

Rural Water District No. 7
Pittsburg County, Oklahoma

Financial Statements and
Reports of Independent Auditor

October 31, 2015

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Rural Water District No. 7
Pittsburg County, Oklahoma
Table of Contents
October 31, 2015

	<u>Page</u>
Independent Auditor's Report	1
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2
Schedule of Audit Results	4
Combined Financial Statements:	
Statement of Net Position	5
Statement of Revenues, Expenses and Changes in Net Position.....	6
Statement of Cash Flows	7
Notes to the Financial Statements	8
Other Supplementary Information:	
Balance Sheet	11
Statement of Income and Retained Earnings.....	12
Management Letter.....	13



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Rural Water District No. 7
Pittsburg County, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 7 (the District), Pittsburg County, 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. 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 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 October 31, 2015, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has elected to omit the Management Discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 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 grant agreements and other matters. 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 1.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

April 21, 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
Rural Water District No. 7
Pittsburg County, Oklahoma

We have audited the combined financial statements of Rural Water District No. 7 (the District), Pittsburg County, Oklahoma, as of and for the year ended October 31, 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 April 21, 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

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.

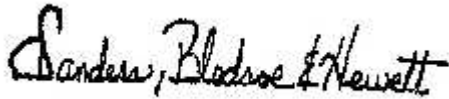
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material*

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 15-1, to be a material weakness.

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.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

April 21, 2016

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
Schedule of Audit Results
October 31, 2015

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:

15-1 – 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.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
Statement of Net Position
October 31, 2015

ASSETS

Current assets:	
Cash in bank	\$ 76,394
Investments	194,750
Accounts receivable	38,530
Prepaid insurance	8,556
Total current assets	<u>318,230</u>
Non-current assets:	
Restricted assets:	
Cash in bank	376,193
Capital assets:	
Land	7,422
Building & fixtures	66,361
Vehicles & equipment	243,150
Water system	1,992,078
Less: accumulated depreciation	<u>(1,415,190)</u>
Total non-current assets	<u>1,270,014</u>
Other Assets:	
OWRA deposit	<u>1,000</u>
Total Assets	<u>1,589,244</u>

LIABILITIES

Current liabilities:	
Accounts payable	5,240
Current portion of long-term debt	3,925
Total current liabilities	<u>9,165</u>
Noncurrent liabilities:	
Notes payable - Rural Development	<u>109,681</u>
Total Liabilities	<u>118,846</u>

NET POSITION

Invested in capital assets, net of related debt	780,215
Unrestricted assets	<u>690,183</u>
Total Net Position	<u><u>\$ 1,470,398</u></u>

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

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended October 31, 2015

Operating Revenues:	
Water sales	\$ 489,407
Expenses from Operations:	
Water cost	176,442
Operating supplies & materials	40,250
Contract management	44,500
Salaries	77,317
Payroll taxes	2,268
Retirement	9,129
Health insurance	15,842
Insurance	18,039
Professional fees	6,250
Engineering fees	55,202
Vehicle expense	28,633
Office expenses	13,859
Postage	6,452
Telephone	4,401
Utilities	14,821
Miscellaneous	1,204
Depreciation	66,556
Total expenses from operations	<u>581,165</u>
Operating Income (Loss)	(91,758)
Non-Operating Revenues (Expenses):	
Interest income	2,504
RWD #15 annexation costs	(12,300)
Interest expense on debt	(5,782)
Total non-operating revenues (expenses)	<u>(15,578)</u>
Change in Net Position	(107,336)
Total Net Position, beginning of period	<u>1,577,734</u>
Total Net Position, end of period	<u><u>\$ 1,470,398</u></u>

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

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
Statement of Cash Flows
For the Year Ended October 31, 2015

Cash flows from operating activities:

Receipts from customers	\$ 486,311
Payments To employees	(77,317)
Payments to vendors	(434,721)
	<hr/>
Net cash (used in) provided by operating activities	(25,727)
	<hr/>

Cash flows from capital and related financing activities:

Interest paid on debt	(5,782)
Principal payments on debt	(3,734)
	<hr/>
Net cash used in capital and related financing activities	(9,516)
	<hr/>

Cash flows from investing activities:

Capital assets purchased	(41,793)
RWD #15 annexation costs	(12,300)
Interest on investments	2,504
	<hr/>
Net cash used in investing activities	(51,589)
	<hr/>

