

Financial Statements

of

**Rural Water District No. 6
Rogers County, Oklahoma**

August 31, 2015



Clothier & Company CPA's P.C.

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Rural Water District No. 6, Rogers County
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August 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rural Water District No. 6
Rogers County, Oklahoma

We have audited the accompanying statements of the business type activities of Rural Water District No. 6, Rogers County (the District), as of and for the year ended August 31, 2015 and the related notes to the financial statements, which 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 in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditors' 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. 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 auditors' 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 entity'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 of the effectiveness of the entity'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 Rural Water District No. 6, as of August 31, 2015 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2016, 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 agreement 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 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.



Clothier & Company, CPA's, P.C.
March 31, 2016

Rural Water District No. 6 Rogers County
Statement of Net Assets
August 31, 2015

ASSETS

Current Assets

Cash and Cash Equivalents	\$	224,420
Accounts Receivable		35,741
Prepaid Expenses		3,444
Inventory		13,347
Total Current Assets		276,952

Fixed Assets

Land		12,700
Water System		3,744,116
Office Furniture/Fixtures		8,564
Trucks & Equipment		165,204
Building & Improvements		25,063
Less: Accumulated Depreciation		(532,186)
Total Fixed Assets		3,423,461

Other Assets

Deposits		1,637
Restricted Cash		61,006
Total Other Assets		62,643

Total Assets	\$	3,763,056
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LIABILITIES AND FUND BALANCE

Current Liabilities

Accounts Payable	\$	268
Current Maturities		61,686
Total Current Liabilities		61,954

Long Term Liabilities

Notes Payable - OWRB		2,619,018
Less: Current Maturities		(61,686)
Total Long Term Liabilities		2,557,332

Fund Balance

Restricted		249,290
Unrestricted		875,921
Current Income (Loss)		18,559
Total Fund Balance		1,143,770

Total Liabilities and Fund Balance	\$	3,763,056
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See accompanying footnotes and independent auditor's report.

Rural Water District No. 6 Rogers County
Statement of Activities
August 31, 2015

Revenue	
Water Sales	\$ 409,208
Benefit Unit Sales	25,335
New Services/Collected Bad Debt	9,494
Total Revenue	<u>444,037</u>
Cost of Sales	
Water Purchases	72,735
Heavy Equipment Repairs	543
Water Testing	4,126
Vehicle Repair.Fuel	7,895
Plant Repairs	24,290
Contract Labor	8,263
Total Cost of Sales	<u>117,852</u>
Gross Profit	<u>326,185</u>
Operating Expenses	
Salaries	82,423
Payroll Taxes	8,099
Insurance Expense	17,286
Accounting/Audit/Legal	5,541
Membership Fees	580
Miscellaneous	2,820
Office Supplies	2,411
Postage	3,020
Telephone	2,470
Utilities	4,760
Depreciation	91,942
Loan Service Fees	13,507
Total Operating Expenses	<u>234,859</u>
Operating Income	<u>91,326</u>
Other Revenue (Expenses)	
Interest Income	170
Gain on Sale of Assets	0
Interest Expense	(72,937)
Total Other Revenue (Expenses)	<u>(72,767)</u>
Net Change in Fund Balance	18,559
Fund Balance - Beginning of Year	<u>1,125,211</u>
Fund Balance - End of Year	<u><u>\$ 1,143,770</u></u>

See accompanying footnotes and independent auditors' report.

