

AUDIT REPORT
HUGHES COUNTY RWD NO. 6
ALLEN, OKLAHOMA
FOR YEARS ENDED AUGUST 31, 2014 AND 2013

Audited by
JACK H. JENKINS
CERTIFIED PUBLIC ACCOUNTANT
A PROFESSIONAL CORPORATION
TULSA, OK

**HUGHES COUNTY RURAL WATER DISTRICT NO. 6
ALLEN, OKLAHOMA
AUGUST 31, 2014**

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HUGHES COUNTY RURAL WATER DISTRICT NO. 6
BOARD OF DIRECTORS
AUGUST 31, 2014

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



Jack H. Jenkins, CPA *A Professional Corporation*

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

I have audited the accompanying basic financial statement of Rural Water District No. 6, Hughes County, Oklahoma, which comprise the statement of net position as of August 31, 2014 and the related statement of revenues and expenses and changes in net position and cash flows for the year 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

My responsibility is to express an opinion on this financial statement based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my 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, 2014, 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.

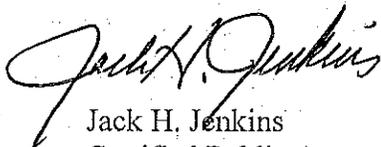
Other Matters

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. My 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 and were audited by a predecessor auditor, Kimberlye R. Mayer, CPA, P.C., Blackwell, Oklahoma, and an unqualified opinion was issued as part of the report dated October 10, 2013.

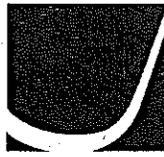
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued a report dated October 27, 2014, on my consideration of the entity's internal control over financial reporting and my 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 my 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 my audit.



Jack H. Jenkins
Certified Public Accountant, P.C.

October 27, 2014



Jack H. Jenkins, CPA *A Professional Corporation*

**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

I have audited the financial statements of the Hughes County Rural Water District No. 6, Allen, Oklahoma, as of and for the year ended August 31, 2014, and have issued my report thereon dated October 27, 2014. I conducted my 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 my audit, I considered the entity's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my 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, I 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.

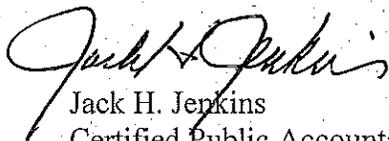
My consideration of internal control was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control that I consider 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, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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.



Jack H. Jenkins
Certified Public Accountant, P.C.

October 27, 2014

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
SCHEDULE OF AUDIT RESULTS
AUGUST 31, 2014

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, 2014 AND 2013

	August 31,	
	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
Current assets		
Cash	\$ 226,339	192,342
Investments	28	-
Accounts receivable	37,860	43,442
Prepaid insurance	9,592	7,210
Total current assets	<u>273,819</u>	<u>242,994</u>
Noncurrent assets		
Restricted investments	56,472	56,500
Bond organization costs	15,722	16,528
Reserve certificate	1,000	1,000
Property and Equipment	4,203,155	4,203,155
Less accumulated depreciation	<u>(1,746,370)</u>	<u>(1,636,254)</u>
Total noncurrent assets	<u>2,529,979</u>	<u>2,640,929</u>
Total Assets	<u>2,803,798</u>	<u>2,883,923</u>
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	10,761	50,121
Payroll taxes due	4,740	3,379
Restricted deposits and funds	3,585	2,138
Current maturities of long-term debt - Note 4	21,187	19,648
Total current liabilities	<u>40,273</u>	<u>75,286</u>
Noncurrent liabilities		
Long-Term Debt, less current maturities	<u>733,450</u>	<u>755,182</u>
Total Liabilities	<u>773,723</u>	<u>830,468</u>
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	1,702,148	1,792,071
Restricted for debt service	56,472	56,500
Unrestricted	271,455	204,884
Total net assets	<u>\$ 2,030,075</u>	<u>2,053,455</u>

