

RURAL WATER DISTRICT NUMBER 15
LEFLORE COUNTY
HODGEN, OKLAHOMA
ANNUAL FINANCIAL REPORT
JUNE 30, 2015

RALPH OSBORN
CERTIFIED PUBLIC ACCOUNTANT
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P.O. BOX 1015
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water District Number 15
LeFlore County
Hodgen, Oklahoma

I have audited the accompanying financial statements of LeFlore County Rural Water District Number 15, LeFlore County, Oklahoma, Hodgen, Oklahoma as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise LeFlore County Rural Water District Number 15's basic 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 described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation 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 financial statement that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with the 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 judgement, 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of LeFlore County Rural Water District Number 15 as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with the modified cash basis of accounting.

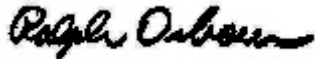
Basis of Accounting

I draw attention to Note A of the financial statements, which 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. My opinion is not modified with respect to that matter.

Other Matters

The District has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statement.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 8, 2016, on my consideration of LeFlore County Rural Water District Number 15's internal control over financial reporting and my 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* and should be considered in assessing the results of my audit.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
March 8, 2016

RURAL WATER DISTRICT NUMBER 15
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2015

ASSETS

Current assets:

Cash and cash equivalents	\$ 46,438
Investments	45,428

Restricted assets:

Investments	33,189
Renter's deposit	<u>916</u>

Total current assets	<u>125,971</u>
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Non-current assets:

Capital assets:

Land	9,921
Other capital assets, net of accumulated depreciation	<u>814,478</u>

Total non-current assets	<u>824,399</u>
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Total assets	<u>950,370</u>
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LIABILITIES

Current liabilities:

Renter's deposit	916
Notes payable, current	<u>11,164</u>

Total current liabilities	<u>12,080</u>
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Non-current liabilities:

Notes payable, non-current	<u>423,354</u>
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Total non-current liabilities	<u>423,354</u>
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Total liabilities	<u>435,434</u>
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NET POSITION

Invested in capital assets, net of related debt	389,881
Restricted	33,189
Unrestricted	<u>91,866</u>

Net position	<u>\$ 514,936</u>
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The accompanying notes are an integral part of these financial statements.

RURAL WATER DISTRICT NUMBER 15
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2015

OPERATING REVENUES

Charges for services:

Water charges	\$ 174,954
Membership fee	750
Miscellaneous	<u>2,181</u>

Total operating revenues	<u>177,885</u>
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OPERATING EXPENSES

Personal services	31,402
Water purchases	55,513
Contract labor	430
Insurance	3,759
Repairs and maintenance	6,699
Office expense	3,777
Professional services	1,600
Other	2,540
Telephone and utilities	6,956
Meter reading	2,670
Mileage	2,004
Supplies	5,470
Easement	1,646
Dues, licenses, and fees	625
Depreciation	<u>33,037</u>

Total operating expenses	<u>158,128</u>
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Operating income (loss)	<u>19,757</u>
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NON-OPERATING REVENUE (EXPENSES)

Investment income	432
Interest on notes payable	<u>(19,817)</u>

Total non-operating revenue (expenses)	<u>(19,385)</u>
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Net income (loss)	372
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Total net position, beginning	<u>514,564</u>
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Total net position, ending	<u><u>\$ 514,936</u></u>
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The accompanying notes are an integral part of these financial statements.

RURAL WATER DISTRICT NUMBER 15
LEFLORE COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2015

Cash flows from operating activities	
Cash received from customers	\$ 177,885
Cash payments to employees	(31,402)
Cash payments to suppliers for goods and services	<u>(93,689)</u>
Net cash provided (used) by operating activities	<u>52,794</u>
Cash flows from capital and related financing activities	
Interest paid on notes payable and fiscal fees	(19,817)
Principal paid on notes payable	<u>(10,687)</u>
Net cash provided by capital and related financing activities	<u>(30,504)</u>
Cash flows from investing activities	
Interest revenue	<u>432</u>
Net cash provided (used) by investing activities	<u>432</u>
Net increase/(decrease) in cash and cash equivalents	22,722
Cash and cash equivalents, beginning	<u>103,249</u>
Cash and cash equivalents, ending	<u><u>\$ 125,971</u></u>
Reconciliation of operating income (loss)	
to net cash provided by (used) by operating activities	
Operating income (loss)	\$ 19,757
Adjustments to reconcile operating income to	
net cash used by operating activities:	
Depreciation	<u>33,037</u>
Net cash provided by operating activities	<u><u>\$ 52,794</u></u>

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

RURAL WATER DISTRICT NUMBER 15
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

LeFlore County Rural Water District Number 15 (The District), was created by LeFlore County Board of County Commissioners. The District adopted a modified cash basis of accounting as reflected in these financial statements. The activities of the District constitute the entire reporting entity. There are no component or oversight units. The District is a political subdivision of the state of Oklahoma.

Government-Wide and Fund Financial Statements

The District is a special purpose governmental entity engaged only in business type activities. The District prepares financial statements required for enterprise funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the financial statements business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. 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 non-current, financial, or non-financial) associated with their activities are reported. Fund equity is classified as net position.

