

HULAH WATER DISTRICT No 20

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITOR'S REPORT

FOR THE YEAR ENDED JUNE 30, 2015

Hulah Water District No 20
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OBER & LITTLEFIELD, CPAs, PLLC

124 SOUTH MAIN MIAMI, OK 74354
918-542-4401 OFFICE

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Hulah Water District No 20
Bartlesville, Oklahoma 74003

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities of Hulah Water District No 20 as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinions 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United State. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 entity'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 entity's internal control. Accordingly, we express no such 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 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 respective financial position of the business-type activities of the Hulah Water District No 20 as of June 30, 2015, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2015, on our consideration of the Hulah Water District No 20's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 Hulah Water District No 20's internal control over financial reporting and compliance.

Sincerely,

A handwritten signature in cursive script that reads "Ober & Littlefield, PLLC".

OBER & LITTLEFIELD, CPAS, PLLC
MIAMI, OKLAHOMA

September 2, 2015

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2015. Please read it in conjunction with the District's financial statements which begin on page 8.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at June 30, 2015 by \$338,100.
- Total revenues were \$119,929 this fiscal year while total expenses were \$133,520 resulting in a decrease in net position of \$13,590.
- The District has \$373,630 net of accumulated depreciation invested in fixed assets, as of June 30, 2015.

USING THIS ANNUAL REPORT

This annual report consists of two parts; Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Balance Sheet includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net position. This statement measures the success of the District's operations over the past year and can be used to determine profitability, credit worthiness and whether the District has successfully recovered all its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and noncapital financing activities and provides answers to such questions as "from where did cash come?," "for what was cash used?," and "what was the change in cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

One of the most important questions asked about the District's finances is "Is the District, as a whole, better off or worse off as a result of the year's activities?" The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position report information about the District's activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District's net position—the difference between assets and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation.

The District's total Net position decreased from last year by \$13,590, or about 3.8%. Our analysis below focuses on the District's net position (Table 1) and changes in net position (Table 2) during the year.

Table 1

	June 30, 2015	June 30, 2014
Current Assets	\$ 27,207	\$ 35,433
Restricted Assets	21,188	16,613
Fixed Assets, net of accumulated depreciation	373,630	394,468
Other Assets	4,166	4,144
Total Assets	<u>426,191</u>	<u>450,658</u>
Liabilities	<u>88,091</u>	<u>98,969</u>
Net Position, Net Investments in Capital Assets	306,839	308,248
Net Position, Unrestricted	31,261	43,442
Total Net Position	<u>\$ 338,100</u>	<u>\$ 351,690</u>

By far, the largest portion of the District's net position (over 91%) reflects its investment in capital assets (e.g., water system, buildings, and machinery and equipment) less any related debt used to acquire those assets still outstanding. The District uses these capital assets to provide services to citizens and consumers; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

HULAH WATER DISTRICT NO 20
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

The balance of unrestricted net position may be used to meet the District's ongoing obligations to citizens, customers and creditors. The District's unrestricted net position decreased \$12,181, or approximately 28% during the current year.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net position for the year.

Table 2

	June 30, 2015	June 30, 2014
Total Operating Revenues	\$ 119,929	\$ 133,431
Operating Expenses	(97,498)	(118,897)
Depreciation Expense	(34,165)	(34,520)
Operating Income	(11,734)	(19,986)
Other Non Operating Revenues (Expenses)	(1,857)	15,232
Net Income	(13,591)	(4,754)
Net Position, Beginning of Year	351,690	356,444
Net Position, End of Year	<u>\$ 338,100</u>	<u>\$ 351,690</u>

The District's primary source of revenue is the sale of water that comprises most of the operating revenues. Operating revenues decreased by \$13,502 (10%) over the prior year.

Operating expenses decreased by \$21,399 (18%) over the past year. This increase is attributed mostly to repairs and maintenance.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2015, the District had \$306,839 net of accumulated depreciation invested in capital assets, including the water storage and distribution system, buildings, improvements, machinery and equipment. This amount represents a net decrease (including additions, deletions and depreciation) of \$1,409 or 0.46%. These changes are presented in detail in Note 6 to the financial statements on page 14 of this report.

Additions to capital assets during the current fiscal year included plant improvements at a total cost of \$13,327.

Debt

The District's total obligations decreased by \$19,430 during the fiscal year. The balance of the note with Oklahoma Water Resources Board was \$46,300 and Arvest Bank \$20,490 at the end of the fiscal year.

