

**McCurtain County Rural Water District No. 6  
Smithville, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2016

Audited by

**SANDERS, BLEDSOE & HEWETT  
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

BROKEN ARROW, OK

McCurtain County Rural Water District No. 6  
Smithville, Oklahoma  
December 31, 2016

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# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
McCurtain County Rural Water District No. 6  
Smithville, Oklahoma

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the business-type activities of McCurtain County Rural Water District No. 6 (the District), as of and for the year ended December 31, 2016, 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 modified cash basis of accounting described in Note 1, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 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 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 opinions.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the business-type activities of the District, as of December 31, 2016, and the respective changes in modified cash basis financial position, and cash flows, thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

### **Other Matters**

Management has omitted 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 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 10, 2018 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 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.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

April 10, 2018



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**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  
McCurtain County Rural Water District No. 6  
Smithville, Oklahoma

We have audited the modified cash basis financial statements of the business-type activities of McCurtain County Rural Water District No. 6 (the District), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 10, 2018. In our report, our opinion was modified because the financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The District also has not presented management's discussion and analysis. Except as discussed in the preceding sentences, 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.

**Internal Control Over Financial Reporting**

Management of the District is responsible for establishing and maintaining effective 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 in order to determine our auditing procedures that are appropriate 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 over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in the internal controls that we considered to be a material weakness.

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 District's financial statements will not be prevented or detected and corrected on a timely basis. 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 deficiency described in the accompanying schedule of findings and responses as item 16-1, not to be a material weakness.

#### 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 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 that are required to be reported under *Government Auditing Standards*.

#### District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

April 10, 2018

**McCURTAIN COUNTY RURAL DISTRICT NO. 6**  
**Disposition of Prior Year's Significant Deficiencies**  
**December 31, 2016**

2015-1 – Lack of Segregation of Duties

The exception that there were inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available which prevented a proper segregation of accounting functions which is necessary to assure adequate internal accounting controls continued in the current fiscal year.

**McCURTAIN COUNTY RURAL WATER DISTRICT NO. 6**  
**Schedule of Audit Results**  
**December 31, 2016**

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the modified cash basis 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:

16-1 – 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.



McCURTAIN COUNTY RURAL WATER DISTRICT NO. 6  
Statement of Net Position - Modified Cash Basis  
December 31, 2016

<u>ASSETS</u>	<u>2016</u>	<u>-Memorandum- -Only- 2015</u>
Current Assets:		
Cash in bank - unrestricted	\$ (376)	11,188
Cash in bank - restricted	42,531	119,878
Total current assets	<u>42,155</u>	<u>131,066</u>
Capital assets, net	<u>23,022,249</u>	<u>23,614,393</u>
TOTAL ASSETS	<u>\$ 23,064,404</u>	<u>23,745,459</u>
 <u>LIABILITIES</u>		
Notes payable	<u>\$ 5,658,866</u>	<u>5,659,000</u>
 <u>NET POSITION</u>		
Invested in capital assets, net of related debt	17,363,383	17,955,393
Restricted for projects	42,531	119,878
Unrestricted assets	<u>(376)</u>	<u>11,188</u>
Total Net Position	<u>17,405,538</u>	<u>18,086,459</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 23,064,404</u>	<u>23,745,459</u>

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

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 6  
Statement of Revenues, Expenses and Changes in Net Position -  
Modified Cash Basis  
For The Year Ended December 31, 2016

	2016	-Memorandum- -Only- 2015
Revenue from Operations:		
Water sales & services	\$ 405,642	132,631
Refunds and reimbursements	19,197	0
Total revenue from operations	<u>424,839</u>	<u>132,631</u>
Expenses from Operations:		
Water purchases	147,262	40,205
Testing	3,483	1,650
Contract labor	106,000	94,750
System maintenance and repair	74,738	45,194
Operating supplies	4,920	10,815
Miscellaneous	2,141	3,489
Office and postage	4,148	5,070
Rentals	5,850	7,520
Dues and fees	702	1,637
Fuel	1,285	4,209
Utilities	23,957	23,020
Professional fees	4,800	0
Insurance	12,871	2,524
Depreciation	605,527	306,763
Total expenses from operations	<u>997,684</u>	<u>551,020</u>
Operating Income (Loss)	(572,845)	(418,389)
Non-operating income:		
Interest earnings	12	30
Grant proceeds - Rural Development	0	1,292,820
Grant proceeds - Choctaw Nation	0	72,757
Total other income	<u>12</u>	<u>1,365,607</u>
Non-operating expenses:		
Interest paid on debt	<u>(108,088)</u>	<u>(106,106)</u>
Change in Net Position	(680,921)	841,112
Total Net Position, beginning of period	<u>18,086,459</u>	<u>17,245,347</u>
Total Net Position, end of period	<u>\$ 17,405,538</u>	<u>18,086,459</u>

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

McCURTAIN COUNTY RURAL WATER DISTRICT NO. 6  
Statement of Cash Flows - Modified Cash Basis  
For Year Ended December 31, 2016

