

Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma

Financial Statements and  
Reports of Independent Auditor

October 31, 2015

Audited by

SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Board of Directors  
October 31, 2015

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**Vice Chairperson**

Tim Russell

**Secretary/Treasurer**

Carlotta Robinson

**Members**

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Vacant

**Office Manager**

Shana Jones  
Michelle Richardson

**Clerk**

Carmeletta Grant

**P.O. Box 142  
Cromwell, Oklahoma 74837  
(405) 257-3727**

Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
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October 31, 2015

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# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Rural Water, Sewer and Solid Waste Management District No. 3, Seminole County (the District), Cromwell, Oklahoma, as of and for the year ended October 31, 2015, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **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**

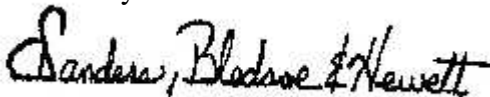
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of October 31, 2015, and the respective changes in financial position and cash flows thereof for the year then ended 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 April 6, 2016 on our consideration of the Authority'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

April 6, 2016



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**Report on Compliance and on Internal Control Over  
Financial Reporting Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Directors  
Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma

We have audited the financial statements of the Rural Water, Sewer and Solid Waste Management District No. 3, Seminole County (the District) Cromwell, Oklahoma, as of and for the year ended October 31, 2015, and have issued our report thereon dated April 6, 2016. 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.

**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 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 generally accepted auditing standards.

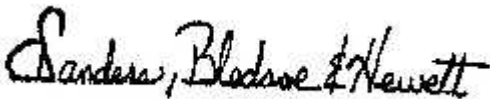
**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over

financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This reportable condition is described in the accompanying schedule of audit results as item 15-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that item 15-1 is not a material weakness.

This report is intended solely for the information of management and the Board of Directors, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

April 6, 2016

**Rural Water, Sewer and Solid Waste Management  
District No. 2, Seminole County  
Cromwell, Oklahoma  
Schedule of Audit Results  
October 31, 2015**

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a reportable condition in the internal controls, which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

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

15-1 – Lack of Segregation of Duties

Condition-

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.



Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Statement of Net Position  
October 31, 2015

ASSETS

Current assets:

Cash in bank	\$ 47,520
Investments	14,040
Accounts receivable	22,525
Prepaid insurance	3,266
Total current assets	<u>87,351</u>

Noncurrent assets:

Capital assets:

Water system	1,711,681
Equipment	9,853
Less: accumulated depreciation	<u>(618,072)</u>
Total noncurrent assets	<u>1,103,462</u>

Total Assets	<u>1,190,813</u>
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LIABILITIES

Current liabilities:

Accounts payable	7,858
Refundable deposits	<u>27,402</u>

Total Liabilities	<u>35,260</u>
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NET POSITION

Invested in capital assets, net of related debt	1,103,462
Unrestricted assets	<u>52,091</u>

Total Net Position	<u>\$ 1,155,553</u>
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The accompanying notes to the financial statements are an integral part of this statement

Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Statement of Revenue, Expenses and Changes in Net Position  
For The Year Ended October 31, 2015

Operating Revenues:	
Water and sewer sales	\$ 150,408
Sewer services	54,682
Fees and fines	33,644
Total revenues from operations	<u>238,734</u>
Operating Expenses:	
Water purchases	52,388
Sewer costs	44,866
Depreciation	38,792
Salary and contract management services	113,021
Repairs & maintenance	8,620
Office and phone	2,925
Insurance	5,159
Water supplies, samples and testing	17,475
Professional fees	3,828
Dues and fees	2,553
Utilities	15,868
Total expenses from operations	<u>305,495</u>
Operating Income (Loss)	(66,761)
Non-Operating Revenues (Expenses):	
REAP grant proceeds	274,999
Interest income	192
Total non-operating revenues (expenses)	<u>275,191</u>
Change in Net Assets	208,430
Total Net Assets, beginning of period	<u>947,123</u>
Total Net Assets, end of period	<u><u>\$ 1,155,553</u></u>

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

Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Statement of Cash Flows  
For the Year Ended October 31, 2015

**Cash flows from operating activities:**

Receipts from customers	\$ 235,086
Payments to vendors	<u>(269,860)</u>
Net cash (used in) provided by operating activities	<u>(34,774)</u>

**Cash flows from capital and related financing activities:**

Capital assets purchased	(369,012)
Donation from Muscogee-Creek Nation	<u>274,999</u>
Net cash used in capital and related financing activities	<u>(94,013)</u>

**Cash flows from investing activities:**

Interest on investments	<u>192</u>
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Net increase (decrease) in cash and cash equivalents (128,595)

