

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 2, SEMINOLE COUNTY
WEWOKA, OKLAHOMA**

FINANCIAL STATEMENTS
AND REPORTS OF INDEPENDENT AUDITOR

OCTOBER 31, 2016

Audited by

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

BROKEN ARROW, OK

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, SEMINOLE COUNTY
OCTOBER 31, 2016

BOARD OF DIRECTORS

Chairman

Fred Argo

Vice-Chairman

Eddie Neill

Secretary/Treasurer

Ralph Morton

Members

Reggie Parker

Ronald Stafford

BOOKKEEPER

Phallis Taylor

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, SEMINOLE COUNTY
OCTOBER 31, 2016

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rural Water, Sewer, Gas and Solid Waste
Management District No. 2, Seminole County
Wewoka, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Rural Water, Sewer, Gas and Solid Waste Management District No. 2, Seminole County (the District), Wewoka, Oklahoma, as of and for the year ended October 31, 2016, 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

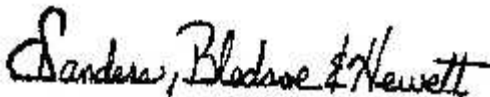
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of October 31, 2016, and the respective changes in financial position and cash flows thereof for the year then ended 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 January 4, 2017 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

January 4, 2017



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
Rural Water, Sewer, Gas and Solid Waste
Management District No. 2, Seminole County
Wewoka, 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 Rural Water, Sewer, Gas and Solid Waste Management District No. 2, Seminole County (the District), Wewoka, Oklahoma, as of and for the year ended October 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 4, 2017.

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.

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*.

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

January 4, 2017

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, SEMINOLE COUNTY
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES
OCTOBER 31, 2016

There were no prior year significant deficiencies.

RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT
DISTRICT NO. 2, SEMINOLE COUNTY
SCHEDULE OF AUDIT RESULTS
OCTOBER 31, 2016

Section 1 – Summary of Auditor’s Results

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no significant deficiencies in the internal controls.
3. The audit disclosed no instances of noncompliance.

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

None

Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Statement of Net Position
October 31, 2016

ASSETS

Current assets:

Cash	\$ 22,658
Current portion of receivables	10,220
Prepaid assets	1,042
Investments with fiscal agents	164,075
Total current assets	<u>197,995</u>

Noncurrent assets:

Restricted investment with fiscal agents	1,030
Capital assets:	
Water system and improvements, net of depreciation	350,884
Total noncurrent assets	<u>351,914</u>

Total Assets	<u>549,909</u>
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LIABILITIES

Current liabilities:

Water Deposits	<u>19,284</u>
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NET POSITION

Invested in capital assets	351,914
Unrestricted assets	178,711
Total Net Position	<u>\$ 530,625</u>

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

Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Statement of Revenues, Expenditures and Changes in Net Position
For The Year Ended October 31, 2016

Operating Revenues:	
Water sales	\$ 78,436
Fees and fines	8,411
Total revenues from operations	<u>86,847</u>
Operating Expenses:	
Salaries, taxes and contract labor	17,076
Depreciation	12,728
Transfers	277
Water purchases	41,282
Office	1,312
Insurance and bonds	1,780
Health insurance	5,681
Rent	375
Repairs and maintenance	2,639
Postage and box rental	241
Professional fees	1,275
Contract computer services	3,041
Miscellaneous	2,425
Water sampling	3,125
Dues and fees	691
Total expenses from operations	<u>93,948</u>
Operating Income (Loss)	(7,101)
Non-Operating Revenues (Expenses):	
Interest income	<u>1,213</u>
Change in Net Position	(5,888)
Total Net Position, beginning of period	<u>536,513</u>
Total Net Position, end of period	<u><u>\$ 530,625</u></u>

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

Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Statement of Cash Flows
For Year Ended October 31, 2016

Cash Flows from Operating Activities:	
Receipts from customers	\$ 86,513
Payments to employees	(14,935)
Payments to vendors	(66,291)
Total cash flows from operating activities	<u>5,287</u>
Cash Flows from Investing Activities:	
Interest revenue	1,213
Investments (purchased) liquidated	(1,163)
Total cash flows from investing activities	<u>50</u>
Net increase (decrease) in cash	5,337
Cash and cash equivalents, beginning of period	<u>17,321</u>
Cash and cash equivalents, end of period	<u><u>\$ 22,658</u></u>

<u>Reconciliation of operating income (loss) to net cash provided by operating activities:</u>	
Operating Income	\$ (7,101)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	12,728
(Increase) decrease in accounts receivable	(1,974)
(Increase) decrease in prepaid insurance	(6)
Increase (decrease) in meter deposits	1,640
Net Cash Provided by Operating Activities	<u><u>\$ 5,287</u></u>

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

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Notes to Financial Statements
October 31, 2016**

Note A – Significant Accounting Policies

Basis of Accounting

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

The District follows GASB Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes financial reporting requirements for state and local governments throughout the United States. It creates information and restructures much of the information that governments have presented in the past.

