

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
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 YEARS ENDED DECEMBER 31, 2012 AND 2011

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Independent Auditor's Report

Board of Directors
Garfield County Rural Water District No. 7

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of Garfield County Rural Water District No. 7 as of December 31, 2012 and 2011 and for the years then ended. These financial statements are the responsibility of the District's management.

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 audits. We conducted our audits 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 opinions.

Opinions

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective modified cash basis financial position of Garfield County Rural Water District No. 7, as of December 31, 2012 and 2011; the respective changes in modified cash basis financial position; and, when

applicable, cash flows thereof, for the years 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.

Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 19, 2013 on our consideration of Garfield County Rural Water District No. 7'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.



Kimberly R. Mayer, CPA, P.C.
Blackwell, Oklahoma
March 19, 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
Garfield County Rural Water District No. 7

We have audited the financial statements Garfield County Rural Water District No. 7 as of and for the year ended December 31, 2012 and have issued our report thereon dated March 19, 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 financial statements were prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of Garfield County Rural Water District No. 7 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Garfield County Rural Water District No. 7'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 Garfield County Rural Water District No. 7's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Garfield County Rural Water District No. 7's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 a combination of control 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. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness.

A significant deficiency is a deficiency or 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. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency.

Garfield County Rural Water District No. 7's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Garfield County Rural Water District No. 7's financial statements are free of material misstatements, 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*.



Kimberlye R. Mayer, CPA, P.C.

Blackwell, Oklahoma

March 19, 2013

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2012

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 invoices and receiving payments; making and recording deposits; maintaining registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions over cash receipts.

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

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
 STATEMENTS OF ASSETS, LIABILITIES AND NET ASSETS
 MODIFIED CASH BASIS
 DECEMBER 31, 2012 AND 2011

ASSETS	2012	2011
Current Assets:		
Cash and cash equivalents	\$ 44,185	\$ 39,711
Certificates of deposit	45,172	20,077
Total Current Assets	89,357	59,788
Capital assets (Note 2)		
(net of accumulated depreciation of \$106,464)	109,124	81,162
Work in progress	—	19,590
Total Assets	\$ 198,481	\$ 160,540

LIABILITIES AND NET ASSETS

Liabilities:		
Customer deposits	\$ 1,300	\$ 1,000
Net Assets:		
Invested in capital assets	109,124	100,752
Unrestricted	88,057	58,788
Total Net Assets	197,181	159,540
Total Liabilities and Net Assets	\$ 198,481	\$ 160,540

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

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 MODIFIED CASH BASIS
 YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating Revenues:		
Water sales	\$ 148,541	\$ 147,366
Operating Expenses:		
Operator fees	12,600	12,000
Bookkeeper fees	6,282	5,954
Water costs	71,222	72,879
Utilities	1,659	1,228
Telephone	709	735
Water tests	453	366
Office and postage	1,068	1,488
Repairs and maintenance	6,241	2,008
Professional fees	1,150	1,775
Insurance	1,616	1,767
Meetings and travel	991	966
Dues, fees and memberships	706	314
Other expenses	388	240
Depreciation	6,049	5,026
Total Operating Expenses	111,134	106,746
Operating Income (Loss)	37,407	40,620
Nonoperating Revenue (Expenses):		
Interest income	234	208
Membership and tap fees		1,350
Total Nonoperating Revenues	234	1,558
Change in Net Assets	37,641	42,178
Net Assets, beginning of year	159,540	125,415
Change in Method of Accounting (Note 6)		(8,053)
Net Assets, end of year	\$ 197,181	\$ 159,540

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

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
STATEMENTS OF CASH FLOWS
MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities:		
Cash received from customers	\$ 148,841	\$ 148,266
Other operating cash receipts		
Cash payments to suppliers for goods and services	(105,085)	(101,720)
Net cash provided (used) by operating activities	43,756	46,546
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
(Increase) decrease in capital assets	(14,421)	(20,100)
Membership fees		1,350
Net cash provided (used) by financing activities	(14,421)	(18,750)
 Cash flows from investing activities:		
Interest income	234	208
(Increase) decrease in CD's	(25,095)	(14,547)
Net cash provided (used) by investing activities	(24,861)	(14,339)
 Net increase (decrease) in cash and cash equivalents	4,474	13,456
Beginning cash and cash equivalents	39,711	26,255
Ending cash and cash equivalents	\$ 44,185	\$ 39,711
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Operating income or loss	\$ 37,407	\$ 40,620
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	6,049	5,026
Increase (decrease) in customer deposits	300	900
Net cash provided (used) by operating activities	\$ 43,756	\$ 46,546

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

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Garfield County Rural Water District No. 7 was created in 1965 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 comprehensive 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.

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED DECEMBER 31, 2012 AND 2011

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 December 31, 2012 and 2011 was \$6,049 and \$5,026. The balances for depreciable assets by major category as of December 31, 2012 are as follows:

	12/31/11	Deletions	Additions	12/31/12
Water system	\$ 187,116	\$	\$ 34,011	\$ 221,127
Office equipment	510			510
Accumulated depreciation	(106,464)		(6,049)	(112,513)
Total	<u>\$ 81,162</u>	<u>\$</u>	<u>\$ 27,962</u>	<u>\$ 109,124</u>

NOTE 3 – 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 years ended December 31, 2012 and 2011.

NOTE 4 – 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 5 – CONTINGENCIES:

As of December 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.

GARFIELD COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 6 – CHANGE IN METHOD OF ACCOUNTING:

During the fiscal year ending December 31, 2011, the District changed its method of accounting to the modified cash basis of accounting which resulted in an adjustment of \$8,053 to net assets.

NOTE 7 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through March 19, 2013, the date which the financial statements were available to be issued.