

**Okmulgee County Rural Water District No. 1
Schulter, Oklahoma**

**Financial Statements
and Reports of Independent Auditor**

December 31, 2015

Audited by

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

Broken Arrow, OK

Okmulgee County Rural Water District No. 1
Schulter, Oklahoma
Board of Directors
December 31, 2015

BOARD OF DIRECTORS

Chairman

Elmer “Butch” Burgess

Vice-Chairman

DeAnne Kindell

Secretary/Treasurer

John Macaluso

Members

Howard Arnold

Harold Carter

OPERATORS

Don Price

Chris Guynes

BOOKKEEPER

Debbie Stidman

Okmulgee County Rural Water District No. 1
Schulter, Oklahoma
December 31, 2015

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Okmulgee County Rural Water District No. 1
Schulter, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Okmulgee County Rural Water District No. 1 (the District), Schulter, Oklahoma, as of and for the year ended December 31, 2015, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

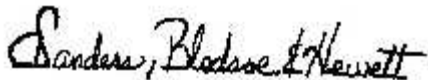
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2015, and the respective changes in financial position thereof for the year then ended in conformity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

The Management Discussion and Analysis on pages 5-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note A.

Our audit was performed for the purpose of forming an opinion on the combined financial statements – regulatory basis of the District taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the combined financial statements – regulatory basis. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements – regulatory basis and, in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements – regulatory basis taken as a whole.

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Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

April 20, 2016

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2015

Our discussion and analysis of the Rural Water District No. 1, Okmulgee County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2015. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS

- The District's total operating revenues exceeded total operating expenses by \$32,344. Overall, the District's cash and cash equivalents increased by \$9,965 in the current fiscal year.
- The District membership stayed consistent in 2015 at around 750.
- The District continued to pay on their existing debt with Oklahoma Water Resources Board.

Using This Report

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

Basis of Accounting

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net assets and the changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Fixed Assets

At December 31, 2015, the District had \$1,231,318 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. The District did not make any large improvements to the water system during the 2015 fiscal year.

Long-Term Debt

A loan in the amount of \$685,000 was obtained from the OWRB to help pay off the Rural Development note. The outstanding principal balance owed on this loan decreased from \$520,000 to \$460,000 during the 2015 fiscal year. The \$685,000 variable interest note is scheduled to be paid off on August 15, 2023.

Economic Factors and Next Year's Budget and Rates

The District has absorbed many of the City of Okmulgee's rate increases, but may be forced to increase our customer rates if additional increases are made by the City.

The District's budget for fiscal year 2016 will remain much like previous years budgets. The Board of Directors does anticipate small budget changes made primarily to better allow for office and field personnel operations, without the necessity of hiring additional part-time or permanent employees.

Contacting the District's Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at P.O. Box 205, Schuler, OK 74460 or call (918) 652-9546.



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**Report On Compliance And On Internal Control Over
Financial Reporting Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

Board of Directors
Okmulgee County Rural Water District No. 1
Schulter, Oklahoma

We have audited the financial statements of the Okmulgee County Rural Water District No. 1 (the District), Schulter, Oklahoma, as of and for the year ended December 31, 2015, and have issued our report thereon dated April 20, 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.

Compliance

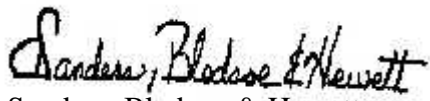
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial 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 auditing standards generally accepted in the United States.

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, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and,

accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we considered to be material weaknesses.

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

A handwritten signature in cursive script that reads "Sanders, Bledsoe & Hewett".

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1
Disposition of Prior Year's Reportable Conditions
December 31, 2015

There were no prior year audit exceptions.