Cash

The District’s accounts are with the Security State Bank, Wewoka, Oklahoma and First United Bank, Wewoka, Oklahoma, and are detailed as follows:

	October 31,	
	2016	2015
Revenue account	\$ 14,073	8,108
Improvement account	9,232	9,213
Less: outstanding checks	(647)	0
Total	<u>\$ 22,658</u>	<u>17,321</u>

Investments

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

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Notes to Financial Statements
October 31, 2016**

Investments – cont'd

The District had the following outstanding investments at October 31, 2016:

Security State Bank, Wewoka, Oklahoma	
Certificate of deposit no. 2979	\$ 56,097
Certificate of deposit no. 2977	34,641
Certificate of deposit no. 2819	37,461
Certificate of deposit no. 2918	11,343
First National Bank, Wewoka, Oklahoma	
Certificate of deposit no. 1693	<u>24,533</u>
Total	<u>\$164,075</u>

Other Assets

The District purchased a security deposit with ORWAAG of \$1,030. The District made the deposit in lieu of an annual fee of \$25 for membership with ORWAAG. The deposit is interest bearing and will pay at the T-bill plus 3% interest rate one time per year.

Accounts Receivable

Billings for accounts receivable at October 31, 2016 were \$10,220. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Fixed Assets

Fixed assets are valued at cost, depreciation is computed by use of the straight line method. The estimated useful lives of these assets are as follows:

Water system	40 years
Water meters	10 years
Equipment	5-7 years

Federal Income Tax

The District is exempt from Federal and State income taxes.

**Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Notes to Financial Statements
October 31, 2016**

Collateral Pledged

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

Long-Term Debt

There was no long-term debt at October 31, 2016.

Note B – Insurance and Surety Bond Coverage

At October 31, 2016, the District had appropriate coverage against all major perils.

Note C – Accumulated Unpaid Vacation and Sick Pay

At October 31, 2016, no determination of the aggregate dollar value of vacation or sick pay had been made.

Note D – Contributed Capital

In the 2000-01 fiscal year, the District was awarded a REAP grant from the Oklahoma Water Resources Board in the amount of \$99,900. These funds were used for system expansion and improvements.

In the 2002-03 fiscal year, the District was awarded a REAP grant in the amount of \$100,147 and a \$150,000 CDBG grant in the amount of \$150,000. These funds were administered and paid out by Seminole County. These proceeds, along with applicable local matching funds, were used to construct a new standpipe and line extensions.

Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Balance Sheet
October 31, 2016

	October 31,	
	2016	(memo only) 2015
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 22,658	17,321
Investments	164,075	162,912
Prepaid insurance	1,042	1,036
Accounts receivable	10,220	8,246
Total current assets	<u>197,995</u>	<u>189,515</u>
Fixed Assets:		
Water system & improvements	643,142	643,142
Less: accumulated depreciation	(292,258)	(279,530)
Total fixed assets (net)	<u>350,884</u>	<u>363,612</u>
Other Assets		
Security deposit - ORWAAG	<u>1,030</u>	<u>1,030</u>
Total Assets	<u>\$ 549,909</u>	<u>554,157</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Meter deposits	<u>\$ 19,284</u>	<u>17,644</u>
Fund Equity:		
Contributed capital	350,047	350,047
Retained earnings	180,578	186,466
Total fund equity	<u>530,625</u>	<u>536,513</u>
Total Liabilities and Fund Equity	<u>\$ 549,909</u>	<u>554,157</u>

Rural Water, Sewer, Gas and Solid Waste Management
District No. 2, Seminole County
Statement of Revenue, Expenses and Changes in Retained Earnings
For The Year Ended October 31, 2016

	2015-16	(memo only) 2014-15
Revenue from Operations:		
Water sales	\$ 78,436	69,303
Late charges	2,830	2,771
Meter set fees	1,725	3,975
Reconnect fees	779	1,285
Benefit units	300	450
Miscellaneous	2,777	3,946
Total revenue from operations	<u>86,847</u>	<u>81,730</u>
Expenses from Operations:		
Salaries, taxes and contract labor	17,076	12,196
Depreciation	12,728	12,536
Transfers	277	0
Water purchases	41,282	40,134
Office	1,312	668
Insurance and bonds	1,780	1,736
Health Insurance	5,681	4,392
Rent	375	150
Repairs and maintenance	2,639	9,743
Postage and box rental	241	298
Professional fees	1,275	950
Contract computer services	3,041	2,019
Miscellaneous	2,425	518
Water sampling	3,125	4,145
Dues and fees	691	709
Total expenses from operations	<u>93,948</u>	<u>90,194</u>
Net Income (Loss) from Operations	(7,101)	(8,464)
Other Income:		
Interest earnings	<u>1,213</u>	<u>1,122</u>
Net Income (Loss)	(5,888)	(7,342)
Retained earnings, beginning of period	<u>186,466</u>	<u>193,808</u>
Retained earnings, end of period	<u><u>\$ 180,578</u></u>	<u><u>186,466</u></u>