

GARVIN COUNTY RURAL WATER DISTRICT #1

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED OCTOBER 31, 2016

GARVIN COUNTY RURAL WATER DISTRICT NO. 1
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YEAR ENDED OCTOBER 31, 2016

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Independent Auditor's Report

Board of Directors

Garvin County Rural Water District No. 1

Report on the Financial Statements

We have audited the accompanying statement of assets, liabilities, and net position of Garvin County Rural Water District No. 1 as of October 31, 2016 and the related statements of revenues, expenses and changes in net position for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 and *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 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 auditor's 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 District'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 on the effectiveness of the District's internal control. Accordingly, we express no such an 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

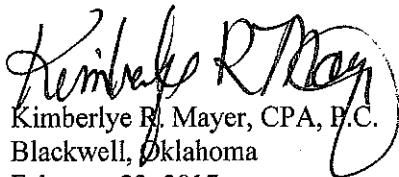
In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of Garvin County Rural Water District No. 1, as of October 31, 2016; the changes in modified cash basis financial position; and cash flows thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 23, 2017 on our consideration of Garvin County Rural Water District No. 1's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and 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. 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.

 CPA, PC
Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
February 23, 2017

INDEPENDENT AUDITOR'S 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

Board of Directors
Garvin County Rural Water District No. 1

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 Garvin County Rural Water District No. 1, which comprise the statement of assets, liabilities and net position as of October 31, 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 23, 2017. The financial statements were prepared on the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Garvin County Rural Water District No. 1'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 Garvin County Rural Water District No. 1's internal control. Accordingly, we do not express an opinion on the effectiveness of the Garvin County Rural Water District No. 1'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 control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness.

Our consideration of internal control 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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Garvin County Rural Water District No. 1'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

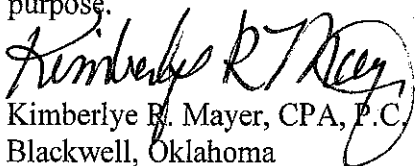
amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

Garvin County Rural Water District No. 1's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Garvin County Rural Water District No. 1'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

 CPA, PC
Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
February 23, 2017

GARVIN COUNTY RURAL WATER DISTRICT NO. 1
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED OCTOBER 31, 2016

Material Weakness Communicated In Prior Year:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria:

The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition:

Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. The same individual is writing and recording checks. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause:

The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect:

Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the water billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation:

The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response:

The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

GARVIN COUNTY RURAL WATER DISTRICT NO. 1
STATEMENT OF ASSETS, LIABILITIES AND NET POSITION
MODIFIED CASH BASIS
OCTOBER 31, 2016

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 131,888
Certificates of deposit	176,298
Inventory	<u>11,697</u>
Total Current Assets	319,883
Intangible assets - Water Rights (Note 3)	321,140
Capital assets (net of accumulated depreciation) (Note 2)	621,565
	<hr/>
Total Assets	<u><u>\$ 1,262,588</u></u>

LIABILITIES AND NET POSITION

Liabilities:	\$
Current Liabilities:	
Current portion long-term debt (Note 4)	57,775
Long-term Liabilities:	
Noncurrent portion long-term debt (Note 4)	<u>393,244</u>
Total Liabilities	451,019
Net Position:	
Net investment in capital assets	491,686
Restricted for debt service	57,895
Unrestricted	<u>261,988</u>
Total Net Postion	<u>811,569</u>
Total Liabilities and Net Position	<u><u>\$ 1,262,588</u></u>

GARVIN COUNTY RURAL WATER DISTRICT NO. 1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
MODIFIED CASH BASIS
YEAR ENDED OCTOBER 31, 2016

Operating Revenues:	
Water sales	\$ 292,441
Reconnect and transfer fees	1,925
Late penalties	3,890
Other income	1,923
Total Operating Revenues	<u>300,179</u>
Operating Expenses:	
Payroll	81,161
Payroll taxes	6,272
Employee benefits	12,635
Repairs, maintenance and supplies	39,422
Fuel and auto expenses	4,112
Insurance and bonds	13,619
Professional fees	9,367
Meetings and travel	4,041
Office and postage	8,529
Water purchases	20,347
Telephone and mobile phones	2,599
Utilities	8,760
Licenses, permits, DEQ and fees	707
Depreciation	54,793
Other expenses	231
Total Operating Expenses	<u>266,595</u>
Operating Income (Loss)	33,584
Nonoperating Revenue (Expenses):	
Interest income	1,326
Benefit units	14,000
Rental income	7,200
Interest expense	(15,338)
Total Nonoperating Revenues	<u>7,188</u>
Change in Net Position	40,772
Net Position, beginning of year	770,797
Net Position, end of year	<u><u>\$ 811,569</u></u>