OKMULGEE COUNTY RURAL DISTRICT NO. 1
Schedule of Audit Results, Findings and Questioned Costs
December 31, 2015

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion was issued on the financial statements.
2. The audit disclosed no significant deficiencies 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

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1
Schulter, Oklahoma
Statement of Net Position
December 31, 2015

ASSETS

Current Assets:

Cash	\$ 150,132
Investments	236,661
Current portion of receivables	38,955
Total current assets	<u>425,748</u>

Noncurrent Assets:

Restricted cash -Reserve account	71,231
Restricted cash -Debt service account	25,361

Capital Assets:

Land	7,300
Building, plant and water systems, net	1,192,117
Other capital assets, net	31,901
Total noncurrent assets	<u>1,327,910</u>

Other Assets:

Loan issuance costs, net	<u>26,595</u>
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Total Assets	<u>1,780,253</u>
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LIABILITIES

Current Liabilities:

Accounts payable	12,161
Accrued liabilities	6,203
Total current liabilities	<u>18,364</u>

Noncurrent Liabilities:

Due within one year	60,000
Due in more than one year	423,666
Total noncurrent liabilities	<u>483,666</u>

Total Liabilities	<u>502,030</u>
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NET POSITION

Invested in capital assets, net of related debt	844,244
Membership equity	92,200
Unrestricted assets	<u>341,779</u>
Total Net Position	<u>\$ 1,278,223</u>

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

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1
Shulter, Oklahoma
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended December 31, 2015

Operating Revenues:	
Water sales	\$ 431,811
Fees and fines	19,184
Miscellaneous	8,012
Total revenue from operations	<u>459,007</u>
Operating Expenses:	
Water purchases	119,927
Salaries	113,775
Payroll taxes	11,879
Maintenance parts and supplies	16,841
Insurance	14,751
Professional fees	29,133
Contract services	8,460
Office expense and postage	10,550
Telephone and communication	2,160
Equipment repairs and operations	10,164
Vehicles expense	5,802
Water testing	3,792
Rretirement plan	4,800
Utilities	6,550
Depreciation	58,768
Amortization	4,432
Miscellaneous	4,879
Total expenses from operations	<u>426,663</u>
Operating Income (Loss)	32,344
Non-Operating Revenues (Expenses):	
Interest income	2,232
Interest paid on long-term debt	(20,401)
Memberships	4,000
Total non-operating revenues (expenses)	<u>(14,169)</u>
Change in Net Position	18,175
Total Net Position, beginning of period	<u>1,260,048</u>
Total Net Position, end of period	<u><u>\$ 1,278,223</u></u>

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

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1
Schulter, Oklahoma
Statement of Cash Flows
For The Year Ended December 31, 2015

Cash Flows from Operating Activities:

Receipts from customers	\$ 449,644
Payments to employees	(113,775)
Payments to vendors	(246,356)
	<hr/>
Net Cash Provided by Operating Activities	89,513
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Cash Flows from Investing Activities:

Interest revenue	2,232
Sale (purchase) of fixed assets	(3,969)
	<hr/>
Total cash flows from investing activities	(1,737)
	<hr/>

Cash Flows from Financing Activities:

Memberships	4,000
Interest expense on debt	(21,811)
Principal payments on debt	(60,000)
	<hr/>
Total cash flows from financing activities	(77,811)
	<hr/>

Net Increase (Decrease) in Cash 9,965

Cash and cash equivalents, beginning of period 473,420

Cash and cash equivalents, end of period \$ 483,385

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

Operating Income	\$ 32,344
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	58,768
Amortization Expense	4,432
(Increase) decrease in accounts receivable	1,105
Increase (decrease) in accounts payable	(6,413)
Increase (decrease) in accrued liabilities	(723)
	<hr/>
Net cash provided by operating activities	<u>\$ 89,513</u>

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

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1

Schulter, Oklahoma

Notes to the Financial Statements

December 31, 2015

Note A – Significant Accounting Policies

Business Activity

Okmulgee County Rural Water District No. 1 (the District) was formed under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of the Okmulgee County Rural Water District No. 1. The District's primary income is from the sale of water to its members in an area around Schulter, Oklahoma.

Basis of Accounting

The financial statements are prepared on an accrual basis of accounting, which is in compliance with accounting principles generally accepted in the United States of America (GAAP), and which recognizes revenues when earned and expenses as incurred. Interest earnings on certificates of deposit are recorded when such interest is actually received by the District. Generally accepted accounting principles include all relevant Government Accounting Standards Board (GASB) pronouncements.

