

**CHOCTAW COUNTY RURAL WATER  
AND SEWER DISTRICT NO. 1**

GRANT, OKLAHOMA

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEAR ENDED OCTOBER 31, 2015

Audited by

**SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

BROKEN ARROW, OK

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
BOARD OF DIRECTORS  
OCTOBER 31, 2015

BOARD OF DIRECTORS

Chairperson	Susan Brewer
Vice-Chairperson	Ricky Hunter
Secretary/Treasurer	Odis Brewer
Member	Candy Tollett
Member	David Dyer

USERS

Water	833
Sewer	98

MANAGER

James W. Bailey

Office Manager

Sandy Barcheers

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# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Choctaw County Rural Water and Sewer District No. 1  
Grant, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Choctaw County Rural and Sewer Water District No. 1 (the District), Grant, Oklahoma, as of and for the year ended October 31, 2015, 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. Management is also responsible for 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 opinions.

### **Opinions**

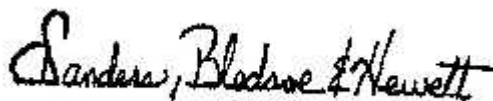
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of October 31, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Other Matters**

The District has not presented the Management's Discussion and Analysis that governmental 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 (GASB), who considers it to be an essential part of the 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2015 on our consideration of the Authority'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 or on 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 Authority's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

November 23, 2015



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**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  
Choctaw County Rural Water and Sewer District No. 1  
Grant, Oklahoma

We have audited, 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 accompanying financial statements of the Choctaw County Rural Water and Sewer District No. 1 (the District), Grant, Oklahoma, as of and for the year ended October 31, 2015, 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 23, 2015.

**Internal Control Over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting in order to determine our auditing procedures that are appropriate for the purpose of expressing our opinion 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 the District'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 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. We identified no deficiencies in the internal controls that we considered to be material weaknesses.

*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 combination of deficiencies, in internal control such that

there is a reasonable possibility that a material misstatement of the District'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.

#### Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

  
Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

November 23, 2015

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO.1  
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS  
OCTOBER 31, 2015

There were no prior year reportable conditions.



CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
SCHEDULE OF AUDIT RESULTS, FINDINGS AND QUESTIONED COSTS  
OCTOBER 30, 2015

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

NONE

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
STATEMENT OF NET ASSETS  
OCTOBER 31, 2015

ASSETS

Current Assets:	
Cash on hand	\$ 100
Cash in bank	276,415
Investments	175,161
Accounts receivable	79,815
Supplies Inventory	42,865
Prepaid insurance	11,076
Total current assets	585,432
Non-Current Assets:	
Bond trustee accounts	715,411
Bond issuance costs	54,572
Total non-current assets	769,983
Capital Assets:	
Construction in progress	375,352
Office furniture and fixtures	38,585
Equipment and tools	161,610
Transportation equipment	86,770
Water and sewer system	3,618,508
Buildings	55,941
Land and water rights	93,745
Total capital assets	4,430,511
Less accumulated depreciation	(1,919,845)
Total capital assets (net)	2,510,666
Total Assets	3,866,081

LIABILITIES

Current Liabilities:	
Accounts payable	12,360
Debt services payable	46,478
Current portion due within one year	40,000
Total current liabilities	98,838
Non-Current Liabilities:	
Revenue bonds payable	1,965,000
Total Liabilities	2,063,838

NET ASSETS

Invested in capital assets, net of related debt	505,666
Restricted for debt service	140,105
Unrestricted	1,156,472
Total Net Assets	\$ 1,802,243

The accompanying notes are an integral part of the financial statements

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED OCTOBER 31, 2015

Expenses:	
Personal services	\$ 268,297
Material and supplies	192,291
Depreciation	107,289
Amortization	2,519
Interest	101,535
Total expenses	<u>671,931</u>
Program Revenues:	
Charges for services	<u>683,274</u>
Total program revenues	<u>683,274</u>
Net program income	<u>11,343</u>
General Revenues:	
Interest and dividends	1,882
Miscellaneous	41,409
Total general revenues	<u>43,291</u>
Increase in net assets	54,634
Net Assets - beginning of year	<u>1,747,609</u>
Net Assets - end of year	<u><u>\$ 1,802,243</u></u>

