

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

Financial Statements and Auditor's Reports

Year Ended December 31, 2014

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, 2014

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, 2014

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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, 2014, 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

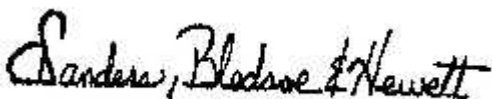
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended 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, 2015 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, 2014

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, 2014. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS:

- The District's total operating expenses exceeded total operating revenues by \$11,891. Overall, the District's total net assets decreased by \$8,897 in the current fiscal year.
- The District earned \$2,994 in interest earnings during 2014.
- The District had no outstanding debt in 2014, thus paid no interest.
- The District remodeled their office building in 2014, without having to obtain any additional debt.

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, 2014, the District had \$1,347,294 invested in fixed assets, net of depreciation, including land, the water system, pump station and lines. The District remodeled the office for \$99,108, and purchased office equipment for \$4,174 in 2014.

Long-Term Debt

No outstanding loans exist for the District at December 31, 2014.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2015, the District's projected budget is fairly consistent with the 2014 fiscal year.

For the fiscal year 2015, 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 2015 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, 2014, 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, 2015.

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, 2015

MUSKOGEE COUNTY RURAL DISTRICT NO. 6
Disposition of Prior Year's Reportable Conditions
December 31, 2014

There were no prior year instances of noncompliance.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Schedule of Audit Results
December 31, 2014

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, 2014

ASSETS

Current assets:

Cash	\$	58,239
Investments with fiscal agents		423,843
Current portion of receivables		29,790
Prepaid expenses		6,395
Total current assets		518,267

Noncurrent assets:

Fixed assets-		
Water system and improvements, net of depreciation		1,347,294

Total Assets		1,865,561
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LIABILITIES

Current liabilities:

Accounts payable		24,514
Payroll taxes payable		2,172
Total current liabilities		26,686

NET ASSETS

Invested in capital assets, net of related debt		1,347,294
Unrestricted assets		491,581
Total Net Assets	\$	1,838,875

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, 2014

Operating Revenues:	
Water sales	\$ 441,463
Memberships	14,750
Refunds and reimbursements	4,305
Total revenues from operations	460,518
Operating Expenses:	
Water purchases	193,980
Salaries and wages	75,258
Payroll taxes	7,949
Contract labor	31,835
Water reader helper	12,360
Depreciation	62,093
Utilities and telephone	7,913
Automobile	7,958
Supplies and materials	24,198
Office and postage	8,003
Insurance	11,434
Repairs & maintenance	4,556
Testing fees	5,520
Professional fees	10,147
Leak rewards	375
Bad debts	281
Dues and fees	8,549
Total expenses from operations	472,409
Operating Income (Loss)	(11,891)
Non-Operating Revenues (Expenses):	
Interest income	2,994
Change in Net Assets	(8,897)
Total Net Assets, beginning of period	1,847,772
Total Net Assets, end of period	\$ 1,838,875

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, 2014

Cash Flows from Operating Activities:	
Receipts from customers	\$ 454,564
Payments to employees	(75,258)
Payments to vendors	(323,856)
Net Cash Provided by Operating Activities	55,450
Cash Flows from Financial Activities:	
Purchase of fixed assets	(103,282)
Cash Flows from Investing Activities:	
Interest revenue	2,994
Net Increase (Decrease) in Cash and Equivalents	(44,838)
Cash and cash equivalents, beginning of period	526,920
Cash and cash equivalents, end of period	\$ 482,082

Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating Income (loss)	\$ (11,891)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	62,093
(Increase) decrease in accounts receivable	(116)
(Increase) decrease in prepaid expenses	(418)
Increase (decrease) in accounts payable	5,169
Increase (decrease) in payroll taxes payable	613
Net Cash Provided by Operating Activities	\$ 55,450

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, 2014

Note A – Significant Accounting Policies

Nature of Organization

The Muskogee County Rural Water District No. 6 (the District) was created under the provisions of Title 82 of Oklahoma Statutes, Section 1324.1 – 1324.35 and the Laws of the State of Oklahoma. The purpose of this District is to provide water services to users.

Basis of Accounting

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

The District follows GASB issued Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes financial reporting requirements for state and local governments throughout the United States.

