

**Okmulgee County Rural Water District No. 4
Morris, Oklahoma**

FINANCIAL STATEMENTS
AND REPORTS OF INDEPENDENT AUDITOR

DECEMBER 31, 2014

Audited by

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

BROKEN ARROW, OK

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
BOARD OF DIRECTORS
DECEMBER 31, 2014

BOARD OF DIRECTORS

Chairman

Steve Finch

Vice-Chairman

Kenneth Flanary

Secretary/Treasurer

Larry Maylen

Members

Jim Hunt
Harvey Fox
Dennis Nunley
Jim Melton

BOOKKEEPER

Diana Richardson

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
DECEMBER 31, 2014

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Okmulgee County Rural Water District No. 4
Morris, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Okmulgee County Rural Water District No. 4 (the District), Morris, Oklahoma, as of and for the year ended December 31, 2014, 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 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 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.

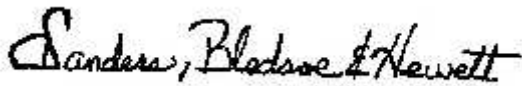
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2014, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting generally accepted by the United States of America.

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 a report dated February 10, 2015, 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. This 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.

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

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 10, 2015

RURAL WATER DISTRICT NO. 4, OKMULGEE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2014

Our discussion and analysis of the Rural Water District No. 4, Okmulgee County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2014. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS

- The District's total operating revenue exceeded total operating expenses by \$14,791. Overall, the District's cash and cash equivalents increased by \$12,500 in the current fiscal year.
- The District purchased 46.7 million gallons of water in 2014, a decrease of 4.6 million gallons from 2013. However, the District sold approximately 39.6 million gallons of water in 2014, a 1.2 million gallon increase over the 2013 amount sold. These numbers indicate that water losses decreased in the District during 2013.
- The District was forced to increase water rates in 2012. These new rates were effective February 1, 2013, and were deemed necessary to meet the demands of increasing operational costs.

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 Assets, Liabilities and Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, 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, 2014, the District had \$904,706 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment. The District made no large investments in the water system or equipment in 2014.

Long-Term Debt

The District is indebted to the Office of Rural Development on a note obtained for previously extensive extensions and payment of other debts. The outstanding principal balance owed on the notes decreased from \$677,560 to \$662,047 during the 2014 fiscal year. The \$846,000 note, at 4.50% interest, is scheduled to be paid off in 2038.

Economic Factors and Next Year's Budget and Rates

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

The District's budget for fiscal year 2015 will remain much like previous years budgets. Your 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 125, Morris, OK 74445 or call (918) 733-2441.



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. 4
Morris, Oklahoma

We have audited the financial statements of the Okmulgee County Rural Water District (the District) No. 4, Morris, Oklahoma, as of and for the year ended December 31, 2014, and have issued our report thereon dated February 10, 2015. 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.

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 generally accepted auditing standards.

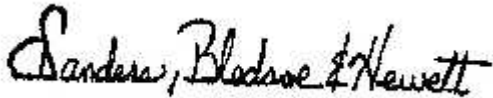
Internal Control Over Financial Reporting

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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of

management in the financial statements. This reportable condition is described in the accompanying schedule of audit results as item 14-1.

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 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. 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. However, we believe that item 14-1 is not a material weakness.

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 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, 2015

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
Morris, Oklahoma
Disposition of Prior Year's Reportable Conditions
December 31, 2014

Lack of Segregation of Duties

The exception that there were inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available which prevented a proper segregation of accounting functions which is necessary to assure adequate internal accounting controls continued in the current fiscal year.

OKMULGEE COUNTY RURAL WATER DISTRICT NO. 4
Morris, Oklahoma
Schedule of Audit Results
December 31, 2014

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a reportable condition in the internal controls, which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

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

14-1 – Lack of Segregation of Duties

Condition-

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.

Okmulgee County Rural Water District No. 4

Morris, Oklahoma

Statement of Net Assets

December 31, 2014

ASSETS

Current assets:

Cash	\$ 166,769
Current portion of receivables	44,357
Prepaid assets	6,714
Investments with fiscal agents	71,595
Total current assets	<u>289,435</u>

Non-current assets:

Restricted investment with fiscal agents	21,223
Capital assets	904,706
Total non-current assets	<u>925,929</u>

Total Assets	<u>1,215,364</u>
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LIABILITIES

Current liabilities:

Accounts payable	<u>18,820</u>
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Non-current liabilities:

Due within one year	16,224
Due in more than one year	645,823
Total non-current liabilities	<u>662,047</u>

Total Liabilities	<u>680,867</u>
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NET ASSETS

Invested in capital assets, net of related debt	242,659
Restricted for debt service and construction	21,223
Unrestricted assets	<u>270,615</u>
Total Net Assets	<u>\$ 534,497</u>

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

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Statement of Activities
For the Years Ended December 31, 2014

