

*Financial Statements*

*of*

**Rural Water District No. 6  
Rogers County, Oklahoma**

August 31, 2014



***Clothier & Company CPA's P.C.***

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**Rural Water District No. 6, Rogers County**  
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**August 31, 2014**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Rural Water District No. 6  
Rogers County, Oklahoma

We have audited the accompanying statements of the business type activities of Rural Water District No. 6, Rogers County (the District), as of and for the year ended August 31, 2014 and the related notes to the financial statements, which 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 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.

### **Auditors' 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. 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 auditors' 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 entity'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 of the effectiveness of the entity'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of Rural Water District No. 6, as of August 31, 2014 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 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 agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and 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 District's internal control over financial reporting and compliance.



Clothier & Company, CPA's, P.C.  
January 30, 2015

**Rural Water District No. 6 Rogers County**  
**Statement of Net Assets**  
**August 31, 2014**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$	222,359
Accounts Receivable		102,652
Prepaid Expenses		9,650
Inventory		21,889
Total Current Assets		356,550

**Fixed Assets**

Land		12,700
Water System		3,690,538
Office Furniture/Fixtures		8,564
Trucks & Equipment		165,204
Building & Improvements		25,063
Less: Accumulated Depreciation		(440,244)
Total Fixed Assets		3,461,825

Total Assets	\$	3,818,375
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**LIABILITIES AND FUND BALANCE**

**Current Liabilities**

Accounts Payable	\$	14,190
Current Maturities		59,955
Total Current Liabilities		74,145

**Long Term Liabilities**

Notes Payable - OWRB		2,678,974
Less: Current Maturities		(59,955)
Total Long Term Liabilities		2,619,019

**Fund Balance**

Restricted		249,290
Unrestricted		774,973
Current Income (Loss)		100,948
Total Fund Balance		1,125,211

Total Liabilities and Fund Balance	\$	3,818,375
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See accompanying footnotes and independent auditor's report.

**Rural Water District No. 6 Rogers County**  
**Statement of Activities**  
**August 31, 2014**

**Revenue**

Water Sales	\$ 429,144
Benefit Unit Sales	15,275
New Services/Collected Bad Debt	10,677
Total Revenue	<u>455,096</u>

**Cost of Sales**

Water Purchases	60,203
Heavy Equipment Repairs	1,545
Vehicle Repair.Fuel	14,986
Plant Repairs	18,019
Contract Labor	1,648
Total Cost of Sales	<u>96,401</u>

Gross Profit	<u>358,695</u>
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**Operating Expenses**

Salaries	82,771
Payroll Taxes	5,840
Insurance Expense	11,667
Accounting/Audit/Legal	10,977
Membership Fees	1,511
Miscellaneous	4,123
Office Supplies	2,129
Postage	3,230
Telephone	4,937
Utilities	4,925
Depreciation	86,042
Loan Service Fees	13,804
Total Operating Expenses	<u>231,956</u>

Operating Income	<u>126,739</u>
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**Other Revenue (Expenses)**

Interest Income	970
Gain on Sale of Assets	47,779
Interest Expense	(74,540)
Total Other Revenue (Expenses)	<u>(25,791)</u>

<b>Net Change in Fund Balance</b>	100,948
<b>Fund Balance - Beginning of Year</b>	<u>1,024,263</u>
<b>Fund Balance - End of Year</b>	<u><u>\$ 1,125,211</u></u>

See accompanying footnotes and independent auditors' report.

**Rural Water District No. 6 Rogers County**  
**Statement of Cash Flows**  
**August 31, 2014**

**Cash Flows From Operating Activities:**

Cash received from customers	\$ 445,161
Cash received from other sources	47,779
Cash paid to employees	(93,255)
Cash paid to suppliers	(109,848)
Other operating payments	(63,773)
Net Cash Flows from Operating Activities	<u>226,064</u>

**Cash Flows From Capital and Related**

**Financing Activities:**

Proceeds from issuance of debt	0
Payment of debt	(73,625)
Acquisition and construction of capital assets	(54,821)
Proceeds from sale of assets	47,708
Payment of Interest	(74,540)
Net Cash (Used) By Capital and Related Financing Activities	<u>(155,278)</u>

**Cash Flows From Investing Activities:**

Receipt of interest and dividends	970
Net Cash Provided (Used) By Investing Activities	<u>970</u>

Net Increase (Decrease) In Cash	71,756
Cash Beginning of Year	150,603
Cash End of Year	<u>\$ 222,359</u>

**Reconciliation of Operating Income to Net Cash Flows from Operating Activities:**

Operating income (loss)	\$ 100,948
Add depreciation expense	86,042
Add interest expense	74,540
Less interest income	(970)
(Increase)/Decrease in Current Assets:	
Accounts receivables, net	(9,935)
Increase/(Decrease) in Current Liabilities:	
Accounts payable	(14,077)
Accrued expenses	(10,484)
Net Cash Flows from Operating Activities	<u>\$ 226,064</u>

See accompanying footnotes and independent auditors' report.



