

**INDEPENDENT  
ACCOUNTANT'S AUDIT REPORT  
CONSOLIDATED RURAL WATER  
AND SEWER DISTRICT NO. 1**

**SEPTEMBER 30, 2017**

BY



**Consolidated Rural Water and Sewer District No. 1**  
**Hastings, Oklahoma**  
**Year Ended September 30, 2017**

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Consolidated Rural Water and Sewer District No. 1  
Jefferson County  
Hastings, Oklahoma

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

We have audited the accompanying financial statements of the business-type activities of Consolidated Rural Water and Sewer District No. 1, Jefferson County, Hastings, Oklahoma (the District), as of and for the year ended September 30, 2017, 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 the accounting principles standards 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 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 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 Consolidated Rural Water and Sewer District No. 1, as of September 30, 2017, and the respective changes in financial position, and, where applicable, 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 the budgetary comparison information on page 18 and the grant schedule on page 19 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. 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 budgetary comparison and grant schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Management has omitted the management's discussion and analysis 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 Consolidated Rural Water and Sewer District No. 1's basic financial

statements. The combining statement of net position, combining statement of revenue and expense and schedule of outstanding long-term debt are presented for purposes of additional analysis and are not a required part of the basic financial statements.

These supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 combining financial statements and the schedule of outstanding long-term debt 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 15, 2017, 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, 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 the District's internal control over financial reporting and compliance.

*Furrh & Associates, PC*

Furrh & Associates, PC  
Lawton, Oklahoma  
November 15, 2017

# Consolidated Rural Water and Sewer District No. 1

## Hastings, Oklahoma

### Statement of Net Position

For Year Ended September 30, 2017

#### ASSETS

##### Current Assets

Cash - Operating Accounts	\$	2,051,325	
Temporary Investments - Due after 90 Days		572,882	
Net Accounts Receivable		180,170	
Accrued Interest Receivable		98	
Inventory		72,244	
Prepaid Expense		29,472	
Total Current Assets			\$ 2,906,191

##### Fixed Assets

Water and Sewer System	\$	18,312,985	
Accumulated Depreciation		(8,299,270)	10,013,715
Machinery and Equipment		184,574	
Accumulated Depreciation		(118,396)	66,178
Transportation Equipment		231,315	
Accumulated Depreciation		(129,992)	101,323
Office Equipment		24,457	
Accumulated Depreciation		(13,656)	10,801
Buildings		114,359	
Accumulated Depreciation		(61,466)	52,893
Net Fixed Assets			10,244,910

##### Other Assets

Cash - Reserve Accounts		133,482	
Certificates of Deposit - Reserve		200,000	
Total Other Assets			333,482
Total Assets			\$ 13,484,583

Please see accompanying notes to financial statements.

# Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Statement of Net Position

For Year Ended September 30, 2017

## LIABILITIES AND NET POSITION

### Current Liabilities

Current Portion of Long-Term Debt	\$	228,628	
Accounts Payable		103,190	
Accrued Compensated Absences		50,870	
Accrued Interest Payable		2,140	
Payroll Taxes & Related Payables		1,905	
Total Current Liabilities			\$ 386,733

### Long-Term Liabilities

Notes Payable - Rural Development Administration		5,017,209	
Notes Payable - Arvest		719,420	
Less Current Portion		(228,628)	
Total Long-Term Liabilities			<u>5,508,001</u>
Total Liabilities			5,894,734

### Net Position

Invested in Capital Assets, Net of Related Debt		4,508,281	
Restricted for Debt Service		333,482	
Unrestricted		2,748,086	
Total Net Position			<u>7,589,849</u>
Total Liabilities and Net Position			<u>\$ 13,484,583</u>

Please see accompanying notes to financial statements.

# Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Statement of Revenue, Expense, and Changes in Net Position

Year Ended September 30, 2017

## Operating Revenue

Water Revenue	\$ 1,728,535	
ODOT Revenue	231,822	
Tower Maintenance	127,325	
Construction Revenue	127,325	
Grant Revenue - CDBG	179,999	
Benefit Unit Fees	30,749	
Penalty Revenue	28,462	
Other Revenue	20,847	
Sewer Revenue	11,795	
Reactivation Fees	7,012	
Meter Service Fees	2,680	
Total Revenue		\$ 2,496,551

## Cost of Sales

System Maintenance and Repairs	620,551	
System Electricity	78,171	
Water Purchased	29,900	
Total Cost of Sales		<u>728,622</u>
Gross Operating Revenue		1,767,929

## Operating Expense

Depreciation	498,966	
Salaries	334,127	
Payroll Taxes	37,726	
Employee Health and Pension Benefits	79,875	
Insurance	57,584	
Auto and Truck Expense	56,040	
Office Supplies and Expense	31,899	
Miscellaneous	26,435	
Dues, Licenses, Fees, and Permits	23,134	
Utilities and Telephone	14,204	
Legal Expense	8,938	
Other Repairs and Maintenance	7,587	
Accounting	7,227	
Leases-Equipment	4,252	
Uniforms	1,957	
Advertising	686	
Total Operating Expense		<u>1,190,637</u>
Net Operating Revenue/(Loss)		\$ 577,292

Please see accompanying notes to financial statements.



**Consolidated Rural Water and Sewer District No. 1**  
**Hastings, Oklahoma**  
**Statement of Revenue, Expense, and Changes in Net Position**  
**Year Ended September 30, 2017**

<b><u>Nonoperating Revenue (Expense)</u></b>		
Interest Income	\$ 5,265	
Gain on Disposal of Asset	10,830	
Interest Expense	<u>(160,088)</u>	
Total Nonoperating Revenue (Expense)		<u>\$ (143,993)</u>
Net Revenue/(Loss)		433,299
Net Position, September 30, 2016		<u>7,156,550</u>
Net Position, September 30, 2017		<u><u>\$ 7,589,849</u></u>

Please see accompanying notes to financial statements.

# Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Statement of Cash Flows

Year Ended September 30, 2017

## Cash Flow from Operating Activities

Cash Received from Customers	\$ 2,507,898	
Cash Paid for Water	(716,816)	
Cash Paid for Salaries and Related Costs	(360,392)	
Cash Paid to Suppliers	(383,729)	
Net Cash Provided by Operating Activities		\$ 1,046,961

## Cash Flow from Capital and Related Financing Activities

Payments on Long-Term Debt:		
Rural Development	(185,689)	
Arvest	(5,783)	
Increase in Arvest Notes Payable	727,770	
Interest on Long-Term Debt	(160,088)	
Decrease in Interest Payable	(367)	
Net Cash Used by Capital and Related Financing Activities		375,843

## Cash Flow from Investing Activities

Purchase of Fixed Assets	(1,281,510)	
Gain on Disposal of Asset	10,830	
Interest Income	5,265	
Increase in Temporary Investments	1,269	
Increase in Interest Receivable	(21)	
Net Cash Used by Investing Activities		(1,264,167)

Net Increase in Cash and Cash Equivalents 158,637

Cash and Cash Equivalents, September 30, 2016 2,026,170

Cash and Cash Equivalents, September 30, 2017 \$ 2,184,807

Please see accompanying notes to financial statements.

# Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Statement of Cash Flows

Year Ended September 30, 2017

Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Net Operating Revenue	\$	577,292
Add, Depreciation		498,966
(Increase) Decrease in Other Current Assets:		
Accounts Receivable	\$	11,347
Prepaid Expense		2,830
Inventory		11,806
Increase (Decrease) in Other Current Liabilities:		
Accounts Payable		(66,741)
Payroll Taxes Payable		(517)
Compensated Absences		11,978
		<u>(29,297)</u>
Net Cash Provided by Operating Activities	\$	<u>1,046,961</u>

Please see accompanying notes to financial statements.