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

GARVIN COUNTY RURAL WATER DISTRICT NO.1
STATEMENT OF CASH FLOWS
MODIFIED CASH BASIS
YEAR ENDED OCTOBER 31, 2016

Cash Flows From Operating Activities:	
Cash received from customers	\$ 300,179
Cash payments to suppliers for goods and services	(129,955)
Cash payments to employees	(81,161)
Net cash provided (used) by operating activities	<u>89,063</u>
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
New borrowing	200,000
Principle payments on notes	(53,451)
Interest paid on notes	(15,338)
(Increase) decrease in capital assets	(240,143)
Rental income	7,200
Benefit units	14,000
Net cash provided (used) by financing activities	<u>(87,732)</u>
Cash flows from investing activities:	
Interest income	1,326
(Increase) decrease in CD's	(1,269)
Net cash provided (used) by investing activities	<u>57</u>
Net increase (decrease) in cash and cash equivalents	1,388
Beginning cash and cash equivalents	130,500
Ending cash and cash equivalents	<u>\$ 131,888</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Operating income or loss	\$ 33,584
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	54,793
(Increase) decrease in inventory	686
Net cash provided (used) by operating activities	<u>\$ 89,063</u>

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

GARVIN COUNTY RURAL WATER DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Garvin County Rural Water District No. 1 was created under the Rural Water District Act, Title 82, as amended, of the laws of the State of Oklahoma. The District is exempt from federal and state income taxes. The purpose of the District is to provide water services to the owners and occupants of land located within the District, and others as authorized by law. Membership in the water district consists of water users who have paid the required membership fees.

The District is an entity governed by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the modified cash basis of accounting. This basis recognizes assets, liabilities, net assets, revenues, and expenses when they result from cash transactions with a provision for depreciation. This basis is a basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities on their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Cash and Deposits

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the District considers all accounts and certificates of deposit with a maturity of three months or less to be cash equivalents.

Maintenance Reserves

As part of the loan agreement with OWRB, Note 4, the District is to maintain a reserve equal to 125% of the maximum annual amount due for debt service. At October 31, 2016 the District had \$57,895 in its reserve account.

GARVIN COUNTY RURAL WATER DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Budget

The District is not legally required to adopt a budget.

Inventory

Supplies inventory is valued at cost and is recorded when purchased and expensed when used.

NOTE 2 – WATERLINE SYSTEM AND EQUIPMENT:

Waterline extensions and additions are capitalized and depreciated over their estimated useful lives. Annual depreciation is calculated on a straight-line basis. Total depreciation for the year ended October 31, 2016 was \$54,793. The balances for depreciable assets by major category as of October 31, 2016 are as follows:

	10/31/15	Deletions	Additions	10/31/16
Land	\$ 3,500	\$	\$ 40,000	\$ 43,500
Waterline system	1,559,922			1,559,922
Machinery and equipment	80,987			80,987
Buildings and improvements	155,946			155,946
Office equipment & furniture	18,117			18,117
Accumulated depreciation	(1,182,114)		(54,793)	(1,236,907)
Total	<u>\$ 636,358</u>	<u>\$</u>	<u>\$ (14,793)</u>	<u>\$ 621,565</u>

NOTE 3 – INTANGIBLE ASSETS:

The District has acquired water rights which have been classified as intangible assets. Management has performed its annual evaluation of these intangible assets and has determined that no impairments are necessary as fair market values exceed the carrying costs as of October 31, 2016.

NOTE 4 – NOTES PAYABLE:

In November 2006, the District entered into a loan agreement with the OWRB for a DWSRF loan for water system improvements for \$264,587. Collateral for this loan is the revenue from operations and a mortgage with a power of sale and security agreement. The note has an interest rate of 3.05% and an administrative fee of .5%. The payments are due on March 15 and September 15 of each year until the maturity date of March 15, 2027. Principle payments made during the year ended October 31, 2016 were \$17,708.

GARVIN COUNTY RURAL WATER DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2016

NOTE 4 – NOTES PAYABLE (continued):

In June 2011, the District entered into a loan agreement with an individual for \$130,000 to purchase a building. Collateral for this loan is a security interest in the property. The note has an interest rate of 5%. The monthly payments are \$1,378 until the maturity date of June 21, 2021. Principle payments paid during the year ended October 31, 2016 were \$12,761.

In May 2012, the District entered into a loan of \$90,047 to purchase land and water rights. Collateral for this note is a certificate of deposit. The note has an interest rate of 3.2% and a maturity date of May 20, 2021. The monthly payments are \$1,000. Principle payments during the year ended October 31, 2016 were \$10,307.

In December 2015, the District entered into a loan of \$200,000 to purchase land and water rights. The note has an interest rate of 5.595% and a maturity date of January 7, 2026. The monthly payments are \$2,176. Principle payments made during the year ended October 31, 2016 were \$12,708.

The following is a summary of the District's future annual debt requirements:

Year Ended	Payments	Principal	Interest
12/31/17	\$ 73,021	\$ 57,775	\$ 15,246
12/31/18	72,999	59,754	13,245
12/31/29	72,978	61,867	11,111
12/31/20	72,958	64,085	8,873
12/31/21	57,868	51,203	6,665
12/31/22 - 12/31/26	165,631	156,335	9,296
Totals	<u>\$ 515,455</u>	<u>\$ 451,019</u>	<u>\$ 64,436</u>

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

Level 1: Quoted prices in active markets for identical securities.

Level 2: Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

Level 3: Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

GARVIN COUNTY RURAL WATER DISTRICT NO. 1
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2016

NOTE 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued):

The District's financial instruments include cash and cash equivalents and inventory. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 6 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amounts of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims during the year ended October 31, 2016.

NOTE 7 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 8 – CONTINGENCIES:

As of October 31, 2016, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through February 23, 2017, the date which the financial statements were available to be issued.