

Indianola Rural Water District No. 18
Pittsburg County, Oklahoma

Financial Statements and
Reports of Independent Auditor

June 30, 2015

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Indianola Rural Water District No. 18
Pittsburg County, Oklahoma
Board of Directors
June 30, 2015

Chairman

Paul Hamilton

Vice Chairman

Tim Miller

Secretary/Treasurer

Don Parham

Members

Gabrial Patrick
Jerry Prescott

Operator

Jeremiah Ward

Bookkeeper

Vivian Moody

Indianola Rural Water District No. 18
Pittsburg County, Oklahoma
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June 30, 2015

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Indianola Rural Water District No. 18
Pittsburg County, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Indianola Rural Water District No. 18 (the District), Pittsburg County, Oklahoma, as of and for the year ended June 30, 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

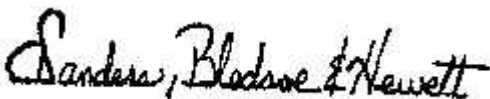
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in 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 February 10, 2016 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 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 District's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 10, 2016



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of Financial Standards Performed in Accordance with
Government Auditing Standards**

Board of Directors
Indianola Rural Water District No. 18
Pittsburg County, Oklahoma

We have audited the combined financial statements of Indianola Rural Water District No. 18 (the District), Pittsburg County, Oklahoma, as of and for the year ended June 30, 2015, which, except for the omission of the Management Discussion and Analysis, collectively comprise the District's basic financial statements and have issued our report thereon dated February 10, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepting accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

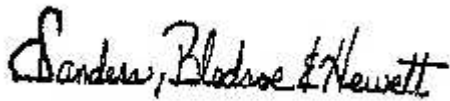
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We identified two deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. These items are listed on the Schedule of Audit Results as items 2015-1 and 2015-2.

Compliance and Other Matters

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 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 10, 2016

Indianola Rural Water District No. 18
Pittsburg County, Oklahoma
Schedule of Audit Results
June 30, 2015

Section 1 – Summary of Auditor’s Results

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed two reportable conditions, items 2015-1 and 2015-2, 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:

2015-1 – Decreasing Cash Balances

Criteria – It is important that a Rural Water District have adequate funds on hand to pay all obligations (expenses) as they become due.

Condition – Presently, the inflows of revenue are not enough to consistently pay the amounts owed by the District to operate on a daily basis.

Cause – The District’s increasing expenses have drained all available cash funds and caused the District to end the 2014-15 fiscal year with a negative cash balance, and a decrease in their restricted cash account balance below the required allowable amount.

Effect or Potential Effect – The lack of cash funds available makes it difficult to pay expenses on time, which leads to late fees and financing charges, and may affect the District’s ability to continue operations in future years.

Recommendation – It may be necessary to increase water rates to customers, and find some various ways to decrease expenses.

Management Response – Management agrees with this finding. Water rates were increased in August 2015, and we will monitor our expenses for potential savings.

2015-2 – Lack of Segregation of Duties

Criteria – The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the District's assets and ensure accurate financial reporting.

Condition - Presently the same individual performs all accounting functions; receives utility service related payments and is responsible for service billing and adjustment, also makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial reports.

Cause – The District's limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation - While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

Management Response – Management agrees with this finding, and will provide adequate staffing once annual collections increase enough to justify the extra expense.

INDIANOLA COUNTY RURAL WATER DISTRICT NO. 18
PITTSBURG COUNTY, OKLAHOMA
Statement of Net Position
June 30, 2015

ASSETS

Current assets:

Cash in bank	\$ (36,156)
Accounts receivable	37,307
Total current assets	<u>1,151</u>

Noncurrent assets:

Restricted cash and cash equivalents	43,411
Deposit - ORWA	1,000
Capital assets:	
Land	4,600
Office equipment	11,145
Water system and improvements	1,969,418
Less: accumulated depreciation	(927,492)
Total noncurrent assets	<u>1,102,082</u>

Total Assets	<u>1,103,233</u>
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LIABILITIES

Current liabilities:

Accounts payable	457
Meter deposits	6,000
Current portion of long-term debt	15,840
Total current liabilities	<u>22,297</u>

Noncurrent liabilities:

Notes payable	<u>857,620</u>
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Total Liabilities	<u>879,917</u>
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NET POSITION

Invested in capital assets, net of related debt	184,211
Unrestricted assets	<u>39,105</u>
Total Net Position	<u>\$ 223,316</u>

The accompanying notes to the financial statements are an integral part of this statement

INDIANOLA COUNTY RURAL WATER DISTRICT NO. 18
PITTSBURG COUNTY, OKLAHOMA
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended June 30, 2015