Rural Water District No. 6  
Rogers County, Oklahoma

## **NOTES TO FINANCIAL STATEMENTS**

For the Years Ended August 31, 2014

### **1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Rural Water District No. 6, Rogers County was formed as a nonprofit governmental organization by the Board of Commissioners of Rogers County, Oklahoma. The District was formed to furnish water treatment and distribution system, operations and maintenance service to the members of the district.

#### **Basis of Accounting**

The accrual method of accounting is utilized in reporting financial information in accordance with U. S. generally accepted accounting principles (GAAP). The accrual basis of accounting records revenue in the period in which earned rather than when received and records expenses in the period incurred rather than when paid. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District had the option to apply FASB pronouncements issued after that date to its business-type activities, it has chosen not to do so.

#### **Basis of Presentation**

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or an economic asset is used.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### **Cash and Cash Equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid instruments with maturities of three months or less at the date of their acquisition. Funds held in reserve are not considered to be part of cash.

#### **Investments**

Investments consist of cash deposits, certificates of deposit and savings accounts.

**Inventory**

Inventory is not material and consists primarily of distribution repair supplies.

**Property and Equipment**

Property and equipment are recorded at cost, with depreciation provided on a straight-line method over the estimated useful lives of the assets. Donated capital assets are reported at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. All assets acquired with a value of over \$1,000 that benefit more than one period will be depreciated.

**Income Tax**

As a nonprofit governmental organization in the State of Oklahoma, the District is exempt from income taxes.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures as of the date of the financial statements. Accordingly, actual results could differ from those estimates.

**2. PROPERTY, PLANT AND EQUIPMENT**

	Cost	Additions	Accumulated Depreciation	Book Value
Land	\$12,700	\$0	\$0	\$12,700
Buildings/Improvements	19,106	5,957	(14,333)	10,730
Office Furniture & Fixtures	8,564	0	(8,564)	0
Water Distribution Sys.	3,690,538	0	(355,841)	3,334,697
Trucks/Equipment	116,336	48,868	(61,506)	103,698
	<u>\$3,847,244</u>	<u>\$54,825</u>	<u>(\$440,244)</u>	<u>\$3,461,825</u>

**3. LONG-TERM DEBT**

The District entered into a note/loan agreement with Oklahoma Water Resource Board on October 10, 2010 to borrow up to \$3,000,000 for the purpose of constructing new water lines. The note bears interest at a rate of 2.70% per annum plus an administrative fee at the rate of .5% per annum on the out standing balance of disbursed loan proceeds. Interest and the administrative fee shall be computed on the basis of a year of 360 days and the number of actual days elapsed. The interest and Administrative fee payments shall be made on a semi-annual basis each March 15th and September 15<sup>th</sup> for the term of the loan. The District has entered into a Trust Agreement with UMB Corporate Trust Services of Kansas City, MO. The outstanding balance as of March 15, 2014 was \$2,657,069. The District has pledged all revenue from operations and all District assets as collateral on the note.

Rural Water District No. 6  
 Rogers County, Oklahoma

The following is a schedule of the future payments on the outstanding balance:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest/admin fees</u>	<u>Total</u>
2015	\$59,955	\$86,445	\$146,400
2016	61,687	84,713	146,400
2017	63,934	82,466	146,400
2018	66,025	80,375	146,400
2019	68,184	78,216	146,400
2020-2024	375,454	356,548	732,002
2025-2029	441,268	290,734	732,002
2030-2034	518,341	213,661	732,002
2035-2039	608,878	123,124	732,002
Thereafter	415,248	23,962	439,210
Totals	<u>\$2,678,974</u>	<u>\$1,420,244</u>	<u>\$4,099,218</u>

**4. CONCENTRATION OF CREDIT RISK**

Rural Water District No. 6 maintains its cash, savings, and certificates of deposits at RCB Bank in Inola, Oklahoma. The balance of accounts held by RCB Bank as of year-end is \$222,359, which is below the \$250,000 guaranteed by the Federal Deposit Insurance Corporation. All deposits were insured or collateralized at August 31, 2014.

**5. PRIOR PERIOD ADJUSTMENTS**

In the process of performing the audit several beginning balances in the general ledger were found that did not agree to the balance in the sub-ledger, information provided, or confirmed. These beginning balances were adjusted through fund balance because they related to prior years. The following is a schedule of the adjustments made.

Fund Balance 8/31/13	\$ 867,407
Adjustments to correct beginning balances:	
To record Restrict Cash	21,905
To record Prepaid Insurance	7,106
To adjust Payroll Tax Liabilities beginning balances to prior year returns	10,236
To adjust Long Term Notes Payable beginning balance to confirmation	<u>(131,681)</u>
Adjusted Fund Balance 8/31/13	<u>\$ 774,973</u>

**5. SUBSEQUENT EVENTS**

Rural Water District No. 6 has evaluated subsequent events through the date which the financial statements were available to be issued with none found.



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**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 District No. 6  
Rogers County, 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 financial statements of the business type activities of Rural Water District No. 6 Rogers County (the District), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which comprise the District's basic financial statements, and have issued our report thereon dated January 30, 2015.

**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 (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

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 entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2014-1, 2014-2, and 2014-3 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2014-4 and 2014-5 to be significant deficiencies.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Rural Water District No. 6's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **The 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 questioned costs. 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.

## **Purpose of this 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 *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Clothier & Company, CPA's, P.C.  
January 30, 2015

**Rural Water District No. 6, Rogers County  
Schedule of Findings and Questioned Costs  
For the Period Ending August 31, 2014**

**Section I - Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Section II – Financial Statements Findings**

2014-1 Accounts receivable

*Condition* – The original set up of the accounting system and related customer accounts receivable did not balance. The variance between the accounts receivable customer aging and the accounts receivable general ledger control account has been consistently out of balance.

*Effect* – Poor financial reporting, time spent trying to correct the variance.

*Cause* – Not comparing the accounts receivable customer aging balance to the accounts receivable general ledger control account every month when billings are processed. Not making sure the balance first used in the accounting program was correct.

*Recommendation* – Compare the accounts receivable customer aging to the accounts receivable general ledger control account monthly when billings are processed to make sure the balances agree.

*Entity's Response* – We will enter the journal entries to correct balances and moving forward compare accounts receivable aging report to the general ledger monthly.

2014-2 Accounts payable

*Condition* – The original set up of the accounting system and related vendor accounts payable aging did not balance. The variance between the accounts payable vendor aging and the accounts payable general ledger control account has been consistently out of balance.

*Effect* – Poor financial reporting, time spent trying to correct the variance.

*Cause* – Not comparing the accounts payable vendor aging balance to the accounts payable general ledger control account every month when payments are processed. Not making sure the balance first used in the accounting program was correct.

*Recommendation* – Compare the accounts payable vendor aging to the general ledger monthly when invoices and bills are processed to make sure the balances agree.

*Entity's Response* – We will enter the journal entries provided to correct balances and moving forward compare reports from accounts payable aging to the general ledger total after checks are processed.

#### 2014-3 Long term notes payable and fixed assets

*Condition* – The general ledger was not adjusted for the prior year audit entries. The beginning balance in long term notes payable and fixed assets did not agree to the prior year audit balances.

*Effect* – Poor financial reporting and lack of control over fixed assets.

*Cause* – The District did not have the note on their books or corresponding fixed assets on their books and did not reconcile the audited financials to the amortization schedule provided by the note holder.

*Recommendation* – The District should record audit journal entries provided and reconcile audit balances to the general ledger balances.

*Entity's Response* – Record the audit journal entry to correct the balance.

#### 2014-4 Payroll tax accruals

*Condition* – The balances in the payroll tax accruals did not agree to the returns.

*Effect* – Poor financial reporting, accruals are over stated and payroll tax expense is under stated.

*Cause* – Staff was not adequately trained to correctly prepare payroll tax returns. Unemployment taxes were over paid and corrected reports were done, but adjustments were not made to the general ledger accounts. The beginning balances did not agree to the prior year audit.

*Recommendation* – The District needs to make sure the balances in the payroll accrual accounts in the general ledger agree to the quarterly returns.

*Entity's Response* – Invoices as of January 2015 are being generated in the software system when payroll is processed to be compared to monthly and quarterly balances.

#### 2014-5 Cash disbursements

*Condition* – Not all check issued were supported by an authorized invoice and most of the invoices tested were not authorized or cancelled.

*Effect* – Poor control of purchases and checks being signed without documentation. Checks posted to accounting program without any documentation. Possibilities for fraud are greatly increased.

*Cause* – Not keeping invoices with checks as a paper trail from approval to purchase to payment.

*Recommendation* – Board needs to require that all checks written have documentation for the check attached before signing and invoices need to be authorized also. Documentation needs to be retained for up to seven years.

*Entity's Response* – All invoices must be approved by the District Manager and are attached to the corresponding check stub and filed appropriately.

### **Section III – Federal Award Findings and Questioned Costs**

No findings.