Cash & cash equivalents, beginning of period 190,155

Cash & cash equivalents, end of period \$ 61,560

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

Operating Income	\$ (66,761)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	38,792
(Increase) decrease in current assets-	
Accounts receivable, net	(6,798)
Prepaid expenses	(315)
Increase (decrease) in current liabilities-	
Accounts payable	(2,842)
Refundable deposits	<u>3,150</u>
Net Cash Provided by Operating Activities	<u><u>\$ (34,774)</u></u>

The accompanying notes are an integral part of the financial statements

**Rural Water, Sewer and Solid  
Waste Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Notes to Financial Statements  
For Year Ended October 31, 2015**

**Note 1 – Significant Accounting Policies**

Organization

Rural Water, Sewer and Solid Waste Management District No. 43, Seminole County (the District) is an Oklahoma water district organized under Title 82 of Oklahoma Statutes, Sections 1324.1-1324.26 inclusive, to provide water service to rural residents of Seminole County, Oklahoma. The District is considered a subdivision of the State of Oklahoma. The District is exempt from federal and state income taxes. The membership consists of approximately 315 members.

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 (expenses, including depreciation) of providing water services is financed through user charges. The District purchases water from Okfuskee Co. RWD No. 2.

Basis of Accounting

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

Cash

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

First United Bank, Holdenville, OK	
Operating Revenue	\$ 42,155
Security State Bank, Wewoka, OK	
Improvements Account	3,203
BancFirst, Okemah, Ok	
Sewer Oper Acct	<u>2,162</u>
Total cash	<u>\$ 47,520</u>

Investments

The District had the following investments at October 31, 2015:

Security State Bank, Wewoka, OK-	
Certificate of deposit no. 2965	<u>\$ 14,040</u>

**Rural Water, Sewer and Solid  
Waste Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Notes to Financial Statements  
For Year Ended October 31, 2015**

**Note 1 – Significant Accounting Policies – cont'd**

Deposits and Investments

Oklahoma Statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such an investment is expressly prohibited by law.

Bank deposits are held at several financial institutions and are carried at cost. For purposes of statements of cash flows, the District considers cash and all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

Billings for accounts receivable at October 31, 2015 were \$22,525. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

Capital Assets

Capital (fixed) assets are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets range from five to 40 years. Included in these assets are the leases, rights and organization expenses of the District, which are being amortized over a 40 year period.

Capital (fixed) asset information for the 2014-15 fiscal year is as follows:

	Balance at Oct. 31, 2014	Additions	Deductions	Balance at Oct. 31, 2015
Water distribution system	\$ 1,342,669	369,012	-	1,711,681
Equipment	9,853	-	-	9,853
Total depreciated capital assets	<u>1,352,522</u>	<u>369,012</u>	<u>-</u>	<u>1,721,534</u>
Less accumulated depreciation for:				
Water distribution system	572,660	38,179	-	610,839
Equipment	6,620	613	-	7,233
Total accumulated depreciation	<u>579,280</u>	<u>38,792</u>	<u>-</u>	<u>618,072</u>
Capital assets, net	<u><u>\$ 773,242</u></u>	<u><u>330,220</u></u>	<u><u>-</u></u>	<u><u>1,103,462</u></u>

**Rural Water, Sewer and Solid  
Waste Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Notes to Financial Statements  
For Year Ended October 31, 2015**

**Note 1 – Significant Accounting Policies – cont'd**

Federal Income Tax

The District is exempt from federal and state income taxes.

Collateral Pledged

Deposit Categories of Credit Risk

- (A) Insured by Federal Deposit Insurance
- (B) Collateralized with securities held by the pledging financial institution's trust department or agent in the District's name
- (C) Uncollateralized

Deposit Categories of Credit Risk:

	<u>Category</u>			<u>Bank</u>	<u>Carrying</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>	<u>Balance</u>	<u>Amount</u>
Cash	\$ 47,564			47,564	47,520
Investments	14,040			14,040	14,040
Totals	<u>\$ 61,604</u>	<u>0</u>	<u>0</u>	<u>61,604</u>	<u>61,560</u>

Prior Year Information

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

Subsequent Events

Management has evaluated subsequent events through April 6, 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.

**Rural Water, Sewer and Solid  
Waste Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Notes to Financial Statements  
For Year Ended October 31, 2015**

**Note 2 – Long-Term Debt**

There was no outstanding debt at October 31, 2015.

**Note 3 – Accumulated Unpaid Vacation and Sick Pay**

At October 31, 2015, no determination of the aggregate dollar value of vacation or sick pay had been made.

**Note 4 – Contracts**

The District entered into a water purchase contract with Okfuskee County Rural Water District No. 2 on February 22, 1990. The contract extends until January 1, 2029. The District purchases water for resale to its members. The contract may be terminated sooner by the District giving the seller a one year written notice of cancellation.