# Consolidated Rural Water and Sewer District No. 1

## Hastings, Oklahoma

### Notes to Financial Statements

September 30, 2017

#### **Note 1 – Summary of Significant Accounting Policies**

The Consolidated Rural Water and Sewer District No. 1, Jefferson County, Oklahoma (the District), was organized December 1, 1975, by consolidation of previously existing Rural Water and Sewer District No. I, Jefferson County, Oklahoma, and Rural Water and Sewer District No. II, Jefferson County, Oklahoma. The District is organized under the Oklahoma Rural Water and Sewer Districts Act and is a political subdivision of the State of Oklahoma.

The District operates a water distribution and sewer service system for the communities of Addington and Hastings, Oklahoma, and a water distribution system over the remainder of its service area, which includes an area of approximately 1600 square miles in Jefferson, Stephens, Carter, Cotton, and Love Counties, Oklahoma. The District has installed its own water wells and purchases supplemental water from the cities of Comanche, Duncan, and Waurika, Oklahoma.

In addition to service to individual consumers, the District provides water to the Corps of Engineers Waurika Project and the Towns of Loco, Healdton, Terral, and Wilson, Oklahoma, for their respective distribution systems.

The District operates as an autonomous proprietary fund and its bookkeeping accounts and financial statements are maintained and presented as Enterprise Fund accounts.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The District keeps its books and prepares its financial statements on the accrual basis of accounting. Water and sewer revenues are recognized when billed. Cost of water sold is recognized when billed by the supplier. Service and installation fees are reported as revenue when received. Meter and installation costs are expensed as current operating costs. Inventories are recorded at the lower of cost or market value.

Accounts receivable is stated at net realizable value. Bad debts are recorded by the specific charge-off method.

#### **Note 2 – Bank Accounts**

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments to be cash equivalents. Certificates of deposit and other time deposits with an

# Consolidated Rural Water and Sewer District No. 1

## Hastings, Oklahoma Notes to Financial Statements September 30, 2017

original maturity date of 90 days or less are considered cash equivalents. Cash and cash equivalents include the following accounts:

Arvest Bank	\$	25
Petty Cash Fund		500
Checking/Savings Accts:		
First Bank & Trust Company - Debit Card Acct		2,569
First Farmers National Bank - HiFi Acct		6,440 *
First Bank & Trust Company - Membership		62,104 *
First Bank & Trust Company - Reserve Acct		65,674 #
First Farmers National Bank - Reserve Acct		67,808 #
First Farmers National Bank - CDBG Acct		178,986 *
First Famers National Bank - Tower Acct		404,881 *
First Farmers National Bank - Construction Acct		436,129 *
First Farmers National Bank - Operating Acct		959,691
Total		<u>2,184,807</u>

# - Reserve Accounts – Restricted cash accounts, held for mortgage loan reserve guaranty, that are not available for operating activities.

\* Interest Bearing Accounts

The bank accounts used by the District are covered by F.D.I.C. insurance and a collateral pledge held by both First Farmers National Bank and First Bank and Trust.

### **Note 3 – Income Tax Status**

As a political subdivision of the State of Oklahoma, the District is exempt from federal and state income taxes.

### **Note 4 – Fixed Assets**

Fixed assets are recorded at cost and expenditures for maintenance and repairs are charged to current operations as incurred. Fixed assets costing less than \$500 per unit are charged to current expense.

**Consolidated Rural Water and Sewer District No. 1**  
**Hastings, Oklahoma**  
**Notes to Financial Statements**  
**September 30, 2017**

Depreciation is computed by the straight line method, using the following estimated useful lives.

Building	40 years
Water and Sewer System	40 years
Master Meters	20 years
Furniture and Fixtures	5 years
Machinery and Equipment	5-8 years
Transportation Equipment	3-5 years

Total depreciation expense for the current year was \$498,966, which was charged against current operations.

Current year changes to fixed assets were as follows:

	Balance 9/30/16	Additions	Disposals	Balance 9/30/17
<u>Assets</u>				
Water & Sewer System	\$ 17,084,561	\$ 1,228,424	\$ 0	\$ 18,312,985
Transportation Equipment	222,054	36,561	(27,300)	231,315
Machinery & Equipment	175,243	9,331	0	184,574
Buildings	114,359	0	0	114,359
Office Equipment	24,956	7,194	(7,693)	24,457
Total	<u>\$ 17,621,173</u>	<u>\$ 1,281,510</u>	<u>\$ (34,993)</u>	<u>\$ 18,867,690</u>
<u>Accumulated Depreciation</u>				
Water & Sewer System	\$ 7,853,195	\$ 446,075	\$ 0	\$ 8,299,270
Transportation Equipment	113,966	36,956	(20,930)	129,992
Machinery & Equipment	106,640	11,756	0	118,396
Buildings	58,814	2,652	0	61,466
Office Equipment	19,822	1,527	(7,693)	13,656
Total	<u>\$ 8,152,437</u>	<u>\$ 498,966</u>	<u>\$ (28,623)</u>	<u>\$ 8,622,780</u>
Net Fixed Assets	<u>\$ 9,468,736</u>			<u>\$ 10,244,910</u>

**Note 5 – Inventory**

Inventories of replacement parts and consumable supplies are recorded at cost.

**Consolidated Rural Water and Sewer District No. 1**  
**Hastings, Oklahoma**  
**Notes to Financial Statements**  
**September 30, 2017**

**Note 6 – Investments**

The District has the following investments which are legal investments under the Oklahoma Statutes:

Certificates of Deposit:		
Arvest Bank, Duncan, OK		
Maturity 6/12/18, Interest Paid Quarterly at 0.40%	\$	52,316
First Farmers National Bank, Waurika, OK		
Maturity 11/16/18, Interest Paid Monthly at 0.35%		100,000
First Bank & Trust Company, Duncan, OK		
Maturity 3/31/18, Interest Paid Monthly at 0.35%		128,102
First Farmers National Bank, Waurika, OK		
Maturity 6/21/18, Interest Paid Monthly at 0.45%		131,000
Arvest Bank, Duncan, OK		
Maturity 5/26/18, Interest Paid Monthly at 0.45%		161,464
First Bank & Trust Company, Duncan, OK		
Maturity 4/23/18, Interest Paid Monthly at 0.35%		200,000
Total	\$	772,882

All investments are covered by FDIC insurance and/or collateral pledge agreements.

**Note 7 – Insurance against Loss Contingencies**

The District maintains the following insurance coverage for protection against possible loss contingencies:

Description

- Rural Water Association Assurance Group
  - Officers and Directors Liability
  - Business Property Protection
  - General Liability
  - Automobile Protection
  - Fidelity Bond Coverage
  - Workers Compensation & Employers Liability

# Consolidated Rural Water and Sewer District No. 1

## Hastings, Oklahoma Notes to Financial Statements September 30, 2017

### Note 8 – Debt

#### Rural Development Administration:

The total annual debt service requirements of the long-term mortgage notes to Rural Development Administration detailed on page 23 amounts to \$193,059 plus interest at 2.5-5.0% per annum, payable in total monthly payments of \$27,171.