Additional information on the District's long-term debt can be found in Note 7 on page 15 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A product of an ongoing examination of how the District does business, our budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

In considering the District's budget for the fiscal year 2015/2016, the Board estimates that revenues and expenses in the coming year will approximate actual revenues and expenses for the past fiscal year and additional grant revenues. Therefore, net position are expected to increase.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board of Directors at Hulah Water District No. 20, 302 SE Osage, Bartlesville, OK 74003.

HULAH WATER DISTRICT NO 20
STATEMENT OF NET POSITION
 JUNE 30, 2015

	2015
Assets	
Current Assets	
Cash and cash equivalents	\$ 9,796
Accounts receivable, net	11,864
Inventory	5,547
Total Current Assets	<u>27,207</u>
Property and Equipment	
Water system	957,252
Building and improvements	45,246
Equipment	26,002
Software	795
Furniture & fixtures	12,147
Total property and equipment	<u>1,041,441</u>
Less: Accumulated depreciation	<u>(667,812)</u>
Net Property and Equipment	<u>373,630</u>
Restricted Assets	
Cash and cash equivalents	21,188
Other Assets	
Prepaid expense	4,166
Total Assets	<u><u>426,191</u></u>
Liabilities and Net Position	
Current Liabilities	
Accounts payable	20,579
Accrued Liabilities - Payroll	721
Note payable - current	24,361
Total Current Liabilities	<u>45,661</u>
Non Current Liabilities	
Note Payable - Long Term	42,429
Total Non Current Liabilities	<u>42,429</u>
Total Liabilities	<u>88,091</u>
Net Position	
Net Invested in capital assets	306,839
Unrestricted	31,261
Total Net Position	<u><u>338,100</u></u>
Total Liabilities and Net Position	<u><u>426,191</u></u>

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

HULAH WATER DISTRICT NO 20
 STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
 JUNE 30, 2015

	<u>2015</u>
Support and Revenue	
Water income	\$ 118,429
Capital contributions	1,500
Total Support and Revenue	<u>119,929</u>
 Expenses	
Labor	25,635
Depreciation	34,165
Water Testing	4,333
Chemicals and supplies	10,162
Professional Services	12,478
Utilities	13,136
Repairs and maintenance	14,556
Insurance	5,041
Dues and memberships	6,349
Payroll taxes	2,019
Office supplies and postage	1,395
Loan trustee fees	1,000
Travel	325
Bad debt	1,034
Miscellaneous	35
Total Expenses	<u>131,663</u>
Net Operating Income (Loss)	(11,733)
 Non-Operating Revenue (Expense)	
Interest expense	(1,857)
Total Non-Operating Revenue(Expenses)	<u>(1,857)</u>
Increase (Decrease) in Net Position	(13,590)
Net Position, beginning of year	<u>351,690</u>
Net Position, end of year	<u><u>\$ 338,100</u></u>

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

HULAH WATER DISTRICT NO 20
STATEMENT OF CASH FLOWS
 JUNE 30, 2015

	<u>2015</u>
Cash flows from operating activities	
Receipts from customers	\$ 121,722
Payments to employees	(25,635)
Payments to suppliers	<u>(62,632)</u>
Net cash provided by (used in) operating activities	<u>33,455</u>
Cash flows from capital and related financing activities	
Grant proceeds	-
Purchase of capital assets	(13,327)
Principal paid on capital debt	(19,430)
Interest paid on capital debt	<u>(1,857)</u>
Net cash provided (used) by capital and related financing activities	<u>(34,613)</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,158)</u>
Cash and cash equivalents, beginning of year	<u>32,142</u>
Cash and cash equivalents, end of year	<u><u>\$ 30,984</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities	
Operating income (loss)	(11,733)
Adjustments to reconcile operating income to net cash provided (used) by operating activities	
Depreciation/amortization expense	34,165
(Increase) in amounts payable related to capital assets	
Change in assets and liabilities	
Receivables, net	2,494
Prepaid expenses	(23)
Accounts and other payable	<u>8,552</u>
Net cash provided by (used in) operating activities	<u><u>\$ 33,455</u></u>

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

Note 1 - Nature of Organization

The Hulah Water District No 20 (the District) is a non-profit governmental organization. Its purpose is to process and provide for the use and benefit of its members a water processing and distribution system, including physical facilities necessary for its operations and maintenance. The District was organized by the Board of County Commissioners of Osage County, Oklahoma. District members fall within territorial boundaries within Osage County as assigned by the Board of County Commissioners of Osage County, Oklahoma.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The District's fund is an enterprise fund. Enterprise funds are proprietary funds use to account for business-like activities provided to the general public. The activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other amounts. Actual results may differ from those estimates.