Rural Water District No. 6 Rogers County
Statement of Cash Flows
August 31, 2015

Cash Flows From Operating Activities:

Cash received from customers	\$ 448,305
Cash received from other sources	0
Cash paid to employees	(88,422)
Cash paid to suppliers	(122,357)
Other operating payments	(49,164)
Net Cash Flows from Operating Activities	<u>188,362</u>

Cash Flows From Capital and Related

Financing Activities:

Proceeds from issuance of debt	0
Payment of debt	(59,956)
Acquisition and construction of capital assets	(53,578)
Proceeds from sale of assets	0
Payment of Interest	(72,937)
Net Cash (Used) By Capital and Related Financing Activities	<u>(186,471)</u>

Cash Flows From Investing Activities:

Receipt of interest and dividends	170
Net Cash Provided (Used) By Investing Activities	<u>170</u>

Net Increase (Decrease) In Cash	2,061
Cash Beginning of Year	222,359
Cash End of Year	<u>\$ 224,420</u>

Reconciliation of Operating Income to Net Cash Flows from Operating Activities:

Operating income (loss)	\$ 18,559
Add depreciation expense	91,942
Add interest expense	72,937
Less interest income	(170)
(Increase)/Decrease in Current Assets:	
Accounts receivables, net	4,268
Prepaid expenses	4,620
Inventory	8,542
Increase/(Decrease) in Current Liabilities:	
Accounts payable	(13,922)
Accrued expenses	1,586
Net Cash Flows from Operating Activities	<u>\$ 188,362</u>

See accompanying footnotes and independent auditors' report.

Rural Water District No. 6
Rogers County, Oklahoma
NOTES TO FINANCIAL STATEMENTS
For the Years Ended August 31, 2015

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Rural Water District No. 6, Rogers County was formed as a nonprofit governmental organization by the Board of Commissioners of Rogers County, Oklahoma. The District was formed to furnish water treatment and distribution system, operations and maintenance service to the members of the district.

Basis of Accounting

The accrual method of accounting is utilized in reporting financial information in accordance with U. S. generally accepted accounting principles (GAAP). The accrual basis of accounting records revenue in the period in which earned rather than when received and records expenses in the period incurred rather than when paid. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the District had the option to apply FASB pronouncements issued after that date to its business-type activities, it has chosen not to do so.

Basis of Presentation

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or an economic asset is used.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid instruments with maturities of three months or less at the date of their acquisition. Funds held in reserve are not considered to be part of cash.

Investments

Investments consist of cash deposits, certificates of deposit and savings accounts.

Inventory

Inventory is not material and consists primarily of distribution repair supplies.

Property and Equipment

Property and equipment are recorded at cost, with depreciation provided on a straight-line method over the estimated useful lives of the assets. Donated capital assets are reported at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. All assets acquired with a value of over \$1,000 that benefit more than one period will be depreciated.

Income Tax

As a nonprofit governmental organization in the State of Oklahoma, the District is exempt from income taxes.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures as of the date of the financial statements. Accordingly, actual results could differ from those estimates.

2. PROPERTY, PLANT AND EQUIPMENT

	Cost	Additions	Accumulated Depreciation	Book Value
Land	\$12,700	\$0	\$0	\$12,700
Buildings/Improvements	25,063	0	(15,311)	9,752
Office Furniture & Fixtures	8,564	0	(8,564)	0
Water Distribution Sys.	3,690,538	53,578	(431,958)	3,312,158
Trucks/Equipment	165,204	0	(76,353)	88,851
	<u>\$3,902,069</u>	<u>\$53,578</u>	<u>(\$532,186)</u>	<u>\$3,423,461</u>

3. LONG-TERM DEBT

The District entered into a note/loan agreement with Oklahoma Water Resource Board on October 10, 2010 to borrow up to \$3,000,000 for the purpose of constructing new water lines. The note bears interest at a rate of 2.70% per annum plus an administrative fee at the rate of .5% per annum on the out standing balance of disbursed loan proceeds. Interest and the administrative fee shall be computed on the basis of a year of 360 days and the number of actual days elapsed. The interest and Administrative fee payments shall be made on a semi-annual basis each March 15th and September 15th for the term of the loan. The District has entered into a Trust Agreement with UMB Corporate Trust Services of Kansas City, MO. The outstanding balance as of March 15, 2015 was \$2,619,018. The District has pledged all revenue from operations and all District assets as collateral on the note.

