

Rural Water District No. 14
Pittsburg County, Oklahoma

Financial Statements and
Reports of Independent Auditor

December 31, 2015

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Rural Water District No. 14
Pittsburg County, Oklahoma
Board of Directors
December 31, 2015

Chairman

Ronald Collins

Vice Chairman

Richard Armstrong

Secretary/Treasurer

Ray Miller

Members

Don Brandish

Roy Engleman

Operator

vacant

Bookkeeper

Vivian Moody

Rural Water District No. 14
Pittsburg County, Oklahoma
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December 31, 2015

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Rural Water District No. 14
Pittsburg County, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 14 (the District), Pittsburg County, 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 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 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 January 7, 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

January 7, 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. 14
Pittsburg County, Oklahoma

We have audited the combined financial statements of Rural Water District No. 14 (the District), Pittsburg County, Oklahoma, as of and for the year ended December 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 January 7, 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.

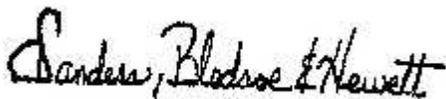
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

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 noted no deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 two instances of noncompliance that are required to be reported under *Government Auditing Standards*. These instances are listed as items 15-1 and 15-2 on the accompanying schedule of audit results.

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

January 7, 2016

Rural Water District No. 14
Pittsburg County, Oklahoma
Schedule of Audit Results
December 31, 2015

Section 1 – Summary of Auditor’s Results

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed two instances of noncompliance, items 15-1 and 15-2.

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

15-1 – Advanced/Owed Payments-

We observed during our review of District records that the District had made some advanced payments on services to be rendered to the operator. It appears that he was given a check for services one month before actually working for the District, which amounted to \$3,800. Additionally, this operator damaged some District property, and was asked to reimburse the \$2,406 of costs associated with these required repairs. He made some payments on these damages, but still owed \$1,606 on this obligation at December 2015. These two obligations to the District total \$5,406. This individual was asked, in the December 2015 public meeting, to begin paying these amounts back. He refused to return the owed funds to the District, and then resigned his position with the District. The District stated in the public meeting that this contractor actually owed them a total of \$7,306, but we were not provided documentation to substantiate this amount. Further, the District never had a written contract for services with this contractor, who was paid a fixed amount each month for operator services, and paid additional funds each month for trackhoe repairs and work done on the water system that fell outside the scope of his normal duties.

We find no statutory authority that would allow such a payment to any employee and/or contractor. To provide advanced funds to any individual or company is essentially granting an interest-free loan, and a rural water district does not have the authority to lend funds. Employees should be paid after providing adequate employment services, and contractors should be paid after they provide adequate goods or services.

We recommend that every effort be made to obtain these funds back from the previous operator. This should probably be handled by the District’s legal representative, to ensure that all methods and manners used are within the legal allowances of a rural water district. We further recommend that a written contract be produced each year, which would specifically describe all services expected from employees and/or contract labor workers, and should also list all amounts to be paid, method of all payments and the date of payments.

Rural Water District No. 14
Pittsburg County, Oklahoma
Schedule of Audit Results
December 31, 2015

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

15-2 – Board Members Compliance

We observed that three members of the Board of Directors were dismissed from the Board during 2015, due to not obtaining the required hours of educational training. The District subsequently added new board members, and these new members approved all the agenda items that were previously approved by the ineligible board members dating back to April 1, 2013.

We recommend that all board member hours of continuing education be monitored on a quarterly basis throughout each fiscal year, and every member be kept aware of their requirements during their time of serving.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
Statement of Position
December 31, 2015

ASSETS

Current assets:	
Cash in bank	\$ 78,221
Accounts receivable	46,427
Total current assets	124,648
Capital assets:	
Land	9,500
Water storage	55,757
Office furniture & fixtures	1,363
Water system and improvements	3,214,416
Less: accumulated depreciation	(1,669,709)
Total noncurrent assets	1,611,327
Total Assets	1,735,975

LIABILITIES

Current liabilities:	
Accounts payable	16,203
Accrued interest payable	719
Current portion of long-term debt	21,461
Total current liabilities	38,383
Noncurrent liabilities:	
Notes payable - Rural Development	568,115
Total Liabilities	606,498

