

AUDIT REPORT
HUGHES COUNTY RWD NO. 6
ALLEN, OKLAHOMA
FOR YEARS ENDED AUGUST 31, 2016 AND 2015



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
ALLEN, OKLAHOMA
AUGUST 31, 2016

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HUGHES COUNTY RURAL WATER DISTRICT NO. 6
BOARD OF DIRECTORS
AUGUST 31, 2016

BOARD OF DIRECTORS

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

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

We have audited the accompanying financial statements of Hughes County Rural Water District No. 6 (the District), which comprise the statement of net assets as of August 31, 2016 and 2015 and the related statements of changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, 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 in accordance with the accrual basis of accounting as described in Note 1. 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 an opinion 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 *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 from 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 financial position of the Hughes County Rural Water District No. 6 as of August 31, 2016 and 2015 and the changes in its net assets and 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

Hughes County Rural Water District No. 6 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated September 27, 2016, on our consideration of the District'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* in considering the District's internal control over financial reporting and compliance.

Jenkins & Kemper, CPAs P.C.

Jenkins & Kemper
Certified Public Accountants

September 27, 2016



JENKINS & KEMPER
CERTIFIED PUBLIC ACCOUNTANTS, P.C.

JACK JENKINS, CPA
MICHAEL KEMPER, CPA

**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
Hughes Co. RWD No. 6
Allen, Oklahoma 74825

We have audited the financial statements of the business-type activities of Hughes Co. RWD No. 6 as of and for the year ended August 31, 2016, and have issued our report thereon, dated September 27, 2016. We conducted our audit in accordance with generally accepted auditing standards 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. Creek County Rural Water District No. 5, Mannford, 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 of the financial statements, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or a 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. There can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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 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.

September 27, 2016

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
SCHEDULE OF AUDIT RESULTS
AUGUST 31, 2016

Findings – Financial Statement Audit

There were no material findings.

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
STATEMENT OF NET POSITION
FOR YEARS ENDED AUGUST 31, 2016 AND 2015

	August 31,	
	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Current assets		
Cash	\$ 252,857	236,176
Investments	28	28
Accounts receivable	53,470	45,336
Prepaid insurance	11,928	10,205
Total current assets	<u>318,283</u>	<u>291,745</u>
Noncurrent assets		
Restricted cash	168,314	-
Restricted investments	56,472	56,472
Bond organization costs	14,110	14,916
Reserve certificate	1,000	1,000
Property and Equipment	4,440,638	4,342,809
Less accumulated depreciation	<u>(2,015,564)</u>	<u>(1,869,310)</u>
Total noncurrent assets	<u>2,664,970</u>	<u>2,545,887</u>
Total Assets	<u><u>2,983,253</u></u>	<u><u>2,837,632</u></u>
<u>LIABILITIES</u>		
Current liabilities		
Accounts payable	9,805	6,200
Payroll payable	592	6,999
Restricted deposits and funds	4,536	4,536
Current maturities of long-term debt - Note 4	23,318	22,227
Total current liabilities	<u>38,251</u>	<u>39,962</u>
Noncurrent liabilities		
Long-Term Debt, less current maturities	<u>687,907</u>	<u>711,224</u>
Total Liabilities	<u><u>726,158</u></u>	<u><u>751,186</u></u>
<u>NET POSITION</u>		
Invested in capital assets, net of related debt	1,713,849	1,740,048
Restricted for:		
FEMA grant - Note 1	168,314	-
Debt service - Note 1	56,472	56,472
Unrestricted	318,460	289,926
Total net position	<u><u>\$ 2,257,095</u></u>	<u><u>2,086,446</u></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, 2016 AND 2015

	August 31,	
	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Water service	\$ 483,318	423,103
Late penalties	13,569	9,438
Meter setting fees	9,587	13,663
Other revenues	2,272	1,552
Total operating revenues	<u>508,746</u>	<u>447,756</u>
Operating Expenses:		
Payroll related	224,464	182,718
Water costs	13,952	14,872
Water test fees	1,760	2,480
Contract labor	1,228	8,191
Fuel and mileage	18,329	13,111
Repairs and maintenance	42,211	46,862
Insurance	18,824	15,575
Professional fees	7,363	7,949
Office supplies and postage	16,206	5,136
Training	225	-
Utilities	19,952	24,594
Telephone	5,229	4,238
Other expenses	3,544	2,160
Depreciation and amortization	147,060	123,746
Total operating expenses	<u>520,347</u>	<u>451,632</u>
Operating income (loss)	(11,601)	(3,876)
Other income and expenses:		
Interest income	741	649
Benefit units	4,550	6,650
Grants received	477,666	99,500
Grants expended	(266,579)	(11,247)
Interest expense	(34,128)	(35,305)
Total other income (expenses)	<u>182,250</u>	<u>60,247</u>
Net income (loss)	170,649	56,371
Total Net Position, beginning of period	<u>2,086,446</u>	<u>2,030,075</u>
Total Net Position, end of period	<u>\$ 2,257,095</u>	<u>2,086,446</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, 2016 AND 2015