Operating Revenues:	
Water sales	\$ 410,925
Operating Expenses:	
Water purchases	232,218
Operating supplies & maintenance	39,133
Salaries	58,058
Payroll taxes	3,003
Retirement	5,125
Health insurance	37,707
Insurance	13,382
Professional fees	5,325
Vehicles	6,525
Office expenses	1,169
Postage	2,997
Dues & fees (testing)	1,492
Telephone	2,658
Utilities	3,151
Miscellaneous	1,902
Depreciation	37,260
Total expenses from operations	<u>451,105</u>
Operating Income (Loss)	(40,180)
Non-Operating Revenues (Expenses):	
Interest income	17
Interest expense on debt	(37,475)
Total non-operating revenues (expenses)	<u>(37,458)</u>
Change in Net Assets	(77,638)
Total Net Assets, beginning of period	<u>300,954</u>
Total Net Assets, end of period	<u><u>\$ 223,316</u></u>

The accompanying notes to the financial statements are an integral part of this statement

INDIANOLA COUNTY RURAL WATER DISTRICT NO. 18
PITTSBURG COUNTY, OKLAHOMA
Statement of Cash Flows
For the Year Ended June 30, 2015

Cash flows from operating activities:

Receipts from customers	\$ 408,089
Payments to employees	(58,058)
Payments to vendors	<u>(358,397)</u>
Net cash (used in) provided by operating activities	<u>(8,366)</u>

Cash flows from capital and related financing activities:

Interest paid on debt	(37,476)
Principal payments on debt	<u>(15,180)</u>
Net cash used in capital and related financing activities	<u>(52,656)</u>

Cash flows from investing activities:

Interest on investments	<u>17</u>
Net cash used in investing activities	<u>17</u>

Net increase (decrease) in cash and cash equivalents (61,005)

Cash & cash equivalents, beginning of period 69,260

Cash & cash equivalents, end of period \$ 8,255

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating Income	\$ (40,180)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	37,260
(Increase) decrease in current assets-	
Accounts receivable, net	(2,836)
Increase (decrease) in current liabilities-	
Accounts payable	(2,492)
Payroll taxes payable	<u>(118)</u>
Net Cash Provided by Operating Activities	<u><u>\$ (8,366)</u></u>

The accompanying notes are an integral part of the financial statements

INDIANOLA RURAL WATER DISTRICT NO. 18
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2015

Note 1 – Significant Accounting Policies

Organization

Indianola Rural Water District No. 18 (the District) is an Oklahoma water district organized under Title 82 of Oklahoma Statutes, Sections 1324.1-1324.26 inclusive, to provide water service to rural residents of Pittsburg County, Oklahoma. The District is considered a subdivision of the State of Oklahoma. The District is exempt from federal and state income taxes. The board of directors consists of five members, who are not paid.

The District is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost (expenses, including depreciation) of providing water services is financed through user charges. The District purchases water from the Pittsburg County Public Works Authority.

Basis of Accounting

The accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America is followed for all accounts. Revenues are recorded when earned and liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles. The District has also complied with GASB Statement No. 34 financial reporting requirements.

Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Bank deposits are held at several financial institutions and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Custodial Credit Risk - At June 30, 2015, the District held deposits of approximately \$7,255 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

INDIANOLA RURAL WATER DISTRICT NO. 18
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2015

Note A – Significant Accounting Policies – cont'd

Investment Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk – The District has no policy that limits its investment choices other than the limitations of state law, as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a-d).

The investments held at June 30, 2015 are as follows:

	Wtd. Avg Maturity	Credit Rating	Market	Cost
Money market/checking	N/A	AAAm	\$ 7,255	7,255
Certificates of deposit	1.0 Yr	N/A	-	-
Total Deposits			<u>\$ 7,255</u>	<u>7,255</u>

Concentration of Investment Credit Risk – The District places no limit on the amount it may invest in any one issuer. The District has the following of credit risk: 0% in Certificates of Deposit, and 100% in Money Market funds (\$7,255).

INDIANOLA RURAL WATER DISTRICT NO. 18
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2015

Note A – Significant Accounting Policies – cont'd

Restricted Assets

In accordance with prior year loan agreements, the District is required to maintain a reserve account with a balance of no less than \$52,656, which is one year of total debt obligations. The total amount of the restricted assets represents all cash and investments held at First National Bank, McAlester, OK, for the purpose of making future principal and interest payments. The District transfers one-tenth of a monthly payment (\$439) each month into this reserve account. The balance at the end of June 30, 2015 was \$43,411, which is held at the First National Bank, McAlester, OK, in a checking/savings account. Currently, the required reserve balance is not met, due to some of these funds being used to cover shortfalls in the revenue account for everyday operations.

Accounts Receivable

Billings for accounts receivable at June 30, 2015 were \$37,307. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

Other Assets

The District maintains a \$1,000 deposit with the Oklahoma Water Resources Board Assurance Group in lieu of a membership fee. Interest is paid to the district on this deposit.

Prior Year Information

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

Federal Income Tax

The District is exempt from federal and state income taxes.