NET POSITION

Invested in capital assets, net of related debt	1,021,751
Unrestricted assets	107,726
Total Net Position	\$ 1,129,477

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

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
Statement of Activities
For The Year Ended December 31, 2015

Operating Revenues:	
Water sales	\$ 385,300
Operating Expenses:	
Operating supplies & maintenance	43,566
Chemicals	88,860
Testing	14,883
Contract management	36,000
Insurance	10,751
Professional fees	9,145
Licenses, fees & memberships	846
Office expenses	6,119
Contract labor	98,966
Utilities	40,270
Miscellaneous	548
Depreciation	82,737
Total expenses from operations	<u>432,691</u>
Operating Income (Loss)	(47,391)
Non-Operating Revenues (Expenses):	
Interest income	83
Insurance reimbursement	21,614
Interest expense on debt	(28,496)
Total non-operating revenues (expenses)	<u>(6,799)</u>
Change in Net Assets	(54,190)
Total Net Position, beginning of period	<u>1,183,667</u>
Total Net Position, end of period	<u><u>\$ 1,129,477</u></u>

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

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
Statement of Cash Flows
For the Year Ended December 31, 2015

Cash flows from operating activities:	
Receipts from customers	\$ 371,538
Payments to vendors	<u>(349,219)</u>
Net cash (used in) provided by operating activities	<u>22,319</u>
 Cash flows from capital and related financing activities:	
Capital assets purchased	(24,207)
Interest paid on debt	(28,596)
Principal payments on debt	<u>(20,460)</u>
Net cash used in capital and related financing activities	<u>(73,263)</u>
 Cash flows from investing activities:	
Insurance reimbursement	21,614
Interest on investments	<u>83</u>
Net cash used in investing activities	<u>21,697</u>
 Net increase (decrease) in cash and cash equivalents	 (29,247)
Cash & cash equivalents, beginning of period	<u>107,468</u>
Cash & cash equivalents, end of period	<u><u>\$ 78,221</u></u>
 Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating Income	\$ (47,391)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	82,737
(Increase) decrease in current assets-	
Accounts receivable, net	(16,262)
Increase (decrease) in current liabilities-	
Accounts payable	<u>3,235</u>
Net Cash Provided by Operating Activities	<u><u>\$ 22,319</u></u>

The accompanying notes are an integral part of the financial statements

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 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 December 31, 2015, and are comprised as follows:

First National Bank, McAlester, OK	
Operation & Maint. Account	\$ 9,762
Reserve Account	51,478
Savings Account	23,259
Less: Outstanding Checks	<u>(6,377)</u>
Total Cash (plus \$100 cash on hand)	<u>\$ 78,122</u>

The District's cash deposits at December 31, 2015, are categorized to give an indication of the level of risk assumed by the district at year-end. Since the total amount of funds is less than the \$250,000 FDIC coverage amount, no additional collateral was required to be pledged.

Investments

The District had no outstanding investments at December 31, 2015.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2015

Note 1 – 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 \$49,056, 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 balance at the end of December 31, 2015 was \$51,478.

Accounts Receivable

Billings for accounts receivable at December 31, 2015, were \$48,808. A 10% computation was made for allowance for doubtful accounts, which amounted to \$4,881. Thus, accounts receivable was listed as \$43,927. Also at December 31, 2015, the District was owed \$2,500 due to a transfer error made from the Savings account in July 2015. This amount was erroneously placed in another bank account. The error was discovered, and the funds were transferred back to the District on January 7, 2016.

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 \$2500. Line extension costs reimbursed by the customer are not capitalized and, accordingly, not depreciated.

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2015**

Note 2 – Property and Equipment – cont’d

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

	Balance December 31, 2014	Acquired	(Disposed)	Balance December 31, 2015
Land	\$ 9,500	-	-	9,500
Office Equipment	1,363	-	-	1,363
Water System & Equip.	3,245,966	24,207	-	3,270,173
Sub-Total	3,256,829	24,207	0	3,281,036
Less: Accum. Depr.	(1,586,972)	(82,737)	0	(1,669,709)
Total	<u>\$ 1,669,857</u>	<u>(58,530)</u>	<u>0</u>	<u>1,611,327</u>

Note 3 – Accumulated Unpaid Vacation and Sick Pay

There was no formal employees of the District, thus no accumulated unpaid vacation and sick pay exists at December 31, 2015.