Operating Revenues:	
Water sales and other sales	\$ 429,857
Benefit units	10,450
Total revenues	<u>440,307</u>
Operating Expenses:	
Water purchases	164,203
Salaries	82,098
Depreciation	39,660
Contract Labor	495
Employee health insurance	19,427
Utilities and telephone	36,250
Professional services	4,739
Insurance	9,610
Repairs and maintenance	12,517
Office supplies and postage	6,901
Uniforms	2,919
Truck expense	14,611
Payroll taxes	8,844
Materials and supplies	15,081
Water testing	5,052
Miscellaneous	2,662
Administrative Fees	447
Total expenses from operations	<u>425,516</u>
Operating Income (Loss)	14,791
Non-Operating Revenues (Expenses):	
Interest income	602
Interest paid on long-term debt	(30,171)
Total non-operating revenues (expenses)	<u>(29,569)</u>
Change in Net Assets	(14,778)
Total Net Assets, beginning of period	<u>549,275</u>
Total Net Assets, end of period	<u><u>\$ 534,497</u></u>

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

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Statement of Cash Flows
December 31, 2014

Cash Flows from Operating Activities:	
Receipts from customers	\$ 444,288
Payments to employees	(86,857)
Payments to vendors	<u>(299,849)</u>
Net Cash Provided by Operating Activities	<u>57,582</u>
 Cash Flows from Investing Activities:	
Interest revenue	602
Sale (purchase) of fixed assets	<u>0</u>
Net cash flows from investing activities	<u>602</u>
 Cash Flows from Financing Activities:	
Interest expense on debt	(30,172)
Principal payments on debt	<u>(15,512)</u>
Total cash flows from financing activities	<u>(45,684)</u>
 Net Increase (Decrease) in Cash	12,500
 Cash and cash equivalents, beginning of period	<u>247,087</u>
 Cash and cash equivalents, end of period	<u><u>\$ 259,587</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating Income	\$ 14,791
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	39,660
(Increase) decrease in accounts receivable	3,981
(Increase) decrease in prepaid insurance	42
Increase (decrease) in accounts payable	<u>(892)</u>
 Net Cash Provided by Operating Activities	<u><u>\$ 57,582</u></u>

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

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2014

Note A – Significant Accounting Policies

Nature of Organization

The Okmulgee County Rural Water District No. 4 (the District) was created under the provisions of Title 82 of Oklahoma Statutes, Section 1324.1 – 1324.35 and the Laws of the State of Oklahoma. The purpose of this District is to provide water services to users.

Basis of Accounting

The accrual basis of accounting 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 follows GASB issued Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes financial reporting requirements for state and local governments throughout the United States.

Cash

The District’s accounts are with The Morris State Bank, Morris, Oklahoma, and are detailed as follows:

	<u>2014</u>	<u>2013</u>
Revenue account	\$ 37,974	40,923
Benefit units account	73,477	62,926
Reserve account	<u>55,318</u>	<u>50,678</u>
Total	<u><u>\$ 166,769</u></u>	<u><u>154,527</u></u>

Investments

The bookkeeper is authorized by the Board of Directors to invest certain amounts of money from available funds. The types of investments available are specified in and limited by Oklahoma Statutes, which includes certificates of deposit and governmental securities. Investments are recorded on the financial records and in the financial statements at cost. Income from investments is recorded when collected.

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2014

Investments – cont'd

The District had the following outstanding investments at December 31, 2014:

The Morris State Bank, Morris, Oklahoma	
Certificate of deposit No. 9226, due 1-20-15, at .275%	\$42,255
Certificate of deposit No. 4840, due 7-7-15, at .45%	<u>29,340</u>
Total	<u>\$71,595</u>

Restricted Asset – Investment Reserves

In compliance with Rural Economic and Community Development regulations, cash reserves have been established to collect up to one year's payment on the notes payable at which time deposits in the reserve can be suspended. When necessary, these funds may be utilized with proper approval of the Rural Economic and Community Development. The reserve account funds have been deposited in an interest-bearing certificate of deposit at The Morris State Bank, Morris, Oklahoma, which is insured by the federal government. At December 31, 2014, the restricted asset – investment reserve is detailed as follows:

The Morris State Bank, Morris, Oklahoma	
Certificate of deposit No. 4195, due 11-12-15, at .45%	<u>\$21,223</u>

Accounts Receivable

Billings for accounts receivable at December 31, 2014 were \$44,357. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Prior Year Information

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

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2014

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
Water System & Improvements	40-50 years
Equipment & tools	4 years
Vehicles	3 years
Office Equipment	5 years
Buildings	40 years
Furniture & fixtures	7 years

The fixed asset information for the District is shown below:

	1/1/2014 Amount	Additions	Deletions	12/31/2014 Amount
Water System & Improvements	\$ 1,300,271	-	-	1,300,271
Equipment & Tools	56,678	-	-	56,678
Vehicles	111,566	-	-	111,566
Office Equipment	15,839	-	-	15,839
Buildings	195,073	-	-	195,073
Furniture & Fixtures	8,027	-	-	8,027
Total Fixed Assets	1,687,454	-	-	1,687,454
Less: Accumulated Depreciation	(743,088)	(39,660)	-	(782,748)
Total	\$ 944,366	(39,660)	-	904,706

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2014

Federal Income Tax

The District is exempt from Federal and State income taxes.