The accompanying notes are an integral part of the financial statements

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1

STATEMENT OF CASH FLOWS  
 CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
 FOR YEAR ENDED OCTOBER 31, 2015  
 STATEMENT OF CASH FLOWS  
 FOR YEAR ENDED OCTOBER 31, 2015

<b>Cash Flows from Operating Activities:</b>	
Receipts from water and sewer sales	\$ 645,172
Receipts from installation and reconnect fees	18,825
Receipts from miscellaneous sources	33,664
Payments for salaries	(190,481)
Payments for maintainance and operations	(223,974)
Net Cash Provided by Operating Activities	<u>283,206</u>
<b>Cash Flows from Investing Activities:</b>	
Capital assets purchased	(191,665)
Membership units	(21,017)
Interest and dividends	1,882
Net Cash Provided by Investing Activities	<u>(210,800)</u>
<b>Cash Flows from Financing Activities:</b>	
Interest payments on debt	(101,535)
Principal payments on debt	(20,000)
Net Cash Provided by Financing Activities	<u>(121,535)</u>
Net increase (decrease) in cash and cash equivalents	(49,129)
Cash & cash equivalents, beginning of period	<u>1,216,216</u>
Cash & cash equivalents, end of period	<u><u>\$ 1,167,087</u></u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>	
Operating income (loss)	\$ 153,485
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization expense	109,808
(Increase) decrease in accounts receivable	14,320
(Increase) decrease in prepaid expenses	6,068
(Increase) decrease in supplies inventory	(647)
(Decrease) increase in accounts payable	172
Net cash provided by operating activities	<u><u>\$ 283,206</u></u>

The accompanying notes are an integral part of the financial statements

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2015

**Note A – Significant Accounting Policies**

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts are with Bancfirst in Hugo, Oklahoma, and, at October 31, 2015, are detailed as follows:

Savings account (included in investments)	\$ 971
Water and Sewer account	324,764
Less: outstanding checks	<u>(48,349)</u>
Total	<u><u>\$ 277,386</u></u>

Investments

All investments are recorded at cost. Investments at October 31, 2015, are detailed as follows:

Bancfirst, Hugo, Oklahoma Certificate of Deposit No. 45463, dated 9-23-14, due 9-23-16, @ 1.00%	<u>\$ 174,189</u>
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Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid investments, such as certificates of deposit and savings accounts, as cash equivalents. Also included are the bond trustee accounts.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
NOTES TO FINANCIAL STATEMENTS  
OCTOBER 31, 2015

**Note A – Significant Accounting Policies – cont’d**

Accounts Receivable

Billings for accounts receivable at October 31, 2015 were \$79,815. An allowance for doubtful accounts was not computed on this balance. The direct write-off method is used by the District for bad accounts, which is not materially different from computing an allowance.

Inventory

Supplies inventory is valued at the lower of cost or market, using the FIFO method (first in, first out).

Fixed Assets

Fixed assets are valued at cost; depreciation is computed by use of the straight line method. The estimated useful lives of these assets are as follows:

Land	-0-
Water rights	-0-
Office furniture & fixtures	5-10 years
Equipment & tools	5-10 years
Transportation equipment	3-10 years
Water system	40 years
Sewer system	40 years
Buildings	15-25 years

Federal Income Tax

The District is exempt from federal and state income taxes.

**Note B – Cash and Investments**

The District’s investment policies are governed by state statute. Permissible investments include direct obligations of the United States government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, banks and trust companies; and warrants, bonds or judgments of the District.

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 2015

**Note B – Cash and Investments – cont’d**

Cash and investments – The District’s cash deposits and investments at October 31, 2013, are categorized to give an indication of the level of risk assumed by the District at year end.

Deposit Categories of Credit Risk

- (A) Insured by Federal Deposit Insurance
- (B) Collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name
- (C) Uncollateralized

	Category			Bank Balance	Carrying Balance
	(A)	(B)	(C)		
Cash	\$ 250,000	75,736		325,736	277,387
Investments	174,189			174,189	174,189
Total	\$ 424,189	75,736	0	499,925	451,576

**Note C – Accumulated Unpaid Vacation and Sick Pay**

At October 31, 2015, no determination of the aggregate dollar value of vacation or sick pay had been made.