Changes in total long-term debt for the Rural Development Administration loan for the current year were as follows:

Balance, September 30, 2016	\$	5,202,898
Less, Current Year Principal Payments		(185,689)
Balance, September 30, 2017	\$	<u>5,017,209</u>

The principal maturities for the succeeding five years and thereafter on the Rural Development Administration long-term debt will be approximately as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ended September 30, 2018	\$ 193,059	\$ 132,993	\$ 326,052
Year Ended September 30, 2019	200,738	125,314	326,052
Year Ended September 30, 2020	208,729	117,323	326,052
Year Ended September 30, 2021	190,742	111,468	302,210
Year Ended September 30, 2022	92,970	104,010	196,980
Years Ended September 30, 2053	<u>4,130,971</u>	<u>2,320,684</u>	<u>6,451,655</u>
Total	<u>\$ 5,017,209</u>	<u>\$ 2,911,792</u>	<u>\$ 7,929,001</u>

#### Arvest Bank

The total annual debt service requirements of the long-term mortgage note to Arvest Bank detailed on page 24 amounts to \$35,569 plus interest at 4.25% per annum, payable in total monthly payments of \$5,502.

Changes in total long-term debt for the Arvest Bank loan for the current year were as follows:

Balance, September 30, 2016	\$	0
Add, Current Year Increases to Loan		725,000
Less, Current Year Principal Payments		(5,580)
Balance, September 30, 2017	\$	<u>719,420</u>



**Consolidated Rural Water and Sewer District No. 1**  
**Hastings, Oklahoma**  
**Notes to Financial Statements**  
**September 30, 2017**

The principal maturities for the succeeding five years and thereafter on the Arvest long-term debt will be approximately as follows:

	Principal	Interest	Total
Year Ended September 30, 2018	\$ 35,569	\$ 30,453	\$ 66,022
Year Ended September 30, 2019	37,111	28,911	66,022
Year Ended September 30, 2020	38,718	27,304	66,022
Year Ended September 30, 2021	40,397	25,625	66,022
Year Ended September 30, 2022	42,148	23,874	66,022
Years Ended September 30, 2032	<u>525,477</u>	<u>134,743</u>	<u>660,220</u>
Total	<u>\$ 719,420</u>	<u>\$ 270,910</u>	<u>\$ 990,330</u>

**Note 9 – Supplemental Disclosures**

Supplemental disclosure of cash flow information:

Cash paid during the year for interest expense	<u>\$ 160,088</u>
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**Note 10 – Compensated Absences**

Accrued compensated absences includes the following:

Earned Unpaid Vacation/Sick Leave	<u>\$ 50,870</u>
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**Note 11 – Pension Accounting**

The District sponsors an employee deferred compensation plan under Section 457 of the Internal Revenue Code. All full time employees are eligible to participate, on a voluntary basis, with no waiting period requirements. Participating employees are 100% vested in all elected deferrals. Salary reductions under the plan may not exceed the lesser of \$7,500 or 1/3 of the participant's includable compensation. Employee contributions to the plan are made from payroll deductions from the participating employees. The District matches the employee contributions up to 4.5% of compensation contributed by the employee.

# Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Notes to Financial Statements

September 30, 2017

Costs of pension contributions for the current year were:

District	\$	8,705
Employees		11,816
Total	\$	<u>20,521</u>

Pension cost to the District for the past three years was:

9/30/2017	\$	8,705
9/30/2016		8,639
9/30/2015		8,683
Total	\$	<u>26,027</u>

Assets of the plan, which are invested in individual employee insurance annuity contracts, are not included in the financial statement of the District because of the fiduciary responsibility to use the plan assets only for the payment of benefits.

## Note 12 – Subsequent Events

In preparing the accompanying audited financial statements, management reviewed all known events that have occurred after September 30, 2017 and through November 15, 2017, the date the financial statements were available for issuance, for inclusion in the financial statements and footnotes.



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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 Trustees  
Consolidated Rural Water and Sewer District No. 1  
Jefferson County  
Hastings, Oklahoma

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 Consolidated Rural Water and Sewer District No. 1, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 15, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Consolidated Rural Water and Sewer District No. 1'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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of Consolidated Rural Water and Sewer District No. 1'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. 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 Consolidated Rural Water and Sewer District No. 1'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*.

### **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.

*Furrh + Associates, PC*

**FURRH & ASSOCIATES, PC**

Lawton, Oklahoma  
November 15, 2017

# Consolidated Rural Water and Sewer District No. 1

## Hastings, Oklahoma

### Revenues and Expenses Compared with Budget

Year Ended September 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<b><u>Revenue</u></b>			
Water Revenue	\$ 1,906,935	\$ 1,728,535	\$ (178,400)
Other Revenue	299,000	20,847	(278,153)
ODOT Revenue	200,000	231,822	31,822
Construction Revenue	129,000	127,325	(1,675)
Tower Maintenance	129,000	127,325	(1,675)
Benefit Unit Fees	40,000	30,749	(9,251)
Penalty Revenue	33,000	28,462	(4,538)
Sewer Revenue	13,000	11,795	(1,205)
Reactivation Fees	8,000	7,012	(988)
Meter Service Fees	3,000	2,680	(320)
Grant Revenue - CDBG	0	179,999	179,999
Total Revenue	<u>2,760,935</u>	<u>2,496,551</u>	<u>(264,384)</u>
<b><u>Cost of Sales</u></b>			
System Maintenance and Repairs	971,335	620,551	(350,784)
Water Purchased	100,000	29,900	(70,100)
System Electricity	75,000	78,171	3,171
Total Cost of Sales	<u>1,146,335</u>	<u>728,622</u>	<u>(417,713)</u>
<b>Gross Revenue</b>	1,614,600	1,767,929	153,329
<b><u>Operating Expense</u></b>			
Depreciation	623,000	498,966	(124,034)
Salaries	315,860	334,127	18,267
Dues, Licenses, Fees, and Permits	107,000	23,134	(83,866)
Employee Health and Pension Benefits	77,000	79,875	2,875
Auto and Truck Expense	70,000	56,040	(13,960)
Insurance	63,300	57,584	(5,716)
Office Supplies and Expense	46,000	31,899	(14,101)
Payroll Taxes	35,540	37,726	2,186
Other Repairs and Maintenance	35,000	7,587	(27,413)
Miscellaneous	29,800	26,435	(3,365)
Utilities and Telephone	21,000	14,204	(6,796)
Legal Expense	20,000	8,938	(11,062)
Accounting	13,800	7,227	(6,573)
Leases-Equipment	8,000	4,252	(3,748)
Uniforms	2,000	1,957	(43)
Advertising	2,000	686	(1,314)
Total Operating Expense	<u>1,469,300</u>	<u>1,190,637</u>	<u>(278,663)</u>
Interest Expense	(150,300)	(160,088)	(9,788)
Gain on Disposal of Asset	0	10,830	10,830
Interest Income	5,000	5,265	265
<b>Net Revenue (Loss)</b>	<u>\$ 0</u>	<u>\$ 433,299</u>	<u>\$ 433,299</u>

Please see accompanying notes to the financial statements.

**Consolidated Rural Water and Sewer District**  
**Hastings, Oklahoma**

**ODOT Community Development Block Grant 2014**  
**Revenue and Expenditures Compared with Budget**  
**Year Ended September 30, 2017**

<u>Revenue</u>	<u>Budget</u>	<u>Prior Year</u>	<u>Current Year</u>	<u>Total</u>	<u>(Over) Under Budget</u>
Grant Funds	\$ 179,999	\$ 0	\$ 179,999	\$ 179,999	\$ 0
Matching Funds	180,001	91,779	86,209	177,988	2,013
Total Income	360,000	91,779	266,208	357,987	2,013
<u>Expenditures</u>					
Construction	308,000	45,643	239,769	285,412	22,588
Professional Fees	40,000	35,030	23,439	58,469	(18,469)
Administrative Costs	12,000	11,106	3,000	14,106	(2,106)
Total Expenditures	360,000	91,779	266,208	357,987	2,013
Revenue Over (Under) Expenditures	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Contract No.: 16425 CDBG 15  
 Contract Period: 08/14/15 - 08/14/17  
 US Department of Housing and Urban Development  
 CFDA: 14.228

Please see accompanying notes to the financial statements.

