

RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 14
PITTSBURG COUNTY, OKLAHOMA
PITTSBURG, OKLAHOMA
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2016

RALPH OSBORN
CERTIFIED PUBLIC ACCOUNTANT
500 SOUTH CHESTNUT
P.O. BOX 1015
BRISTOW, OK 74010-1015

INDEPENDENT AUDITORS' REPORT

Board of Directors
Rural Water, Sewer, Gas and Solid Waste Management District No. 14
Pittsburg County
McAlester, Oklahoma

I have audited the accompanying financial statements of Rural Water, Sewer, Gas and Solid Waste Management District No. 14, Pittsburg County, McAlester, Oklahoma as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Rural Water, Sewer, Gas and Solid Waste Management District No. 14, Pittsburg County, McAlester, Oklahoma's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Rural Water, Sewer, Gas and Solid Waste Management District No. 14, Pittsburg County, McAlester, Oklahoma as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Supplementary Information

Rural Water, Sewer, Gas and Solid Waste Management District No. 14, Pittsburg County, McAlester, Oklahoma has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statement.

Other Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Rural Water, Sewer, Gas and Solid Waste Management District No. 14, Pittsburg, Oklahoma's basic financial statements.

In accordance with *Government Auditing Standards*, I have also issued my report dated March 29, 2017, on my consideration of Rural Water, Sewer, Gas and Solid Waste Management District No. 14's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
March 29, 2017

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 14
PITTSBURG COUNTY, OKLAHOMA
PITTSBURG, OKLAHOMA
STATEMENT OF NET ASSETS
DECEMBER 31, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 34,538
Accounts receivable, net	<u>51,580</u>
Total current assets	<u>86,118</u>

Restricted assets:

Restricted cash and cash equivalents	<u>41,478</u>
Total restricted assets	<u>41,478</u>

Non-current assets:

Capital assets:

Land	9,500
Other capital assets, net of accumulated depreciation	<u>1,593,344</u>
Total non-current assets	<u>1,602,844</u>

Total assets	<u>1,730,440</u>
--------------	------------------

LIABILITIES

Current liabilities:

Accounts payable	21,569
Accrued Interest Payable	771
Notes payable, current	<u>22,448</u>
Total current liabilities	<u>44,788</u>

Non-current liabilities:

Notes payable, non-current	<u>545,664</u>
Total non-current liabilities	<u>545,664</u>
Total liabilities	<u>590,452</u>

NET ASSETS

Invested in capital assets, net related debt	1,033,961
Reserved for debt service	41,478
Unrestricted	<u>64,549</u>

Net assets	<u><u>\$ 1,139,988</u></u>
------------	----------------------------

See accompanying notes to financial statements.

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 14
PITTSBURG COUNTY, OKLAHOMA
PITTSBURG, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016

OPERATING REVENUES

Water Sales	\$ 387,705
Penalties and Fees	30,598
Memberships	7,075
Other	<u>4,835</u>
Total operating revenues	<u>430,213</u>

OPERATING EXPENSES

Chemicals	26,715
Contract Labor	80,097
Contract Management	43,438
Insurance	23,511
Licenses, Fees, and Memberships	797
Office Expenses	6,325
Operating Supplies	12,713
Professional Fees	4,978
Repairs and maintenance	112,035
Testing	16,902
Utilities	38,567
Other	-
Depreciation	<u>84,483</u>
Total operating expenses	<u>450,561</u>
Operating income (loss)	<u>(20,348)</u>

NON-OPERATING REVENUE (EXPENSES)

Grant	55,000
Investment income	56
Interest on notes payable and fiscal fees	<u>(28,655)</u>
Total non-operating revenue (expenses)	<u>26,401</u>
Net income (loss)	6,053
Total net assets, beginning	<u>1,133,935</u>
Total net assets, ending	<u>\$ 1,139,988</u>

See accompanying notes to financial statements.

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 14
PITTSBURG COUNTY, OKLAHOMA
PITTSBURG, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

Cash flows from operating activities	
Cash received from customers	\$ 425,060
Cash payments to vendors	<u>(357,213)</u>
Net cash provided (used) by operating activities	<u>67,847</u>
Cash flows from capital and related financing activities	
Acquisition of fixed assets	(76,000)
Grant Proceeds	55,000
Interest paid on notes payable and fiscal fees	(28,655)
Principal paid on notes payable	<u>(20,453)</u>
Net cash (used) by capital and related financing activities	<u>(70,108)</u>
Cash flows from investing activities	
Transfer from reserve	10,000
Receipt of interest and dividends	<u>56</u>
Net cash provided (used) by investing activities	<u>10,056</u>
Net increase/(decrease) in cash and cash equivalents	7,795
Cash and cash equivalents, beginning	<u>26,743</u>
Cash and cash equivalents, ending	<u><u>\$ 34,538</u></u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities	
Operating income (loss)	\$ (20,348)
Depreciation	84,483
(Increase)/Decrease in Current Assets	
Accounts receivables, net	(5,153)
Increase/(Decrease) in Current Liabilities	
Accounts payable	8,813
Accrued interest payable	<u>52</u>
Net cash provided by operating activities	<u><u>\$ 67,847</u></u>

See accompanying notes to financial statements.

