

Rogers County Rural Water District Number 12

Audited Financial Statements

As of and for the Year Ended December 31, 2014

Rogers County Rural Water District Number 12
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rogers County Rural Water District Number 12
Owasso, Oklahoma 74020

Report on the Financial Statements

We have audited the accompanying financial statements of **Rogers County Rural Water District Number 12**, Owasso, Oklahoma, which comprise the statements of net position as of December 31, 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, 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 opinion 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 the standards applicable to 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 about whether the financial statements are free from 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 we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Rogers County Rural Water District Number 12**, as of December 31, 2014, and the results of its operations and its cash flows for the years 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 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements.

Report Issued in Accordance with Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 9, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Russell Cunningham, CPA
September 9, 2015

Rogers County Rural Water District Number 12
Statement of Net Assets
As of December 31, 2014

ASSETS

Current Assets

Cash & Equivalents	\$ 131,583
Accounts Receivable	<u>4,145</u>

Total Current Assets 135,728

Fixed Assets

Water meters	30,000
Water Taps	59,595
Water System	313,299
Total Accumulated Depreciation	<u>(240,297)</u>

Total Fixed Assets 162,597

TOTAL ASSETS \$ 298,325

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$ 3,704
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Total Current Liabilities 3,704

Total Liabilities 3,704

Net Assets

Net Assets Invested in Capital Assets	162,597
Unrestricted Net Assets	<u>132,024</u>

Total Net Assets 294,621

TOTAL LIABILITIES & NET ASSETS \$ 298,325

See Accompanying Independent Auditor's Report and Notes to Financial Statements

Rogers County Rural Water District Number 12
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ending December 31, 2014

Revenue from operations	
Water Sales, Taps & Maintenance Fees	\$ 132,742
Maintenance & Operations Expense	
Water Purchased	89,935
Depreciation Expense	10,822
Repairs & Maintenance	2,264
Bookeeping & Accounting	14,640
Legal Fees	482
Licenses & Permits	420
Office Expense	252
Water Treatment	1,766
Total Expenses from Maintenance & Operations	<u>120,581</u>
Utility Operating Income	
Interest Income	<u>74</u>
Change in Net Assets	12,235
Net Asscets, beginning of period	<u>282,386</u>
Net Assets, end of period	<u>\$ 294,621</u>

Rogers County Rural Water District Number 12
Statement of Cash Flows
For the Year Ending December 31, 2014

Operating Activities:	
Operating Cash Receipts from Customers	\$ 140,596
Cash Payments to Vendors for Goods and Services	<u>(110,622)</u>
Net Cash from Operating Activities	<u>29,974</u>
Investing Activities	
Interest Income	74
Net Cash from Investing Activities	<u>74</u>
Net Change in Cash and Cash Equivalents	<u>\$ 30,048</u>
Cash & Cash Equivalents at Beginning of Year	<u>101,535</u>
Cash & Cash Equivalents at End of Year	<u>\$ 131,583</u>
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities	
Change in Net Assets	\$ 12,235
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities	
Depreciation	10,822
Changes in Certain Assets and Liabilities:	
Accounts Receivable	7,854
Accounts Payable	<u>(863)</u>
Interest Income	<u>(74)</u>
Net Cash Provided by Operating Activities	<u>\$ 29,974</u>
Supplemental Disclosures:	
Cash Consists of:	
Cash in Bank	\$ 57,791
Savings in Bank	<u>73,792</u>
Cash at End of Year	<u>\$ 131,583</u>
Interest Paid During the Year	\$ 0
Income Tax Paid During the Year	\$ 0

See Accompanying Independent Auditor's Report and Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

Organization and Nature of Operation

Rural Water District Number 12, Inc. (hereinafter the "District"), is an Oklahoma Corporation incorporated on November 8, 1998. The District is a corporate body for public purposes created under Title 82 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes. The general operating authority for the Rural Water District is contained in Title 82, Oklahoma Statutes. The District commonly goes by Rogers County Rural Water District Number 12.

Reporting Entry

For financial reporting purposes, a reporting entity's financial statements should include all component units over which another component unit (oversight unit) exercises financial accountability. Financial accountability includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations and accountability for fiscal matters.

Based upon the above criteria, there are no component units to be included within the District as a reporting entity.