**Note D – Long-Term Debt**

Long-term debt at October 31, 2015, is summarized as follows:

Oklahoma Refunding and Capital Improvement Revenue Bonds Series 2007 dated June 12, 2007, due June 1, 2037, payable in annual principal and interest installments	\$ 910,000
Capital Improvement Revenue Bonds, totaling \$1,135,000, Series 2013 dated April 1, 2013, due April 1, 2043, payable in annual principal and interest installments	<u>1,095,000</u>
Total	<u>\$ 2,005,000</u>

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
 NOTES TO FINANCIAL STATEMENTS  
 OCTOBER 31, 2015

**Note D – Long-Term Debt – cont’d**

The estimated maturities for long-term debt mortgages for the next five (5) years, and in total thereafter, are detailed as follows:

Year Ending October 31,	Principal	Interest*	Total
2016	40,000	100,105	140,105
2017	40,000	98,675	138,675
2018	45,000	97,245	142,245
2019	45,000	95,323	
2020	45,000	93,290	
2020-25	275,000	431,313	706,313
2025-30	350,000	351,756	701,756
2030-35	455,000	246,139	701,139
2035+	710,000	138,455	848,455
Total	<u>\$ 2,005,000</u>	<u>1,652,300</u>	<u>3,378,688</u>

\*The interest rate is variable, therefore this column represents estimates only.

**Note E – Restricted Assets**

Under the terms of the Revenue Bonds Series 2007 and 2013 loan agreements, the District must maintain reserve funds. The loan agreement requires the District to maintain trustee accounts in the form of a debt service fund, a debt reserve fund and a construction fund. The balances of these accounts as of October 31, 2015 are as follows:

	2007 Bonds	2013 Bonds	Total
Debt service account	\$ 29,218	17,260	46,478
Debt service reserve account	71,535	74,600	146,135
Construction account	3,829	518,969	522,798
Total restricted accounts	<u>\$ 104,582</u>	<u>610,829</u>	<u>715,411</u>

**Note F – Subsequent Events**

Management has evaluated subsequent events through November 23, 2015, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.



CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
BALANCE SHEETS  
FOR YEARS ENDED OCTOBER 31, 2015 AND 2014

<u>ASSETS</u>	October 31,	
	2015	2014
<b>Current Assets:</b>		
Cash on hand	\$ 100	100
Cash in bank	276,415	245,290
Investments	175,161	173,436
Accounts receivable	79,815	94,135
Supplies Inventory	42,865	42,218
Prepaid insurance	11,076	17,144
Total current assets	585,432	572,323
<b>Restricted Assets:</b>		
Bond trustee accounts	715,411	797,390
<b>Fixed Assets (Note A):</b>		
Construction in progress	375,352	367,266
Office furniture and fixtures	38,585	38,585
Equipment and tools	161,610	161,610
Transportation equipment	86,770	86,770
Water and sewer system	3,618,508	3,434,929
Buildings	55,941	55,941
Land and water rights	93,745	93,745
Total fixed assets	4,430,511	4,238,846
Less accumulated depreciation	(1,919,845)	(1,812,556)
Total fixed assets (net)	2,510,666	2,426,290
<b>Other Assets:</b>		
Bond issuance costs	54,572	57,091
<b>Total Assets</b>	<b>\$ 3,866,081</b>	<b>3,853,094</b>
<u>LIABILITIES AND MEMBER EQUITY</u>		
<b>Current Liabilities:</b>		
Accounts payable	\$ 12,360	12,188
Notes payable - current portion	40,000	40,000
Debt services accounts payable	46,478	48,297
Total current liabilities	98,838	100,485
<b>Long-term Liabilities:</b>		
Note payable	1,965,000	2,005,000
<b>Member Equity:</b>		
Members investment - discounted notes	191,564	191,564
Member benefit units - water	49,947	49,145
Member benefit units - sewer	10,907	10,907
Donated assets - grants	620,332	620,332
Donated assets - members and others	82,751	82,751
<b>Retained earnings:</b>		
Unrestricted	846,742	792,910
Total member equity	1,802,243	1,747,609
<b>Total Liabilities and Member Equity</b>	<b>\$ 3,866,081</b>	<b>3,853,094</b>

CHOCTAW COUNTY RURAL WATER AND SEWER DISTRICT NO. 1  
STATEMENTS OF INCOME AND CHANGES IN RETAINED EARNINGS  
FOR YEARS ENDED OCTOBER 31, 2015 AND 2014