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 14
PITTSBURG COUNTY, OKLAHOMA
PITTSBURG, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water, Sewer, Gas and Solid Waste Management District No. 14, Pittsburg County, McAlester, Oklahoma (the "District") was created October 3, 1988 by the Board of County Commissioners of Pittsburg County, Oklahoma under the provisions of the Rural Water District Act (Title 82 Oklahoma Statutes, Sections 1324.1 et. seq.). The District is managed by a 5 member Board of Directors. Members of the board are elected by the membership of the District at its annual meeting. Membership in the District is attained by paying membership fees and receiving services from the District. The activities of the District constitute the entire reporting entity. There are no other component or oversight units. The District is a political subdivision of the state of Oklahoma.

Government-Wide and Fund Financial Statements

The District is a special purpose governmental entity engaged only in business type activities. The District prepares financial statements required for enterprise funds.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the District are prepared in accordance with generally accepted accounting principles (GAAP). The District's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The District's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

The financial statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows.

Operating income reported in financial statements include revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the cost of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Fund Types and Major Funds

The District reports all activity within a single fund.

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 14
PITTSBURG COUNTY, OKLAHOMA
PITTSBURG, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

Investments

The District follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Investment reported in the financial statements is a certificate of deposit.

Capital Assets, Depreciation, and Amortization

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported. The District maintains infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The District generally capitalizes assets with as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method with one-half year depreciation in the year acquired and one-half in the year of disposal. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	20 - 50 years
Water and sewer system	30 - 50 years
Machinery, and equipment	5 - 10 years
Improvements	10 - 20 years

Compensated Absences

The District does not currently have any employees. Therefore, the District has not accrued any vacation, sick leave, or other compensated absences.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Restricted net assets represent tentative plans for future use of financial resources.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 14
PITTSBURG COUNTY, OKLAHOMA
PITTSBURG, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE B - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the District will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by counterparty or the counterparty's trust department but not in the name of the District. The District's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of December 31, 2016, all of the District's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$76,016 at December 31, 2016. The bank balance of the deposits at December 31, 2016 was approximately \$95,139.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at December 31, 2016.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the District's interest rate risk. As of December 31, 2016, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - RESTRICTED ASSETS

The District has reported as restricted assets cash held by a trustee bank for use in relation to the note payable listed in Note E. The cash reported in the Statement of Net Position is restricted as indicated. This cash is not available for other purposes.

The Loan Resolution Security Agreements with the USDA Rural Development requires a reserve fund to be funded at 10% of the monthly installment until the balance is equal to the annual installment amount (\$4,088 X 12 = \$49,056). At December 31, 2016, the total balance in the debt service reserve accounts at First National Bank & Trust Company of McAlester, McAlester, Oklahoma was \$41,448. The District's reserve was fully funded at December 31, 2015, however, they were given permission by Rural Development to withdraw \$10,000 to use on a construction project. The funds will returned by monthly installments as agreed.

Debt Service Reserve Account	\$ 41,478
Required Reserve	<u>49,056</u>
Net Amount Unfunded	<u>\$ (7,578)</u>

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 14
PITTSBURG COUNTY, OKLAHOMA
PITTSBURG, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE D - CAPITAL ASSETS

The following table provides a summary of changes in capital assets:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 9,500	\$ -	\$ -	\$ 9,500
Equipment	1,363	-	-	1,363
Water Distribution System	3,270,173	76,000	-	3,346,173
Total Capital Assets	\$ 3,281,036	\$ 76,000	\$ -	\$ 3,357,036
Depreciation	(1,669,709)	(84,483)	-	(1,754,192)
Total Net Capital Assets	<u>\$ 1,611,327</u>	<u>\$ (8,483)</u>	<u>\$ -</u>	<u>\$ 1,602,844</u>

NOTE E - NOTES PAYABLE PROPRIETARY FUND

A brief description of the outstanding notes payable at December 31, 2016 is set forth below:

USDA, Rural Development loan #01 in the original loan amount of \$371,000, interest rate of 5.00%, term of 40 years, monthly installment of \$1,822.	220,765
USDA, Rural Development loan #03 in the original loan amount of \$121,500, interest rate of 5.00%, term of 40 years, monthly installment of \$597.	72,137
USDA, Rural Development loan #06 in the original loan amount of \$363,500, interest rate of 4.50%, term of 40 years, monthly installment of \$1,669.	<u>275,210</u>
TOTAL	<u>\$ 568,112</u>

Following is the anticipated annual debt service amounts for principal payments.

<u>Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2017	\$ 22,448	\$ 26,608	\$ 49,056
2018	23,556	25,500	49,056
2019	24,718	24,338	49,056
2020	25,940	23,116	49,056
2021	27,220	21,836	49,056
2022 - 2026	157,638	87,642	245,280
2027 - 2031	174,357	46,136	220,493
2032 - 2036	83,715	16,425	100,140
2037 - 2038	28,520	1,522	30,042
Total	<u>\$ 568,112</u>	<u>\$ 273,123</u>	<u>\$ 841,235</u>

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 14
PITTSBURG COUNTY, OKLAHOMA
PITTSBURG, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016

NOTE F - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District carries commercial insurance for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE G - EVALUATION OF SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 29, 2017, the date on which the financial statements were available to be issued. The District is constructing a connection to the Pittsburg County Public Works Authority system. Once this connection is complete, the District will purchase water from the Authority for resale to members.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Rural Water, Sewer, Gas and Solid Waste Management District No. 14
Pittsburg County
Pittsburg, Oklahoma

I have audited, in accordance with the 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, the financial statements of Rural Water, Sewer, Gas and Solid Waste Management District No. 14, Pittsburg, Oklahoma, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Rural Water, Sewer, Gas and Solid Waste Management District No. 14's basic financial statements and have issued my report thereon dated March 29, 2017 which did not include Management's Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Rural Water, Sewer, Gas and Solid Waste Management District No. 14, Pittsburg County, McAlester, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water, Sewer, Gas and Solid Waste Management District No. 14, Pittsburg County, McAlester, Oklahoma's internal control. Accordingly, I do not express an opinion of the effectiveness of Rural Water, Sewer, Gas and Solid Waste Management District No. 14, Pittsburg County, McAlester, Oklahoma's internal control.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings, that I consider to be significant deficiencies as findings 2016-01, 2016-02, 2016-03, and 2016-04.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water, Sewer, Gas and Solid Waste Management District No. 14, Pittsburg, Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
March 29, 2017

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 14
PITTSBURG COUNTY, OKLAHOMA
PITTSBURG, OKLAHOMA
SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

2016-01 Lack of segregation of duties

Criteria: The District lacks segregation of duties over cash collection and distribution.

Condition: The District's contract manager collects and deposits cash, writes checks, and reconciles bank accounts.

Recommendation: The District should utilize additional staff, board members, or District members to oversee the daily functioning of the District.

2016-02 Record keeping

Criteria: The District's financial data and support documents were not kept separate from other water districts' financial data and support documents.

Condition:

- * The District employs a contract manager who also contracts with other water districts. The contractor did not maintain separate company files in the accounting software. The general ledger produced from the files presented included data from other water districts which made extracting the District's data for the audit difficult. This situation could cause data, including personal information, to be released to outside sources unnecessarily. Additionally, errors in accounting could occur which would cause financial statements to be incorrect for one or more districts.
- * The District's support documentation included support for other water districts. Support should be kept separately for each water district in order to keep documents from becoming lost or from being released unnecessarily.
- * The District's contract manager had one sign in for banking for all water districts managed. The manager mistakenly transferred \$2,500 into another water district's account in the prior fiscal year. This was corrected in January 2016.

Recommendation: The District should insure that all data and support are kept separately from other water districts.

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 14
PITTSBURG COUNTY, OKLAHOMA
PITTSBURG, OKLAHOMA
SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

2016-03 Lack of control over checks

Criteria: Signed blank and improperly voided checks were filed in with the District's support files.

Condition: The District's support files included:

- * 25 signed checks to the order of "Postmaster", 21 of which had a blank amount section.
- * 2 signed "blank" checks.
- * 27 signed checks to the order of "Petty Cash", all of which had a blank amount section.
- * 6 fully executable checks to various vendors that were not properly voided.

Recommendation: Board members who are authorized to sign checks should not sign checks until the date, payee, and both amount sections are filled in. If a check is voided, the checks should be properly stamped void or void should be written across the majority of the check and the signature section should be removed, stamped VOID, or VOID should be written across the signature section.

2016-04 Overdraft fees

Criteria: The District's bank balance decreased to below zero several times during the year even though the district had funds in another account.

Condition: The District paid overdraft fees for checks that cleared in an account with insufficient funds when the District had funds to cover the amounts in another account.

Recommendation: The District should monitor the bank balances and determine if funds need to be transferred to cover checks outstanding. The District should also consider whether additional revenues should be raised through raising rates or cutting costs.