

**Muskogee County Rural Water District No. 6
Wainwright, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2013

Audited by

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

BROKEN ARROW, OK
SHAWNEE, OK

Muskogee County Rural Water District No. 6
Wainwright, Oklahoma
Board of Directors
December 31, 2013

BOARD OF DIRECTORS

Chairman

Kenneth Lane

Vice-Chairman

B. P. Sudberry

Secretary/Treasurer

Mike Withrow

Members

Kenneth Holdridge

Danny Isbell

MANAGER

William Thomas

BOOKKEEPERS

Stacy Barnard
Sheryl Vanderpool

Muskogee County Rural Water District No. 6
Wainwright, Oklahoma
December 31, 2013

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Muskogee County Rural Water District No. 6
Wainwright, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Muskogee County Rural Water District No. 6 (the District), Wainwright, Oklahoma, as of and for the year ended December 31, 2013, 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. 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 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 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 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 District'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 District'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 opinions.

Opinions

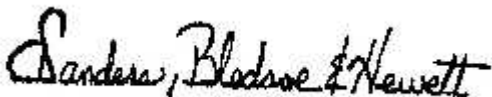
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 and 6 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2014 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 or on 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 Authority's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

RURAL WATER DISTRICT NO. 6, MUSKOGEE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013

Our discussion and analysis of the Rural Water District No. 6, Muskogee County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2013. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS:

- The District's total operating revenues exceeded total operating expenses by \$31,431. Overall, the District's total net assets increased by \$215,311 in the current fiscal year.
- The District earned over \$3,700 in interest earnings during 2013.
- The District had no outstanding debt in 2013, thus paid no interest.
- The District incorporated approximately 150 customers from Muskogee Co. RWD #10, which ceased operations in 2013. The District also obtained ownership of RWD #10's surplus cash and fixed assets. This transaction resulted in an increase of \$358,906 to the District's fund equity.

Using This Report

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

Basis of Accounting

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets, the Statement of Activities, and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net assets and the changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Fixed Assets

At December 31, 2013 the District had \$1,306,105 invested in fixed assets, net of depreciation, including land, the water system, pump station and lines. The District replaced some water lines in 2013, along with the acquisition of fixed assets from Muskogee Co. RWD #10 in the amount of \$305,939.

Long-Term Debt

No outstanding loans exist for the District at December 31, 2013.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2014, the District's projected budget is fairly consistent with the 2013 fiscal year.

For the fiscal year 2014, the District may have to consider an increase rates to users to meet the demands of the City of Muskogee if the cost of water purchases is substantially increased. If demand is increased on existing lines and equipment, or additional memberships are substantially increased, it may be necessary for the District to incur some long-term debt to meet these demands. As of the date of this report, none of these situations are probable for the 2013 year.

Contacting the District

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at P.O. Box 135, Wainwright, OK 74468, or call (918) 474-3545.



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
Muskogee County Rural Water District No. 6
Wainwright, 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 accompanying financial statements of the Muskogee County Rural Water District No. 6 (the District), Wainwright, Oklahoma, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 27, 2014.

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. We identified no deficiencies in the internal controls that we considered to be material weaknesses.

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.

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*.

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

January 27, 2014

MUSKOGEE COUNTY RURAL DISTRICT NO. 6
Disposition of Prior Year's Reportable Conditions
December 31, 2013

There were no prior year instances of noncompliance.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Schedule of Audit Results
December 31, 2013

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

NONE

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Statement of Net Assets
December 31, 2013

ASSETS

Current assets:

Cash	\$ 106,525
Investments with fiscal agents	420,395
Current portion of receivables	29,674
Prepaid expenses	5,977
Total current assets	<u>562,571</u>

Noncurrent assets:

Fixed assets-	
Water system and improvements, net of depreciation	<u>1,306,105</u>

Total Assets	<u>1,868,676</u>
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LIABILITIES

Current liabilities:

Accounts payable	19,345
Payroll taxes payable	1,559
Total current liabilities	<u>20,904</u>

NET ASSETS

Invested in capital assets, net of related debt	1,306,105
Unrestricted assets	<u>541,667</u>
Total Net Assets	<u>\$ 1,847,772</u>

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

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Statement of Activities
For The Year Ended December 31, 2013

