

Rural Water District No. 6
Pittsburg County, Oklahoma

Financial Statements and
Reports of Independent Auditor

November 30, 2015

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Rural Water District No. 6
Pittsburg County, Oklahoma
Board of Directors
November 30, 2015

Chairman

Jim Pennington

Vice Chairman

Ken Carlock

Secretary/Treasurer

Chester Hensley

Members

Don Hass

Gary DeWitt

Bookkeeper

Vivian Moody

Rural Water District No. 6
Pittsburg County, Oklahoma
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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 6 (the District), Alderson, Pittsburg County, Oklahoma, as of and for the year ended November 30, 2015, 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 November 30, 2015, 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 April 18, 2016, 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 1.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

April 18, 2016



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 Standards Performed in Accordance with Government Auditing Standards

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

We have audited the combined financial statements of Rural Water District No. 6 (the District), Alderson, Pittsburg County, Oklahoma, as of and for the year ended November 30, 2015, which, except for the omission of the Management Discussion and Analysis, collectively comprise the District's basic financial statements and have issued our report thereon dated April 18, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States, 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

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.

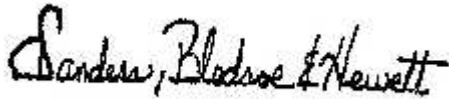
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material*

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 15-1, to be a material weakness.

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.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

April 18, 2016

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 6
Schedule of Audit Results
November 30, 2015

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a reportable condition in the internal controls which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

15-1 – Lack of Segregation of Duties

Condition-

The inherent limitations resulting from a small number of employees performing functions that would normally be divided among employees were a larger number available prevent a proper segregation of accounting functions, which is necessary in order to assure adequate internal accounting controls.

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 6
Statement of Net Position
November 30, 2015

ASSETS

Current assets:	
Petty cash	\$ 50
Operating & maint account	42,824
Savings account	56,386
Accounts receivable	30,043
Prepaid expenses	11,733
Total current assets	<u>141,036</u>
Non-current assets:	
Capital assets:	
Land	2,000
Veicles & equipment	272
Water system	250,599
Less: accumulated depreciation	<u>(194,953)</u>
Total non-current assets	<u>57,918</u>
Total Assets	<u>198,954</u>

LIABILITIES

Current liabilities:	
Accounts payable	<u>11,599</u>

NET POSITION

Invested in capital assets, net of related debt	57,918
Unrestricted assets	<u>129,437</u>
Total Net Position	<u>\$ 187,355</u>

The accompanying notes to the financial statements are an integral part of this statement

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 6
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended November 30, 2015

Operating Revenues:	
Water sales	\$ 220,587
Sewer collections	112,702
Total revenues from operations	<u>333,289</u>
Expenses from Operations:	
Water purchases	71,663
Operating supplies & maintenance	14,690
Contract labor	87,841
Sewer fees	112,702
Insurance	2,497
Postage & office expense	2,089
Dues & fees	3,945
Miscellaneous	3,412
Professional fees	2,500
Depreciation	1,990
Total expenses from operations	<u>303,329</u>
Operating Income (Loss)	29,960
Non-Operating Revenues (Expenses):	
Interest income	<u>176</u>
Change in Net Position	30,136
Total Net Position, beginning of period	<u>157,219</u>
Total Net Position, end of period	<u><u>\$ 187,355</u></u>

The accompanying notes to the financial statements are an integral part of this statement

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 6
Statement of Cash Flows
For the Year Ended November 30, 2015

Cash flows from operating activities:

Receipts from customers	\$ 334,924
Payments to vendors	<u>(313,942)</u>
Net cash (used in) provided by operating activities	<u>20,982</u>

Cash flows from capital and related financing activities:

Capital assets purchased	<u>(8,503)</u>
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Cash flows from investing activities:

Interest on investments	<u>176</u>
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Net increase (decrease) in cash and cash equivalents	12,655
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Cash & cash equivalents, beginning of period	<u>86,605</u>
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Cash & cash equivalents, end of period	<u><u>\$ 99,260</u></u>
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Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating Income	\$ 29,960
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	1,990
(Increase) decrease in current assets-	
Accounts receivable, net	1,635
(Increase) decrease in current assets-	
Prepaid Expenses, net	(11,733)
Increase (decrease) in current liabilities-	
Accounts payable	<u>(870)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 20,982</u></u>

The accompanying notes are an integral part of the financial statements

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED NOVEMBER 30, 2015

Note 1 – Significant Accounting Policies

Reporting Entity

The District is recognized as a public, not-for-profit rural water district under Oklahoma Statutes, Title 82. The District is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost of providing water services is financed through user charges.