Basis of Accounting

The District uses the accrual basis of accounting. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with General Accepted Accounting Principles.

Fixed Assets and Depreciation

The District's fixed assets are valued at cost. Fixed Assets are capitalized if their cost exceeds \$ 5,000. The District's fixed assets are depreciated using the straight-line method for financial reporting purposes. The useful life is forty years for the water system and water taps and 20 years for the water meters. Depreciation amounts to \$ 10,822 for fiscal year 2014.

At each balance sheet date, the District reviews the carrying value of its property and equipment to determine if facts and circumstances suggest that they may be impaired or that the depreciation period may need to be changed. The District considers external factors relating to each asset, including contract changes, local market developments, and other publicly available information. The District does not believe there are any indicators requiring an adjustment to the carrying value of the property and equipment or their remaining useful lives as of December 31, 2014.

Income Taxes

The District is exempt from Federal and State income taxes.

Credit Risk

The District's receivables consist primarily of uncollateralized customer obligations for water consumed. If these customers were to leave the District prior to paying off their account, collectability could be difficult.

Accounting Estimates

The preparation of Financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions which effect the amounts reported in the accompanying financial statements and related footnotes. Management bases its estimates and assumptions on historical experience, observance of industry trends, and various other sources of information and factors, the results of which form the basis for making judgments regarding the carrying value of assets and liabilities not readily apparent from other sources. Actual results could differ from these estimates.

Cash and Cash Equivalents

District considers all cash on hand, cash in bank and liquid investments with original maturities of three months or less to be cash and cash equivalents.

Business and Credit Risk

The District provides water service on account to its customers which are all located in Rogers County, Oklahoma.

Note 2 – Accounts Receivable

Accounts receivables consist of amounts billed to residents within the District's area of operation for water used, but are not yet paid.

Note 3 – Current Liabilities

Accounts payable consists of amounts payable to vendors for supplies related to operations in the amount of \$ 3,704.

Note 4 – Deposit and Investment Risk

As of December 31, 2014, all deposits were covered by FDIC insurance. From time to time, the District will have amounts on deposit that are not covered by FDIC insurance. It is of the opinion of management that the solvency of the financial institution is not of particular concern at this time.

Note 5 – Fair Value

The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Note 6 – Commitments

The District is committed to purchase water from Rural Water District #3, Rogers County, Oklahoma.

Note 7 – Subsequent Events

Subsequent events have been evaluated through the financial statement release date of September 9, 2015, with no items noted for reporting.

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**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
Rogers County Rural Water District Number 12
Owasso, Oklahoma

We have audited the financial statements of **Rogers County Rural Water District Number 12**, as of and for the years ended December 2014, and have issued our report thereon dated September 9, 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 District did not present the Management Discussion and Analysis which is required supplementary information under accounting principals generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered **Rogers County Rural Water District Number 12's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of **Rogers County Rural Water District Number 12's** internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 a combination of 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 deficiencies 11-1 and 11-2 described in the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency 11-3 described in the accompany schedule of findings to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Rogers County Rural Water District Number 12'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*.

Rogers County Rural Water District Number 12's, responses to the findings identified in our audit are disclosed in the accompanying schedule of findings and responses. We did not audit **Rogers County Rural Water District Number 12'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 entity and the Oklahoma State auditor and is not intended to be and should not be used by anyone other than these specified parties.

Russell Cunningham, CPA
September 9, 2015
Tulsa, Oklahoma

Control Deficiencies

Material Weakness

11-1. Segregation of Duties

Condition: The District has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that your office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective system of internal control, it is important that you be aware of this condition. In situations like this, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

Response: At the present time, the District has segregated the duties in the most efficient manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.

11-2. Significant Journal Entries

Condition: During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls, and therefore could have resulted in a material misstatement of the District's financial statements.

Criteria: A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Effect: Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements.

Recommendation: While we recognize that your office staff is limited, it is important that you be aware of this condition. In situations like this, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

Response: Due to the limited office staff, the District is aware of the deficiency in internal control. The District accepts the risk and due to cost constraints, there will be no further administrative employees added.

Significant Deficiency

11-3 Preparation of Financial Statements

Condition: The Organization does not have an internal control system designed to provide for the preparations of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

Criteria: A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other consideration.

Response: The District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.