

**RURAL WATER DISTRICT NO. 6
GARVIN COUNTY, OKLAHOMA**

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

RURAL WATER DISTRICT NO. 6,
GARVIN COUNTY, OKLAHOMA
TABLE OF CONTENTS
YEAR ENDED DECEMBER 31, 2011

	Page
INTRODUCTORY SECTION:	
Table of Contents	i
FINANCIAL SECTION:	
Independent Auditor's Report	1
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-4
Financial Statements:	5
Statement of Net Assets	6
Statement of Revenues and Expenses and Changes in Net Assets	7
Statement of Cash Flows	8
Notes to Financial statements	9-12

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Independent Auditor's Report

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

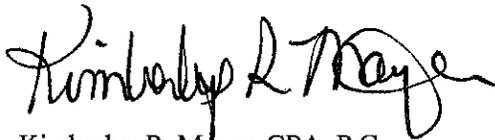
We have audited the accompanying financial statements of the Rural Water District No. 6, Garvin Co. as of December 31, 2011. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Water District No. 6, Garvin Co., as of December 31, 2011, and the changes in net assets 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 May 23, 2012 on our consideration of Rural Water District No. 6, Garvin Co.'s internal control over financial reporting and on 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. 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.

Rural Water District No. 6, Garvin Co. has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
May 23, 2012

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. 6, Garvin Co.

We have audited the financial statements of Rural Water District No. 6, Garvin Co. as of and for the year ended December 31, 2011 and have issued our report thereon dated May 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in *Government Auditing Standards*, issued by the Comptroller General of the United States. Rural Water District No. 6, Garvin Co. has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we Rural Water District No. 6, Garvin Co.'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. 6, Garvin Co.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 6, Garvin Co.'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.

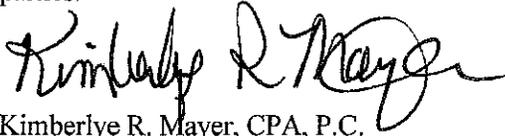
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 6, Garvin Co.'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 audits 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*.

Rural Water District No. 6, Garvin Co.'s response to the findings 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.

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.

A handwritten signature in black ink, appearing to read "Kimberlye R. Mayer". The signature is fluid and cursive, with the first name being the most prominent.

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
May 23, 2012

RURAL WATER DISTRICT NO. 6, GARVIN CO.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2011

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; and maintaining billing registers. 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

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

ASSETS

Current Assets:

Cash and cash equivalents (Note 2)	\$ 126,256
Certificates of deposit	95,825
Restricted cash	1,984
Accounts receivable (less allowance for doubtful accounts of \$800)	49,204
Prepaid insurance	12,051
ORWAAG deposit	<u>1,000</u>
Total Current Assets	286,320

Non-current Assets:

Property and equipment (net of accumulated depreciation) (Note 3)	1,514,957
Work in progress	<u>22,936</u>

Total Assets	<u><u>\$ 1,824,213</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable	\$ 21,816
Deposits	1,984
Accrued interest payable	1,687
Notes payable (current portion) (Note 4)	<u>79,004</u>
Total Current Liabilities	104,491

Non-current Liabilities:

Notes payable, long term	<u>318,856</u>
Total Non-current Liabilities	<u>318,856</u>

Total Liabilities	423,347
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Net Assets:

Invested in capital assets, net of related debt	1,140,033
Unrestricted	<u>260,833</u>
Total Net Assets	<u>1,400,866</u>

Total Liabilities and Net Assets	<u><u>\$ 1,824,213</u></u>
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The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 6
GARVIN COUNTY, OKLAHOMA
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2011

Operating Revenue:	
Water service	\$ 733,496
Installation and reconnect fees	16,000
Late penalties	13,320
Total Operating Revenue	762,816
Operating Expense:	
Wages	230,530
Payroll taxes	18,756
Employee benefits	27,073
Water costs	92,791
Water exam fees	3,387
Memberships and dues	2,924
Vehicle expenses	42,515
Repairs and maintenance	79,131
Insurance	20,569
Travel	2,953
Professional fees	2,488
Office supplies and postage	14,123
Utilities	10,745
Bad debts	1,127
Other expenses	4,782
Depreciation	97,409
Total Operating Expense	651,303
Income (Loss) From Operations	111,513
Non-operating Revenue (Expense):	
Interest income	1,467
Lease income	7,225
Benefit units	38,500
Interest expense	(14,485)
Total Non-operating Revenue (Expense)	32,707
Change in Net Assets	144,220
Net Assets, beginning of year	1,256,646
Net Assets, end of year	\$ 1,400,866

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

RURAL WATER DISTRICT NO. 6
GARVIN COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2011

Cash Flows From Operating Activities:	
Cash received from customers	\$ 774,528
Cash payments to suppliers for goods and services	(316,114)
Cash payments to employees for services	(230,530)
Net cash provided (used) by operating activities	<u>227,884</u>
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(231,696)
Principal paid on notes and loans	(77,545)
Interest paid on notes and loans	(14,485)
Benefit units	38,500
Net cash provided (used) by financing activities	<u>(285,226)</u>
Cash flows from investing activities:	
Interest on cash and investments	1,467
Lease income	7,225
(Increase) decrease in restricted accounts	(14)
Net cash provided (used) by investing activities	<u>8,678</u>
<hr/>	
Net increase (decrease) in cash and cash equivalents	(48,664)
Beginning cash and cash equivalents	174,920
Ending cash and cash equivalents	<u>\$ 126,256</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Income (Loss) from operations	\$ 111,513
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	97,409
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	11,712
(Increase) decrease in prepaids	(1,411)
Increase (decrease) in payables	8,661
Net cash provided (used) by operating activities	<u>\$ 227,884</u>

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

RURAL WATER DISTRICT NO. 6,
GARVIN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water District No. 6, Garvin Co. was created under the provisions of Title 82 of the Oklahoma Statutes, Section 1324.1 – 1324.35 and 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 acts 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. 6, Garvin Co. 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.

Restricted Assets

Restricted assets include deposits held for future expansion. These funds are contingent upon participants paying a portion of the costs associated with the construction of a new water service to the Ruppe Road and Lake Longmire Area. If the District does not receive enough participants, they are obligated to refund the monies received plus any interest incurred to date.

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:

The District considers all checking and savings accounts and deposits with a maturity of three months or less (except restricted accounts) to be cash equivalents.

RURAL WATER DISTRICT NO. 6
GARVIN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

NOTE 3 - PROPERTY AND EQUIPMENT:

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 December 31, 2011 was \$97,409. The following is a summary by category of changes in property and equipment:

<u>Category</u>	<u>12/31/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/11</u>
Land and water rights	\$ 600,650	\$	\$	\$ 600,650
Machinery and equipment	235,374	37,291	(34,200)	238,465
Buildings and improvements	408,964			408,964
Waterline system	2,341,477	165,512		2,506,989
Office equipment	36,144	5,957		42,101
Accumulated depreciation	(2,219,003)	(97,409)	34,200	(2,282,212)
Net	<u>\$ 1,403,606</u>	<u>\$ 111,351</u>	<u>\$</u>	<u>\$ 1,514,957</u>

NOTE 4 – NOTES PAYABLE:

During the year ended December 31, 2005, the District entered into a note agreement with a financial institution for \$726,000. The proceeds from this note were used to refinance a loan with USDA. The purpose of the original loan was to purchase land and surface and ground water rights. The monthly payments have a variable interest rate adjusted every year. The interest rate is currently 3.35% and the term of the note is 15 years. Principle payments made during the year ended December 31, 2011 were \$77,517, and the principle balance was \$397,856.

The District has a line of credit through a local bank in the amount of \$25,000. This line of credit carries an interest rate of 3.85% and expires February 10, 2013.

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

<u>Year Ending</u>	<u>Principle</u>	<u>Interest</u>
12/31/12	\$ 57,953	\$ 14,047
12/31/13	59,895	12,105
12/31/14	61,901	10,099
12/31/15	63,975	8,025
12/31/16	66,118	5,882
12/31/17 - 12/31/20	88,014	5,044
	<u>\$ 397,856</u>	<u>\$ 55,202</u>

RURAL WATER DISTRICT NO. 6,
GARVIN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

NOTE 5 – WATER PURCHASE CONTRACT:

The District has a contract with the Wynnewood City Utilities Authority which sets the cost of the water purchased by the District. At December 31, 2011, the contract allowed the District to purchase a maximum of 5,500,000 gallons per month at a cost of \$1.25 per thousand gallons. The contract expires in October 2016.

NOTE 6 – ACCOUNTS RECEIVABLE:

The accounts receivable at December 31, 2011 consist of amounts due from customers for water services.

NOTE 7 – INVESTMENTS:

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.

NOTE 8 – DEPOSITS, INVESTMENTS AND COLLATERAL:

At December 31, 2011, all of the District's deposits were covered by Federal Depository Insurance Corporation.

NOTE 9 – ESTIMATES:

The preparation of financial statements in conformity generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

NOTE 10 – 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.

RURAL WATER DISTRICT NO. 6,
GARVIN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2011

NOTE 10 – RISK MANAGEMENT (Continued):

In determining claims, events that might create claims, but for which none have been reported, are considered. The District has had no claims that exceeded its insurance coverage.

NOTE 11 – CONTINGENCIES:

As of December 31, 2011, 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 12 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through May 23, 2012, the date which the financial statements were available to be issued.