Net increase (decrease) in cash and cash equivalents	(86,832)
Cash & cash equivalents, beginning of period	<hr/> 734,169
Cash & cash equivalents, end of period	<hr/> <hr/> \$ 647,337

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

Operating Income (loss)	\$ (91,758)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	66,556
(Increase) decrease in current assets-	
Accounts receivable, net	(3,096)
Prepaid insurance, net	(387)
Increase (decrease) in current liabilities-	
Accounts payable	2,958
	<hr/>
Net Cash Provided by Operating Activities	<hr/> <hr/> \$ (25,727)

The accompanying notes are an integral part of the financial statements

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2015

Note 1 – Significant Accounting Policies

Reporting Entity

The District is recognized as a public, not-for-profit rural water district under Oklahoma Statutes, Title 82. 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 of providing water services is financed through user charges.

Basis of Accounting

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

Cash

The District's accounts at October 31, 2015, and are comprised as follows:

First National Bank, McAlester, OK	
Operation & Maint. Account	\$ 37,634
Equipment Account	19,101
RWD #15 Account	31,226
Less: Outstanding Checks	<u>(11,567)</u>
Total Cash	<u>\$ 76,394</u>

Investments

The District had two outstanding investments at October 31, 2015, certificates of deposit located at First National Bank, in the amounts of \$143,925 and \$51,241, totaling \$195,166. The District's cash and investment holdings are entirely covered by FDIC and pledged collateral.

Restricted Cash

The District entered into an agreement with Rural Development and the City of McAlester in March 2006. The agreement called for the District to deposit funds into a capital replacement account an amount equal to the District's monthly water billings from the City of McAlester. Any capital costs paid from this account must be approved by Rural Development. The District keeps these funds in a high yield money market account at First National Bank, and had a balance of \$376,193 at October 31, 2015.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2015

Note 1 – Significant Accounting Policies – cont’d

Accounts Receivable

Billings for accounts receivable at October 31, 2015, were \$38,530. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

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.

Note 2 – 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. The following is a summary of changes in property, plant and equipment:

	Balance October 31, 2014	Acquired	(Disposed)	Balance October 31, 2015
Land	\$ 7,422	-	-	7,422
Building & fixtures	66,361	-	-	66,361
Vehicles & equip.	243,150	-	-	243,150
Water System & Equip.	1,950,285	41,493	-	1,991,778
Sub-Total	2,267,218	41,493	0	2,308,711
Less: Accum. Depr.	(1,348,634)	(66,556)	0	(1,415,190)
Total	<u>\$ 918,584</u>	<u>(25,063)</u>	<u>0</u>	<u>893,521</u>

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2015

Note 3 – Retirement Plan

The District has a retirement plan with the Oklahoma Public Employees Retirement System. An employee has to meet three requirements for membership. The employee must be employed full time for at least 1,000 hours, with a salary equal to or greater than state or federal minimum wage. Membership is mandatory for all eligible employees.

Note 4 – Long-Term Debt

The District has two notes payable to Rural Development outstanding as of October 31, 2015:

Notes 91-01 and 91-03 both dated June 15, 1994, with a 40-year maturity, and an interest rate of 5.0%, with original loan amounts of \$102,500 and \$60,000, respectively. The monthly payments on these notes are \$500 and \$293. The principal balances at October 31, 2015 were \$71,743 and \$41,863, respectively.

The estimated maturities for the next four (4) years and thereafter are as follows:

<u>October 31,</u>	Note 91-01		Note 91-03		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 2,469	3,531	1,456	2,060	3,925	5,591
2017	2,595	3,405	1,530	1,986	4,125	5,391
2018	2,728	3,272	1,609	1,907	4,337	5,179
2019	2,868	3,132	1,691	1,825	4,559	4,957
2020	3,014	2,986	1,777	1,739	4,791	4,725
2020-25	17,549	12,451	10,348	7,232	27,897	19,683
2025+	40,521	9,020	23,451	5,137	63,972	14,157
Totals	\$ 71,744	37,797	41,862	21,886	113,606	59,683

Note 5 – Subsequent Events

Management has evaluated subsequent events through April 21, 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.

Note 6 – Annexation of District

The District began the process of absorbing the assets, liabilities and equities of the Pittsburg Co. RWD #15. This process was not completed at October 31, 2015.