Operating Revenues:	
Water sales	\$ 399,301
Memberships	15,500
Refunds and reimbursements	2,512
Total revenues from operations	<u>417,313</u>
Operating Expenses:	
Water purchases	147,104
Salaries and wages	66,008
Payroll taxes	6,537
Contract labor	11,010
Depreciation	55,542
Utilities and telephone	9,744
Automobile	6,734
Supplies and materials	17,483
Office and postage	7,768
Insurance	10,535
Repairs & maintenance	21,948
Testing fees	6,288
Professional fees	10,340
Leak rewards	75
Bad debts	5,236
Dues and fees	3,530
Total expenses from operations	<u>385,882</u>
Operating Income (Loss)	31,431
Non-Operating Revenues (Expenses):	
Interest income	3,792
Grant proceeds	180,088
Total non-operating revenues (expenses)	<u>183,880</u>
Change in Net Assets	215,311
Adjustment, Muskogee Co. RWD No. 10 Equity	358,906
Total Net Assets, beginning of period	<u>1,273,555</u>
Total Net Assets, end of period	<u><u>\$ 1,847,772</u></u>

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

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Statement of Cash Flows
For Year Ended December 31, 2013

Cash Flows from Operating Activities:	
Receipts from customers	\$ 417,313
Payments to employees	(61,538)
Payments to vendors	(263,591)
Net Cash Provided by Operating Activities	<u>92,184</u>
Cash Flows from Financial Activities:	
Acquired Muskogee Co. RWD No. 8 cash	52,967
Purchase of fixed assets	(435,641)
Net cash provided by (used in) financial activities	<u>(382,674)</u>
Cash Flows from Investing Activities:	
Grant proceeds	180,088
Interest revenue	3,792
Net cash provided by (used in) investing activities	<u>183,880</u>
Net Increase (Decrease) in Cash and Equivalents	(106,610)
Cash and cash equivalents, beginning of period	<u>633,530</u>
Cash and cash equivalents, end of period	<u><u>\$ 526,920</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating Income (loss)	\$ 31,431
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	55,542
(Increase) decrease in accounts receivable	(2,009)
(Increase) decrease in prepaid expenses	104
Increase (decrease) in accounts payable	6,686
Increase (decrease) in payroll taxes payable	430
Net Cash Provided by Operating Activities	<u><u>\$ 92,184</u></u>

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

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Notes to Financial Statements
December 31, 2013

Note A – Significant Accounting Policies

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Reporting Standard

In June 1999, the GASB issued Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes new financial reporting requirements for state and local governments throughout the United States. It creates new information and restructures much of the information that governments have presented in the past. The District complied with this requirement.

Cash

The District’s accounts are with the American Bank of Oklahoma, Muskogee, Oklahoma, and are detailed as follows:

	December 31,	
	2013	2012
Cash on hand	\$ 250	250
Revenue Account	90,284	224,679
Operation and Maint. Account	4,485	3,639
Tower Account	9,106	48,645
Add: Deposits in transit	4,350	480
Less: Outstanding checks	(1,950)	(131)
Total	<u>\$ 106,525</u>	<u>277,562</u>

Cash and Cash Equivalents

For the purposes of preparing the statement of cash flows, cash on hand, reconciled cash in savings and checking, and certificates of deposit that can be converted into cash (if necessary) are considered cash equivalents.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Notes to Financial Statements
December 31, 2013

Note A – Significant Accounting Policies – cont’d

Investments

The District had the following outstanding investments:

	<u>2013</u>	<u>2012</u>
Armstrong Bank-		
Certificate of Deposit no. 546682, dated 5/28/13, matures 5/28/16	\$ 104,285	102,801
Certificate of Deposit no. 546690, dated 5/28/13, matures 5/28/14	32,424	32,282
Certificate of Deposit no. 546674, dated 5/28/13, matures 5/28/16	130,719	129,057
American Bank-		
Certificate of Deposit no. 43942, dated 6/25/13, matures 6/25/16	100,000	-
Certificate of Deposit no. 44088, dated 11/15/13, matures 5/15/15	52,967	-
Citizens Security Bank-		
Certificate of Deposit no. 21812, dated 5/26/12, matures 5/26/13	-	45,914
Certificate of Deposit no. 21812, dated 5/26/12, matures 5/26/13	-	45,914
Total Investments	<u><u>\$ 420,395</u></u>	<u><u>355,968</u></u>

Accounts Receivable

Billings for accounts receivable at December 31, 2013 were \$29,634. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Collateral Pledged

All District funds were adequately insured by FDIC or other secured collateral as of December 31, 2013.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Notes to Financial Statements
December 31, 2013

Note A – Significant Accounting Policies – cont’d

Fixed Assets

Neither the District nor the previous auditors were able to provide us with the method of calculating depreciation used in prior years. Therefore, to remain consistent, the same provision for depreciation used in previous years continues to be used. The fixed asset information for the District is shown below:

	12/31/2012			12/31/2013
	Amount	Additions	Deletions	Amount
Land	\$ 500	-	-	500
Water system	1,253,555	1,025,808	-	2,279,363
Buildings	43,270	1,631	-	44,901
Equipment and autos	95,075	-	-	95,075
Total Fixed Assets	1,392,400	1,027,439	-	2,419,839
Less: Accumulated Depreciation	(772,333)	(341,401)	-	(1,113,734)
Total	<u>\$ 620,067</u>	<u>686,038</u>	<u>-</u>	<u>1,306,105</u>

Federal Income Tax

The District is exempt from Federal and State income taxes.