The District adopts annual operations and capital budgets. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. The current operating budget details the District's plans to earn and expend funds for charges incurred for operation, maintenance, certain interest and general functions, and other charges for the fiscal year. The capital budget details the plan to receive and expend cash basis capital contribution fees, special assessments, grants, borrowings and certain revenues for capital projects.

Note 2 - Summary of Significant Accounting Policies (continued)

All unexpensed and unencumbered appropriations in the operating budget lapse at the end of the fiscal year. No appropriation for a capital project in the capital budget lapses until the purpose for which the appropriation was made has been accomplished or abandoned.

The Board of Directors adopts a budget at the meeting prior to the beginning of the new fiscal year. Actual revenues and expenditures are monitored and compared with the budget during the year. Significant variations from budgeted amounts are researched and the board is informed of the results.

Cash and Cash Equivalents - Cash and cash equivalents, for purposes of the statement of cash flows, include restricted and unrestricted cash on hand or on deposit, interest in State Treasurer's Pool, certificates of deposit, repurchase agreements and investments with a maturity of three months or less.

Investments are reported at their fair market value.

Restricted Assets - Restricted assets represent cash, investments and receivables maintained in accordance with bond resolutions, loan agreements, grant awards, and other resolutions and formal actions of the District or by agreement for the purpose of funding certain debt service payments, depreciation and contingency activities, and improvements and extensions to the water system.

Receivables and Payables - Customer receivables represent service fees earned, but not yet collected. Service billings at the end of the year are made and the revenues recorded through year-end.

Inventories - Inventories consist of construction materials, repair parts, and chemicals. Materials and supplies are stated at cost.

Prepaid Expenses - Prepaid expenses represent the unexpired premiums on general liability and workman's comp insurance policies.

Capital Assets - Property, plant and equipment in service and construction in progress are recorded at cost, if purchased or constructed. Assets acquired through contributions from developers or other customers are capitalized at their estimated fair market value, if applicable or at engineers' fair market value or cost to construct at the date of contribution. Internal engineering costs are capitalized to the extent of direct support and contribution to construct and expansion projects. Costs of studies that directly result in specific construction projects are capitalized.

Maintenance and repairs, which do not significantly extend the value or life of property, plant and equipment, are expensed as incurred.

Interest costs are capitalized on the construction of qualified assets, whether or not borrowings exist for such projects, to the extent of amounts funded by debt or operating results. Interest is not capitalized on project costs funded by contributed capital, such as grants and gifts. Interest costs of tax-exempt borrowings are capitalized net of related investment earnings or the proceeds.

Note 2 - Summary of Significant Accounting Policies (continued)

Assets are depreciated on the straight-line method. Depreciation is calculated using the following estimated useful lives:

	<u>Years</u>
Land and Buildings	10-30
Water System	10-75
Furniture and Fixtures	5-10
Equipment	3-10
Vehicles	10

Long Term Obligations - Long-term obligations are reported at face value, net of applicable premiums and discounts.

Revenues and Rate Structure - Revenues from water services are recognized on the accrual basis and as earned. Services are supplied to customers under a rate structure designed to produce revenues sufficient to provide for operating and maintenance costs, capital outlay, debt service, reserves and debt service coverage.

Capital Contributions - Contributions are recognized in the Statement of Revenues, Expenses and changes in Net Position when earned. Contributions include tap fees, capital grants, and other supplemental support by federal, state and local grants in support of system improvements.

Net Position- Net position comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets; Restricted for capital activity and debt service; and unrestricted. Net invested in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from determination. Restricted for capital activity and debt service consists of net position for which constraints are placed by external parties, such as lenders, grantors, contributors, laws, regulations, legislation, including self-imposed legal mandates, less any related liabilities. Unrestricted consists of all other assets not included in the above categories.

Resource Use Policy - It is Hulah Water District #20's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, Hulah Water District #20 considers restricted amounts to be spent first before any unrestricted amounts are used.

Note 3 - Deposits and Investments

Deposits include demand deposits and certificates of deposit in financial institutions. All bank balances are covered by federal depository insurance or by collateral held by the bank and pledged to the District.

