

**AUDIT REPORT**  
**HUGHES COUNTY RWD NO. 6**  
**ALLEN, OKLAHOMA**  
**FOR YEARS ENDED AUGUST 31, 2015 AND 2014**



**JENKINS & KEMPER**  
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

**HUGHES COUNTY RURAL WATER DISTRICT NO. 6  
ALLEN, OKLAHOMA  
AUGUST 31, 2015**

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**HUGHES COUNTY RURAL WATER DISTRICT NO. 6  
BOARD OF DIRECTORS  
AUGUST 31, 2015**

BOARD OF DIRECTORS

Chairman	Al Albin
Vice-Chairman	Greg Meyer
Secretary/Treasurer	Gene Pearson
Member	Orval Powell Jr.
Member	Michelle Barlow

MANAGER

Sheldon Tatum

BOOKKEEPER

Mary Ann Starkey



**JENKINS & KEMPER**  
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA  
MICHAEL KEMPER, CPA

**INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Hughes County Rural Water District No. 6  
Allen, Oklahoma 74825

**Report on the Financial Statements**

We have audited the accompanying basic financial statements of Rural Water District No. 6, Hughes County, Oklahoma, which comprise the statements of net position as of August 31, 2015 and 2014 and the related statements of revenues and expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 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 on 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above, present fairly, in all material respects, the net position of Rural Water District No. 6, Hughes County, Oklahoma as of August 31, 2015, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### **Required Supplementary Information**

Rural Water District No. 6, Hughes County, Oklahoma has not presented the Management's Discussion and Analysis that 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on these financial statements is not affected by this missing information. The financial statements of the prior period have been included for comparative purposes.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2015, on our consideration of the entity's internal control over financial reporting and 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 and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Jenkins & Kemper, CPAs P.C.*

Jenkins & Kemper  
Certified Public Accountants, P.C.

October 28, 2015



**JENKINS & KEMPER**  
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA  
MICHAEL KEMPER, CPA

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

Board of Directors  
Hughes County Rural Water District No. 6  
Allen, Oklahoma 74825

We have audited the financial statements of the Hughes County Rural Water District No. 6, Allen, Oklahoma, as of and for the years ended August 31, 2015 and 2014, and have issued our report thereon dated October 28, 2015. 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. Hughes County Rural Water District No. 6, Allen, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the entity's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis mentioned above, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the entity'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*.

### **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.

*Jenkins & Kemper, CPAs P.C.*

Jenkins & Kemper  
Certified Public Accountants, P.C.

October 28, 2015

**HUGHES COUNTY RURAL WATER DISTRICT NO. 6  
SCHEDULE OF AUDIT RESULTS  
AUGUST 31, 2015**

**Findings – Financial Statement Audit**

There were no material findings.

**HUGHES COUNTY RURAL WATER DISTRICT NO. 6**  
**STATEMENT OF NET ASSETS**  
**FOR YEARS ENDED AUGUST 31, 2015 AND 2014**

	August 31,	
	2015	2014
<u>ASSETS</u>		
Current assets		
Cash	\$ 236,176	226,339
Investments	28	28
Accounts receivable	45,336	37,860
Prepaid insurance	10,205	9,592
Total current assets	291,745	273,819
Noncurrent assets		
Restricted investments	56,472	56,472
Bond organization costs	14,916	15,722
Reserve certificate	1,000	1,000
Property and Equipment	4,342,809	4,203,155
Less accumulated depreciation	(1,869,310)	(1,746,370)
Total noncurrent assets	2,545,887	2,529,979
Total Assets	2,837,632	2,803,798
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	6,200	10,761
Payroll payable	6,999	4,740
Restricted deposits and funds	4,536	3,585
Current maturities of long-term debt - Note 4	22,227	21,187
Total current liabilities	39,962	40,273
Noncurrent liabilities		
Long-Term Debt, less current maturities	711,224	733,450
Total Liabilities	751,186	773,723
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	1,740,048	1,702,148
Restricted for debt service	56,472	56,472
Unrestricted	289,926	271,455
Total net assets	\$ 2,086,446	2,030,075

The accompanying notes are an integral part of the financial statement

**HUGHES COUNTY RURAL WATER DISTRICT NO. 6**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET ASSETS**  
**FOR YEARS ENDED AUGUST 31, 2015 AND 2014**

	August 31,	
	<u>2015</u>	<u>2014</u>
<b>Operating Revenues:</b>		
Water service	\$ 423,103	404,089
Late penalties	9,438	16,515
Meter setting fees	13,663	2,100
Other revenues	1,552	152
Total operating revenues	<u>447,756</u>	<u>422,856</u>
<b>Operating Expenses:</b>		
Wages	145,023	134,345
Payroll taxes	12,704	12,478
Employee benefits	24,991	14,262
Water costs	14,872	14,284
Water test fees	2,480	6,110
Contract labor	8,191	688
Fuel and mileage	13,111	23,657
Repairs and maintenance	58,109	32,942
Insurance	15,575	15,166
Director fees	-	-
Professional fees	7,949	2,755
Office supplies and postage	5,136	6,488
Training	-	162
Utilities	24,594	24,088
Telephone	4,238	3,931
Other expenses	2,160	2,199
Lawsuit judgment	-	8,191
Depreciation and amortization	123,746	110,923
Total operating expenses	<u>462,879</u>	<u>412,669</u>
Operating Income (Loss)	(15,123)	10,187
<b>Non-Operating Revenues (Expenses):</b>		
Interest income	649	453
Benefit units	6,650	3,150
Grants	99,500	-
Interest expense	(35,305)	(37,170)
Total non-operating revenues (expenses)	<u>71,494</u>	<u>(33,567)</u>
Change in Net Assets	56,371	(23,380)
Total Net Assets, beginning of period	<u>2,030,075</u>	<u>2,053,455</u>
Total Net Assets, end of period	<u>\$ 2,086,446</u>	<u>2,030,075</u>