Basis of Accounting

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

Cash

The District's accounts at November 30, 2015, and are comprised as follows:

First National Bank, McAlester, OK	
Operation & Maint. Account	\$ 73,982
Savings Account	56,386
Petty Cash on hand	50
Less: Outstanding Checks	<u>(31,159)</u>
Total Cash	<u>\$ 99,259</u>

Investments

The District had no investments at November 30, 2015.

Custodial Credit Risk

At November 30, 2015, the District's cash deposits are entirely covered by the \$250,000 of Federal Deposit Insurance.

Accounts Receivable

Billings for accounts receivable at November 30, 2015, were \$30,043. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED NOVEMBER 30, 2015

Note 1 – Significant Accounting Policies – cont'd

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

Federal Income Tax

The District is exempt from federal and state income taxes.

Inventory

Inventory is expensed when purchased and capitalized when used for improvements to the water or sewer system. Inventory on hand is not recorded on the financial statements, as the amount is deemed to be immaterial.

Note 2 – Property and Equipment

Property and equipment is recorded at cost when purchased. Depreciation is recorded using the straight-line method over the estimated useful life of the asset. Water line systems, extensions and improvements are depreciated using a 50-year life. Water system improvements constructed by the District include capitalizing the direct costs of materials and labor. If an asset is permanently impaired in value, the asset cost is written down to market value. The District capitalizes assets with a useful life in excess of one year and a cost over \$250. Line extension costs reimbursed by the customer are not capitalized and, accordingly, not depreciated. The following is a summary of changes in property, plant and equipment:

	Balance November 30, 2014	Acquired	(Disposed)	Balance November 30, 2015
Land	\$ 2,000	-	-	2,000
Vehicles & equip.	272	-	-	272
Water System & Equip.	242,096	8,503	-	250,599
Sub-Total	244,368	8,503	0	252,871
Less: Accum. Depr.	(192,963)	(1,990)	0	(194,953)
Total	<u>\$ 51,405</u>	<u>6,513</u>	<u>0</u>	<u>57,918</u>

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED NOVEMBER 30, 2015

Note 3 – Long-Term Debt

The District had no outstanding debt as of November 30, 2015.

Note 4 – Sewer Collections

The District collects payments from its users for sewer services and passes these payments forward to the Town of Alderson, Oklahoma. In the 2014-15 year, the District collected and paid forward \$112,702 in sewer collections.

Note 5 – Subsequent Events

Management has evaluated subsequent events through April 18, 2016, 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.

PITTSBURG RURAL WATER DISTRICT NO. 6
Balance Sheet
November 30, 2015

	November 30,	
		(Memo only)
	2015	2014
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents-		
Petty cash	\$ 50	50
Operations & maintenance account	42,824	60,232
Savings account	56,386	26,323
Accounts receivable	30,043	31,678
Prepaid expenses	11,733	0
Total current assets	<u>141,036</u>	<u>118,283</u>
Fixed Assets:		
Land	2,000	2,000
Vehicles & equipment	272	272
Water system	250,599	242,096
Less: accumulated depreciation	(194,953)	(192,963)
Total fixed assets (net)	<u>57,918</u>	<u>51,405</u>
Total Assets	<u>\$ 198,954</u>	<u>169,688</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 11,599	12,469
Fund Equity:		
Retained earnings - unrestricted	<u>187,355</u>	<u>157,219</u>
Total Liabilities and Fund Equity	<u>\$ 198,954</u>	<u>169,688</u>

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 6
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended November 30, 2015

	2014-15	(Memo only) 2013-14
Revenue from Operations:		
Water sales	\$ 220,587	245,455
Sewer collections	112,702	81,790
Total revenue from operations	<u>333,289</u>	<u>327,245</u>
Expenses from Operations:		
Water purchases	71,663	75,302
Operating supplies & maintenance	14,690	5,067
Contract labor	87,841	73,836
Sewer fees	112,702	81,790
Insurance	2,497	3,054
Professional fees	2,500	1,200
Postage & office expense	2,089	2,823
Dues & fees	3,945	1,035
Miscellaneous	3,412	0
Depreciation	1,990	1,777
Total expenses from operations	<u>303,329</u>	<u>245,884</u>
Net Income (Loss) from Operations	29,960	81,361
Other Income:		
Interest earnings	<u>176</u>	<u>85</u>
Net Income (Loss)	30,136	81,446
Retained earnings, beginning of period	<u>157,219</u>	<u>75,773</u>
Retained earnings, end of period	<u><u>\$ 187,355</u></u>	<u><u>157,219</u></u>