PITTSBURG RURAL WATER DISTRICT NO. 7
Balance Sheet
October 31, 2015

	October 31,	
	2015	(Memo only) 2014
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents-		
Operations & maintenance account	\$ 26,067	145,129
Equipment account	19,101	19,082
RWD #15 account	31,226	1,500
Investments - CDs	194,750	193,389
Accounts receivable	38,530	35,434
Prepaid insurance	8,556	8,169
Total current assets	<u>318,230</u>	<u>402,703</u>
Restricted Assets:		
Bldg, maint & cap impv acct	<u>376,193</u>	<u>375,069</u>
Fixed Assets:		
Land	7,422	7,422
Building & fixtures	66,361	66,361
Vehicles & equipment	243,150	243,150
Water system	1,992,078	1,950,285
Less: accumulated depreciation	(1,415,190)	(1,348,634)
Total fixed assets (net)	<u>893,821</u>	<u>918,584</u>
Other Assets:		
ORWA deposit	<u>1,000</u>	<u>1,000</u>
Total Assets	<u>\$ 1,589,244</u>	<u>1,697,356</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 5,240	2,282
Current maturities of long-term debt	3,925	3,734
Total current liabilities	<u>9,165</u>	<u>6,016</u>
Long-Term Debt, less current maturities:		
Notes payable - Rural Development	<u>109,681</u>	<u>113,606</u>
Total Liabilities	<u>118,846</u>	<u>119,622</u>
Fund Equity:		
Retained earnings - unrestricted	<u>1,470,398</u>	<u>1,577,734</u>
Total Liabilities and Fund Equity	<u>\$ 1,589,244</u>	<u>1,697,356</u>

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended October 31, 2015

	2014-15	(Memo only) 2013-14
Revenue from Operations:		
Water sales	\$ 489,407	462,446
Other sources	0	1,100
Total revenue from operations	<u>489,407</u>	<u>463,546</u>
Expenses from Operations:		
Water cost	176,442	173,134
Operating supplies & materials	40,250	34,129
Contract management	44,500	40,575
Salaries	77,317	73,621
Payroll taxes	2,268	21,212
Retirement	9,129	8,292
Health insurance	15,842	6,572
Insurance	18,039	14,098
Professional fees	6,250	3,869
Engineering fees	55,202	0
Vehicle expense	28,633	31,009
Office expenses	13,859	9,293
Postage	6,452	4,209
Telephone	4,401	5,888
Utilities	14,821	14,707
Miscellaneous	1,204	505
Depreciation	66,556	63,824
Total expenses from operations	<u>581,165</u>	<u>504,937</u>
Net Income (Loss) from Operations	(91,758)	(41,391)
Other Income:		
Interest earnings	<u>2,504</u>	<u>3,406</u>
Other Expenses:		
RWD #15 annexation costs	(12,300)	0
Interest on debt	(5,782)	(5,964)
Total other expenses	<u>(18,082)</u>	<u>(5,964)</u>
Net Income (Loss)	(107,336)	(43,949)
Retained earnings, beginning of period	<u>1,577,734</u>	<u>1,621,683</u>
Retained earnings, end of period	<u><u>\$ 1,470,398</u></u>	<u><u>1,577,734</u></u>



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

April 21, 2016

Mr. Phillip Lalli, Chairperson
Rural Water District No. 7, Pittsburg County
515 East Cherokee
McAlester, Oklahoma 74501

Dear Mr. Lalli:

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.

Fuel Charges

We noted during our audit that the District paid for fuel costs by using a Shell Fuel charge account. Presently, the bill is paid from a monthly statement from Shell. It appears that the charges are normally at the same location, and charges are made almost daily. Due to the large volume of charges, and the large dollar amount charged, we recommend that a log be kept to show which vehicle is being fueled, and which employee is using the vehicle. There should be some additional supporting documentation to substantiate and verify that fuel amounts charged are for District business.

Payroll Taxes

We observed that the District correctly classified individuals as employees for the 2014-15 year, and properly withheld amounts from the employee's gross pay for federal and state taxes. However, based upon the financial statements presented for audit, it does not appear that these amounts were paid to the appropriate federal and state offices. This is obvious by the fact that 'payroll taxes' expenses decreased from \$21,212 in 2013-14 to \$2,268 in 2014-15. We recommend that this discrepancy be researched to ensure that taxed amounts are properly paid to federal and state offices.

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 "Eric M. Bledsoe", with a stylized flourish at the end.

Eric M. Bledsoe

For

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP