

**Pushmataha County Rural Water District No. 5
Nashoba, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2015

Audited by

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

BROKEN ARROW, OK

Pushmataha County Rural Water District No. 5
Nashoba, Oklahoma
Board of Directors
December 31, 2015

BOARD OF DIRECTORS

Chairman

David Murray

Vice Chairman

Juanita Briggs

Secretary/Treasurer

Larry Burke

Members

David Colbert

Julie Garriety

Bookkeeper

Lillian Kinsey

Pushmataha County Rural Water District No. 5
Nashoba, Oklahoma
December 31, 2015

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pushmataha County Rural Water District No. 5
Nashoba, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Pushmataha County Rural Water District No. 5 (the District), Nashoba, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements. Management is also responsible for 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

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

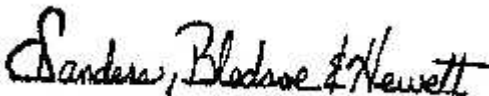
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2015, and the respective changes in financial position and cash flows thereof for the year then ended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

Other Matters

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2015 on our consideration of the District's internal control over financial reporting and on our 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 our testing of internal control over financial reporting or on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

March 18, 2015



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**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**

Board of Directors
Pushmataha County Rural Water District No. 5
Nashoba, Oklahoma

We have audited, 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, the accompanying financial statements of the Pushmataha County Rural Water District No. 5 (the District), Nashoba, Oklahoma, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 18, 2016.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designated to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies as finding 15-1.


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 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*.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

March 18, 2016

PUSHMATAHA COUNTY RURAL DISTRICT NO. 5
Disposition of Prior Year's Reportable Conditions
December 31, 2015

There were no prior year reportable conditions.

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
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 a significant deficiency in the internal controls, item 15-1.
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 – Internal Control – Segregation of Duties

Criteria: The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity’s assets and ensure accurate financial reporting.

Condition: Presently the same individual that receives utility service related cash payments is also responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to subsidiary accounts receivable ledger and reconciles the monthly bank statements. In addition, only limited oversight is provided over this individual in the conduct of their daily functions. This finding was also noted in 2014.

Cause: The district’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to utility billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: We recommend that management and the board should consider a formal evaluation of their risks associated with this lack of duties segregation over utility cash and receivables. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with lack of segregation of duties. Such as providing increased management oversight and an independent reconciliation of accounts. For example, the entity might consider soliciting the assistance of independent volunteer labor to perform certain functions including to act as compensating procedures where applicable.

Responsible Official’s Response: The district concurs with the recommendation. However, the cost to correct this condition exceeds the benefit.

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF NET POSITION
DECEMBER 31, 2015

ASSETS:

Current assets:

Cash	\$ 12,304
Investments	15,262
Accounts receivable	9,979
Prepaid assets	2,307
Total current assets	<u>39,878</u>

Noncurrent assets:

Restricted cash and cash equivalents	22,077
Capital assets:	
Water distribution system-net	1,619,926
Building-net	27,751
Total noncurrent assets	<u>1,669,754</u>

Total Assets	<u>1,709,632</u>
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LIABILITIES:

Current liabilities:

Accounts/wages payable	5,311
Accrued interest on long-term debt	1,028
Current portion of long-term debt	10,354
Total current liabilities	<u>16,693</u>

Noncurrent liabilities:

Long-term notes payable	<u>383,960</u>
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Total Liabilities	<u>400,653</u>
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NET POSITION:

Invested in capital assets, net of related debt	1,253,363
Unrestricted	55,616
Total Net Position	<u>\$ 1,308,979</u>

The accompanying notes are an integral part of the financial statements

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2015

Operating Revenues:	
Water revenue	\$ 142,662
Operating Expenses:	
Salaries and taxes	30,318
Water purchases	40,569
Utilities and telephone	3,082
Depreciation	63,304
Supplies and materials	5,387
Office	1,846
Insurance	4,730
Contract labor	13,297
Professional fees	2,334
Postage	2,610
Mileage and travel	2,491
Testing	3,386
Dues and fees	469
Miscellaneous	618
Total expenses from operations	<u>174,441</u>
Operating Income (Loss)	(31,779)
Non-Operating Revenues (Expenses):	
Interest income	258
Interest paid on long-term debt	<u>(18,403)</u>
Total Non-Operating Revenues (Expenses)	<u>(18,145)</u>
Change in Net Position	(49,924)
Total Net Position, beginning of period	<u>1,358,903</u>
Total Net Position, end of period	<u><u>\$ 1,308,979</u></u>