Accumulated Unpaid Vacation and Sick Pay

At December 31, 2013, no determination of the aggregate dollar value of vacation or sick pay had been made.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Notes to Financial Statements
December 31, 2013

Note B – Long-Term Debt

There was no outstanding debt at December 31, 2013.

Note C – Insurance and Surety Bond Coverage

The District appears to have had adequate insurance to cover all major perils at December 31, 2013.

Note D – Contributed Capital

The District received a matching grant in 2013 for the eight inch water replacement line project in the amount of \$180,088 from EODD.

Note E – Incorporation of Water District Customers

During the 2013 year, The District incorporated the water customers (approx. 150 customers) from the Muskogee County RWD #10, which ceased operations. The District also assumed ownership of surplus cash and investments of \$52,967 and the fixed assets which are used to provide water to these customers.

Note F – Subsequent Events

Management has evaluated subsequent events through May 1, 2013, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Balance Sheet
December 31, 2013

	DECEMBER 31,	
	2013	(memo only) 2012
<u>ASSETS</u>		
Current Assets:		
Cash in bank	\$ 106,525	277,562
Investments	420,395	355,968
Accounts receivable	29,634	27,625
Prepaid insurance	5,977	6,081
Total current assets	<u>562,531</u>	<u>667,236</u>
Fixed Assets:		
Land	500	500
Water system and improvements	2,279,363	1,253,555
Buildings and improvements	44,901	43,270
Equipment and automobiles	95,075	95,074
Total fixed assets	<u>2,419,839</u>	<u>1,392,399</u>
Less: accumulated depreciation	<u>(1,113,734)</u>	<u>(772,332)</u>
Total fixed assets (net)	<u>1,306,105</u>	<u>620,067</u>
Other Assets:		
Deposits	<u>40</u>	<u>40</u>
Total Assets	<u>\$ 1,868,676</u>	<u>1,287,343</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 19,345	12,659
Payroll taxes payable	1,559	1,129
Total current liabilities	<u>20,904</u>	<u>13,788</u>
Fund Equity:		
Contributed capital	180,088	-
Retained earnings	1,667,684	1,273,555
Total Fund Equity	<u>1,847,772</u>	<u>1,273,555</u>
Total Liabilities and Fund Equity	<u>\$ 1,868,676</u>	<u>1,287,343</u>

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Statement of Revenue, Expenses and Changes in Retained Earnings
For Years Ended December 31, 2013

	2013	(memo only) 2012
Revenue from Operations:		
Water sales	\$ 377,581	404,554
Late charges	21,720	16,544
Memberships	15,500	14,250
Collection and reconnect fees	1,525	2,650
Other income and fees	987	2,069
Total revenue from operations	<u>417,313</u>	<u>440,067</u>
Expenses from Operations:		
Water purchases	147,104	141,469
Salaries and wages	66,008	52,111
Payroll taxes	6,537	5,158
Contract labor	11,010	11,598
Depreciation	55,542	34,447
Utilities and telephone	9,744	8,131
Automobile	6,734	5,911
Supplies and materials	17,483	27,506
Office and postage	7,768	8,541
Insurance	10,535	11,033
Repairs & maintenance	21,948	19,022
Testing fees	6,288	528
Professional (engineering) fees	10,340	8,230
Leak rewards	75	275
Bad debts (forfeited accounts)	5,236	16,812
Dues and fees	3,530	4,081
Total expenses from operations	<u>385,882</u>	<u>354,853</u>
Net Income (Loss) from Operations	31,431	85,214
Other Income:		
Interest earnings	<u>3,792</u>	<u>4,662</u>
Net Income (Loss)	35,223	89,876
Adjustment, Muskogee Co. RWD No. 10 Equity	358,906	-
Retained earnings, beginning of period	<u>1,273,555</u>	<u>1,183,679</u>
Retained earnings, end of period	<u><u>\$ 1,667,684</u></u>	<u><u>1,273,555</u></u>