Note 4 – Long-Term Debt

The District has three notes payable to Rural Development outstanding as of December 31, 2015:

Note 91-01, dated September 27, 1991, with a 40-year maturity, and an interest rate of 5.00%, with an original loan amount of \$371,000. The monthly payment on this note is \$1,822. The principal balance at December 31, 2015 was \$231,304.

Note 91-03, dated September 27, 1991, with a 40-year maturity, and an interest rate of 5.00%, with an original loan amount of \$121,500. The monthly payment on this note is \$597. The principal balance at December 31, 2015 was \$75,600.

Note 91-06, dated August 13, 1998, with a 40-year maturity, and an interest rate of 4.50%, with an original loan amount of \$363,500. The monthly payment on this note is \$1,669. The principal balance at December 31, 2014 was \$282,672.

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2015**

Note 4 – Long-Term Debt – cont’d

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

<u>December 31,</u>	<u>Totals</u>	<u>91-01</u>	<u>91-03</u>	<u>91-06</u>
2016	\$ 21,461	10,538	3,463	7,460
2017	22,520	11,077	3,640	7,803
2018	23,631	11,644	3,826	8,161
2019	24,797	12,239	4,022	8,536
2020	26,021	12,866	4,227	8,928
2021-25	130,531	74,902	4,444	51,185
2026-30	186,071	96,126	25,871	64,074
2031+	154,544	1,912	26,107	126,525
Totals	<u>\$ 589,576</u>	<u>231,304</u>	<u>75,600</u>	<u>282,672</u>

Note 5 – Subsequent Events

Management has evaluated subsequent events through January 7, 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.

PITTSBURG RURAL WATER DISTRICT NO. 14
Balance Sheet
December 31, 2015

	December 31,	
	2015	(Memo only) 2014
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents-		
Operations & maintenance account	\$ 3,485	31,197
Reserve account	51,478	51,478
Savings account	23,258	24,793
Accounts receivable	46,427	30,165
Total current assets	124,648	137,633
Fixed Assets:		
Land	9,500	9,500
Water storage	55,757	40,090
Office furniture & fixtures	1,363	1,363
Water system	3,214,416	3,205,876
Less: accumulated depreciation	(1,669,709)	(1,586,972)
Total fixed assets (net)	1,611,327	1,669,857
Total Assets	\$ 1,735,975	1,807,490
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 16,203	12,968
Accrued interest payable	719	819
Current maturities of long-term debt	21,461	20,451
Total current liabilities	38,383	34,238
Long-Term Debt, less current maturities:		
Notes payable - Rural Development	568,115	589,585
Total Liabilities	606,498	623,823
Fund Equity:		
Retained earnings - unrestricted	1,129,477	1,183,667
Total Liabilities and Fund Equity	\$ 1,735,975	1,807,490

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
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	\$ 385,300	365,372
Expenses from Operations:		
Operating supplies & maintenance	43,566	95,482
Chemicals	88,860	47,409
Testing	14,883	8,732
Contract management	36,000	34,326
Insurance	10,751	9,663
Professional fees	9,145	1,250
Licenses, fees & memberships	846	481
Office expenses & postage	6,119	3,969
Contract labor	98,966	55,375
Utilities	40,270	42,655
Miscellaneous	548	51
Depreciation	82,737	81,740
Total expenses from operations	432,691	381,133
Net Income (Loss) from Operations	(47,391)	(15,761)
Other Income:		
Insurance reimbursement	21,614	-
Interest earnings	83	140
Total other income	21,697	140
Other Expenses:		
Interest on debt	(28,496)	(29,544)
Net Income (Loss)	(54,190)	(45,165)
Retained earnings, beginning of period	1,183,667	1,228,832
Retained earnings, end of period	\$ 1,129,477	1,183,667