Cash

The District's cash accounts at December 31st, are detailed as follows:

	December 31,	
	2015	2014
Cash on hand	\$ 500	500
Citizens Security Bank:		
Operation & maint. account	118,232	109,501
Add: Deposits in transit	1,963	729
Less: Outstanding checks	(9,904)	(8,150)
First Family Federal Credit Union,		
Depreciation account	39,341	39,184
Total	<u>\$ 150,132</u>	<u>141,764</u>

The District's cash deposits at December 31, 2015 were properly covered by the \$250,000 FDIC coverage and other collateral pledged.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1

Schulter, Oklahoma

Notes to the Financial Statements

December 31, 2015

Note A – Significant Accounting Policies – cont'd

Investments

The District had the following investments at December 31:

	<u>2015</u>	<u>2014</u>
First National Bank:		
Cert. of deposit no. 73492, dated 5/19/14, matures 11/19/16 at .95%	\$ 102,502	101,429
American Exchange Bank:		
Cert. of deposit no. 20778, dated 12/31/12, matures 12/31/15 at 0.75%	<u>134,159</u>	<u>133,158</u>
Totals	<u><u>\$ 236,661</u></u>	<u><u>234,587</u></u>

Restricted Cash

In compliance with OWRB regulations, cash reserves have been established to collect up to one year's' payment on the note payable, or \$71,230, at which time deposits may be suspended. When necessary, funds may be utilized with prior approval of the Rural Development. The reserve account funds have been deposited in a trustee account at BancFirst, and had a balance of \$71,231 at December 31, 2015.

A trustee account at BancFirst is also used for debt service payments to the OWRB. The balance in this debt service account at December 31, 2015 was \$25,361.

Accounts Receivable

Billings for accounts receivable at December 31, 2015, were \$40,905. An allowance for doubtful accounts amount was estimated at \$2,000 for the fiscal year.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1

Schulter, Oklahoma

Notes to the Financial Statements

December 31, 2015

Note A – Significant Accounting Policies – cont'd

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	N/A
Office furniture & fixtures	5-10 years
Equipment & tools	10-15 years
Transportation equipment	5 years
Water & sewer system	40 years
Buildings	20 years
Computer equipment	5-7 years

The fixed asset information for the District is shown below:

	12/31/2014 Amount	Additions	Deletions	12/31/2015 Amount
Land	\$ 7,300	-	-	7,300
Building, plant and water systems	2,298,897	1,543	-	2,300,440
Other capital assets	237,466	2,427	-	239,893
Total Fixed Assets	2,543,663	3,970	-	2,547,633
Less: Accumulated Depreciation	(1,257,134)	(59,181)	-	(1,316,315)
Total	<u>\$ 1,286,529</u>	<u>(55,211)</u>	<u>-</u>	<u>1,231,318</u>

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1

Schulter, Oklahoma

Notes to the Financial Statements

December 31, 2015

Note A – Significant Accounting Policies – cont'd

Accumulated Unpaid Vacation and Sick Pay

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

Prior Year Information

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

Note B – Insurance

It appears the District had current insurance coverage for all major perils.

Note C – Notes Payable

Notes payable consist of a note to the Oklahoma Water Resources Board (OWRB).

The notes payable at December 31st, are detailed as follows:

	<u>2015</u>	<u>2014</u>
Note No. FAP-13-0001-L, OWRB, issued for \$685,000, variable interest of .65% to 3.65%, matures 8/15/23	\$ 520,000	575,000
Less: Current maturities of long-term debt	<u>(60,000)</u>	<u>(55,000)</u>
Total Long-Term Debt	<u><u>\$ 460,000</u></u>	<u><u>520,000</u></u>

Note - OWRB confirmed balance at December 31, 2015 is \$515,000.
However, this includes an accumulated payment of \$55,000.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1

Schulter, Oklahoma

Notes to the Financial Statements

December 31, 2015

Note C – Notes Payable – cont'd

The scheduled maturities for the next five (5) years, and in total thereafter, are detailed as follows:

<u>Year</u>		
2016	\$	60,000
2017		60,000
2018		60,000
2019		60,000
2020		60,000
2021-23		<u>160,000</u>
Totals	\$	<u><u>460,000</u></u>

Note D – Contributed Capital

Contributed capital was provided by various grants of from the Office of Rural Economic and Community Development and other federal, state and local offices to assist in building and improving the water system.