Rural Water District No. 6
 Rogers County, Oklahoma

The following is a schedule of the future payments on the outstanding balance:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest/admin fees</u>	<u>Total</u>
2016	\$61,686	\$84,714	\$146,400
2017	63,934	82,466	146,400
2018	66,025	80,375	146,400
2019	68,184	78,216	146,400
2020	70,208	76,192	146,400
2021-2025	387,942	344,060	732,002
2026-2030	455,700	276,302	732,002
2031-2035	535,294	196,708	732,002
2036-2040	628,762	103,240	732,002
Thereafter	281,283	11,518	292,801
Totals	<u>\$2,619,018</u>	<u>\$1,333,791</u>	<u>\$3,952,809</u>

4. CONCENTRATION OF CREDIT RISK

Rural Water District No. 6 maintains its cash, savings, and certificates of deposits at RCB Bank in Inola, Oklahoma. The balance of accounts held by RCB Bank as of year-end is \$224,420, which is below the \$250,000 guaranteed by the Federal Deposit Insurance Corporation. All deposits were insured or collateralized at August 31, 2015.

5. SUBSEQUENT EVENTS

Rural Water District No. 6 received a loan from Government Capital Purchase Agreement in the amount of \$98,895 to purchase and install AMR meters in October 2015.



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**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***

To the Board of Directors
Rural Water District No. 6
Rogers County, 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 financial statements of the business type activities of Rural Water District No. 6 Rogers County (the District), as of and for the year ended August 31, 2015, and the related notes to the financial statements, which comprise the District's basic financial statements, and have issued our report thereon dated March 31, 2016.

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 (internal control) to determine the audit procedures that are appropriate in the circumstances 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.

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 entity'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, mater

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 6'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 or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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.

Purpose of this Report

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Clothier & Company, CPA's, P.C.

March 31, 2016

Supplemental Information

Rural Water District No. 7 Wagoner County
BUDGET TO ACTUAL COMPARISON
August 31, 2015

	Original	Final	Actual	Variance
Water Sales	433,400	433,400	405,899	(27,501)
New Memberships	17,801	17,801	25,335	7,534
Late Fee Income	11,973	11,973	9,494	(2,479)
Interest Income	0	0	170	170
Miscellaneous Income	1,873	1,873	3,309	1,436
Total Income	465,047	465,047	444,207	(20,840)
Water Purchased	81,436	81,436	72,735	(8,701)
Salaries	81,000	81,000	80,323	(677)
Payroll Taxes	8,200	8,200	8,099	(101)
Bank Fees	760	760	651	(109)
Insurance Expense	11,800	11,800	17,286	5,486
Utilities	5,200	5,200	4,760	(440)
Phone/Internet	2,500	2,500	2,470	(30)
Office Supplies/Printing	2,100	1,900	2,411	511
Postage/Billing	3,000	3,000	3,020	20
Vehicle Repair/Fuel	14,500	14,000	7,895	(6,105)
Repairs/Maintenance	32,200	32,000	23,415	(8,585)
Heavy Equipment Repairs	5,500	5,500	543	(4,957)
Contract Labor	5,355	5,355	8,263	2,908
New Construction	1,500	1,500	875	(625)
Water Testing	4,100	4,100	4,126	26
Dues/Miscellaneous	840	840	658	(182)
Legal/CPA Fees	7,950	7,950	5,541	(2,409)
Board Meeting Expense	2,500	2,500	2,091	(409)
Bonuses	1,800	1,800	2,100	300
Capital Outlay	0	0	51,170	51,170
Total Operating Expenses	272,241	271,341	298,432	27,091
Debt Service	146,500	146,500	146,400	(100)
Total Expenses	418,741	417,841	444,832	26,991
Net Income (Loss)	46,306	47,206	(625)	(47,831)
Add back capital outlay			51,170	
Add back principal payment on LTD			59,956	
Less depreciation expense			(91,942)	
Change in Fund Balance			18,559	

See accompanying footnotes and independent auditors' report.