	August 31,	
	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Receipts from customers	\$ 498,340	438,728
Other operating cash receipts	2,272	1,552
Payments to vendors	(146,822)	(150,342)
Payments to employees	(230,871)	(180,459)
Net cash flows from operating activities	<u>122,919</u>	<u>109,479</u>
Cash Flows from Investing Activities:		
Interest earned	741	649
Capital assets purchased	(66,304)	(139,654)
Capital assets purchased (FEMA)	(31,526)	-
Net cash flows from investing activities	<u>(97,089)</u>	<u>(139,005)</u>
Cash Flows from Financing Activities:		
Interest expense on debt	(34,246)	(35,305)
Principal payments on long-term debt	(22,226)	(21,186)
Grants received	477,666	99,500
FEMA Grants expended	(266,579)	(11,247)
System development fees	4,550	6,650
Increase in restricted deposits	-	951
Net cash flows from financing activities	<u>159,165</u>	<u>39,363</u>
Net increase (decrease) in cash and cash equivalents	184,995	9,837
Cash and cash equivalents, beginning of period	<u>236,176</u>	<u>226,339</u>
Cash and cash equivalents, end of period	<u>\$ 421,171</u>	<u>236,176</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (11,601)	(3,876)
Add depreciation/amortization expense	147,060	123,746
(Increase)/Decrease in Current Assets		
Accounts receivable	(8,134)	(7,476)
Prepays	(1,723)	(613)
Increase/(Decrease) in Current Liabilities		
Accounts payable	(2,683)	(2,302)
Net cash flows from operating activities	<u>\$ 122,919</u>	<u>109,479</u>

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, 2016 AND 2015

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	266,359
Depreciation account	150,929
Fire Department Relief account	681
Benefits units - renter's deposits	<u>3,052</u>
Total	\$ <u>421,171</u>

Investments

The District had the following investments at August 31, 2016:

Farmers State Bank, Allen, OK	
Certificate of deposit No. 9359, dated 11-14-02, matures 10-27-16;	\$ <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, 2016 AND 2015

Note 1 - Significant Accounting Policies - cont'd

Accounts Receivable

Billings for accounts receivable at August 31, 2016, were \$53,470. 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	\$53,470
31-90	<u>0</u>
Total	\$ <u>53,470</u>

Restricted Assets

Restricted assets are assets held for various special purposes.

Debt Service: Restricted assets with fiscal agent for debt service 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 note payments for one year. To be fully funded, these reserve funds must total \$56,472. As of August 31, 2016 and 2015 these reserves were fully funded.

FEMA grant: Funds distributed by the Oklahoma Department of Emergency Management for the rebuilding of infrastructure affected by the May, 2015 (FEMA-4222-DR) and December 26, 2015-January 5, 2016 (FEMA-4256-DR) severe weather. The revenue, costs and balances of these public assistance programs are reported as follows:

FEMA GRANT ACTIVITIES

	<u>PA-4222</u>	<u>PA-4256</u>	<u>Total</u>
Revenue:			
Grant Revenue	<u>\$ 352,243.50</u>	<u>125,422.50</u>	<u>477,666.00</u>
Program Costs:			
Equipment	(31,526.00)		(31,526.00)
Payroll related	(21,384.70)		(21,384.70)
Supplies and Labor	<u>(245,194.34)</u>		<u>(245,194.34)</u>
Total program costs	<u>(298,105.04)</u>	<u>-</u>	<u>(298,105.04)</u>
Program Revenue over Costs	<u>54,138.46</u>	<u>125,422.50</u>	<u>179,560.96</u>
Prior Year Costs	<u>(11,246.96)</u>	<u>-</u>	<u>(11,246.96)</u>
Restricted for:			
FEMA Grant August 31, 2016	<u>\$ 42,891.50</u>	<u>125,422.50</u>	<u>168,314.00</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED AUGUST 31, 2016 AND 2015

Note 1 - Significant Accounting Policies - cont'd

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.

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, 2016, is detailed as follows:

Note 01, 5.00% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$2,210;	\$ 289,024
Note 03, 5.00% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$327;	42,413
Note 05, 4.50% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$216;	31,867
Note 07, 4.50% mortgage payable to Rural Economic & Community Development, 40 years, monthly payments of \$1,953;	<u>347,921</u>
Total long-term debt	711,225
Less current maturities	<u>(23,318)</u>
	<u>\$ 687,907</u>

HUGHES COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO FINANCIAL STATEMENTS
FOR YEARS ENDED AUGUST 31, 2016 AND 2015

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
2017	\$ 23,318	33,154	56,472
2018	24,464	32,008	56,472
2019	25,666	30,806	56,472
2020	26,927	29,545	56,472
2021	28,250	28,222	56,472
2022-2026	163,494	118,866	282,360
2027-2031	207,846	74,514	282,360
2032-2036	114,958	32,764	147,722
2037-2041	96,302	10,381	106,683
	<u>\$ 711,225</u>	<u>390,260</u>	<u>1,101,485</u>

Note 3 - Accumulated Unpaid Vacation and Sick Pay

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