Basis of Accounting

In the financial statements, business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net position/fund equity, revenues, and expenditures/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 this 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 and 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. If the Authority utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

RURAL WATER DISTRICT NUMBER 15
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

FUND TYPES AND MAJOR FUNDS

The District reports all activity within a single fund.

Investments

The District follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investments reported in the financial statements consist of Certificates of Deposits.

Capital Assets, Depreciation, and Amortization

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported. The District maintains infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The District generally capitalizes assets with a cost of \$500 or more as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	3-40
Improvements, other than buildings	3-40
Mobile equipment	3-40
Furniture, machinery, and equipment	3-40
Utility system	3-40

Compensated Absences

Full-time, permanent employees are granted personal leave in varying amounts to specified maximums depending on tenure with the District. The District does not record a liability for accrued compensated absences. Using the modified cash basis the amount paid for compensated absences is expended as paid.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

RURAL WATER DISTRICT NUMBER 15
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Use of 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, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the District will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by counterparty or the counterparty's trust department but not in the name of the District. The District's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2015, all of the District's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$125,971 at June 30, 2015. The bank balance of the deposits at June 30, 2015 was approximately \$126,618.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at June 30, 2015.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitors the investment performance on an ongoing basis to limit the District's interest rate risk. As of June 30, 2015, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - RESTRICTED INVESTMENTS

The District reports restricted investments for use as a loan reserve. These investments are to be used for a debt reserve for use in paying debt principal and interest for the Rural Development loans.

RURAL WATER DISTRICT NUMBER 15
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE D - CAPITAL ASSETS

Changes in capital assets.

The following table provides a summary of changes in capital assets:

	Balance at June 30, 2014	Additions	Retirements	Balance at June 30, 2015
Land	\$ 9,921	\$ -	\$ -	\$ 9,921
Water System	1,284,341	-	-	1,284,341
Equipment	14,602	-	-	14,602
Subtotal	<u>1,308,864</u>	<u>-</u>	<u>-</u>	<u>1,308,864</u>
Less: Accum. Depr.	<u>(451,428)</u>	<u>(33,037)</u>	<u>-</u>	<u>(484,465)</u>
Total Capital Assets (Net of Depreciation)	<u>\$ 857,436</u>	<u>\$ (33,037)</u>	<u>\$ -</u>	<u>\$ 824,399</u>

NOTE F - NOTES PAYABLE

The District has incurred debt for the expansion of the water system. On November 7, 1986, the District signed a Promissory Note with the Farmers Home Administration, United States Department of Agriculture for a loan in the principal amount of \$553,800. Beginning June 25, 1998, payments in the amount of \$2,542 became payable monthly. The loan is for a term of forty years at 4.5% interest. The balance due on the loan at June 30, 2015 was \$434,518.

The annual debt service requirements for the note is \$30,504 including principal and interest. The District has reserve funds sufficient to equal the annual debt service requirement.

Following is the anticipated annual debt service amounts:

<u>Year Ended November 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 11,164	\$ 19,340	\$ 30,504
2017	11,677	18,827	30,504
2018	12,213	18,291	30,504
2019	12,774	17,730	30,504
2020	13,361	17,143	30,504
2021-2025	76,598	75,922	152,520
2026-2030	95,884	56,636	152,520
2031-2035	120,028	32,492	152,520
2036-2038	<u>80,819</u>	<u>10,693</u>	<u>91,512</u>
Total	<u>\$ 434,518</u>	<u>\$ 267,074</u>	<u>\$ 701,592</u>

RURAL WATER DISTRICT NUMBER 15
LEFLORE COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE H - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE I - CONTRACTS

The District purchases water for resale from the Poteau Valley Improvement Authority. The District provides water service to the south end of LeFlore County, Oklahoma serving approximately 144 customers. Its largest customer is a local prison, which accounts for a large percentage of the District's income.

NOTE J - WATER UTILITY RELOCATION PROJECT

The District was required to relocate water lines in order to accommodate replacement of the U.S. Highway 59 Shawnee Creek Bridge. The costs for this project were reimbursed 100% by the State of Oklahoma. Because the District was only a pass-thru for the project and the costs were for relocation, not new construction, the costs were netted against the reimbursements and neither are reported on the financial statements. Total costs and reimbursements during fiscal year ending June 30, 2015 were \$105,720.

NOTE K - SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 8, 2016, the date on which the financial statements were available to be issued. The Authority does not believe there are any events requiring disclosure.

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"

To the Board of Directors
Rural Water District Number 15
LeFlore County
Hodgen, Oklahoma

I have audited, in accordance with the 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 - modified cash basis LeFlore County Rural Water District Number 15, LeFlore County, Oklahoma, Hodgen, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise LeFlore County Rural Water District Number 15's basic financial statements and have issued my report thereon dated March 8, 2016, which did not include Management's Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered LeFlore County Rural Water District Number 15's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LeFlore County Rural Water District Number 15's internal control. Accordingly, I do not express an opinion of the effectiveness of LeFlore County Rural Water District Number 15's internal control.

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. 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.

My 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 that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

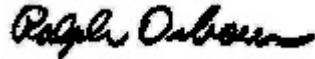
Compliance and Other Matters

As part of obtaining reasonable assurance about whether LeFlore County Rural Water District Number 15, LeFlore County, Oklahoma, Hodgen, Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
March 8, 2016