This contract provides the sole source of water for the District. Thus, an interruption of this source would adversely affect the District.

**Note 5 – Contributed Capital**

The District received a donation from the Muscogee Creek Nation in 2011-12, in the amount of \$203,944, for water system improvements. In 2013-14, the District received another donation from the Muscogee Creek Nation in the amount of \$105,787 for more water system improvements.

In 2014-15, the District was awarded a Community Development Block Grant, through the Oklahoma Department of Commerce (HUD – CFDA 14.228), in the amount of \$274,999. These funds were used to construct and improve the wastewater treatment plant. All these funds were spent and received in 2014-15, and were processed through Seminole County.

Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Balance Sheet  
October 31, 2015

	October 31,	
	2015	(Memo only) 2014
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 47,520	176,115
Investments	14,040	14,040
Accounts receivable	22,525	15,727
Prepaid Insurance	3,266	2,951
Total current assets	<u>87,351</u>	<u>208,833</u>
Fixed Assets:		
Water and sewer system	1,711,681	1,342,669
Equipment	9,853	9,853
Less: accumulated depreciation	(618,072)	(579,280)
Total fixed assets (net)	<u>1,103,462</u>	<u>773,242</u>
Total Assets	<u>\$ 1,190,813</u>	<u>982,075</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 7,858	10,700
Refundable deposits	27,402	24,252
Total current liabilities	<u>35,260</u>	<u>34,952</u>
Fund Equity:		
Contributed capital	584,730	309,731
Retained earnings - unrestricted	570,823	637,392
Total fund equity	<u>1,155,553</u>	<u>947,123</u>
Total Liabilities and Fund Equity	<u>\$ 1,190,813</u>	<u>982,075</u>



Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
Cromwell, Oklahoma  
Statement of Revenue, Expenses and Changes in Retained Earnings  
For the Year Ended October 31, 2015

	2014-15	(Memo only) 2013-14
Revenue from Operations:		
Water sales	\$ 150,408	175,123
Sewer services	54,682	54,551
Late charges	8,060	11,234
Membership	3,050	775
Reconnects	-	2,195
Refunds and reimbursements	22,534	2,776
Total revenue from operations	<u>238,734</u>	<u>246,654</u>
Expenses from Operations:		
Water purchases	52,388	71,680
Sewer costs	44,866	31,359
Depreciation	38,792	33,340
Salary and contract services	113,021	64,155
Repairs & maintenance	8,620	10,522
Office and phone	2,925	1,073
Insurance	5,159	5,074
Water supplies, samples and testing	17,475	29,094
Professional fees	3,828	-
Dues and fees	2,549	754
Utilities	15,868	12,766
Miscellaneous	4	765
Total expenses from operations	<u>305,495</u>	<u>260,582</u>
Net Income (Loss) from Operations	(66,761)	(13,928)
Other Income:		
Interest earnings	<u>192</u>	<u>303</u>
Net Income (Loss)	(66,569)	(13,625)
Retained earnings, beginning of period	<u>637,392</u>	<u>651,017</u>
Retained earnings, end of period	<u>\$ 570,823</u>	<u>637,392</u>



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

November 23, 2015

Mr. Steven Johnson, Chairperson  
Rural Water, Sewer and Solid Waste  
Management District No. 3, Seminole County  
P.O. Box 142  
Cromwell, Oklahoma 74837

Dear Mr. Johnson:

The following section contains the observations relayed to management that are control deficiencies, which we feel need to be communicated to you so appropriate action may be taken to correct these deficiencies. These items are not included in your audit report, as they are not considered material or immaterial in nature. They are simply observations of some minor findings that could evolve into immaterial or material findings if not addressed or corrected.

## Accounting Ledgers

We noted during our audit that the District maintained accounting software information for the 2014-15 fiscal year. However, this information did not reconcile to the amount of deposits and checks that actually went in and out of the bank accounts. Because of these inaccurate reports, we were unable to use these reports to classify revenue and expenses for the 2014-15 fiscal year. We recommend that the accounting software be used correctly, and that software reports be reconciled to the bank accounts on a monthly basis.

## Federal/State Withholding

We observed that the District correctly classified individuals as employees for the 2015 year, and properly withheld amounts from the employee's gross pay for federal and state taxes. However, none of these withheld amounts were actually paid to the federal and state offices. We recommend that all withheld amounts be paid to all federal and state offices in a timely manner. It is noted that the new bookkeeper has gotten all the required forms filed and is working to resolve this issue.

We take this opportunity to thank you and your professional staff for the outstanding cooperation and invaluable assistance you gave us during our recent onsite audit work.

Sincerely,

A handwritten signature in black ink, appearing to read "Eric M. Bledsoe", with a stylized flourish at the end.

Eric M. Bledsoe

For

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP