

**DELAWARE COUNTY
RURAL WATER DISTRICT NO. 6
GROVE, OKLAHOMA**

FINANCIAL STATEMENTS AND AUDITOR'S REPORT

YEAR ENDED DECEMBER 31, 2011

Audited by

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

BROKEN ARROW, OK

DELAWARE COUNTY RURAL WATER DISTRICT NO. 6
BOARD OF DIRECTORS
DECEMBER 31, 2011

BOARD OF DIRECTORS

Chairman

Mike Blecha

Vice-Chairman

Ray Jones

Secretary

Roy Pollan

Members

John Hamilton

Bookkeeper

Barbara Harrison

DELAWARE COUNTY RURAL WATER DISTRICT NO. 6
DECEMBER 31, 2011

TABLE OF CONTENTS

	<u>Page</u>
Board of Directors	1
Table of Contents	2
Independent Auditor's Report	3
Management Discussion and Analysis	5
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	7
Disposition of Prior Year's Reportable Conditions	9
Schedule of Audit Results	10
<u>COMBINED FINANCIAL STATEMENTS:</u>	
Statement of Net Assets	11
Statement of Revenues, Expenses and Changes in Net Assets	12
Statement of Cash Flows	13
Notes to the Financial Statements	14
<u>OTHER SUPPLEMENTARY INFORMATION:</u>	
Balance Sheet	19
Income Statement	20



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Delaware County Rural Water District No. 6
Grove, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Delaware County Rural Water District No. 6 (the District), Grove, Oklahoma, as of and for the year ended December 31, 2011, 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 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 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 December 31, 2011, 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.

The Management Discussion and Analysis on pages 5-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated May 21, 2012, 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 grants 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 the internal control over financial reporting or on compliance.

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 generally accepted in the United States.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

May 21, 2012

RURAL WATER DISTRICT NO. 6, DELAWARE COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

Our discussion and analysis of the Rural Water District No. 6, Delaware County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2011. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS

- The District's water sales continued to increase, exceeding \$300,000 for the 2011 fiscal year.
- Investments yielded interest income of \$7,715 in 2011, the District also increased its certificates of deposit balance by \$32,338.
- The District's operating revenues exceeded operating expenses by \$106,337 during the 2011 fiscal year.

Using This Report

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 94, as applicable to the District's basis of accounting.

Basis of Accounting

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets, the Statement of Activities, and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net assets and the changes in them. You can think of the District's net assets – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors,

however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Fixed Assets

At December 31, 2011, the District had \$1,290,989 invested in fixed assets, net of depreciation, including land, the water system and equipment.

Long-Term Debt

The District has three outstanding notes with the Oklahoma Water Resources Board (OWRB). The notes were incurred to construct/improve the water system. At December 31, 2011 the District had outstanding long-term debt of \$899,740 on this note.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2012, the District's operating budget is fairly consistent with prior years.

Customer water rates were increased in 2011. However, if the current economic conditions continue and expenses continue to increase, another rate increase may become necessary.

Contacting the District's Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Office at P.O Box 452545, Grove, OK 74345 or call (918) 791-9922.



SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

Board of Directors
Delaware County Rural Water District No. 6
Grove, Oklahoma

We have audited the financial statements of the Delaware County Rural Water District No. 6 (the District), Grove, Oklahoma, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 21, 2012. 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.

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 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*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We noted no matters involving the internal control over financial reporting and its operation that we would consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

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.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

May 21, 2012

DELAWARE COUNTY RURAL WATER DISTRICT NO. 6
DISPOSITION OF PRIOR YEAR'S REPORTABLE CONDITIONS
DECEMBER 31, 2011

There were no prior year reportable conditions.

DELAWARE COUNTY RURAL WATER DISTRICT NO. 6
SCHEDULE OF AUDIT RESULTS
DECEMBER 31, 2011

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings Relating to the Financial Statements Required to be Reported in Accordance with GAGAS:

NONE

DELAWARE COUNTY RURAL WATER DISTRICT NO. 6
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

ASSETS

Current assets:	
Cash	\$ 48,893
Investments	460,138
Accounts receivable	10,420
Interest receivable	553
Prepaid insurance	<u>1,466</u>
Total current assets	<u>521,470</u>
Noncurrent assets:	
Investment in debt service reserves	90,850
Capital assets:	
Fixed assets-property, plant & equipment	1,992,374
Less: Accumulated depreciation	<u>(701,385)</u>
Total noncurrent assets	<u>1,381,839</u>
Total Assets	<u>1,903,309</u>

LIABILITIES

Current liabilities:	
Accounts payable and accrued interest payable	2,566
Current portion of long-term debt	<u>21,400</u>
Total current liabilities	<u>23,966</u>
Noncurrent liabilities:	
Refundable deposits	19,450
Long-term notes payable	<u>899,740</u>
Total noncurrent liabilities	<u>919,190</u>
Total Liabilities	<u>943,156</u>

NET ASSETS

Invested in capital assets, net of related debt	482,099
Restricted for debt service	90,850
Unrestricted	<u>387,204</u>
Total Net Assets	<u>\$ 960,153</u>

The accompanying notes are an integral part of these financial statements.

DELAWARE COUNTY RURAL WATER DISTRICT NO. 6
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Operating Revenues:	
Water sales	\$ 300,562
Meter income	5,440
Rental income	4,200
Transfer fees	850
Total Operating Revenue	311,052
Operating Expenses:	
Water purchases	176,980
Bad debts	2,072
Contract labor	7,860
Dues and fees	827
Insurance	2,253
Professional fees	4,000
Rent	7,200
Office and postage	129
Telephone	1,550
Utilities	1,333
Miscellaneous expense	511
Total Operating Expenses	204,715
Operating income (loss)	106,337
Other Revenues (Expenses):	
Interest income	7,715
Interest expense	(46,139)
Depreciation expense	(49,129)
Total Other Revenues (Expenses)	(87,553)
Changes in Net Assets	18,784
Net Assets, Beginning of Year	941,369
Net Assets, End of Year	\$ 960,153

The accompanying notes are an integral part of these financial statements

DELAWARE COUNTY RURAL WATER DISTRICT NO. 6
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011

Cash Flows from Operating Activities:	
Receipts from customers	\$ 309,836
Payments to suppliers	<u>(204,925)</u>
Net Cash Provided (Used) by Operating Activities	<u>104,911</u>
Cash Flows from Investing Activities:	
Interest and dividends	<u>7,715</u>
Cash Flows from Financing Activities:	
Payments on long-term notes - principal	(20,899)
Interest paid	(45,989)
Prepaid rent paid	<u>(66,888)</u>
Net Cash Provided (Used) by Financing Activities	<u>(66,888)</u>
Net Increase (Decrease) in Cash	45,738
Cash and cash equivalents, beginning of year	<u>554,143</u>
Cash and cash equivalents, end of year	<u><u>\$ 599,881</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ 106,337
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Change in Assets and Liabilities:	
Accounts receivable	(675)
Prepaid insurance	(702)
Accounts payable and accrued interest payable	(1,599)
Meter deposits	<u>1,550</u>
Net cash provided by operating activities	<u><u>\$ 104,911</u></u>

The accompanying notes are an integral part of these financial statements

DELAWARE COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note A – Summary of Significant Accounting Policies

Business Activity

Delaware County Rural Water District No. 6 (the District) was formed under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive. The District operates as a nontaxable government agency to service residents of the Delaware County Rural Water District No. 6. The District's primary income is from the sale of water to its members in an area west of Grove, Oklahoma.

Basis of Accounting

The financial statements are prepared on an accrual basis of accounting, which is in compliance with accounting principles generally accepted in the United States of America and which recognizes revenues when earned and expenses as incurred. Interest earnings on certificates of deposit are recorded when such interest is actually received by the District.

Financial Statement Presentation

The financial statements are presented in accordance with Government Accounting Standard Board, Statement No. 94, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Inventories

The District does not carry a significant inventory of materials and supplies. The cost of such items is recorded as an expense when purchased.

Income Taxes

The District is recognized as a tax-exempt organization under the Internal Revenue Code. Because the District is exempt from federal income tax, no provision for taxes has been made in the financial statements.

Prior Year Information

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

DELAWARE COUNTY RURAL WATER DISTRICT NO. 6
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Note B – Cash and Investments

Cash

The District’s accounts are with Grand Savings Bank, Grove, Oklahoma, and Cornerstone Bank, Southwest City, Missouri, and are detailed as follows:

	December 31,	
	2011	2010
Revenue account, Grand Savings Bank	\$ 48,893	35,486
Meter account (restricted), Cornerstone Bank	9,555	9,511
Total	\$ 58,448	44,997

The District has the opportunity to obtain additional pledged collateral from the banks where they have funds. Such collateral provides additional security for the District’s funds in excess of the \$250,000 Federal Deposit Insurance Corporation insurance limits at each institution. At December 31, 2011, no District funds at any bank exceeded the \$250,000 FDIC maximum coverage amount.

Investments

The District had the following outstanding investments at December 31, 2011:

Bank of Oklahoma, Tulsa, Oklahoma:

Certificate of deposit No. 5131, due 10-2-12, at .20%	\$35,688
Certificate of deposit No. 2118, due 10-2-12, at .20%	23,270

Grand Saving Bank, Grove, Oklahoma:

Certificate of deposit No. 34525630, due, 3/3/12, at 1.85%	85,087
Certificate of deposit No. 43376330, due 1/28/12, at 1.00%	92,043
Certificate of deposit No. 1011886333, due 3-15-12, at 1.25%	178,041
Certificate of deposit No. 1012551556, due 7-26-12, at 1.00%	25,108

DELAWARE COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note B – Cash and Investments – cont'd

Investments – cont'd

BOSC, Inc., Tulsa, Oklahoma: Brokerage Account	<u>20,900</u>
Total	<u>\$460,137</u>

Restricted Asset – Investment Reserves

In compliance with Rural Economic and Community Development regulations, cash reserves have been established to collect up to one year's payment of the notes payable at which time deposits in the reserve can be suspended. When necessary, these funds may be utilized with proper approval of the Rural Economic and Community Development. The reserve account funds have been deposited in an interest-bearing certificate of deposit at Grand Savings Bank, Grove, Oklahoma, which is insured by the federal government. At December 31, 2011, the restricted asset – investment reserve is detailed as follows:

Grand Savings Bank, Grove, Oklahoma Certificate of deposit No. 10117723033, due 2-23-12, at 1.15%	<u>\$81,295</u>
---------------------------------------------------------------------------------------------------------	-----------------

Note C – Accounts Receivable

Receivables from water consumers at December 31, 2011 were \$10,974. These amounts consist primarily of charges for water services. No allowance for doubtful accounts or a related charge for bad debts has been recorded in these financial statements

Note D – Property, Plant, and Equipment

Fixed assets are carried at cost with depreciation being provided using the straight-line method. The following schedule summarizes the estimated useful lives of the various fixed asset categories and acquisitions for the year ended December 31, 2011.

DELAWARE COUNTY RURAL WATER DISTRICT NO. 6
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2011

Note D – Property, Plant, and Equipment – cont'd

	Balance December 31, 2010	Acquired	(Disposed)	Balance December 31, 2011
Land	\$ 21,030			21,030
Water Lines - 40 yrs	1,965,162			1,965,162
Equipment - 7 yrs	6,182			6,182
Sub-Total	1,992,374	0	0	1,992,374
Less: Accum. Depr.	(652,256)	(49,129)	0	(701,385)
Total	<u>\$ 1,992,374</u>	<u>(49,129)</u>	<u>0</u>	<u>1,290,989</u>

Note E – Long-Term Debt

Long-term debt as of December 31 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Note 91-01, 5.0 percent, mortgage payable to the Office of Rural Development, required monthly installments of \$2,893. The loan is secured by a pledge of real estate and equipment.	\$ 472,037	482,857
Note 91-03, 5.0 percent, mortgage payable to the Office of Rural Development, required monthly installments of \$985. The loan is secured by a pledge of real estate and equipment.	158,941	162,711
Note 91-05, 4.875 percent, mortgage payable to the Office of Rural Development, required monthly installments of \$1,673. The loan is secured by a pledge of real estate and equipment.	<u>290,162</u>	<u>295,940</u>
Sub-Total	921,140	941,508
Less: current maturities	<u>(21,400)</u>	<u>(20,368)</u>
Total	<u>\$ 899,740</u>	<u>921,140</u>

DELAWARE COUNTY RURAL WATER DISTRICT NO. 6
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011

Note E – Long-Term Debt - cont'd

The scheduled maturities for the next five (5) years, and in total thereafter, are detailed as follows:

2012	\$ 21,400
2013	22,487
2014	23,630
2015	24,830
2016	26,091
2017-21	151,731
2022-26	194,386
Thereafter	<u>456,585</u>
Total	<u>\$921,140</u>

Restricted funds for this debt are retained in a certificate of deposit with Grand Savings Bank, Grove, Oklahoma, and are shown in the Investment schedule in note section B.

Note F – Commitments

The District contracts with the Grove Municipal Service Authority (GMSA) to provide water to the District, perform all maintenance of the District's water distribution system and provide installation of new services. The District's members pay the GMSA for the monthly water service. Included in the monthly billing is the District's base fee of \$21.80 per member, which is collected and remitted to the District by GMSA.

The agreement is for five years and contains options for seven consecutive terms of five year contracts.

Note G -Insurance and Surety Bond Coverage

At December 31, 2011, the District had appropriate coverage against all major perils.

DELAWARE COUNTY RURAL WATER DISTRICT NO. 6

BALANCE SHEET

DECEMBER 31, 2011

June 30,

<u>ASSETS</u>	<u>2011</u>	<u>(memo only) 2010</u>
Current Assets:		
Cash in banks	\$ 48,893	35,537
Investments	460,138	428,674
Accounts receivable	10,420	9,745
Interest receivable	553	703
Prepaid insurance	<u>1,466</u>	<u>764</u>
Total current assets	<u>521,470</u>	<u>475,423</u>
Restricted Assets:		
Debt service reserves - cash and cash equivalents	9,555	9,511
Debt service reserves - investments	<u>81,295</u>	<u>80,421</u>
Total restricted assets	<u>90,850</u>	<u>89,932</u>
Property, Plant, and Equipment:		
Land	21,030	21,030
Water distribution system	1,965,162	1,965,162
Equipment	<u>6,182</u>	<u>6,182</u>
Sub-total	1,992,374	1,992,374
Less: accumulated depreciation	<u>(701,385)</u>	<u>(652,256)</u>
Total property, plant, and equipment	<u>1,290,989</u>	<u>1,340,118</u>
Total Assets	<u>\$ 1,903,309</u>	<u>1,905,473</u>
<u>LIABILITIES AND MEMBER EQUITY</u>		
Current Liabilities:		
Meter deposits	\$ 19,450	17,900
Accounts payable and accrued interest on debt	2,566	4,165
Current portion of long-term debt	<u>21,400</u>	<u>20,345</u>
Total current liabilities	<u>43,416</u>	<u>42,410</u>
Long-term Debt, Less Current Maturities:		
Notes payable	<u>899,740</u>	<u>921,694</u>
Total Liabilities	<u>943,156</u>	<u>964,104</u>
Member Equity:		
Contributed capital	689,507	689,507
Retained earnings	<u>270,646</u>	<u>251,862</u>
Total member equity	<u>960,153</u>	<u>941,369</u>
Total Liabilities and Member Equity	<u>\$ 1,903,309</u>	<u>1,905,473</u>

DELAWARE COUNTY RURAL WATER DISTRICT NO. 6
 INCOME STATEMENT
 FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>(memo only)</u> <u>2010</u>
Operating Revenues:		
Water sales	\$ 300,562	295,556
Meter income	5,440	1,782
Rental income	4,200	0
Transfer fees	<u>850</u>	<u>950</u>
Total Operating Revenue	<u>311,052</u>	<u>298,288</u>
 Operating Expenses:		
Water purchases	176,980	178,403
Bad debts	2,072	270
Contract labor	7,860	8,795
Dues and fees	827	0
Insurance	2,253	1,359
Professional fees	4,000	3,000
Rent	7,200	2,700
Office and postage	129	632
Telephone	1,550	1,344
Utilities	1,333	1,174
Miscellaneous expense	<u>511</u>	<u>284</u>
Total Operating Expenses	<u>204,715</u>	<u>197,961</u>
 Operating Revenues Over (Under) Operating Expenses	 106,337	 100,327
 Other Revenues (Expenses):		
Interest income	7,715	11,390
Depreciation expense	(49,129)	(49,129)
Interest expense on debt	<u>(46,139)</u>	<u>(47,235)</u>
Total Other Revenues (Expenses)	<u>(87,553)</u>	<u>(84,974)</u>
 Increase (Decrease) in Retained Earnings	 18,784	 15,353
 Retained Earnings, Beginning of Year	 <u>251,862</u>	 <u>236,509</u>
 Retained Earnings, End of Year	 <u>\$ 270,646</u>	 <u>251,862</u>