INDIANOLA RURAL WATER DISTRICT NO. 18
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2015

Note 2 – Long-Term Debt

The District has one note payable to Rural Development outstanding as of June 30, 2014. Note 91-20, dated April 29, 2005, with a 40-year maturity, and an interest rate of 4.25%, with an original loan amount of \$1,011,000. The monthly payment on this note is \$4,388. The loan balance at June 30, 2015 was \$873,460.

The estimated maturities for the next five (5) years and thereafter are as follows:

2015-16	\$ 15,840
2016-17	16,527
2017-18	17,243
2018-19	17,990
2019-20	18,770
2020-25	106,778
2025-30	132,011
2030-35	163,205
2035-40	157,923
2040-44	<u>227,173</u>
Totals	<u>\$ 873,460</u>

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At June 30, 2015, no determination of the aggregate dollar value of vacation and sick pay had been made.

Note 4 – Property and Equipment

Property and equipment is recorded at cost when purchased. Depreciation is recorded using the straight-line method over the estimated useful life of the asset. Water line systems, extensions and improvements are depreciated using a 50-year life. Water system improvements constructed by the District include capitalizing the direct costs of materials and labor. If an asset is permanently impaired in value, the asset cost is written down to market value. The District capitalizes assets with a useful life in excess of one year and a cost over \$250. Line extension costs reimbursed by the customer are not capitalized and, accordingly, not depreciated

INDIANOLA RURAL WATER DISTRICT NO. 18
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2015

Note 4 – Property and Equipment – cont'd

The following is a summary of changes in property, plant and equipment:

	Balance June 30, 2014	Acquired	(Disposed)	Balance June 30, 2015
Land	\$ 4,600	-	-	4,600
Office Equipment	11,145	-	-	11,145
Water Sysytem	1,969,418	-	-	1,969,418
Sub-Total	1,985,163	-	-	1,985,163
Less: Accum. Depr.	(890,232)	(37,260)	-	(927,492)
Total	<u>\$ 1,094,931</u>	<u>(37,260)</u>	<u>-</u>	<u>1,057,671</u>

Note 5 – Subsequent Events

Management has evaluated subsequent events through February 10, 2016, 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.

INDIANOLA RURAL WATER DISTRICT NO. 18
PITTSBURG COUNTY, OKLAHOMA
Balance Sheet
June 30, 2015

	June 30,	
	2015	(Memo only) 2014
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ (36,156)	14,810
Accounts receivable	37,307	34,471
Total current assets	<u>1,151</u>	<u>49,281</u>
Fixed Assets:		
Land	4,600	4,600
Office equipment	11,145	11,145
Water system	1,969,418	1,969,418
Less: accumulated depreciation	(927,492)	(890,232)
Total fixed assets (net)	<u>1,057,671</u>	<u>1,094,931</u>
Restricted Assets:		
Cash and investments	<u>43,411</u>	<u>53,450</u>
Other Assets:		
ORWA deposit	<u>1,000</u>	<u>1,000</u>
Total Assets	<u>\$ 1,103,233</u>	<u>1,198,662</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 457	2,949
Payroll taxes payable	0	118
Meter deposits	6,000	6,000
Current maturities of long-term debt	15,840	15,182
Total current liabilities	<u>22,297</u>	<u>24,249</u>
Long-Term Debt, less current maturities:		
Notes payable - Rural Development	<u>857,620</u>	<u>873,459</u>
Total Liabilities	<u>879,917</u>	<u>897,708</u>
Fund Equity:		
Retained earnings - unrestricted	<u>223,316</u>	<u>300,954</u>
Total Liabilities and Fund Equity	<u>\$ 1,103,233</u>	<u>1,198,662</u>

INDIANOLA COUNTY RURAL WATER DISTRICT NO. 18
PITTSBURG COUNTY, OKLAHOMA
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended June 30, 2015

	2014-15	(Memo only) 2013-14
Revenue from Operations:		
Water sales	\$ 410,925	398,985
Expenses from Operations:		
Water purchases	232,218	178,282
Operating supplies & maintenance	39,133	52,710
Salaries	58,058	49,371
Payroll taxes	3,003	6,166
Retirement	5,125	3,658
Health insurance	37,707	29,215
Insurance	13,382	2,315
Professional fees	5,325	6,650
Vehicles	6,525	6,217
Office expenses	1,169	1,795
Postage	2,997	3,376
Dues & fees (testing)	1,492	12,281
Telephone	2,658	5,580
Utilities	3,151	3,485
Miscellaneous	1,902	503
Depreciation	37,260	39,310
Total expenses from operations	<u>451,105</u>	<u>400,914</u>
Net Income (Loss) from Operations	(40,180)	(1,929)
Other Income:		
Interest earnings	<u>17</u>	<u>58</u>
Other Expenses:		
Interest on debt	<u>(37,475)</u>	<u>(38,104)</u>
Net Income (Loss)	(77,638)	(39,975)
Retained earnings, beginning of period	<u>300,954</u>	<u>340,959</u>
Retained earnings, end of period	<u><u>\$ 223,316</u></u>	<u><u>300,984</u></u>