

Rural Water District No. 6  
Pittsburg County, Oklahoma

Financial Statements and  
Reports of Independent Auditor

November 30, 2016

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, 2016

**Chairman**

Jim Pennington

**Vice Chairman**

Ken Carlock

**Secretary/Treasurer**

Chester Hensley

**Members**

Don Hass

**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, 2016, 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, 2016, 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 March 24, 2017, 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

March 24, 2017



# 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, 2016, 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 March 24, 2016. 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.

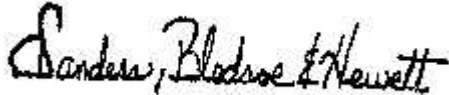
*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material*

*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 do not consider the deficiency described in the accompanying schedule of findings and responses as item 16-1, 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

March 24, 2017

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 6  
DISPOSITION OF PRIOR YEAR'S SIGNIFICANT DEFICIENCIES  
NOVEMBER 30, 2016

15-1 *Finding* – Presently the same individual performs all accounting functions; receives utility service related payments and is responsible for service billing and adjustments, 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.

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 6**  
**Schedule of Audit Results**  
**November 30, 2016**

**Section 1 – Summary of Auditor’s Results:**

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed a significant deficiency 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:**

16-1 – 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, 2016

ASSETS

Current assets:	
Petty cash	\$ 50
Operating & maint account	72,351
Savings account	76,507
Accounts receivable	27,127
Prepaid expenses	1,624
Total current assets	177,659
Non-current assets:	
Capital assets:	
Land	2,000
Vehicles & equipment	272
Water system	260,464
Less: accumulated depreciation	(197,304)
Total non-current assets	65,432
Total Assets	243,091

LIABILITIES

Current liabilities:	
Accounts payable	10,792

NET POSITION

Invested in capital assets, net of related debt	65,432
Unrestricted assets	166,867
Total Net Position	\$ 232,299

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, 2016

Operating Revenues:	
Water sales	\$ 247,943
Sewer collections	99,128
Total revenues from operations	347,071
Expenses from Operations:	
Water purchases	74,353
Operating supplies & maintenance	19,276
Contract labor	85,674
Sewer fees	94,199
Insurance	13,366
Postage & office expense	3,502
Dues & fees	4,110
Miscellaneous	2,871
Professional fees	2,650
Depreciation	2,351
Total expenses from operations	302,352
Operating Income (Loss)	44,719
Non-Operating Revenues (Expenses):	
Interest income	225
Change in Net Position	44,944
Total Net Position, beginning of period	187,355
Total Net Position, end of period	\$ 232,299

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, 2016

<b>Cash flows from operating activities:</b>	
Receipts from customers	\$ 349,987
Payments to vendors	<u>(290,699)</u>
Net cash (used in) provided by operating activities	<u>59,288</u>
 <b>Cash flows from capital and related financing activities:</b>	
Capital assets purchased	<u>(9,865)</u>
 <b>Cash flows from investing activities:</b>	
Interest on investments	<u>225</u>
Net increase (decrease) in cash and cash equivalents	49,648
Cash & cash equivalents, beginning of period	<u>99,260</u>
Cash & cash equivalents, end of period	<u><u>\$ 148,908</u></u>
 <b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>	
Operating Income	\$ 44,719
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	2,351
(Increase) decrease in current assets-	
Accounts receivable, net	2,916
(Increase) decrease in current assets-	
Prepaid Expenses, net	10,109
Increase (decrease) in current liabilities-	
Accounts payable	<u>(807)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 59,288</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, 2016**

**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, 2016, and are comprised as follows:

First National Bank, McAlester, OK	
Operation & Maint. Account	\$ 73,004
Savings Account	76,507
Petty Cash on hand	50
Less: Outstanding Checks	<u>(653)</u>
Total Cash	<u>\$ 148,908</u>

Investments

The District had no investments at November 30, 2016.

Custodial Credit Risk

At November 30, 2016, 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, 2016, were \$27,127. 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, 2016**

**Note 1 – Significant Accounting Policies – cont’d**

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, 2015	Acquired	(Disposed)	Balance November 30, 2016
Land	\$ 2,000	-	-	2,000
Vehicles & equip.	272	-	-	272
Water System & Equip.	<u>250,599</u>	<u>9,865</u>	<u>-</u>	<u>260,464</u>
Sub-Total	252,871	9,865	0	262,736
Less: Accum. Depr.	<u>(194,953)</u>	<u>(2,351)</u>	<u>0</u>	<u>(197,304)</u>
Total	<u><u>\$ 57,918</u></u>	<u><u>7,514</u></u>	<u><u>0</u></u>	<u><u>65,432</u></u>

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 6**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR YEAR ENDED NOVEMBER 30, 2016**

**Note 3 – Long-Term Debt**

The District had no outstanding debt as of November 30, 2016.

**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 2015-16 year, the District collected and paid forward \$99,128 in sewer collections.

**Note 5 – Subsequent Events**

Management has evaluated subsequent events through March 24, 2017, 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, 2016

	November 30,	
<u>ASSETS</u>	2016	(Memo only) 2015
Current Assets:		
Cash and cash equivalents-		
Petty cash	\$ 50	50
Operations & maintenance account	72,351	42,824
Savings account	76,507	56,386
Accounts receivable	27,127	30,043
Prepaid expenses	1,624	11,733
Total current assets	177,659	141,036
Fixed Assets:		
Land	2,000	2,000
Vehicles & equipment	272	272
Water system	260,464	250,599
Less: accumulated depreciation	(197,304)	(194,953)
Total fixed assets (net)	65,432	57,918
Total Assets	\$ 243,091	198,954
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 10,792	11,599
Fund Equity:		
Retained earnings - unrestricted	232,299	187,355
Total Liabilities and Fund Equity	\$ 243,091	198,954

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 6  
Statement of Revenue, Expenses and Changes in Retained Earnings  
For the Year Ended November 30, 2016

	2015-16	(Memo only) 2014-15
	<u>2015-16</u>	<u>2014-15</u>
Revenue from Operations:		
Water sales	\$ 247,943	220,587
Sewer collections	99,128	112,702
Total revenue from operations	<u>347,071</u>	<u>333,289</u>
Expenses from Operations:		
Water purchases	74,353	71,663
Operating supplies & maintenance	19,276	14,690
Contract labor	85,674	87,841
Sewer fees	94,199	112,702
Insurance	13,366	2,497
Professional fees	2,650	2,500
Postage & office expense	3,502	2,089
Dues & fees	4,110	3,945
Miscellaneous	2,871	3,412
Depreciation	2,351	1,990
Total expenses from operations	<u>302,352</u>	<u>303,329</u>
Net Income (Loss) from Operations	44,719	29,960
Other Income:		
Interest earnings	<u>225</u>	<u>176</u>
Net Income (Loss)	44,944	30,136
Retained earnings, beginning of period	<u>187,355</u>	<u>157,219</u>
Retained earnings, end of period	<u>\$ 232,299</u>	<u>187,355</u>