The accompanying notes are an integral part of the financial statements

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

Cash Flows from Operating Activities:

Receipts from customers	\$ 142,017
Payments to employees	(29,887)
Payments to vendors	(80,539)
Net Cash Provided by (used in) Operating Activities	<u>31,591</u>

Cash Flows from Financing Activities:

Principal paid on long-term debt	(9,419)
Interest paid on long-term debt	(18,889)
Net Cash Provided by (used in) Financing Activities	<u>(28,308)</u>

Cash Flows from Investing Activities:

Interest earned on investments	<u>258</u>
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Net increase (decrease) in cash and cash equivalents 3,541

Cash and cash equivalents, beginning of period 46,128

Cash and cash equivalents, end of period \$ 49,669

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

Operating Income (loss)	\$ (31,779)
Adjustments to reconcile net income to net cash provided (used) by operating activities:	
Depreciation Expense	63,304
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(645)
(Increase) decrease in prepaid assets	(25)
Increase (decrease) in accounts payable	736
Net cash provided by operating activities	<u><u>\$ 31,591</u></u>

The accompanying notes are an integral part of the financial statements

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note A – Significant Accounting Policies

Business Activity

Pushmataha County Rural Water District No. 5 (the District) was formed under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of the Pushmataha County Rural Water District No. 5. The District's primary income is from the sale of water to its members in an area around Nashoba, Oklahoma.

Basis of Accounting

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

Cash

The District's cash accounts are with the Shamrock Bank, Coalgate, Oklahoma, and are detailed as follows:

	December 31,	
	2015	2014
Operating Account	\$ 11,051	9,538
Construction Account	3,132	-
Less: Outstanding checks	(1,879)	(1,064)
Totals	<u>\$ 12,304</u>	<u>8,474</u>

Collateral Pledged

It appears that all funds were adequately insured by \$250,000 FDIC coverage as of December 31, 2015.

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note A – Significant Accounting Policies – cont'd

Investments

The District's investment accounts are with the Shamrock Bank, Coalgate, Oklahoma, and are detailed as follows:

	December 31,	
	2015	2014
Money Market Account	\$ 6,173	6,736
Certificates of Deposits	9,089	9,071
Total Investments	<u>\$ 15,262</u>	<u>15,807</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 payments on the notes payable, or \$9,638, at which time deposits into the reserve can be suspended. The reserve account funds have been deposited in a certificate of deposit at Shamrock Bank, Coalgate, Oklahoma, which is insured by the federal government. At December 31, 2015 the restricted asset-investment reserve balance was \$22,007.

Accounts Receivable

Billings for accounts receivable at December 31, 2015 were \$9,979. Allowance for doubtful accounts was not estimated, since the amount is considered immaterial.

Fixed Assets

Fixed assets obtained prior to December 31, 1995, are carried at estimated cost, which is equivalent to the loan proceeds and grants obtained to finance the purchase of property, plant, and equipment. Subsequent additions are recorded at cost. Depreciation of the waterworks system and improvements is provided using the straight-line method based on a forty-year life. Equipment is depreciated over a five-year life. Depreciation expense for the year is presented as an operating expense and closed, along with other operating expenses, directly to retained earnings.

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note B – Long-Term Debt

The District is indebted to the USDA Rural Development Program on two notes obtained to finance system improvements. The notes are secured by system revenues and property, plant and equipment. Long-term debt at December 31, is summarized as follows:

	<u>2015</u>	<u>2014</u>
Note No. 91-01, issued for \$275,000, dated 9-7-93, at 5% interest, due in monthly installments of \$1,351, until paid;	\$ 189,191	195,764
Note No. 91-05, issued for \$230,000, dated 2-14-06, at 4.25% interest, due in monthly installments of \$1,008, until paid;	205,123	208,425
Less: Current maturities of long-term debt	<u>(10,354)</u>	<u>(9,575)</u>
Total Long-Term Debt, Less Current Maturities	<u>\$ 383,960</u>	<u>394,614</u>

The estimated maturities for the next five years, plus the total amount due thereafter, based on the required monthly payments, are detailed as follows:

	<u>Rural Development</u>
2016	\$ 10,354
2017	10,857
2018	11,384
2019	11,937
2020	12,517
2021-25	67,285
2026-30	90,542
2031-35	72,807
2036+	<u>106,631</u>
Total	<u>\$ 394,313</u>

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015

Note C- Contributed Capital

Contributed capital of \$674,036 was provided by grants from the Rural Economic and Community Development and other sources to assist in building and improving the water system. In 2006 and 2007, the District received grants from Rural Development (\$905,551), ORWB (\$119,000) and the Choctaw Nation (\$50,000), as well as a KEDDO Grant (\$10,751) and ODOC Grant (\$250,000) which were administered through Pushmataha County. These grants, along with the loan proceeds received in 2006 and 2007, were used to complete the water distribution system in Snow and assist in the building of an office building.

Note D - Prior Year Information

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

Note E – Subsequent Events

Management has evaluated subsequent events through March 18, 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.

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
BALANCE SHEET
DECEMBER 31, 2015

	DECEMBER 31,	
	2015	(memo only) 2014
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 12,330	8,474
Investments	15,262	15,807
Accounts receivable	9,979	9,334
Prepaid Insurance	2,307	2,282
Total Current Assets	<u>39,878</u>	<u>35,897</u>
Fixed Assets:		
Water distribution system	2,478,013	2,478,013
Building	40,611	40,611
Equipment	14,648	14,648
Office equipment	2,721	2,721
Total Fixed Assets	<u>2,535,993</u>	<u>2,535,993</u>
Less: accumulated depreciation	<u>(888,316)</u>	<u>(825,012)</u>
Total Fixed Assets (net of depreciation)	<u>1,647,677</u>	<u>1,710,981</u>
Restricted Assets:		
Investment reserves	<u>22,077</u>	<u>21,847</u>
Total Assets	<u>\$ 1,709,632</u>	<u>1,768,725</u>
<u>LIABILITIES AND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 4,766	4,461
Payroll taxes payable	545	114
Accrued interest	1,028	1,058
Current maturities of long-term debt	10,354	9,575
Total Current Liabilities	<u>16,693</u>	<u>15,208</u>
Long-Term Debt, less current maturities:		
Notes payable	<u>383,960</u>	<u>394,614</u>
Total Liabilities	<u>400,653</u>	<u>409,822</u>
Equity:		
Contributed capital	2,009,338	2,009,338
Retained earnings (deficit)	<u>(700,359)</u>	<u>(650,435)</u>
Total Equity	<u>1,308,979</u>	<u>1,358,903</u>
Total Liabilities and Equity	<u>\$ 1,709,632</u>	<u>1,768,725</u>

PUSHMATAHA COUNTY RURAL WATER DISTRICT NO. 5
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
FOR YEARS ENDED DECEMBER 31, 2015

	2015	(memo only) 2014
Revenue from operations:		
Water revenue	\$ 139,932	116,755
Memberships	1,675	4,800
Miscellaneous	1,055	3,943
Total revenue from operations	<u>142,662</u>	<u>125,498</u>
Expenses from operations:		
Salaries and taxes	30,318	26,722
Water purchases	40,569	37,394
Utilities and telephone	3,082	3,063
Depreciation	63,304	63,304
Supplies and materials	5,387	4,584
Office	1,846	1,846
Insurance	4,730	4,611
Contract labor	13,297	15,172
Professional fees	2,334	2,400
Postage	2,610	1,465
Mileage and reimbursements	2,491	4,967
Testing	3,386	836
Dues and fees	469	397
Miscellaneous	618	629
Total expenses from operations	<u>174,441</u>	<u>167,390</u>
Net Income (Loss) From Operations	(31,779)	(41,892)
Non-operating revenue:		
Interest earnings	<u>258</u>	<u>459</u>
Non-operating expenses:		
Interest paid on long-term debt	<u>(18,403)</u>	<u>(18,864)</u>
Net Income (Loss)	(49,924)	(60,297)
Retained earnings, beginning of period (deficit)	<u>(650,435)</u>	<u>(590,138)</u>
Retained earnings, end of period (deficit)	<u><u>\$ (700,359)</u></u>	<u><u>(650,435)</u></u>