	<u>2014-15</u>	<u>2013-14</u>
Revenue from Operations:		
Water sales	\$ 639,475	617,559
Sewer sales	23,872	28,322
Installation	15,400	12,350
Reconnect fees	3,425	3,975
Miscellaneous	579	10,334
Late charges	8,045	8,488
Donations and deposits	33,085	-
Total revenue from operations	<u>723,881</u>	<u>681,028</u>
Expenses from Operations:		
Salaries	177,161	185,975
Taxes	20,101	19,877
Professional fees	9,417	9,903
Contract labor	6,537	4,099
Utilities	19,153	18,177
Insurance	55,081	41,126
Repairs and maintenance	96,562	44,951
Gas and oil	7,382	10,923
Membership fees, dues and permits	4,764	4,795
Telephone	3,867	3,579
Office materials and supplies	8,460	10,696
Water purchases	23,869	50,531
Depreciation	107,289	102,196
Amortization	2,519	2,519
Vehicle maintenance	1,097	5,085
Postage	3,632	4,642
Bad debts	4,403	-
Miscellaneous	10,743	11,950
Uniforms	8,359	7,849
Total expenses from operations	<u>570,396</u>	<u>538,873</u>
Net Income (Loss) from Operations	153,485	142,155
Non-Operating Income/Expense:		
Interest revenue	1,882	194
Interest expense	<u>(101,535)</u>	<u>(103,451)</u>
Total non-operating income/expense	<u>(99,653)</u>	<u>(103,257)</u>
Net Income (Loss)	53,832	38,898
Retained Earnings, beginning of period	<u>792,910</u>	<u>754,012</u>
Retained Earnings, end of period	<u>\$ 846,742</u>	<u>792,910</u>



**SANDERS, BLEDSOE & HEWETT**  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Stephen H. Sanders, CPA  
Eric M. Bledsoe, CPA  
Jeffrey D. Hewett, CPA

P.O. BOX 1310 • 101 N. MAIN ST. • BROKEN ARROW, OK 74013 • (918) 449-9991 • (800) 522-3831 • FAX (918) 449-9779

November 23, 2015

Mr. James Bailey, Manager  
Choctaw County Rural Water District No. 1  
P.O. Box 16  
Grant, Oklahoma 74738

Dear Mr. Bailey:

The following section contains the observations relayed to management that are control deficiencies, which we feel need to be communicated to you so appropriate action may be taken to correct these deficiencies. These items are not included in your audit report, as they are not considered material or immaterial in nature. They are simply observations of some minor findings that could evolve into immaterial or material findings if not addressed or corrected.

Contractor Invoices

We noted during our audit that the District received invoices from contractors for various work performed on the water system and water lines. However, these invoices do not always indicate the specific area where the work is actually performed. We recommend that the District require all contractors to write the specific area where work is performed. If this is not written on the invoice by the contractor, we recommend that the District write the specific location information on the invoice. This practice could help avoid accidental duplicate payments to vendors, and aid the District in tracking where actual work has been performed if any questions are asked later by customers or contractors.

Time Cards

We observed that the District uses a time clock to record actual hours worked for employees. It appears that in some instances the time worked is rounded up or down. The Fair Labor Standards Act permits employers to round employees' time up and down to the closest quarter hour. For instance, if the employee clocks in at 8:06 a.m. and leaves at 5:09 p.m., the time should be rounded down to 8 a.m. and rounded up to 5:15 p.m., respectively. The employer is in violation of the minimum wage and overtime income

criteria if he consistently rounds down. In rounding up and down, the employee may have slightly more or fewer minutes. If the employee gains overtime because of rounding, the employer must pay him the overtime at his overtime rate, and if the employee works less than the eight hours due to rounding, the employee should only be paid for the lesser amount worked. We recommend that the District ensure that these rounding practices are being properly followed, and that all time cards are kept on file for at least two years, in case any questions arise from employees or other agencies regarding actual time worked. We are informing all our clients about this issue, since it is becoming an area of concern at many places of employment.

We take this opportunity to thank you and your professional staff for the outstanding cooperation and invaluable assistance you gave us during our recent onsite audit work.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Bledsoe", written in a cursive style.

Eric M. Bledsoe

For

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP