

**RURAL WATER DISTRICT NO. 4,
GARVIN COUNTY**

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED OCTOBER 31, 2012

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
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YEAR ENDED OCTOBER 31, 2012

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Independent Auditor's Report

Board of Directors
Rural Water District No. 4, Garvin County

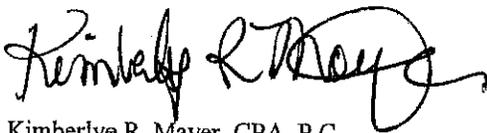
We have audited the accompanying financial statements of Rural Water District No. 4, Garvin County as of October 31, 2012 and for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The amounts reported in the financial statements for capital assets and accumulated depreciation are based on estimates and may not represent a complete accounting of all capital assets in service as required by accounting principles generally accepted in the United States of America. Capital asset records necessary to provide reasonable assurance that these amounts are not materially misstated are not readily available as explained in note 4.

In our opinion, except for the effects of any adjustments that might have been necessary had we been able to obtain sufficient evidence related to capital assets and related accounts, the financial statements referred to above, present fairly, in all material respects, the financial position of Rural Water District No. 4, Garvin County as of October 31, 2012 and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 28, 2013, on our consideration of Rural Water District No. 4, Garvin County's internal control over financial reporting and on our tests of its compliance with certain provisions of 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.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
January 28, 2013

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
Rural Water District No. 4, Garvin County

We have audited the financial statement of Rural Water District No. 4, Garvin County as of October 31, 2012 and for the year then ended, and have issued our report thereon dated January 28, 2013. 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. The auditor's report for the year ended October 31, 2012 is qualified due to the lack of records related to the value of the capital assets.

Internal Control Over Financial Reporting

Management of Rural Water District No. 4, Garvin County is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Rural Water District No. 4, Garvin County's internal control over financial reporting as a basis for designing our auditing procedures 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 Rural Water District No. 4, Garvin County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 4, Garvin County's internal control over financial reporting.

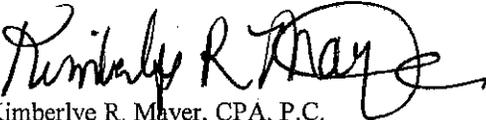
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 4, Garvin County'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 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*.

This report is intended solely for the information and use of management, the board of directors, and others within the District and is not intended to be and should not be used by anyone other than these specified parties.


Kimberly R. Mayer, CPA, P.C.
Blackwell, Oklahoma
January 28, 2013

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
STATEMENT OF NET ASSETS
OCTOBER 31, 2012

ASSETS

Current Assets:

Cash and cash equivalents (Note 2)	\$ 194,436
Certificate of deposits	330,300
Accounts receivable (Note 3)	30,070
Prepaid insurance	4,238
Inventory	4,126
Contracts receivable (Note 9)	114,273
Total Current Assets	<u>677,443</u>

Contract receivables (Note 9)	592,752
Reserve certificate	1,000
Water system (net of accumulated depreciation) (Note 4)	330,048
Work in progress	<u>260,494</u>

Total Assets	<u><u>\$ 1,861,737</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 903
Payroll taxes due	650
Customer deposits	500
Total Current Liabilities	<u>2,053</u>

Net Assets:

Invested in capital assets, net of related debt	590,542
Unrestricted	1,269,142
Total Net Assets	<u>1,859,684</u>

Total Liabilities and Net Assets	<u><u>\$ 1,861,737</u></u>
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RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED OCTOBER 31, 2012

Operating Revenue:	
Water sales	\$ 272,173
Late fees	3,844
Other income	4,237
Total Operating Revenue	280,254
Operating Expense:	
Water costs	114,273
Payroll	33,291
Payroll taxes	2,868
Employee benefits	19,192
Meetings and training	4,208
Insurance	6,275
Postage and supplies	3,880
Dues, licenses and fees	1,886
Professional fees	6,700
Repairs and maintenance	32,512
Contract labor	24,000
Vehicle expenses	2,974
Telephone	1,686
Utilities	7,111
Bad debts	2,140
Other expenses	279
Depreciation	21,977
Total Operating Expense	285,252
Income (Loss) From Operations	(4,998)
Non-operating Revenue (Expense):	
Benefit units	9,300
Advertising income	6,754
Interest income	3,731
Total Non-operating Revenue (Expense)	19,785
Change in Net Assets	14,787
Net Assets, beginning of year	1,844,897
Net Assets, end of year	\$ 1,859,684

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

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
STATEMENT OF CASH FLOWS
YEAR ENDED OCTOBER 31, 2012

Cash Flows From Operating Activities:	
Cash received from customers	\$ 285,751
Cash payments to employees	(33,291)
Cash payments to suppliers for goods and services	<u>(115,311)</u>
Net cash provided (used) by operating activities	137,149
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(28,653)
Increase in work in progress	(79,556)
Advertising income	6,754
New memberships	9,300
Net cash provided (used) by financing activities	<u>(92,155)</u>
Cash flows from investing activities:	
Interest on cash and investments	3,731
(Increase) decrease in CD's	<u>(103,269)</u>
Net cash provided (used) by investing activities	<u>(99,538)</u>
Net increase (decrease) in cash and cash equivalents	(54,544)
Beginning cash and cash equivalents	<u>248,980</u>
Ending cash and cash equivalents	<u><u>\$ 194,436</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (4,998)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	21,977
Changes in assets and liabilities:	
(Increase) decrease in receivables	119,770
(Increase) decrease in prepaids	529
(Increase) decrease in inventory	
Increase (decrease) in customer deposits	(485)
Increase (decrease) in payables	<u>356</u>
Net cash provided (used) by operating activities	<u><u>\$ 137,149</u></u>

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

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 4, Garvin County was organized and established under the provisions of Title 82 of the laws of the State of Oklahoma. The purpose of this District is to furnish and supply to owners and occupants of property within the corporate limits water and related facilities and services.

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

Basis of Accounting

The accounting policies of Rural Water District No. 4, Garvin County conform to the basic principles of governmental accounting and financial reporting set forth by the Governmental Accounting Standards Board.

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 accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Cash and Deposits

Cash and deposits are 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 State 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. At October 31, 2012, the District had \$274,536 on deposit that were uncollateralized.

Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

NOTE 2 – CASH AND CASH EQUIVALENTS:

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED OCTOBER 31, 2012

NOTE 3 – ACCOUNTS RECEIVABLES:

The accounts receivable balance at October 31, 2012 includes amounts due from customers for water service.

NOTE 4 – WATER SYSTEM:

The District did not maintain accurate records of the original cost of the waterline system. The amounts reported in the financial statements for the original waterline system are based on estimates.

The District was given land during the year ended October 31, 2007 for an office building, which was constructed during the year ended October 31, 2008. The value of this land has not been determined and therefore has not been recorded in the financial statements.

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended October 31, 2012 was \$21,977. The following is a summary by category of changes in property and equipment:

<u>Category</u>	<u>10/31/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>10/31/12</u>
Machinery and equipment	\$ 56,853	\$ 946	\$ (1,055)	\$ 56,744
Buildings	122,172			122,172
Waterline system	610,733	27,707		638,440
Accumulated depreciation	<u>(466,386)</u>	<u>(21,977)</u>	<u>1,055</u>	<u>(487,308)</u>
Net	<u>\$ 323,372</u>	<u>\$ 6,676</u>	<u>\$</u>	<u>\$ 330,048</u>

NOTE 5 – LETTER OF CREDIT:

The District entered into an irrevocable letter of credit for \$200,000. This letter of credit expired September 28, 2012.

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2012

NOTE 6 – ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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 7 – 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 amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

NOTE 8 – COMMITMENTS AND CONTINGENCIES:

As of October 31, 2012, 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 – CONTRACT RECEIVABLES:

The District and the PVMA reached an agreement effective February 1, 2007 in which the District transferred certain customers and infrastructure located in the Pauls Valley city limits to the PVMA. The agreement set forth the District and the PVMA would each obtain an appraisal of the infrastructure transferred to the PVMA. Then, a third appraiser would be obtained and the three appraisers would reach an agreement as to the value of the infrastructure transferred. During the year ended October 31, 2011, the District and PVMA had reached an agreement on the value of the infrastructure. The amount due from PVMA for the purchase of this infrastructure has been recorded as contracts receivable. As payment for the infrastructure, the water costs for the water supplied to the District by PVMA will be credited against the amount due until the debt is reduced to zero. As of October 31, 2012, total credits for the water purchases were \$660,313. The PVMA will also pay the District an amount equal to an average of five years net income for those customers transferred to the PVMA. This additional

RURAL WATER DISTRICT NO. 4, GARVIN COUNTY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED OCTOBER 31, 2012

NOTE 9 – CONTRACT RECEIVABLES (continued):

compensation is to be paid in sixty equal installments to the District. At the date of this report, no installments on this additional compensation had been received. In the agreement, the District has also given PVMA the right to serve current and future customers within a given area for a period of 99 years. The balance of the contract receivables at October 31, 2012 was \$707,025..

NOTE 10 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through January 28, 2013, the date which the financial statements were available to be issued.