The accompanying notes are an integral part of the financial statement

**HUGHES COUNTY RURAL WATER DISTRICT NO. 6**  
**STATEMENT OF CASH FLOWS**  
**FOR YEARS ENDED AUGUST 31, 2015 AND 2014**

	August 31,	
	2015	2014
<b>Cash Flows from Operating Activities:</b>		
Receipts from customers	\$ 438,728	428,286
Other operating cash receipts	1,552	152
Payments to vendors	(161,589)	(183,296)
Payments to employees	(180,459)	(159,724)
Net cash flows from operating activities	98,232	85,418
<b>Cash Flows from Investing Activities:</b>		
Interest earned	649	453
Capital assets purchased	(139,654)	-
Net cash flows from investing activities	(139,005)	453
<b>Cash Flows from Financing Activities:</b>		
Interest expense on debt	(35,305)	(36,278)
Principal payments on long-term debt	(21,186)	(20,193)
Grants received	99,500	-
System development fees	6,650	3,150
Increase in restricted deposits	951	1,447
Net cash flows from financing activities	50,610	(51,874)
Net increase (decrease) in cash and cash equivalents	9,837	33,997
Cash and cash equivalents, beginning of period	226,339	192,342
Cash and cash equivalents, end of period	\$ 236,176	226,339
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (15,123)	10,187
Add depreciation/amortization expense	123,746	110,923
(Increase)/Decrease in Current Assets		
Accounts receivable	(7,476)	5,582
Prepays	(613)	(2,382)
Increase/(Decrease) in Current Liabilities		
Accounts payable	(2,302)	(38,892)
Net cash flows from operating activities	\$ 98,232	85,418

The accompanying notes are an integral part of the financial statements

**HUGHES COUNTY RURAL WATER DISTRICT NO. 6  
NOTES TO FINANCIAL STATEMENTS  
FOR YEARS ENDED AUGUST 31, 2015 AND 2014**

**Note 1 - Significant Accounting Policies**

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 August 31st, and are comprised as follows:

Cash drawer, 716 Elder St. Gerty, OK		
Cash in drawer		\$ 150
Farmers State Bank, Allen, OK		
Operating account		120,724
Depreciation account		110,766
Fire Department Relief account		1,638
Benefits units - renter's deposits		<u>2,898</u>
Total		<u>\$ 236,176</u>

Investments

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

Farmers State Bank, Allen, OK		
Certificate of deposit No. 9359, dated 11-14-02, matures 10-30-15;		<u>\$ 56,500</u>

Collateral Pledged

The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

**HUGHES COUNTY RURAL WATER DISTRICT NO. 6  
NOTES TO FINANCIAL STATEMENTS  
FOR YEARS ENDED AUGUST 31, 2015 AND 2014**

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

Accounts Receivable

Billings for accounts receivable at August 31, 2015, were \$45,336. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements. The aging of these accounts is detailed as follows:

00-30	\$45,336
31-90	<u>0</u>
Total	<u>\$45,336</u>

Restricted Assets

Restricted assets are assets held for various special purposes. Restricted assets with fiscal agent represents amounts required by debt covenant to be segregated for debt payments and accrued interest on the notes.

United States Department of Agriculture-Rural Development requires monies to be held in reserve accounts. These reserve funds are equal to the not payments for one year. To be fully funded, these reserve funds must total \$56,472. As of August 31, 2015 and 2014 these reserves were fully funded.

Fixed Assets

Fixed assets are valued at cost, and depreciation is computed by use of the straight-line method. The estimated useful life of these assets is 40 years for the water system, 35 years for the office building and 5-7 years for the vehicles and the equipment.

**HUGHES COUNTY RURAL WATER DISTRICT NO. 6  
NOTES TO FINANCIAL STATEMENTS  
FOR YEARS ENDED AUGUST 31, 2015 AND 2014**

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

Bond Organization Costs

The attorney costs associated with the organization of the rural water district's loans and grants totaled \$32,256. Amortization of these costs over 40 years results in \$806 per year.

Federal Income Tax

The District is exempt from federal and state income taxes.

**Note 2 - Long-Term Debt**

Long-term debt at August 31, 2015, is detailed as follows:

Note 01, 5.00% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$2,210;	\$ 300,772
Note 03, 5.00% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$327;	44,168
Note 05, 4.50% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$216;	32,997
Note 07, 4.50% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$1,953;	<u>355,514</u>
Total long-term debt	733,451
Less current maturities	<u>(22,227)</u>
	<u>\$ 711,224</u>

**HUGHES COUNTY RURAL WATER DISTRICT NO. 6  
NOTES TO FINANCIAL STATEMENTS  
FOR YEARS ENDED AUGUST 31, 2015 AND 2014**

**Note 2 - Long-Term Debt – contd**

The estimated maturities for the next five (5) years and thereafter are as follows:

Year-ending June 30	Principal	Interest	Total
2016	\$ 22,227	34,245	56,472
2017	23,319	33,153	56,472
2018	24,464	32,008	56,472
2019	25,666	30,806	56,472
2020	26,927	29,545	56,472
2021-2025	155,835	126,525	282,360
2026-2030	198,102	84,258	282,360
2031-2035	141,966	38,790	180,756
2036-2040	102,193	14,987	117,180
2041-2045	12,752	184	12,936
	<u>\$ 733,451</u>	<u>424,501</u>	<u>1,157,952</u>

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

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