

MCCLAIN COUNTY RURAL WATER DISTRICT #8

WAYNE, OKLAHOMA

FINANCIAL STATEMENTS AND

AUDITOR'S REPORT THEREON

FOR THE YEAR ENDING JUNE 30, 2016 and 2015

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# **Russell & Williams CPA's, P.C.**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
McClain County Rural Water District #8  
Wayne, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of McClain County RWD#8, as of and for the years ended June 30, 2016 and 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 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 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 opinions.

### **Opinions**

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 McClain County RWD#8, as of June 30, 2016 and 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

Management has omitted the management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McClain County RWD#8's basic financial statements. The supporting schedules on pages 9 and 10 are presented for purposes of additional analysis and are not a required part of the financial statements of the District. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supporting schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated November 11, 2016, on our consideration of the McClain County RWD#8'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 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 McClain County RWD#8's internal control over financial reporting and compliance.

*Russell + William CPAs, P.C.*

Oklahoma City, Oklahoma  
November 11, 2016

**McClain County Rural Water District #8**  
**Statement of Net Position**  
**June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents - Unrestricted	402,430.52	387,252.09
Cash and cash equivalents - Restricted	257,987.85	258,444.58
Net Receivables	54,206.47	46,817.62
Prepaid Insurance	14,934.75	13,165.08
Materials and Supplies	14,864.50	14,864.50
<b>Total Current Assets</b>	<u>744,424.09</u>	<u>720,543.87</u>
<b>NONCURRENT ASSETS:</b>		
Net Capital Assets	<u>1,626,932.78</u>	<u>1,736,914.88</u>
<b>Total Noncurrent Assets</b>		
<b>TOTAL ASSETS</b>	<u><u>\$ 2,371,356.87</u></u>	<u><u>\$ 2,457,458.75</u></u>
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	15,880.60	14,698.76
Accrued Expenses	2,943.24	46,323.38
Current Portion of Long Term Debt	55,000.00	55,000.00
<b>Total Current Liabilities</b>	<u>73,823.84</u>	<u>116,022.14</u>
<b>NONCURRENT LIABILITIES:</b>		
Notes Payable	<u>1,345,000.00</u>	<u>1,400,000.00</u>
<b>Total Noncurrent Liabilities</b>		
<b>TOTAL LIABILITIES</b>	<u>1,418,823.84</u>	<u>1,516,022.14</u>
<b>NET POSITION</b>		
Invested in Capital Assets, Net of Related Debt	226,932.78	281,914.88
Unrestricted	725,600.25	659,521.73
<b>Total Net Position</b>	<u>952,533.03</u>	<u>941,436.61</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u><u>\$ 2,371,356.87</u></u>	<u><u>\$ 2,457,458.75</u></u>

The accompanying footnotes are an integral part of these financial statements

**McClain County Rural Water District #8**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ending June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Revenues</b>		
Water Sales	\$ 498,470.51	\$ 480,715.13
Miscellaneous	27,053.90	23,330.30
<b>Total Revenues</b>	<u>525,524.41</u>	<u>504,045.43</u>
<b>Expenses</b>		
Operating Expenses	118,743.49	140,500.31
Wages and Salaries	175,523.44	195,385.46
General and Administrative	65,153.21	51,213.62
Interest	60,903.78	62,438.78
Depreciation	109,982.10	115,835.95
<b>Total Expenses</b>	<u>530,306.02</u>	<u>565,374.12</u>
<b>Excess Revenue Over Expenses</b>		
<b>Before Non-Operating Items</b>	(4,781.61)	(61,328.69)
Interest Income	<u>878.03</u>	<u>520.46</u>
<b>Excess Revenue Over Expenses</b>		
<b>After Non-Operating Items</b>	<u>(3,903.58)</u>	<u>(60,808.23)</u>
Beginning Net Position	941,436.61	974,744.84
Contributed Capital	15,000.00	27,500.00
Ending Net Position	<u>\$ 952,533.03</u>	<u>\$ 941,436.61</u>

The accompanying notes are an integral part of these financial statements

**McClain County Rural Water District #8**  
**Statement of Cash Flows**  
**For the Years Ending June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities</b>		
Cash Received from customers	\$ 491,081.66	\$ 480,715.13
Cash Received from other sources	27,931.93	23,850.76
Payments to suppliers	(245,388.31)	(259,085.32)
Payments to employees	<u>(218,903.58)</u>	<u>(182,774.84)</u>
<b>Net cash provided by operating activities</b>	54,721.70	62,705.73
<b>Cash flows from capital and related financing activities</b>		
Common Units Sold	15,000.00	27,500.00
Purchase of Capital Assets	-	(80,694.66)
Principal paid on long term debt	<u>(55,000.00)</u>	<u>(50,000.00)</u>
<b>Net cash flows from capital and related financing activities</b>	(40,000.00)	(103,194.66)
<b>Net increase (decrease) in cash</b>	14,721.70	(40,488.93)
<b>Cash, Beginning of the Year</b>	<u>645,696.67</u>	<u>686,185.60</u>
<b>Cash, End of the Year</b>	<u><u>\$ 660,418.37</u></u>	<u><u>\$ 645,696.67</u></u>
<b><i>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</i></b>		
Excess Revenue over Expenses Before Non-Operating Items	(3,903.58)	(60,808.23)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation	109,982.10	115,835.95
(Increase) Decrease in Accounts Receivable	(7,388.85)	-
(Increase) Decrease in Materials & Supplies	-	(12,364.50)
(Increase) Decrease in Prepaid Expenses	(1,769.67)	(46.06)
Increase (Decrease) in Accounts Payable	1,181.84	(4,886.55)
Increase (Decrease) in Accrued Expenses	<u>(43,380.14)</u>	<u>24,975.12</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 54,721.70</u></u>	<u><u>\$ 62,705.73</u></u>
 Cash and cash equivalents - Unrestricted	 402,430.52	 387,252.09
Cash and cash equivalents - Restricted	<u>257,987.85</u>	<u>258,444.58</u>
<b>Total Cash</b>	<u><u>\$ 660,418.37</u></u>	<u><u>\$ 645,696.67</u></u>

The accompanying notes are an integral part of these financial statements

MCCLAIN COUNTY RURAL WATER DISTRICT #8  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2016 and 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The McClain County Rural Water District #8, Oklahoma (the “District”) was created on October 5, 1973, pursuant to the Rural Water, Sewer and Solid Waste Management Districts Act of Oklahoma (82 O.S. Sec. 1301-1324) by an order of the Board of County Commissioners of McClain County, Oklahoma. The purpose of the District is providing an adequate water supply to meet the needs of rural residents within the territory of the district.

Cash and Cash Equivalents – Items classified as cash equivalents in the financial statements include temporary investments in bank certificates of deposit, as well as other highly liquid short term investments. Restricted cash is cash reserves required by the USDA Rural Development Program.

Depreciation – Waterlines and facilities are depreciated using the straight-line method over the estimated useful lives of forty years. Depreciation of office building and office equipment is computed over the estimated useful lives of five to twenty years.

Income Taxes – The District is a body politic (corporate and an agency) and legally constituted authority of the State of Oklahoma. Based upon this status, the District should be exempt from federal income taxes and from filing requirements of the Internal Revenue Service. As discussed in Note 5, organizations covered by Section 501(c)(12) of the Internal Revenue Code and subject to imposition of income taxes on income from non-members and (2) subject to filing requirements of the Internal Revenue Service.

Contributed Capital – The District has received grants from governmental agencies for the construction of the District’s water system. These amounts have been recorded as Contributed Capital to reflect amounts received as equity from events not involving operations of the fund. No amounts were contributed during 2016 and 2015.

Revenue and Expense Recognition – Revenue is recognized when it is earned, which is the point of consumption by the customer and expenses are recognized at the point of sale to the District.

Risk Management - The District is exposed to various risks of losses related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The District purchases commercial insurance from commercial insurance companies.

GASB 34 - The District has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements-and Management’s Discussion and Analysis-for State and Local Governments, as of June 30, 2004.



## NOTE 2 - DEPOSIT COLLATERAL

The cash accounts of the District are required by state law to be secured by collateral pledged by the financial institution and/or FDIC deposit insurance. In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name. (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

The District's cash accounts would be classified as category 1 for the portion that was insured by FDIC and category 3 for the portion not covered by FDIC. As of June 30, 2016 the District had \$500,000 secured as category 1 and \$160,418 secured as category 2. For the year end the District had an overall under pledged collateral amount of \$-0-.

## NOTE 3 – COMMON UNITS

The District sells common units to new members. The accumulation of the sale of common units is reflected as part of the equity of the District. During the year ending June 30, 2016, the District sold \$15,000 worth of common units.

## NOTE 4 – LONG TERM DEBT

During the year ending June 30, 2014, the District refinanced their existing Rural Development loans through the Oklahoma Water Resource Board. This loan is being administered by BancFirst. The excess loan proceeds were used for capital improvements. This loan calls for semi-annual payments and matures in September 2033. This loan carries a variable interest rate ranging from 2.1% to 2.4%. Principal and interest paid during the year ending June 30, 2016 was \$55,000.00 and \$60,904, respectively. Principal and interest required to amortize this note till maturity is as follows:

	Principal	Interest		
2016/2017	55,000	59,034	Balance Beginning of Year	\$ 1,455,000
2017/2018	55,000	57,439	Principal Paid During of Year	55,000
2018/2019	60,000	55,759	Balance End of Year	<u>\$ 1,400,000</u>
2019/2020	60,000	53,719		
2020/2021	65,000	51,269		
2021/2026	355,000	211,947		
2026/2031	435,000	127,381		
2031/2033	315,000	23,039		
	<u>\$ 1,400,000</u>	<u>\$ 639,586</u>		

Collateral for these obligations is the water system and revenues generated by the system. The District also had restricted cash of \$258,988 as of June 30, 2016 for debt service and remaining loan proceeds.

#### NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Water Lines and Plant	3,162,903	-	-	3,162,903
Equipment and Fixtures	386,427	-	-	386,427
Total	3,549,330			3,549,330
Accumulated Depreciation	(1,812,415)	(109,982)		(1,922,397)
Net Capital Assets	<u>\$1,736,915</u>			<u>\$ 1,626,933</u>

Management decides which purchases are capitalized in a case by case basis.

#### NOTE 6 – INSURANCE COVERAGE

The District maintains insurance coverage through the Oklahoma Rural Water Association Assurance Group (ORWA). The policy coverage period is 6/01/2016 to 6/01/2017. The policy agreement number is 10298. The policy provides the following coverage:

##### Property and General Liability

\$25,000	Each Property Damage Loss per Occurrence	\$1,000,000	Aggregate Per Occurrence
\$125,000	Each Other Loss per Occurrence	\$1,000,000	Annual Aggregate

##### Worker's Compensation and Employment Related Practices Liability

\$500,000	Per Occurrence Including Attorney Fees	\$1,000,000	Annual Aggregate
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##### Position Fidelity Bond

\$10,000	Blanket Coverage
\$71,000	Per Position on the Board
\$10,000	Money Securities

#### NOTE 7 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through November 11, 2016 which is the date the financial statements were made available.

**McClain County Rural Water District #8**  
**Supporting Schedule of Operating Expenses**  
**For the Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
Chemicals	2,115.00	2,622.29
Expense on System	15,388.96	52,103.58
Uniforms	2,918.02	598.02
System Repairs	32,291.43	25,726.79
Electricity	36,199.17	37,949.64
Workmen's Comp Insurance	20,805.35	-
Automobile Expense	9,025.56	21,499.99
Total Operating Expenses	<u>\$ 118,743.49</u>	<u>\$ 140,500.31</u>

**McClain County Rural Water District #8**  
**Supporting Schedule of General and Administrative Expenses**  
**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Accounting and Legal	17,373.75	506.25
Insurance and Bonding	10,792.02	18,703.47
Office Supplies	22,923.36	18,317.28
Postage	5,391.82	3,710.00
Telephone	5,441.02	5,887.45
Natural Gas	1,728.24	2,595.17
Water	1,503.00	1,494.00
Total General & Administrative Expenses	<u>\$ 65,153.21</u>	<u>\$ 51,213.62</u>

## **Russell & Williams CPA's, P.C.**

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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**

To the Board of Directors of  
McClain County RWD #8

We 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 of the business-type activities of McClain County RWD #8, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise McClain County RWD #8's basic financial statements and have issued our report thereon dated November 11, 2016.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered McClain County RWD #8's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McClain County RWD #8's internal control. Accordingly, we do not express an opinion on the effectiveness of McClain County RWD #8'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.

Our consideration of internal control 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. 2016-1 & 2016-2.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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.

## **McClain County RWD #8's Response to Findings**

McClain County RWD #8's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. McClain County RWD #8's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Russell + William CPA's, P.C.*

Oklahoma City, Oklahoma  
November 11, 2016

## **Schedule of Current Findings and Responses**

### **2016-1 Lack of Segregation of Duties (Repeat Finding)**

**CONDITION:** During our review of the internal control structure, we noted that several procedures lack the control of having duties segregated. We understand that due to the size of the District and number of personnel, many aspects related to segregation of duties cannot be implemented.

**CRITERIA:** We believe that internal control procedures would be strengthened by reviewing the individual tasks to determine whether internal control procedures could be improved.

**CAUSE OF CONDITION:** Limited personnel

**EFFECT OF CONDITION:** Unknown

**MANAGEMENT RESPONSE:** All checks require two signatures whether there are two signature lines or not. Board has approval of all expenditures. In many cases due to our limited resources, controls will be limited.

### **2016-2 Significant Billing Adjustments**

**CONDITION:** During our review of the internal control structure, we noted that three months of billing registers required significant adjustments to correct balances. We understand that errors are made during the input process that need to be adjusted but a more careful approach needs to be implemented so that there are not recurring significant adjustments.

**CRITERIA:** We believe that internal control procedures would be strengthened by requiring that each months water usage data be double-checked before finalizing and printing the bills.

**CAUSE OF CONDITION:** Personnel inputting water usage data is not diligently entering in the correct usage amounts.

**EFFECT OF CONDITION:** Significant billing adjustments can also be a sign that fraud is occurring.

**RECOMMENDATION:** We believe that internal control procedures would be strengthened by requiring that each months water usage data be double-checked before finalizing and printing the bills. If an adjustment is needed for an account then the staff should document the billing adjustment and have it signed and approved by the manager before the adjustment is entered in the system.

**MANAGEMENT RESPONSE:** The individual who was creating the bulk of these errors is no longer employed. We will also implement a policy of having the manager approve all account adjustments before they are performed.