Cash

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

	December 31,	
	2014	2013
Cash on hand	\$ 250	250
Revenue Account	26,414	90,284
Operation and Maint. Account	8,258	4,485
Tower Account	21,144	9,106
Add: Deposits in transit	3,048	4,350
Less: Outstanding checks	(875)	(1,950)
Total	\$ 58,239	106,525

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, 2014

Note A – Significant Accounting Policies – cont’d

Investments

The District had the following outstanding investments:

	<u>2014</u>	<u>2013</u>
Armstrong Bank-		
Certificate of Deposit no. 546682, dated 5/28/13, matures 5/28/16	\$ 105,490	104,285
Certificate of Deposit no. 546690, dated 5/28/14, matures 5/28/15	32,577	32,424
Certificate of Deposit no. 546674, dated 5/28/13, matures 5/28/16	132,231	130,719
American Bank-		
Certificate of Deposit no. 43942, dated 6/25/13, matures 6/25/16	100,578	100,000
Certificate of Deposit no. 44088, dated 11/15/13, matures 5/15/15	<u>52,967</u>	<u>52,967</u>
Total Investments	<u>\$ 423,843</u>	<u>420,395</u>

Accounts Receivable

Billings for accounts receivable at December 31, 2014 were \$29,750. 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, 2014.

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Notes to Financial Statements
December 31, 2014

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:

	12/31/2013			12/31/2014
	<u>Amount</u>	<u>Additions</u>	<u>Deletions</u>	<u>Amount</u>
Land	\$ 500	-	-	500
Water system	2,279,363	-	-	2,279,363
Buildings	44,901	99,109	-	144,010
Equipment and autos	<u>95,075</u>	<u>4,173</u>	<u>-</u>	<u>99,248</u>
Total Fixed Assets	2,419,839	103,282	-	2,523,121
Less: Accumulated Depreciation	<u>(1,113,734)</u>	<u>(62,093)</u>	<u>-</u>	<u>(1,175,827)</u>
Total	<u>\$ 1,306,105</u>	<u>41,189</u>	<u>-</u>	<u>1,347,294</u>

Federal Income Tax

The District is exempt from Federal and State income taxes.

Accumulated Unpaid Vacation and Sick Pay

At December 31, 2014, 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, 2014

Note B – Long-Term Debt

There was no outstanding debt at December 31, 2014.

Note C – Insurance and Surety Bond Coverage

The District appears to have had adequate insurance to cover all major perils at December 31, 2014.

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 January 27, 2015, 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, 2014

	DECEMBER 31,	
<u>ASSETS</u>	2014	(memo only) 2013
Current Assets:		
Cash in bank	\$ 58,239	106,525
Investments	423,843	420,395
Accounts receivable	29,750	29,634
Prepaid insurance	6,395	5,977
Total current assets	518,227	562,531
Fixed Assets:		
Land	500	500
Water system and improvements	2,279,363	2,279,363
Buildings and improvements	144,010	44,901
Equipment and automobiles	99,248	95,075
Total fixed assets	2,523,121	2,419,839
Less: accumulated depreciation	(1,175,827)	(1,113,734)
Total fixed assets (net)	1,347,294	1,306,105
Other Assets:		
Deposits	40	40
Total Assets	\$ 1,865,561	1,868,676
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 24,514	19,345
Payroll taxes payable	2,172	1,559
Total current liabilities	26,686	20,904
Fund Equity:		
Contributed capital	180,088	180,088
Retained earnings	1,658,787	1,667,684
Total Fund Equity	1,838,875	1,847,772
Total Liabilities and Fund Equity	\$ 1,865,561	1,868,676

MUSKOGEE COUNTY RURAL WATER DISTRICT NO. 6
Statement of Revenue, Expenses and Changes in Retained Earnings
For Years Ended December 31, 2014

	2014	(memo only) 2013
	<u>2014</u>	<u>2013</u>
Revenue from Operations:		
Water sales	\$ 415,842	377,581
Late charges	25,621	21,720
Memberships	14,750	15,500
Collection and reconnect fees	2,071	1,525
Other income and fees	2,234	987
Total revenue from operations	<u>460,518</u>	<u>417,313</u>
Expenses from Operations:		
Water purchases	193,980	147,104
Salaries and wages	75,258	50,528
Payroll taxes	7,949	6,537
Contract labor (Cook Construction)	31,835	15,480
Water reader helper	12,360	11,010
Depreciation	62,093	55,542
Utilities and telephone	7,913	9,744
Automobile	7,958	6,734
Supplies and materials	24,198	17,483
Office and postage	8,003	7,768
Insurance	11,434	10,535
Repairs & maintenance	4,556	21,948
Testing fees	5,520	6,288
Professional (engineering) fees	10,147	10,340
Leak rewards	375	75
Bad debts (forfeited accounts)	281	5,236
Dues and fees (Wainwright Nutrition Center)	8,549	3,530
Total expenses from operations	<u>472,409</u>	<u>385,882</u>
Net Income (Loss) from Operations	(11,891)	31,431
Other Income:		
Interest earnings	<u>2,994</u>	<u>3,792</u>
Net Income (Loss)	(8,897)	35,223
Adjustment, Muskogee Co. RWD No. 10 Equity	0	358,906
Retained earnings, beginning of period	<u>1,667,684</u>	<u>1,273,555</u>
Retained earnings, end of period	<u>\$ 1,658,787</u>	<u>1,667,684</u>