

*Financial Statements*

*of*

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

August 31, 2016



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

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**Rural Water District No. 6, Rogers County**  
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**August 31, 2016**

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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, 2016 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, 2016 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 January 24, 2017 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.

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

Clothier & Company, CPA's, P.C.  
January 24, 2017

**Rural Water District No. 6 Rogers County**  
**Statement of Net Assets**  
**August 31, 2016**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$ 274,364
Accounts Receivable	44,415
Prepaid Expenses	2,648
Inventory	14,814
Total Current Assets	<u>336,241</u>

**Fixed Assets**

Land	12,700
Water System	3,866,213
Office Furniture/Fixtures	8,564
Trucks & Equipment	165,204
Building & Improvements	25,063
Less: Accumulated Depreciation	(635,844)
Total Fixed Assets	<u>3,441,900</u>

**Other Assets**

Deposits	1,637
Restricted Cash	61,006
Total Other Assets	<u>62,643</u>
Total Assets	<u><u>\$ 3,840,784</u></u>

**LIABILITIES AND FUND BALANCE**

**Current Liabilities**

Accounts Payable	\$ 14,203
Current Maturities	82,444
Total Current Liabilities	<u>96,647</u>

**Long Term Liabilities**

Notes Payable	2,643,817
Less: Current Maturities	(82,444)
Total Long Term Liabilities	<u>2,561,373</u>

**Fund Balance**

Restricted	249,290
Unrestricted	894,480
Current Income (Loss)	38,994
Total Fund Balance	<u>1,182,764</u>
Total Liabilities and Fund Balance	<u><u>\$ 3,840,784</u></u>

See accompanying footnotes and independent auditor's report.

**Rural Water District No. 6 Rogers County**  
**Statement of Activities**  
**August 31, 2016**

**Revenue**

Water Sales	\$ 441,598
Benefit Unit Sales	21,667
New Services/Collected Bad Debt	9,764
Total Revenue	<u>473,029</u>

**Cost of Sales**

Water Purchases	85,900
Heavy Equipment Repairs	1,075
Water Testing	3,405
Vehicle Repair.Fuel	6,650
Plant Repairs	14,227
Contract Labor	6,321
Total Cost of Sales	<u>117,578</u>

Gross Profit	<u>355,451</u>
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**Operating Expenses**

Salaries	79,355
Payroll Taxes	8,993
Insurance Expense	15,687
Accounting/Audit/Legal	6,741
Membership Fees	525
Miscellaneous	3,227
Office Supplies	1,928
Postage	3,335
Telephone	2,182
Utilities	4,414
Depreciation	103,658
Loan Service Fees	13,236
Total Operating Expenses	<u>243,281</u>
Operating Income	<u>112,170</u>

**Other Revenue (Expenses)**

Interest Income	170
Gain on Sale of Assets	0
Interest Expense	(73,346)
Total Other Revenue (Expenses)	<u>(73,176)</u>

<b>Net Change in Fund Balance</b>	38,994
<b>Fund Balance - Beginning of Year</b>	<u>1,143,770</u>
<b>Fund Balance - End of Year</b>	<u><u>\$ 1,182,764</u></u>

See accompanying footnotes and independent auditors' report.

**Rural Water District No. 6 Rogers County**  
**Statement of Cash Flows**  
**August 31, 2016**

**Cash Flows From Operating Activities:**

Cash received from customers	\$ 464,355
Cash received from other sources	0
Cash paid to employees	(77,355)
Cash paid to suppliers	(103,878)
Other operating payments	(62,704)
Net Cash Flows from Operating Activities	<u>220,418</u>

**Cash Flows From Capital and Related**

**Financing Activities:**

Proceeds from issuance of debt	24,799
Payment of debt	0
Acquisition and construction of capital assets	(122,097)
Proceeds from sale of assets	0
Payment of Interest	(73,346)
Net Cash (Used) By Capital and Related Financing Activities	<u>(170,644)</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	49,944
Cash Beginning of Year	224,420
Cash End of Year	<u>\$ 274,364</u>

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

Net change in fund balance	\$ 38,994
Add depreciation expense	103,658
Add interest expense	73,346
Less interest income	(170)
(Increase)/Decrease in Current Assets:	
Accounts receivables, net	(8,674)
Prepaid expenses	(162)
Inventory	(1,467)
Increase/(Decrease) in Current Liabilities:	
Accounts payable	13,935
Accrued expenses	958
Net Cash Flows from Operating Activities	<u>\$ 220,418</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, 2016

