

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

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2013

Audited by

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

BROKEN ARROW, OK

NOWATA COUNTY RURAL WATER DISTRICT NO. 6
BOARD OF DIRECTORS
JUNE 30, 2013

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, 2013

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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, 2013, 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 opinions on these financial statements based on our audit.

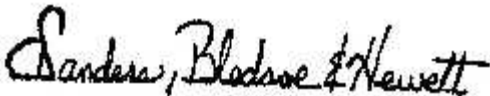
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2013, 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 grants 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* and should be considered in assessing the results of our audit.

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.

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 generally accepted in the United States.

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

September 18, 2013



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, 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 September 18, 2013.

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 13-1, 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.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

September 18, 2013

NOWATA COUNTY RURAL WATER DISTRICT NO. 6
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2013

12-01 *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, 2013

- 13-1 *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, 2013

ASSETS

Current Assets:

Cash and equivalents	\$ 94,403
Accounts receivable	20,872
Inventory	49,540
Prepaid insurance	3,402
Total Current Assets	<u>168,217</u>

Capital Assets:

Water system and improvements	915,516
Land	10,489
Total Capital Assets	<u>926,005</u>
Less: accumulated depreciation	<u>(434,023)</u>
Total Capital Assets (Net of Depreciation)	<u>491,982</u>

Total Assets	<u>660,199</u>
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LIABILITIES

Current Liabilities:

Accounts payable	<u>13,896</u>
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NET ASSETS

Invested in capital assets, net of related debt	491,982
Unrestricted	<u>154,321</u>
Total Net Assets	<u>\$ 646,303</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, 2013

Revenue from Operations:	
Water sales	\$ 164,794
Penalties and fees	3,406
Miscellaneous	4,033
Total Revenue from Operations	<u>172,233</u>
Expenses from Operations:	
Accounting	15,671
Depreciation	24,688
Insurance	3,539
Miscellaneous	1,602
Office expenses	2,375
Operator	13,660
Postage	1,442
Maintenance and repairs	38,253
Supplies	14,019
Telephone	2,378
Testing	446
Utilities	3,647
Water purchases	74,008
Total Expenses from Operations	<u>195,728</u>
Net Income (Loss) from Operations	<u>(23,495)</u>
Other Income:	
Interest income	117
Membership fees	1,750
Total Other Income	<u>1,867</u>
Net Income (Loss)	(21,628)
Net Assets, Beginning of Period	<u>667,931</u>
Net Assets, End of Period	<u><u>\$ 646,303</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, 2013

Cash flows from operating activities:	
Receipts from water sales	\$ 174,760
Payments to vendors	<u>(166,645)</u>
Net cash (used in) provided by operating activities	<u>8,115</u>
Cash flows from capital and related financing activities:	
Increase of capital assets	(1,231)
Membership fees received	<u>1,750</u>
Net cash used in capital and related financing activities	<u>519</u>
Cash flows from investing activities:	
Interest on investments	<u>117</u>
Net increase (decrease) in cash and cash equivalents	8,751
Cash & cash equivalents, beginning of period	<u>85,652</u>
Cash & cash equivalents, end of period	<u><u>\$ 94,403</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (23,495)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization expense	24,688
Change in assets and liabilities:	
Accounts receivable, net	(2,438)
Inventory	6,287
Prepaid expenses and other assets	(172)
Accounts payable	<u>3,245</u>
Net cash (used in) provided by operating activities	<u><u>\$ 8,115</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, 2013

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 329 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	\$ 23,210
Money market accounts:	
Morgan Stanley	2
Arvest Bank, Nowata, OK	70,133
ORWA deposit	<u>1,058</u>
Total	<u>\$ 94,403</u>

Investments

There were no outstanding investments at June 30, 2013.

Nowata County Rural Water District No. 6
Nowata, Oklahoma
Notes to Financial Statements
June 30, 2013

Note A – Significant Accounting Policies – cont'd

Accounts Receivable

Billings for accounts receivable at June 30, 2013 were \$20,872. 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, 2013.

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:

	6/30/2012 Amount	Additions	Deletions	6/30/2013 Amount
Plant and water sys. \$	838,995	-	-	838,995
Land	10,489	-	-	10,489
Vehicles and equip.	8,850	1,230	-	10,080
Building	66,441	-	-	66,441
Total Fixed Assets	924,775	1,230	-	926,005
Less: Accumulated Depreciation	(409,336)	(24,687)	-	(434,023)
Total	<u>\$ 515,439</u>	<u>(23,457)</u>	<u>-</u>	<u>491,982</u>

Nowata County Rural Water District No. 6
Nowata, Oklahoma
Notes to Financial Statements
June 30, 2013

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, 2013.

Note D – Subsequent Events

Management has evaluated subsequent events through September 18, 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.

Nowata County Rural Water District No. 6
Nowata, Oklahoma
Balance Sheet
June 30, 2013

	June 30,	
	2013	(Memo Only) 2012
<u>ASSETS</u>		
Current Assets:		
Cash and equivalents	\$ 94,403	85,652
Accounts receivable	20,872	18,434
Inventory	49,540	55,827
Prepaid insurance	3,402	3,230
Total Current Assets	<u>168,217</u>	<u>163,143</u>
Fixed Assets:		
Water system and improvements	915,516	914,286
Land	<u>10,489</u>	<u>10,489</u>
Total Fixed Assets	926,005	924,775
Less: accumulated depreciation	<u>(434,023)</u>	<u>(409,336)</u>
Total Fixed Assets (Net of Depreciation)	<u>491,982</u>	<u>515,439</u>
Total Assets	<u>\$ 660,199</u>	<u>678,582</u>
<u>LIABILITIES AND MEMBER EQUITY</u>		
Current Liabilities:		
Accounts payable	<u>\$ 13,896</u>	<u>10,651</u>
Member Equity:		
Retained earnings	<u>646,303</u>	<u>667,931</u>
Total Liabilities and Member Equity	<u>\$ 660,199</u>	<u>678,582</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, 2013

	2012-13	(Memo Only) 2011-12
Revenue from Operations:		
Water sales	\$ 164,794	164,088
Penalties and fees	3,406	3,690
Miscellaneous	4,033	4,800
Total Revenue from Operations	<u>172,233</u>	<u>172,578</u>
Expenses from Operations:		
Accounting	15,671	16,908
Depreciation	24,688	23,796
Insurance	3,539	3,436
Miscellaneous	1,602	599
Office expenses	2,375	3,740
Operator	13,660	14,122
Postage	1,442	1,191
Maintenance and repairs	38,253	16,999
Supplies	14,019	17,812
Telephone	2,378	2,490
Testing	446	780
Utilities	3,647	5,570
Water purchases	74,008	85,837
Total Expenses from Operations	<u>195,728</u>	<u>193,280</u>
Net Income (Loss) from Operations	(23,495)	(20,702)
Other Income:		
Interest earnings	117	178
Membership fees	1,750	5,250
Total other Income	<u>1,867</u>	<u>5,428</u>
Net Income (Loss)	(21,628)	(15,274)
Retained Earnings, Beginning of Period	<u>667,931</u>	<u>683,205</u>
Retained Earnings, End of Period	<u>\$ 646,303</u>	<u>667,931</u>