	8-10

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Independent Auditor's Report

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

We have audited the accompanying statements of assets, liabilities and net assets – modified cash basis of Rural Water District No. 16, Pittsburg County, Oklahoma as of May 31, 2012 and 2011 and the related statements of revenues and expenses, and changes in net assets and cash flows – modified cash basis for the years then ended. These financial statements are the responsibility of Rural Water District No. 16, Pittsburg County, Oklahoma's management. Our responsibility is to express an opinion on these financial statements based on our audit.

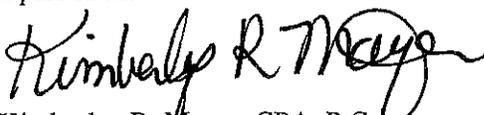
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, Rural Water District No. 16, Pittsburg County, Oklahoma prepared its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the assets, liabilities and net assets of Rural Water District No. 16, Pittsburg County, Oklahoma at May 31, 2012 and 2011, and its revenues, expenses and changes in net assets and cash flows for the years then ended in conformity with the modified cash basis of accounting.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 11, 2012 on our consideration of Rural Water District No. 16, Pittsburg County, Oklahoma's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws and 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 my audit.

Rural Water District No. 16, Pittsburg County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.


Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
August 11, 2012

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, 2012, and have issued our report thereon dated August 11, 2012. 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 comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Rural Water District No. 16, Pittsburg County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.

Internal Control Over Financial Reporting

Management of Rural Water District 16, Pittsburg County, Oklahoma is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered whether Rural Water District No. 16, Pittsburg County, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures 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 whether Rural Water District No. 16, Pittsburg County, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 16, Pittsburg County, Oklahoma's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting 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 such that there is a reasonable possibility that a material misstatement of the entity'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 responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 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*.

Rural Water District No. 16, Pittsburg County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, others within the District, and all applicable federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Kimberlye R. Mayer". The signature is written in a cursive style with a large, looping initial "K".

Kimberlye R. Mayer, CPA, F.C.
Blackwell, Oklahoma
August 11, 2012

RURAL WATER DISTRICT NO. 16, PITTSBURG COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED MAY 31, 2012

Material Weakness Communicated In 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 ASSETS
 MODIFIED CASH BASIS
 MAY 31, 2012 AND 2011

ASSETS:

	2012	2011
Current Assets:		
Cash and cash equivalents	\$ 126,980	\$ 55,908
Certificates of deposit	14,942	14,942
Total Current Assets	141,922	70,850
Land, property and equipment (Note 2)	538,195	562,001
Total Assets	\$ 680,117	\$ 632,851

LIABILITIES AND NET ASSETS:

Liabilities:	\$	\$
Net Assets:		
Invested in capital assets	538,195	562,001
Unrestricted	141,922	70,850
Total Net Assets	680,117	632,851
Total Liabilities and Net Assets	\$ 680,117	\$ 632,851

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 ASSETS
MODIFIED CASH BASIS
YEARS ENDED MAY 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Water sales	\$ 309,218	\$ 274,283
Late penalties	11,285	8,300
Miscellaneous revenues	835	2,005
Total Operating Revenues	<u>321,338</u>	<u>284,588</u>
Operating Expenses:		
Salaries and wages	58,305	58,305
Payroll taxes	5,041	5,029
Repairs and maintenance	12,541	8,277
Equipment rental	11,800	11,985
Insurance and bonds	5,540	6,431
Professional fees	3,716	2,654
Office and postage	4,835	3,996
Water costs	146,757	133,225
Telephone	1,109	896
Mileage paid		200
Utilities	1,152	1,164
Water tests and fees	528	616
Dues and membership fees	1,182	869
Depreciation	27,562	25,651
Other expenses		66
Total Operating Expenses	<u>280,068</u>	<u>259,364</u>
Operating Income (Loss)	41,270	25,224
Nonoperating Revenue (Expenses):		
Interest income	546	543
Membership fees	5,450	4,200
Total Nonoperating Revenues	<u>5,996</u>	<u>4,743</u>
Change in Net Assets	47,266	29,967
Net Assets, beginning of year	<u>632,851</u>	<u>602,884</u>
Net Assets, end of year	<u>\$ 680,117</u>	<u>\$ 632,851</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, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows From Operating Activities:		
Cash received from customers	\$ 321,338	\$ 284,588
Cash payments to suppliers for goods and services	(194,201)	(175,408)
Cash payments to employees	<u>(58,305)</u>	<u>(58,305)</u>
Net cash provided (used) by operating activities	68,832	50,875
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
(Increase) decrease in capital assets	(3,756)	(107,441)
Membership fees	<u>5,450</u>	<u>4,200</u>
Net cash provided (used) by financing activities	1,694	(103,241)
 Cash flows from investing activities:		
Interest income	546	543
(Increase) decrease in CD's		
Net cash provided (used) by investing activities	<u>546</u>	<u>543</u>
 Net increase (decrease) in cash and cash equivalents	71,072	(51,823)
Beginning cash and cash equivalents	55,908	107,731
Ending cash and cash equivalents	<u>\$ 126,980</u>	<u>\$ 55,908</u>
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 41,270	\$ 25,224
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	<u>27,562</u>	<u>25,651</u>
Net cash provided (used) by operating activities	<u>\$ 68,832</u>	<u>\$ 50,875</u>

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, 2012 AND 2011

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, 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 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, 2012 AND 2011

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, 2012 and 2011 was \$27,562 and \$25,651. The balances for depreciable assets by major category as of May 31, 2012 are as follows:

	<u>5/31/2011</u>	<u>Deletions</u>	<u>Additions</u>	<u>5/31/2012</u>
Land	\$ 500	\$	\$	\$ 500
Waterline system	1,019,901			1,019,901
Office equipment	3,599	(2,781)	3,756	4,574
Buildings and improvements	6,634			6,634
Accumulated depreciation	<u>(468,633)</u>	<u>2,781</u>	<u>(27,562)</u>	<u>(493,414)</u>
Total	<u>\$ 562,001</u>	<u>\$</u>	<u>\$ (23,806)</u>	<u>\$ 538,195</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, 2012 and 2011.

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, 2012 and 2011 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, 2012 AND 2011

NOTE 6 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through August 11, 2012, the date which the financial statements were available to be issued.