

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

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2014

Audited by

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

BROKEN ARROW, OK

NOWATA COUNTY RURAL WATER DISTRICT NO. 6
BOARD OF DIRECTORS
JUNE 30, 2014

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, 2014

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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, 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

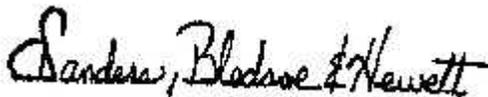
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

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 3, 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 District's internal control over financial reporting and compliance.



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, 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 September 3, 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. 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 14-1, to be a material weakness.

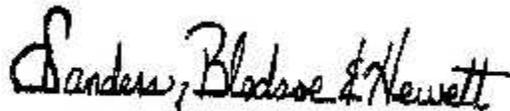
Compliance

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 3, 2014

NOWATA COUNTY RURAL WATER DISTRICT NO. 6
DISPOSITION OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2014

13-01 *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, 2014

14-1 *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, 2014

ASSETS

Current Assets:

Cash and equivalents	\$ 114,774
Accounts receivable	23,310
Inventory	42,247
Prepaid insurance	3,366
Total Current Assets	183,697

Capital Assets:

Water system and improvements	915,516
Land	10,489
Total Capital Assets	926,005
Less: accumulated depreciation	(458,834)
Total Capital Assets (Net of Depreciation)	467,171

Total Assets	650,868
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LIABILITIES

Current Liabilities:

Accounts payable	13,485
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NET ASSETS

Invested in capital assets, net of related debt	467,171
Unrestricted	170,212
Total Net Assets	\$ 637,383

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, 2014

Revenue from Operations:	
Water sales	\$ 168,122
Penalties and fees	3,961
Miscellaneous	1,388
Total Revenue from Operations	173,471
Expenses from Operations:	
Accounting	14,500
Depreciation	24,811
Insurance	3,708
Miscellaneous	694
Office expenses	3,521
Operator	13,000
Postage	1,721
Maintenance and repairs	11,817
Supplies	12,361
Telephone	1,739
Testing	1,166
Utilities	4,161
Water purchases	94,580
Total Expenses from Operations	187,779
Net Income (Loss) from Operations	(14,308)
Other Income:	
Interest income	138
Membership fees	5,250
Total Other Income	5,388
Net Income (Loss)	(8,920)
Net Assets, Beginning of Period	646,303
Net Assets, End of Period	\$ 637,383

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, 2014

Cash flows from operating activities:	
Receipts from water sales	\$ 178,504
Payments to vendors	<u>(163,521)</u>
Net cash (used in) provided by operating activities	<u>14,983</u>
Cash flows from capital and related financing activities:	
Increase of capital assets	-
Membership fees received	<u>5,250</u>
Net cash used in capital and related financing activities	<u>5,250</u>
Cash flows from investing activities:	
Interest on investments	<u>138</u>
Net increase (decrease) in cash and cash equivalents	20,371
Cash & cash equivalents, beginning of period	<u>94,403</u>
Cash & cash equivalents, end of period	<u><u>\$ 114,774</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ (14,308)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization expense	24,811
Change in assets and liabilities:	
Accounts receivable, net	(2,438)
Inventory	7,293
Prepaid expenses and other assets	36
Accounts payable	<u>(411)</u>
Net cash (used in) provided by operating activities	<u><u>\$ 14,983</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, 2014

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	\$ 43,476
Money market accounts:	
Morgan Stanley	2
Arvest Bank, Nowata, OK	70,139
ORWA deposit	<u>1,058</u>
Total	<u>\$ 114,675</u>

Investments

There were no outstanding investments at June 30, 2014.

Nowata County Rural Water District No. 6
 Nowata, Oklahoma
 Notes to Financial Statements
 June 30, 2014

Note A – Significant Accounting Policies – cont'd

Accounts Receivable

Billings for accounts receivable at June 30, 2014 were \$23,310. 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, 2014.

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:

	6/30/2013 Amount	Additions	Deletions	6/30/2014 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	(434,023)	(24,811)	-	(458,834)
Total	\$ 491,982	(24,811)	-	467,171

Nowata County Rural Water District No. 6
Nowata, Oklahoma
Notes to Financial Statements
June 30, 2014

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, 2014.

Note D – Subsequent Events

Management has evaluated subsequent events through September 3, 2014, 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, 2014

	June 30,	
	2014	(Memo Only) 2013
<u>ASSETS</u>		
Current Assets:		
Cash and equivalents	\$ 114,774	94,403
Accounts receivable	23,310	20,872
Inventory	42,247	49,540
Prepaid insurance	3,366	3,402
Total Current Assets	183,697	168,217
Fixed Assets:		
Water system and improvements	915,516	915,516
Land	10,489	10,489
Total Fixed Assets	926,005	926,005
Less: accumulated depreciation	(458,834)	(434,023)
Total Fixed Assets (Net of Depreciation)	467,171	491,982
Total Assets	\$ 650,868	660,199
<u>LIABILITIES AND MEMBER EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 13,485	13,896
Member Equity:		
Retained earnings	637,383	646,303
Total Liabilities and Member Equity	\$ 650,868	660,199

Nowata County Rural Water District No. 6
Nowata, Oklahoma
Statement of Income, Expenditures and Changes in Retained Earnings
For the Year Ended June 30, 2014

	2013-14	(Memo Only) 2012-13
Revenue from Operations:		
Water sales	\$ 168,122	164,794
Penalties and fees	3,961	3,406
Meter settings	1,240	-
Miscellaneous	148	4,033
Total Revenue from Operations	173,471	172,233
Expenses from Operations:		
Accounting and bookkeeping	14,500	15,671
Depreciation	24,811	24,688
Insurance	3,708	3,539
Miscellaneous	694	1,602
Office expenses	3,521	2,375
Operator	13,000	13,660
Postage	1,721	1,442
Maintenance and repairs	11,817	38,253
Supplies	12,361	14,019
Telephone	1,739	2,378
Testing	1,166	446
Utilities	4,161	3,647
Water purchases	94,580	74,008
Total Expenses from Operations	187,779	195,728
Net Income (Loss) from Operations	(14,308)	(23,495)
Other Income:		
Interest earnings	138	117
Membership fees	5,250	1,750
Total other Income	5,388	1,867
Net Income (Loss)	(8,920)	(21,628)
Retained Earnings, Beginning of Period	646,303	667,931
Retained Earnings, End of Period	\$ 637,383	646,303