# Consolidated Rural Water and Sewer District No. 1

## Hastings, Oklahoma

### Comparative Statement of Net Position

Years Ended September 30, 2017

	9/30/2017	09/30/16	Increase (Decrease)
<b><u>Current Assets</u></b>			
Cash	\$ 2,051,325	\$ 1,893,889	\$ 157,436
Temp. Investments - Due After 90 Days	572,882	571,613	1,269
Accounts Receivable	180,170	191,517	(11,347)
Interest Receivable	98	77	21
Inventory	72,244	84,050	(11,806)
Prepaid Expense	29,472	32,302	(2,830)
<b><u>Fixed Assets</u></b>			
Water and Sewer System (Net)	10,013,715	9,231,366	782,349
Machinery and Equipment (Net)	66,178	68,603	(2,425)
Transportation Equipment (Net)	101,323	108,088	(6,765)
Office Equipment (Net)	10,801	5,134	5,667
Buildings (Net)	52,893	55,545	(2,652)
<b><u>Other Assets</u></b>			
Cash - Reserve Accounts	133,482	132,281	1,201
Cash & CD's - Reserve Accounts	200,000	200,000	0
Total Assets	\$ 13,484,583	\$ 12,574,465	\$ 910,118
<b><u>Current Liabilities</u></b>			
Current Portion of LT Debt	\$ 228,628	\$ 185,691	\$ 42,937
Accounts Payable	103,190	169,931	(66,741)
Compensated Absences	50,870	38,892	11,978
Accrued Interest Payable	2,140	2,507	(367)
Payroll Taxes & Related Payables	1,905	2,422	(517)
<b><u>Long Term Liabilities</u></b>			
Notes Payable - Rural Development	4,824,150	5,017,207	(193,057)
Notes Payable - Arvest	683,851	0	683,851
Total Liabilities	5,894,734	5,416,650	478,084
<b><u>Net Position</u></b>			
Invested in Capital Assets (Net)	4,508,281	4,265,838	242,443
Restricted for Debt Service	333,482	332,281	1,201
Unrestricted	2,748,086	2,559,696	188,390
Total Net Position	7,589,849	7,157,815	432,034
Total Liabilities and Net Position	\$ 13,484,583	\$ 12,574,465	\$ 910,118

Please see accompanying notes to the financial statements.

# Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Comparative Statement of Revenue and Expense

Year Ended September 30, 2017

	Year Ended 9/30/17	Year Ended 9/30/16	(Increase) Decrease
<b><u>Revenue</u></b>			
Water Revenue	\$ 1,728,535	\$ 1,930,424	\$ (201,889)
ODOT Revenue	231,822	138,362	93,460
Construction Revenue	127,325	127,460	(135)
Tower Maintenance	127,325	127,460	(135)
Grant Revenue	179,999	62,667	117,332
Benefit Unit Fees	30,749	39,143	(8,394)
Penalty Revenue	28,462	30,117	(1,655)
Other Revenue	20,847	28,754	(7,907)
Sewer Revenue	11,795	12,008	(213)
Reactivation Fees	7,012	5,957	1,055
Meter Service Fees	2,680	2,756	(76)
Total Revenue	2,496,551	2,505,108	(8,557)
<b><u>Cost of Sales</u></b>			
System Maintenance and Repairs	620,551	737,881	(117,330)
System Electricity	78,171	72,688	5,483
Water Purchased	29,900	74,213	(44,313)
Total Cost of Sales	728,622	884,782	(156,160)
Gross Operating Revenue	1,767,929	1,620,326	147,603
<b><u>Operating Expense</u></b>			
Depreciation	498,966	487,025	11,941
Salaries and Related Payroll Taxes	371,853	354,709	17,144
Employee Health and Pension Benefits	79,875	67,984	11,891
Insurance	57,584	54,610	2,974
Auto and Truck Expense	56,040	46,372	9,668
Office Supplies and Expense	31,899	30,984	915
Miscellaneous	26,435	26,181	254
Dues, Licenses, Fees, and Permits	23,134	18,351	4,783
Utilities and Telephone	14,204	14,557	(353)
Legal Expense	8,938	10,489	(1,551)
Other Repairs and Maintenance	7,587	5,140	2,447
Accounting	7,227	7,219	8
Leases-Equipment	4,252	7,482	(3,230)
Uniforms	1,957	0	1,957
Advertising	686	0	686
Total Operating Expense	1,190,637	1,131,103	59,534
Net Operating Revenue/(Loss)	577,292	489,223	88,069
<b><u>Nonoperating Revenue/(Expense)</u></b>			
Interest Income	5,265	6,046	(781)
Gain on Disposal of Asset	10,830	0	10,830
Interest Expense	(160,088)	(147,169)	(12,919)
Total Nonoperating Revenue/(Expense)	(143,993)	(141,123)	(2,870)
Net Revenue/(Loss)	433,299	348,100	85,199
Net Position, Beg of year	7,156,550	6,809,715	346,835
Net Position, End of Year	\$ 7,589,849	\$ 7,157,815	\$ 432,034

Please see accompanying notes to the financial statements.



# Consolidated Rural Water and Sewer District No. 1

## Hastings, Oklahoma Schedule of Long Term Debt Year Ended September 30, 2017

<u>Description</u>	<u>Original Note Balance</u>	<u>Balance as of 09/30/2017</u>
United States Department of Agriculture Rural Development Administration		
Mortgage Note #9112, November 5, 1981, Matures November 5, 2021 Monthly Payment \$514, Including 5% Interest Principal Balance, September 30, 2017	<u>\$ 106,228</u>	\$ 20,977
Mortgage Note #9213, November 5, 1981, Matures November 5, 2021 Monthly Payment \$371, Including 5% Interest Principal Balance, September 30, 2017	<u>76,787</u>	14,393
Mortgage Note #9314, November 5, 1981, Matures November 5, 2021 Monthly Payment \$796, Including 4.75% Interest Principal Balance, September 30, 2017	<u>170,675</u>	34,822
Mortgage Note #9115, November 5, 1981, Matures November 5, 2021 Monthly Payment \$2,052, Including 5% Interest Principal Balance, September 30, 2017	<u>424,690</u>	87,346
Mortgage Note #9116, November 5, 1981, Matures November 5, 2021 Monthly Payment \$4,617, Including 5% Interest Principal Balance, September 30, 2017	<u>955,816</u>	188,319
Mortgage Note #9117, November 5, 1981, Matures November 5, 2021 Monthly Payment \$2,406, Including 5% Interest Principal Balance, September 30, 2017	<u>497,988</u>	97,904
Mortgage Note #9121, March 28, 2013, Matures April 28, 2053 Monthly Payment \$16,415, Including 2.5% Interest Principal Balance, September 30, 2017	<u>4,900,000</u>	<u>4,573,448</u>
Total United States Department of Agriculture Notes Payable		<u>\$ 5,017,209</u>

Please see accompanying notes to the financial statements.

# Consolidated Rural Water and Sewer District No. 1

Hastings, Oklahoma

Schedule of Long Term Debt

Year Ended September 30, 2017

<u>Description</u>	<u>Original Note Balance</u>	<u>Balance as of 09/30/2017</u>
Arvest Bank		
Tower Construction Loan		
Mortgage Note 4344304, October, 2016	\$ 725,000	
Matures August 15, 2032		
Monthly Payment \$5,502, Including 4.25% Interest		
Principal Balance, September 30, 2017		\$ 719,420
Total Arvest Notes Payable		\$ 719,420

Please see accompanying notes to the financial statements.