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, 2014 AND 2013

	August 31,	
	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Water service	\$ 404,089	385,683
Late penalties	16,515	12,978
Meter setting fees	2,100	3,100
Other revenues	152	1,926
Total operating revenues	<u>422,856</u>	<u>403,687</u>
 Operating Expenses:		
Wages	134,345	124,290
Payroll taxes	12,478	10,207
Employee benefits	14,262	11,825
Water costs	14,284	13,446
Water test fees	6,110	3,386
Contract labor	688	583
Fuel and mileage	23,657	23,748
Repairs and maintenance	32,942	45,636
Insurance	15,166	11,418
Director fees	-	1,400
Professional fees	2,755	40,059
Office supplies and postage	6,488	5,392
Training	162	-
Utilities	24,088	18,943
Telephone	3,931	4,304
Other expenses	2,199	3,355
Lawsuit judgment	8,191	30,589
Depreciation and amortization	110,923	108,602
Total operating expenses	<u>412,669</u>	<u>457,183</u>
 Operating Income (Loss)	 10,187	 (53,496)
 Non-Operating Revenues (Expenses):		
Interest income	453	887
Benefit units	3,150	3,850
Interest expense	(37,170)	(37,222)
Total non-operating revenues (expenses)	<u>(33,567)</u>	<u>(32,485)</u>
 Change in Net Assets	 (23,380)	 (85,981)
 Total Net Assets, beginning of period	 <u>2,053,455</u>	 <u>2,139,436</u>
 Total Net Assets, end of period	 <u>\$ 2,030,075</u>	 <u>2,053,455</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, 2014 AND 2013

	August 31,	
	2014	2013
Cash Flows from Operating Activities:		
Receipts from customers	\$ 428,286	408,980
Other operating cash receipts	152	1,926
Payments to vendors	(183,296)	(190,442)
Payments to employees	(159,724)	(124,290)
Net cash flows from operating activities	85,418	96,174
Cash Flows from Investing Activities:		
Interest earned	453	887
Capital assets purchased	-	(30,250)
Net cash flows from investing activities	453	(29,363)
Cash Flows from Financing Activities:		
Interest expense on debt	(36,278)	(37,222)
Principal payments on long-term debt	(20,193)	(19,250)
System development fees	3,150	3,850
Increase in restricted deposits	1,447	-
Net cash flows from financing activities	(51,874)	(52,622)
Net increase (decrease) in cash and cash equivalents	33,997	14,189
Cash and cash equivalents, beginning of period	192,342	178,153
Cash and cash equivalents, end of period	\$ 226,339	192,342
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 10,187	(53,496)
Add depreciation/amortization expense	110,923	108,602
(Increase)/Decrease in Current Assets		
Accounts receivable	5,582	7,219
Prepays	(2,382)	(886)
Increase/(Decrease) in Current Liabilities		
Accounts payable	(38,892)	34,735
Net cash flows from operating activities	\$ 85,418	96,174

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, 2014 AND 2013

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	102,062
Depreciation account	120,543
Fire Department Relief account	766
Benefits units - renter's deposits	<u>2,818</u>
Total	<u>\$ 226,339</u>

Investments

The District had the following investments at August 31, 2014:

Farmers State Bank, Allen, OK	
Certificate of deposit No. 9359, dated 11-14-02, matures 10-30-14;	\$ <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, 2014 AND 2013

Note 1 - Significant Accounting Policies - cont'd

Accounts Receivable

Billings for accounts receivable at August 31, 2014, were \$37,860. 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	\$37,860
31-90	<u>0</u>
Total	<u>\$37,860</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, 2014 and 2013 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 years for the vehicles and the equipment.

**HUGHES COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED AUGUST 31, 2014 AND 2013**

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, 2014, is detailed as follows:

Note 01, 5.00% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$2,210;	\$ 311,948
Note 03, 5.00% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$327;	45,838
Note 05, 4.50% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$216;	34,078
Note 07, 4.50% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$1,953;	<u>362,773</u>
Total long-term debt	754,637
Less current maturities	<u>(21,187)</u>
	<u>\$ 733,450</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED AUGUST 31, 2014 AND 2013

Note 2 - Long-Term Debt – contd

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

<u>Year</u>	<u>Loan #01</u>	<u>Loan #03</u>	<u>Loan #05</u>	<u>Loan #07</u>	<u>Total</u>
2014-15	\$ 11,176	1,670	1,081	7,260	21,187
2015-16	11,748	1,755	1,130	7,593	22,226
2016-17	12,349	1,845	1,182	7,942	23,318
2017-18	12,981	1,940	1,237	8,307	24,465
2018-19	13,645	2,039	1,293	8,689	25,666
Thereafter	<u>250,049</u>	<u>36,589</u>	<u>28,155</u>	<u>322,982</u>	<u>637,775</u>
Totals	\$ <u>311,948</u>	<u>45,838</u>	<u>34,078</u>	<u>362,773</u>	<u>754,637</u>

Note 3 - Accumulated Unpaid Vacation and Sick Pay

At August 31, 2014, no determination of the aggregate dollar value of vacation and sick pay had been made.