	2016	-Memorandum- -Only- 2015
Cash Flows from Operating Activities:		
Receipts from customers	\$ 424,839	132,631
Payments to vendors	(392,157)	(244,257)
Net Cash Provided by Operating Activities	<u>32,682</u>	<u>(111,626)</u>
Cash Flows from Financial Activities:		
Interest payments on long-term debt	(108,222)	(106,106)
Proceeds from grants	0	1,365,577
Purchase of fixed assets	(13,383)	(1,035,113)
Net cash provided by (used in) financial activities	<u>(121,605)</u>	<u>224,358</u>
Cash Flows from Investing Activities:		
(Increase) decrease in restricted assets	77,347	(117,295)
Interest revenue	12	30
Net cash provided by (used in) investing activities	<u>77,359</u>	<u>(117,265)</u>
Net Increase (Decrease) in Cash and Equivalents	(11,564)	(4,533)
Cash and cash equivalents, beginning of period	<u>11,188</u>	<u>15,721</u>
Cash and cash equivalents, end of period	<u>\$ (376)</u>	<u>11,188</u>
Reconciliation of operating net income (loss) to net cash provided by operating activities:		
Net income (loss) from operations	\$ (572,845)	(418,389)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	<u>605,527</u>	<u>306,763</u>
Net Cash Provided by Operating Activities	<u>\$ 32,682</u>	<u>(111,626)</u>

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

## **McCURTAIN COUNTY RURAL WATER DISTRICT NO. 6**

### **Smithville, Oklahoma**

#### **Notes to the Financial Statements**

**December 31, 2016**

### **Note 1 – Summary of Significant Accounting Policies**

#### Reporting Entity

The McCurtain County Rural Water District No. 6 (the District) was incorporated in 2001 under the Laws of the State of Oklahoma in accordance with Title 82 of the Oklahoma Statutes, as a subdivision of the State of Oklahoma. The District operates and maintains a water treatment and distribution system within McCurtain County, Oklahoma, and provides potable water services for members around Smithville, Oklahoma.

#### Fund Accounting

The District is accounted for within the framework of enterprise fund accounting. Propriety Fund Type Enterprise Funds are used to account for operations that are operated in a manner similar to private business enterprises wherein the intent of the District's Board of Directors is to recover the cost of providing goods and services through user charges.

#### Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Assets, liabilities, revenues and expenses are recognized on the cash basis modified to include depreciation and amortization of capitalized assets, prepaid payroll taxes, and other significant line expansion cost, and accrued liabilities for federal and state payroll taxes payable. Under this basis, revenues are recognized when collected rather than when earned, and expenses are generally recognized when paid rather than when incurred. Consequently, accounts receivable, trade accounts payable, prepaid expenses other than prepaid payroll tax and prepaid installation cost, and certain accrued expenses are not included in the financial statements.

#### Budgetary Data

The District is required by its loan agreements to prepare annually an estimated budget.

#### Assets, Liabilities and Equity:

##### Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of unrestricted cash in the checking accounts.

**McCURTAIN COUNTY RURAL WATER DISTRICT NO. 6**

**Smithville, Oklahoma**

Notes to the Financial Statements

December 31, 2016

**Note 1 – Summary of Significant Accounting Policies - (cont'd)**

Capital Assets

Assets acquisitions are recorded and depreciated at historical cost. Depreciation on capital assets is calculated using the straight-line method of depreciation with useful lives as follows:

	Life (in years)
Water System & Lines	20 - 50
Office Furniture & Equipment	3 - 5
Maintenance Equipment	5

The dollar threshold for capitalization has been set at \$250.

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constructional provisions or enabling legislation.
3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

## **McCURTAIN COUNTY RURAL WATER DISTRICT NO. 6**

### **Smithville, Oklahoma**

#### **Notes to the Financial Statements**

**December 31, 2016**

#### **Note 1 – Summary of Significant Accounting Policies - (cont'd)**

##### Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

##### Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
  - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District’s overall financial position and results of operations.
  - b. Financial statements prepared using full accrual accounting for all of the District’s activities, except for including the General capital assets or infrastructure (liens, pump stations, etc.).
2. A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement and report infrastructure acquired after December 31, 2003 as provided by GASB standards.

##### Income Taxes

The District is exempt from income taxes as a political subdivision of the State of Oklahoma.

##### Memorandum Totals

The “Memorandum Only” captions above the total columns mean that totals are presented for overview information purposes only.

## **McCURTAIN COUNTY RURAL WATER DISTRICT NO. 6**

### **Smithville, Oklahoma**

#### **Notes to the Financial Statements**

**December 31, 2016**

### **Note 2- Cash and Equivalents**

#### Custodial Credit Risk

At December 31, 2016, the District held deposits of approximately \$58,052 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are 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.

#### Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligation of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a. – d.).

**McCURTAIN COUNTY RURAL WATER DISTRICT NO. 6**

**Smithville, Oklahoma**

Notes to the Financial Statements

December 31, 2016

**Note 3 – Restricted Assets**

Cash in Bank

The Construction/Supervised account and the Choctaw Nation account are accounts used to collect the grant proceeds from Rural Development and Choctaw Nation, and used to expend these funds for the specified projects. The Construction/Supervised account was supervised by Rural Development in 2016, and the District had to obtain permission from the Rural Development office in order to expend funds from this account.

**Note 4 – Capital Assets**

The following is a summary of the property, plant and equipment of the District as of December 31, 2016:

	Balance at Dec. 31, 2015	Additions	Deletions	Balance at Dec. 31, 2016
Land	\$ -	-	-	-
Water system & lines	23,800,169	13,383	-	23,813,552
Engineering fees and surveys	109,632	-	-	109,632
Demolition and removal	3,500	-	-	3,500
Other property and equipment	15,909	-	-	15,909
Construction in Progress	-	-	-	-
Subtotal	23,929,210	13,383	-	23,942,593
Less: Accumulated Depreciation	(314,817)	(605,527)	-	(920,344)
Total	<u>\$ 23,614,393</u>	<u>(592,144)</u>	<u>-</u>	<u>23,022,249</u>

**Note 5 – Notes Payable**

Notes payable consist of two notes to the Office of Rural Economic & Community Development. The District paid accrued interest of \$108,088 in 2015. Loan interest payments began March 12, 2014, and loan principal payments are to begin April 12, 2016. The loans are each payable over forty years from March 13, 2013. These loans are secured by District assets.



**McCURTAIN COUNTY RURAL WATER DISTRICT NO. 6**

**Smithville, Oklahoma**

Notes to the Financial Statements

December 31, 2016

**Note 5 – Notes Payable – cont'd**

The notes payable at December 31<sup>th</sup>, are detailed as follows:

	2016	2015
Note No. 91-01, Rural Economic & Community Development, issued for \$2,613,000, dated 03-12-13, at 1.875% interest, due in monthly installments of \$8,179, until paid;	\$ 2,612,866	2,613,000
Note No. 91-03, Rural Economic & Community Development, issued for \$3,046,000, dated 03-12-13, at 1.875% interest, due in monthly installments of \$9,534, until paid;	<u>3,046,000</u>	<u>3,046,000</u>
Total	<u>\$ 5,658,866</u>	<u>5,659,000</u>

Due to the District missing many of their debt payments, an accurate payoff schedule could not be calculated. As of April 10, 2018, the District is still behind on their payments but intends on making principal payments whenever funds become available.

**Note 6 – Contingencies**

Litigation

According to management, there were no known contingent liabilities at December 31, 2016 which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

**McCURTAIN COUNTY RURAL WATER DISTRICT NO. 6**

**Smithville, Oklahoma**

Notes to the Financial Statements

December 31, 2016

**Note 7 – Insurance Coverage**

The District has the following insurance coverage:

- ) Property Coverage (Buildings and Personal Property)
- ) Comprehensive General Liability
- ) Errors or Omissions
- ) Employment Related Practices Liability
- ) Employee Dishonesty and Crime Coverage
- ) Worker's Compensation

**Note 8 – Benefits**

The District does not provide retirement or insurance benefits to employees.

**Note 9 – Subsequent Events**

The District did not have any subsequent events through April 10, 2018, which is the date of the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2016.

**McCURTAIN COUNTY RURAL DISTRICT NO. 6**  
**Schedule of Water Rates and Customers**  
**-Unaudited Information-**  
**December 31, 2016**

Water Rates

*Residential*

0 – 1,000 gallons	=	\$41.50 minimum
1,000 – 1,999 gallons	=	\$2.75
2,000 – 2,999 gallons	=	\$3.00
3,000 – 3,999 gallons	=	\$3.50
Over 4,000 gallons	=	\$4.00

*Commercial*

0 – 1,000 gallons	=	\$45.00 minimum
1,000 – 1,999 gallons	=	\$2.75
2,000 – 2,999 gallons	=	\$3.00
3,000 – 3,999 gallons	=	\$3.50
Over 4,000 gallons	=	\$4.00

Customers

The District had 490 active customers at the close of the fiscal year.

Current membership fee structure:

- ) \$600 per meter if meter is already in place
- ) \$1,300 per meter for new meter



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

April 10, 2018

Board of Directors  
Rural Water District No. 6, McCurtain County  
P.O. Box 157  
Smithville, Oklahoma 74957

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. The first item is included in your audit report, and the second item is not included in your 2016 audit report, but will be included in subsequent audit reports if not addressed.

## Lack of Segregation of Duties

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. This is normally an issue in small to medium size water districts, especially in the areas of cash collections, disbursements and the reconciliation of bank statements.

## Employee Compensation

It appears that the bookkeeper, who is currently being paid as an independent contractor, could actually be considered an 'employee', per the Internal Revenue Service guidelines. We recommend that the District examine this issue, and determine if this individual should be paid as an employee, with applicable taxes being paid to state and federal offices. The failure to pay the required employment taxes, if determined to have been due, could result in substantial penalties for the District, if the IRS were to examine this issue in the future.

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 long horizontal flourish extending to the right.

Eric M. Bledsoe

For

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP