

**NOWATA COUNTY
RURAL WATER DISTRICT NO. 6
NOWATA, OKLAHOMA**

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2015

Audited by

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

BROKEN ARROW, OK

NOWATA COUNTY RURAL WATER DISTRICT NO. 6
BOARD OF DIRECTORS
JUNE 30, 2015

BOARD OF DIRECTORS

Chairman

Jerry Pearsall

Vice-Chairman

Vincent Pritchett

Secretary/Treasurer

Jeff Plummer

Members

Lloyd Johnson

Gary Minnerath

Bookkeeper

Carol Rowe

NOWATA COUNTY RURAL WATER DISTRICT NO. 6
JUNE 30, 2015

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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, 2015, 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

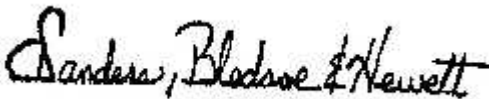
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

The District has not presented the Management's Discussion and Analysis that governmental 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 (GASB), who considers it to be an essential part of the 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 September 4, 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 District's internal control over financial reporting and compliance.

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



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
Nowata County Rural Water District No. 6
Nowata, 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 Nowata County Rural Water District No. 6 (the District), Nowata, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 4, 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. 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 15-1, 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.

A handwritten signature in cursive script that reads "Sanders, Bledsoe & Hewett".

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

NOWATA COUNTY RURAL WATER DISTRICT NO. 6
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2015

14-01 *Finding* – Presently the same individual performs all accounting functions; receives utility service related payments and is responsible for service billing and adjustment, also makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial reports. This is considered a lack of segregation of duties.

Recommendation – While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

Disposition – This continues to be a finding.

NOWATA COUNTY RURAL WATER DISTRICT NO. 6
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015

- 15-1 *Criteria* – The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the District’s assets and ensure accurate financial reporting.

Condition - Presently the same individual performs all accounting functions; receives utility service related payments and is responsible for service billing and adjustment, also makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial reports.

Cause – The District’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

Effect or Potential Effect – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation - While it may not be cost effective to hire additional administrative staff that would be necessary in order to adequately segregate the responsibilities, the District should consider a formal evaluation of their risks associated with this lack of segregation of duties. In response to the identified risks, consideration should be given to identifying and implementing controls that could help mitigate the risks associated with the lack of segregation of duties.

Management Response – Management agrees with this finding, and will provide adequate staffing once annual collections increase enough to justify the extra expense.

Nowata County Rural Water District No. 6
Nowata, Oklahoma
Statement of Net Assets
June 30, 2015

ASSETS

Current Assets:

Cash and equivalents	\$ 140,877
Accounts receivable	21,173
Inventory	39,959
Prepaid insurance	3,300
Total Current Assets	<u>205,309</u>

Capital Assets:

Water system and improvements	915,516
Land	10,489
Total Capital Assets	<u>926,005</u>
Less: accumulated depreciation	<u>(481,612)</u>
Total Capital Assets (Net of Depreciation)	<u>444,393</u>

Total Assets	<u>649,702</u>
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LIABILITIES

Current Liabilities:

Accounts payable	<u>10,083</u>
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NET ASSETS

Invested in capital assets, net of related debt	444,393
Unrestricted	<u>195,226</u>
Total Net Assets	<u>\$ 639,619</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, 2015

Revenue from Operations:	
Water sales	\$ 169,251
Penalties and fees	3,847
Miscellaneous	1,002
Total Revenue from Operations	<u>174,100</u>
Expenses from Operations:	
Accounting	14,813
Depreciation	22,778
Insurance	3,695
Miscellaneous	723
Office expenses	4,088
Operator	13,450
Postage	1,513
Maintenance and repairs	7,232
Supplies	15,867
Telephone	1,792
Testing	3,025
Utilities	4,020
Water purchases	87,771
Total Expenses from Operations	<u>180,767</u>
Net Income (Loss) from Operations	<u>(6,667)</u>
Other Income:	
Interest income	153
Membership fees	8,750
Total Other Income	<u>8,903</u>
Net Income (Loss)	2,236
Net Assets, Beginning of Period	<u>637,383</u>
Net Assets, End of Period	<u><u>\$ 639,619</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, 2015

Cash flows from operating activities:	
Receipts from water sales	\$ 180,214
Payments to vendors	<u>(163,014)</u>
Net cash (used in) provided by operating activities	<u>17,200</u>
Cash flows from capital and related financing activities:	
Increase of capital assets	-
Membership fees received	<u>8,750</u>
Net cash used in capital and related financing activities	<u>8,750</u>
Cash flows from investing activities:	
Interest on investments	<u>153</u>
Net increase (decrease) in cash and cash equivalents	26,103
Cash & cash equivalents, beginning of period	<u>114,774</u>
Cash & cash equivalents, end of period	<u><u>\$ 140,877</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (6,667)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization expense	22,778
Change in assets and liabilities:	
Accounts receivable, net	2,137
Inventory	2,288
Prepaid expenses and other assets	66
Accounts payable	<u>(3,402)</u>
Net cash (used in) provided by operating activities	<u><u>\$ 17,200</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, 2015

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 333 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	\$ 69,382
Money market accounts:	
Morgan Stanley	2
Arvest Bank, Nowata, OK	70,436
ORWA deposit	<u>1,057</u>
Total	<u>\$ 140,878</u>

Investments

There were no outstanding investments at June 30, 2015.

Nowata County Rural Water District No. 6
Nowata, Oklahoma
Notes to Financial Statements
June 30, 2015

Note A – Significant Accounting Policies – cont'd

Accounts Receivable

Billings for accounts receivable at June 30, 2015 were \$21,173. 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, 2015.

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:

	6/30/2014 Amount	Additions	Deletions	6/30/2015 Amount
Plant and water sys. \$	838,995	-	-	838,995
Land	10,489	-	-	10,489
Vehicles and equip.	10,080	-	-	10,080
Building	66,441	-	-	66,441
Total Fixed Assets	926,005	-	-	926,005
Less: Accumulated Depreciation	(458,834)	(22,778)	-	(481,612)
Total	\$ 467,171	(22,778)	-	444,393

Nowata County Rural Water District No. 6
Nowata, Oklahoma
Notes to Financial Statements
June 30, 2015

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, 2015.

Note D – Subsequent Events

Management has evaluated subsequent events through September 4, 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.

Nowata County Rural Water District No. 6
Nowata, Oklahoma
Balance Sheet
June 30, 2015

	June 30,	
	2015	(Memo Only) 2014
<u>ASSETS</u>		
Current Assets:		
Cash and equivalents	\$ 140,877	114,774
Accounts receivable	21,173	23,310
Inventory	39,959	42,247
Prepaid insurance	3,300	3,366
Total Current Assets	<u>205,309</u>	<u>183,697</u>
Fixed Assets:		
Water system and improvements	915,516	915,516
Land	<u>10,489</u>	<u>10,489</u>
Total Fixed Assets	926,005	926,005
Less: accumulated depreciation	<u>(481,612)</u>	<u>(458,834)</u>
Total Fixed Assets (Net of Depreciation)	<u>444,393</u>	<u>467,171</u>
Total Assets	<u>\$ 649,702</u>	<u>650,868</u>
<u>LIABILITIES AND MEMBER EQUITY</u>		
Current Liabilities:		
Accounts payable	<u>\$ 10,083</u>	<u>13,485</u>
Member Equity:		
Retained earnings	<u>639,619</u>	<u>637,383</u>
Total Liabilities and Member Equity	<u>\$ 649,702</u>	<u>650,868</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, 2015

	2014-15	(Memo Only) 2013-14
Revenue from Operations:		
Water sales	\$ 169,251	168,122
Penalties and fees	3,847	3,961
Meter settings	980	1,240
Miscellaneous	22	148
Total Revenue from Operations	<u>174,100</u>	<u>173,471</u>
Expenses from Operations:		
Accounting and bookkeeping	14,813	14,500
Depreciation	22,778	24,811
Insurance	3,695	3,708
Miscellaneous	723	694
Office expenses	4,088	3,521
Operator	13,450	13,000
Postage	1,513	1,721
Maintenance and repairs	7,232	11,817
Supplies	15,867	12,361
Telephone	1,792	1,739
Testing	3,025	1,166
Utilities	4,020	4,161
Water purchases	87,771	94,580
Total Expenses from Operations	<u>180,767</u>	<u>187,779</u>
Net Income (Loss) from Operations	(6,667)	(14,308)
Other Income:		
Interest earnings	153	138
Membership fees	8,750	5,250
Total other Income	<u>8,903</u>	<u>5,388</u>
Net Income (Loss)	2,236	(8,920)
Retained Earnings, Beginning of Period	<u>637,383</u>	<u>646,303</u>
Retained Earnings, End of Period	<u><u>\$ 639,619</u></u>	<u><u>637,383</u></u>