

**Nowata County Rural Water District No. 6**  
**Nowata, Oklahoma**

Financial Statements and  
Reports of Independent Auditor

June 30, 2012

Audited by

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

Broken Arrow, Oklahoma

**Nowata County Rural Water District No. 6**  
**Nowata, Oklahoma**

Board of Directors  
June 30, 2012

Chairman

Jerry Pearsall

Vice Chairman

Vincent Pritchett

Secretary/Treasurer

Jeff Plummer

Member

Lloyd Johnson

Member

Gary Minnerath

**Nowata County Rural Water District No. 6**  
**Nowata, Oklahoma**

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June 30, 2012

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# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## **Independent Auditor's Report**

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

We have audited the accompanying financial statements of the business-type activities of the Nowata County Rural Water District No. 6 (the District), Nowata, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has elected to omit the Management Discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2012, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note A.

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP  
August 9, 2012



# SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

## **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  
Nowata County Rural Water District No. 6  
Nowata, Oklahoma

We have audited the financial statements of the Nowata County Rural Water District No. 6 (the District), Nowata, Oklahoma, as of and for the year ended June 30, 2012, and have issued our report thereon dated August 9, 2012. 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**

In planning and performing our audit, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We identified no deficiencies in the internal controls over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepting accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

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

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

August 9, 2012

**Nowata County Rural Water District No. 6**  
**Nowata, Oklahoma**

Disposition of Prior Year's Reportable Conditions  
June 30, 2012

2011-1 – Financial Statement Audit

The exception of the District relying on external auditors to prepare financial statements continued in the current fiscal year. However, all amounts used in the audited financial statements were extracted from District source documents and internal reports.

2011-2 – Controls Over Inventory

The exception of the District not properly maintaining a proper listing of supplies inventory continued, but improved, in the current fiscal year.

2011-3 – Segregation of Duties

The exception of the District relying on one person for all accounting functions continued in the current fiscal year.

2011-4 – Material Adjusting Journal Entries

The exception of the District lacking the accounting expertise to record all transactions properly, resulting in material adjusting journal entries having to be made by external auditors continued, but improved, in the current fiscal year.

2011-5 – Preparation of Annual Budget

The exception of the District not approving an annual budget, per Oklahoma Statutes, continued in the current fiscal year.

**Nowata County Rural Water District No. 6**  
**Nowata, Oklahoma**

Schedule of Audit Results and Findings  
June 30, 2012

**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



Nowata County Rural Water District No. 6  
Nowata, Oklahoma  
Statement of Net Assets  
June 30, 2012

ASSETS

Current Assets:

Cash and equivalents	\$ 85,652
Accounts receivable	18,434
Inventory	55,827
Prepaid insurance	3,230
Total Current Assets	<u>163,143</u>

Capital Assets:

Water system and improvements	914,286
Land	10,489
Total Capital Assets	924,775
Less: accumulated depreciation	<u>(409,336)</u>
Total Capital Assets (Net of Depreciation)	<u>515,439</u>

Total Assets	<u>678,582</u>
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LIABILITIES

Current Liabilities:

Accounts payable	<u>10,651</u>
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NET ASSETS

Invested in capital assets, net of related debt	515,439
Unrestricted	<u>152,492</u>
Total Net Assets	<u>\$ 667,931</u>

The accompanying notes are an integral part of the financial statements

Nowata County Rural Water District No. 6  
Nowata, Oklahoma  
Statement of Activities  
For the Year Ended June 30, 2012

Revenue from Operations:	
Water sales	\$ 164,088
Penalties and fees	3,690
Miscellaneous	4,800
Total Revenue from Operations	<u>172,578</u>
Expenses from Operations:	
Accounting	16,908
Depreciation	23,796
Insurance	3,436
Miscellaneous	599
Office expenses	3,740
Operator	14,122
Postage	1,191
Maintenance and repairs	16,999
Supplies	17,812
Telephone	2,490
Testing	780
Utilities	5,570
Water purchases	85,837
Total Expenses from Operations	<u>193,280</u>
Net Income (Loss) from Operations	<u>(20,702)</u>
Other Income:	
Interest income	178
Membership fees	5,250
Total Other Income	<u>5,428</u>
Net Income (Loss)	(15,274)
Net Assets, Beginning of Period	<u>683,205</u>
Net Assets, End of Period	<u><u>\$ 667,931</u></u>

The accompanying notes are an integral part of the financial statements

Nowata County Rural Water District No. 6  
Nowata, Oklahoma  
Statement of Cash Flows  
For the Year Ended June 30, 2012

Cash flows from operating activities:	
Receipts from water sales	\$ 182,253
Payments to vendors	<u>(187,286)</u>
Net cash (used in) provided by operating activities	<u>(5,033)</u>
Cash flows from capital and related financing activities:	
Increase of capital assets	(53,638)
Membership fees received	<u>5,250</u>
Net cash used in capital and related financing activities	<u>(48,388)</u>
Cash flows from investing activities:	
Interest on investments	<u>178</u>
Net increase (decrease) in cash and cash equivalents	(53,243)
Cash & cash equivalents, beginning of period	<u>138,895</u>
Cash & cash equivalents, end of period	<u><u>\$ 85,652</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (20,702)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization expense	23,796
Change in assets and liabilities:	
Accounts receivable, net	6,191
Inventory	(11,097)
Prepaid expenses and other assets	(87)
Accounts payable	<u>(3,132)</u>
Net cash (used in) provided by operating activities	<u><u>\$ (5,031)</u></u>

The accompanying notes are an integral part of the financial statements

**Nowata County Rural Water District No. 6**  
**Nowata, Oklahoma**  
Notes to Financial Statements  
June 30, 2012

**Note A – Significant Accounting Policies**

Nowata County Rural Water District No. 6 (the “District”) was created under the provisions of Title 82, Oklahoma Statutes, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members of the District it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The membership consists of approximately 328 users, each entitled to one vote. The Board consists of five members serving terms up to three years. The vacant Board seats are elected at the annual meeting, and all officers of the Board (chairman, vice-chairman and secretary/treasurer) are voted and approved at this meeting. The members of the Board serve without compensation.

***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 basis of accounting is in accordance with generally accepted accounting principles.

***Cash***

The District’s accounts are detailed as follows:

Maintenance and operation account:	
Regent Bank, Nowata, OK	\$ 14,564
Money market accounts:	
Morgan Stanley	2
Arvest Bank, Nowata, OK	70,028
ORWA deposit	<u>1,058</u>
Total	<u>\$ 85,652</u>

***Investments***

There were no outstanding investments at June 30, 2012.

**Nowata County Rural Water District No. 6**  
**Nowata, Oklahoma**

Notes to Financial Statements  
June 30, 2012

**Note A – Significant Accounting Policies** – cont'd

*Accounts Receivable*

Billings for accounts receivable at June 30, 2012 were \$18,434. No allowance for doubtful accounts has been made since the amount would not be material to the financial statements.

*Collateral Pledged*

It appears that all funds were adequately insured by \$250,000 FDIC as of June 30, 2012.

*Fixed Assets*

Fixed assets are valued at cost, depreciation is computed by use of the straight-line method. The estimated useful lives for fixed assets are detailed as follows:

Water System	50 years
Office and Other Equipment	5 years

The fixed asset information for the District is shown below:

	6/30/2011 Amount	Additions	Deletions	6/30/2012 Amount
Plant and water sys.	\$ 789,257	49,738	-	838,995
Land	10,489	-	-	10,489
Vehicles and equip.	8,850	-	-	8,850
Building	62,541	3,900	-	66,441
Total Fixed Assets	871,137	53,638	-	924,775
Less: Accumulated Depreciation	(385,540)	(23,796)	-	(409,336)
Total	<u>\$ 485,597</u>	<u>29,842</u>	<u>-</u>	<u>515,439</u>

**Nowata County Rural Water District No. 6**  
**Nowata, Oklahoma**  
Notes to Financial Statements  
June 30, 2012

**Note A – Significant Accounting Policies** – cont'd

*Statement of Cash Flows*

For purposes of the statement of cash flows, the District considers all highly liquid investments, such as certificates of deposit maturing within 60 days of year end, as cash equivalents.

**Note B – Long-term Debt**

The District has no outstanding long-term debt.

**Note C – Insurance and Surety Bond Coverage**

The District appears to have had adequate insurance to cover all major perils at June 30, 2012.

Nowata County Rural Water District No. 6  
Nowata, Oklahoma  
Balance Sheet  
June 30, 2012

	June 30,	
		(Memo Only)
	2012	2011
<u>ASSETS</u>		
Current Assets:		
Cash and equivalents	\$ 85,652	138,895
Accounts receivable	18,434	24,623
Inventory	55,827	44,730
Prepaid insurance	3,230	3,143
Total Current Assets	<u>163,143</u>	<u>211,391</u>
Fixed Assets:		
Water system and improvements	914,286	860,648
Land	<u>10,489</u>	<u>10,489</u>
Total Fixed Assets	924,775	871,137
Less: accumulated depreciation	<u>(409,336)</u>	<u>(385,540)</u>
Total Fixed Assets (Net of Depreciation)	<u>515,439</u>	<u>485,597</u>
Total Assets	<u>\$ 678,582</u>	<u>696,988</u>
<u>LIABILITIES AND MEMBER EQUITY</u>		
Current Liabilities:		
Accounts payable	<u>\$ 10,651</u>	<u>13,783</u>
Member Equity:		
Retained earnings	<u>667,931</u>	<u>683,205</u>
Total Liabilities and Member Equity	<u>\$ 678,582</u>	<u>696,988</u>

Nowata County Rural Water District No. 6  
Nowata, Oklahoma  
Statement of Income, Expenditures and Changes in Retained Earnings  
For the Year Ended June 30, 2012

	<u>2011-12</u>	(Memo Only) <u>2010-11</u>
Revenue from Operations:		
Water sales	\$ 164,088	163,317
Penalties and fees	3,690	4,771
Miscellaneous	<u>4,800</u>	<u>7,537</u>
Total Revenue from Operations	<u>172,578</u>	<u>175,625</u>
Expenses from Operations:		
Accounting	16,908	16,806
Depreciation	23,796	22,689
Insurance	3,436	4,106
Miscellaneous	599	1,702
Office expenses	3,740	2,620
Operator	14,122	12,033
Postage	1,191	1,545
Maintenance and repairs	16,999	18,965
Supplies	17,812	29,166
Telephone	2,490	2,120
Testing	780	440
Utilities	5,570	5,639
Water purchases	<u>85,837</u>	<u>77,805</u>
Total Expenses from Operations	<u>193,280</u>	<u>195,636</u>
Net Income (Loss) from Operations	(20,702)	(20,011)
Other Income:		
Interest earnings	178	246
Membership fees	<u>5,250</u>	<u>19,250</u>
Total other Income	<u>5,428</u>	<u>19,496</u>
Net Income (Loss)	(15,274)	(515)
Retained Earnings, Beginning of Period	<u>683,205</u>	<u>683,720</u>
Retained Earnings, End of Period	<u><u>\$ 667,931</u></u>	<u><u>683,205</u></u>