Note E – Subsequent Events

Management has evaluated subsequent events through April 20, 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.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1

Schulter, Oklahoma

Balance Sheet

December 31, 2015

<u>ASSETS</u>	DECEMBER 31,	
	2015	(memo only) 2014
Current Assets:		
Cash	\$ 110,791	102,580
Depreciation account	39,341	39,184
Investments	236,661	234,587
Accounts receivable	38,905	40,010
Accrued interest receivable	50	49
Total current assets	425,748	416,410
Restricted Assets:		
Debt service account	25,361	25,838
Reserve account	71,231	71,231
Total restricted assets	96,592	97,069
Fixed Assets:		
Land	7,300	7,300
Water distribution system	2,226,807	2,225,264
Field equipment and vehicles	209,788	208,067
Office building	54,781	54,781
Storage building	18,852	18,852
Office furniture and equipment	30,104	29,399
Total fixed assets	2,547,632	2,543,663
Less: accumulated depreciation	(1,316,314)	(1,257,134)
Total fixed assets (net)	1,231,318	1,286,529
Other Assets:		
Loan issuance costs	36,830	36,830
Less: accumulated amortization	(10,235)	(5,803)
Total other assets (net)	26,595	31,027
Total Assets	\$ 1,780,253	1,831,035
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 12,161	18,574
Accrued interest payable	6,203	6,926
Current maturities of long-term debt	60,000	55,000
Total current liabilities	78,364	80,500
Long-Term Debt, less current maturities:		
Notes payable	400,000	465,000
Add: Premium on notes payable	23,666	25,487
Total long-term liabilities	423,666	490,487
Total Liabilities	502,030	570,987
Fund Equity:		
Contributed capital	820,154	820,154
Membership equity	92,200	88,200
Retained earnings	365,869	351,694
Total fund equity	1,278,223	1,260,048
Total Liabilities and Fund Equity	\$ 1,780,253	1,831,035

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 1
Schulter, Oklahoma
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Year Ended December 31, 2015

	2015	(memo only) 2014
Revenue from Operations:		
Water sales	\$ 431,811	406,268
Penalties and fees	19,184	19,758
Other sales and services	8,012	4,076
Total revenue from operations	<u>459,007</u>	<u>430,102</u>
Expenses from Operations:		
Water purchases	119,927	131,163
Salaries	113,775	100,497
Payroll taxes	11,879	10,161
Maintenance parts and supplies	16,841	16,424
Insurance	14,751	13,754
Professional fees	29,133	2,925
Contract services	8,460	6,830
Office expense and postage	10,550	10,382
Telephone and communication	2,160	3,641
Equipment repairs and operations	10,164	5,270
Vehicles expense	5,802	9,973
Water testing	3,792	4,060
Retirement plan	4,800	3,700
Utilities	6,550	6,206
Depreciation	58,768	58,585
Amortization	4,432	2,455
Miscellaneous	4,879	6,725
Total expenses from operations	<u>426,663</u>	<u>392,751</u>
Net Income (Loss) from Operations	32,344	37,351
Non-operating income:		
Interest earnings	2,232	2,581
Total non-operating income	<u>2,232</u>	<u>2,581</u>
Non-operating expense:		
Interest paid on debt	<u>(20,401)</u>	<u>(22,443)</u>
Net Income (Loss)	14,175	17,489
Retained earnings, beginning of period	<u>351,694</u>	<u>334,205</u>
Retained earnings, end of period	<u><u>\$ 365,869</u></u>	<u><u>351,694</u></u>