### **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	(16,289)	8,774
Office Furnitures & Fixtures	8,564	0	(8,564)	0
Water Distribution Sys.	3,744,116	122,097	(519,791)	3,346,422
Trucks/Equipment	165,204	0	(91,200)	74,004
	<u>\$3,955,647</u>	<u>\$122,097</u>	<u>(\$635,844)</u>	<u>\$3,441,900</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 15<sup>th</sup> 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, 2016 was \$2,577,332. The District has pledged all revenue from operations and all District assets

Rural Water District No. 6

Rogers County, Oklahoma

as collateral on the note. This year the District has entered into a parity agreement with Government Capital Corporation for a \$96,895 loan on new AMR meters. The note bears a nominal annual interest rate of 3.250% with payments due monthly.

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

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest/admin fees</u>	<u>Total</u>
2017	\$82,444	\$85,003	\$167,447
2018	85,146	82,301	167,447
2019	87,936	79,511	167,447
2020	90,611	76,836	167,447
2021	81,410	73,760	155,170
2022-2026	400,631	331,371	732,002
2027-2031	470,605	261,397	732,002
2032-2036	552,726	179,276	732,002
2037-2041	649,403	82,599	732,002
Thereafter	142,905	3,494	146,399
Totals	<u>\$2,643,817</u>	<u>\$1,255,547</u>	<u>\$3,899,365</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. For public unit accounts, the FDIC provides coverage for up to \$250,000 for all time and savings accounts and, separately, up to \$250,000 for all demand deposit accounts as long as the IDI (Insured Depository Institution) is in the same state that the public unit is located. The balance of accounts held by RCB Bank as of year-end is \$274,364, and meets the criteria to be fully guaranteed by the Federal Deposit Insurance Corporation.

#### **5. SUBSEQUENT EVENTS**

The District has made a motion to open a new bank account with RCB Bank and move \$2,000 per month into the account from the Operation and Maintenance Account.



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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 American 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, 2016, and the related notes to the financial statements, which comprise the District's basic financial statements, and have issued our report thereon dated January 24, 2017.

**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 indentify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **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*.

## **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.

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

January 24, 2017

## Supplemental Information

Rural Water District No. 6 Rogers County  
**BUDGET TO ACTUAL COMPARISON**  
August 31, 2016

	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance</b>
Water Sales	413,250	413,250	437,860	24,610
New Memberships	18,000	18,000	21,667	3,667
Late Fee Income	10,200	10,200	9,764	(436)
Interest Income	0	0	170	170
Miscellaneous Income	2,165	2,165	3,738	1,573
<b>Total Income</b>	<b>443,615</b>	<b>443,615</b>	<b>473,199</b>	<b>29,584</b>
Water Purchased	80,500	80,500	85,900	5,400
Salaries	80,250	80,250	77,355	(2,895)
Payroll Taxes	10,620	10,620	8,993	(1,627)
Bank Fees	760	760	705	(55)
Insurance Expense	13,200	13,200	15,687	2,487
Utilities	5,200	5,200	4,414	(786)
Phone/Internet	2,650	2,650	2,182	(468)
Office Supplies/Printing	2,610	2,610	1,928	(682)
Postage/Billing	3,550	3,550	3,335	(215)
Vehicle Repair/Fuel	11,300	11,300	6,650	(4,650)
Repairs/Maintenance	20,150	20,150	12,995	(7,155)
Heavy Equipment Repairs	3,500	3,500	1,075	(2,425)
Contract Labor	2,100	2,100	6,321	4,221
New Construction	21,500	21,500	1,232	(20,268)
Water Testing	3,900	3,900	3,405	(495)
Dues/Miscellaneous	750	750	570	(180)
Legal/CPA Fees	7,950	7,950	6,741	(1,209)
Board Meeting Expense	2,750	2,750	2,477	(273)
Bonuses	1,900	1,900	2,000	100
Capital Outlay	0	0	122,097	122,097
<b>Total Operating Expenses</b>	<b>275,140</b>	<b>275,140</b>	<b>366,062</b>	<b>90,922</b>
Debt Service	162,900	162,900	158,678	(4,222)
<b>Total Expenses</b>	<b>438,040</b>	<b>438,040</b>	<b>524,740</b>	<b>86,700</b>
Net Income (Loss)	<u>5,575</u>	<u>5,575</u>	(51,541)	<u>(57,116)</u>
Add back capital outlay			122,097	
Add back principal payment on LTD			72,096	
Less depreciation expense			(103,658)	
<b>Change in Fund Balance</b>			<u>38,994</u>	

See accompanying footnotes and independent auditors' report.