Collateral Pledged

It appears that all funds were adequately insured by the \$250,000 FDIC coverage as of December 31, 2014.

Note B – Long-term Debt

Long-term debt as of December 31 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Note 91-03, 4.5 percent, mortgage payable to the Office of Rural Development, required monthly installments of \$3,807. The loan is secured by a pledge of real estate and equipment.	\$ 662,047	677,560
Less: current maturities	<u>(16,224)</u>	<u>(15,426)</u>
Total	\$ <u>645,823</u>	<u>662,134</u>

The estimated maturities for the next five years plus the total amount due thereafter based on the \$3,807 current monthly payments being made are detailed as follows:

Office of Rural Development

2015	\$ 16,224
2016	16,969
2017	17,748
2018	18,564
2019	19,417
2020-24	111,312
2025-29	139,339
2030-34	174,425
2035-38	<u>148,049</u>
Total	\$ <u>662,047</u>

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Notes to Financial Statements
December 31, 2014

Note C – Insurance and Surety Bond Coverage

At December 31, 2014, the District had appropriate coverage against all major perils.

Note D – Accumulated Unpaid Vacation and Sick Pay

At December 31, 2014, no determination of the aggregate dollar value of vacation or sick pay had been made.

Note E – Subsequent Events

Management has evaluated subsequent events through February 10, 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.

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Balance Sheet
December 31, 2014

	December 31	
	2014	(memo only) 2013
<u>ASSETS</u>		
Current Assets:		
Cash in bank-		
Operating fund	\$ 37,974	40,923
Reserve fund	55,318	50,678
Benefit units fund	73,477	62,926
Cash on hand (petty cash)	-	163
Investments- CD's	71,595	71,270
Prepaid insurance	6,714	6,756
Accounts receivable	44,357	48,338
Total current assets	<u>289,435</u>	<u>281,054</u>
Restricted assets:		
Investment - CD reserve	<u>21,223</u>	<u>21,127</u>
Fixed Assets	1,687,454	1,687,454
Less: accumulated depreciation	<u>(782,748)</u>	<u>(743,088)</u>
Total fixed assets (net)	<u>904,706</u>	<u>944,366</u>
Total Assets	<u>\$ 1,215,364</u>	<u>1,246,547</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 16,327	12,460
Employee benefits payable	2,493	7,252
Current portion long-term debt	16,224	15,426
Total current liabilities	<u>35,044</u>	<u>35,138</u>
Long-term Debt:		
Notes payable-Rural Development	<u>645,823</u>	<u>662,134</u>
Total Liabilities	<u>680,867</u>	<u>697,272</u>
Fund Equity:		
Retained earnings	<u>534,497</u>	<u>549,275</u>
Total Liabilities and Fund Equity	<u>\$ 1,215,364</u>	<u>1,246,547</u>

Okmulgee County Rural Water District No. 4
Morris, Oklahoma
Statement of Revenue, Expenses and Changes in Retained Earnings
For Year Ended December 31, 2014

	2014	(memo only) 2013
Revenue from Operations:		
Water sales and other sales	\$ 404,187	405,101
Benefit units	10,450	12,350
Late Charges	22,820	19,914
Other Sales and Services	2,850	4,356
Total revenue from operations	<u>440,307</u>	<u>441,721</u>
Expenses from Operations:		
Water purchases	164,203	181,508
Salaries	82,098	101,158
Depreciation	39,660	49,942
Contract labor	495	2,488
Employee health insurance	19,427	24,308
Utilities and telephone	36,250	13,430
Professional services	4,739	8,383
Insurance	9,610	9,792
Repairs and maintenance	12,517	2,756
Office supplies and postage	6,901	9,491
Uniforms	2,919	2,740
Truck expense & fuel	14,611	8,164
Payroll taxes	8,844	8,622
Materials and supplies	15,081	2,072
Water testing	5,052	5,276
Miscellaneous	2,662	2,187
Administrative Fees	447	745
Total expenses from operations	<u>425,516</u>	<u>433,062</u>
Net Income (Loss) from Operations	14,791	8,659
Other Income:		
Interest earnings	<u>602</u>	<u>437</u>
Other Expenses:		
Interest paid on debt	<u>(30,171)</u>	<u>(30,853)</u>
Net Income (Loss)	(14,778)	(21,757)
Retained earnings, beginning of period	<u>549,275</u>	<u>571,032</u>
Retained earnings, end of period	<u><u>\$ 534,497</u></u>	<u><u>549,275</u></u>