Note 4 – Restricted Cash

The components of the restricted assets at year end were as follows:

	<u>2015</u>
OWRB Debt Service Reserve Fund	\$ 21,188

All restricted funds are invested in securities issued by the United States Government.

Note 5 - Accounts Receivable

Accounts receivable are composed of unpaid billings for services rendered as of the end of the fiscal year. The uncollectible accounts are written off to bad debts after 90 days. After a members overdue bill is determined uncollectible and written off the associated membership is cancelled. For service to be reconnected to the related property a new membership along with nonrefundable membership fee is required. This minimizes the loss the District may incur due to nonpayment of service billings.

	<u>2015</u>
Accounts Receivable	\$ 12,568
Allowance for Uncollectible Accounts	(704)
Net Accounts Receivable	<u>\$ 11,864</u>

Note 6 - Capital Assets

Capital asset activity during the year was as follows:

	Balance 6/30/2014	Additions	Transfers	Balance 6/30/2015
Buildings	\$ 45,246	\$ -	\$ -	\$ 45,246
Water system	943,925	13,327	-	957,252
Furniture & Fixtures	12,147	-	-	12,147
Equipment	26,002	-	-	26,002
Software	795	-	-	795
Construction in process	-	-	-	-
Total Property and Equipment	1,028,115	13,327	-	1,041,442
Less Accumulated Depreciation	(632,852)	(34,960)	-	(667,812)
Net Property and Equipment	<u>\$ 395,263</u>	<u>\$ (21,633)</u>	<u>\$ -</u>	<u>\$ 373,630</u>

Note 7 - Long-Term Debt

	<u>Total Debt</u>	<u>Due Within One Year</u>
The District executed a \$200,000 mortgage note payable to Oklahoma Water Resources Board with interest at a variable rate based on the rate of interest on OWRB's State Loan Program Revenue Bonds, Series 2001 plus applicable program costs that are reset quarterly. The note matures in September of 2017. The note is secured by the water system having a book value of \$247,835 and a pledge and assignment of revenues and receipts of the District. The rate of interest currently charged on this variable rate loan is 1.45%. The balance of the note as of June 30, 2015 is \$46,300.	\$46,300	\$17,800

The District acquired a \$35,216 note payable from Arvest on February 1, 2015. The loan number is 4248641, and it is to be used to repair the filter system. The note has a maturity date of February 15, 2018. The rate of interest currently being charged for this loan is 5%. The balance of the note as of June 30, 2015 is \$20,490	\$20,490	\$6,561
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The following is a summary of payments due for the next five years:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 24,361	\$ 883	\$ 25,244
2017	26,227	467	26,694
2018	16,202	99	16,301
Total	<u>\$ 66,790</u>	<u>\$ 1,449</u>	<u>\$ 68,239</u>

Note 8 – DEQ Consent Order Case No. 06-384

On April 30, 2007, the Oklahoma Department of Environmental Quality and the Osage County Rural Water District No. 20 agreed to Consent Order, Case No. 06,384, to resolve the District's violations of the disinfection byproduct maximum contaminant levels. On July 8, 2010, DEQ and the District agreed to Addendum A of the Consent Order, to provide an up-to-date schedule for the District to resolve the violations associated with the Consent Order. At this current time, the District has not complied with the Consent Order, to provide an approvable engineering report, by January 1, 2011, that proposes a project to resolve the disinfection byproduct violations. DEQ and the District will be establishing an updated schedule for resolution of the violations. The project recently funded by the District, funded through its OWRB REAP grant will allow the District to continue basic water treatment plant operations and provide needed water to its customers, but those improvements will not correct the violations associated with the Consent Order.

OBER & LITTLEFIELD, CPAs, PLLC

124 SOUTH MAIN MIAMI, OK 74354
918-542-4401 OFFICE

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*

Honorable Chairman and Board of Directors
Hulah Water District No 20
Osage County, Oklahoma

We have audited the statement of net position, statement of revenues, expenses and changes in net position and statement of cash flows, which collectively comprise the basic financial statements of the Hulah Water District No 20 as of June 30, 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.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Hulah Water District No 20 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Hulah Water District No 20's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hulah Water District No 20's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hulah Water District No 20's internal control over financial reporting.

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 misstatements on a timely basis. A material weakness is a significant deficiency or combination of significant 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 detect and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Hulah Water District No 20's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

This report is intended solely for the information and use of management, the Board of Directors, other within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



OBER & LITTLEFIELD, CPAS, PLLC
MIAMI, OKLAHOMA

SEPTEMBER 2, 2015