

**RURAL WATER DISTRICT NO. 6
GARVIN COUNTY, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015**

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GARVIN COUNTY, OKLAHOMA
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying statements of financial position of Rural Water District No. 6, Garvin County, Oklahoma as of December 31, 2015, and the related statement of activities and cash flows 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 accounting principles generally accepted in the United States of America; 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 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 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 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 financial position of Rural Water District No. 6, Garvin County, Oklahoma as of December 31, 2015, and the results of its operations and its cash flows for the year then ended in accordance with principles generally accepted in the United States of America.

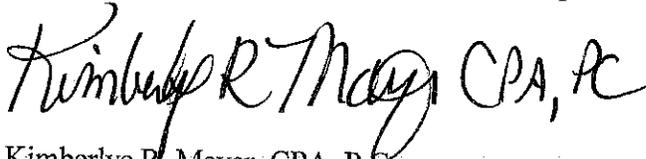
Other Matters

Required Supplementary Information

Rural Water District No. 6, Garvin County, Oklahoma has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basis financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basis financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 5, 2016 on our consideration of Rural Water District No. 6, Garvin County, Oklahoma'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.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
May 5, 2016

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
Rural Water District No. 6, Garvin County, Oklahoma

We have audited the financial statements of Rural Water District No. 6, Garvin County, Oklahoma as of and for the year ended December 31, 2015 and have issued our report thereon dated May 5, 2016. 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.

Internal Control Over Financial Reporting

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

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 questioned costs, we identified a certain deficiency in internal control 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 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 questioned costs to be a material weakness.

Compliance and Other Matters

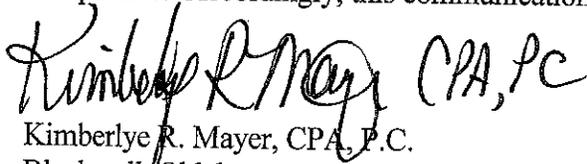
As part of obtaining reasonable assurance about whether Rural Water District No. 6, Garvin County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could 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*.

Response to Findings

Rural Water District No. 6, Garvin County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water District No. 6, Garvin County, Oklahoma'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.



Kimberlye R. Mayer, CPA, P.C.

Blackwell, Oklahoma

May 5, 2016

RURAL WATER DISTRICT NO. 6, GARVIN CO.
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2015

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 POSITION
DECEMBER 31, 2015

ASSETS

Current Assets:

Cash and cash equivalents (Note 2)	\$ 348,657
Certificates of deposit	95,825
Restricted cash	2,000
Accounts receivable (less allowance for doubtful accounts of \$2,400)	57,249
Prepaid insurance	13,443
ORWAAG deposit	1,000
Total Current Assets	518,174

Non-current Assets:

Property and equipment (net of accumulated depreciation) (Note 3)	2,830,728
Construction in progress	212,919
Total Non-current Assets	3,043,647

Other Assets:

Utility deposits	500
Total Assets	\$ 3,562,321

LIABILITIES AND NET POSITION

Current Liabilities:

Accounts payable	\$ 12,423
Notes payable (current portion) (Note 4)	178,703
Total Current Liabilities	191,126

Non-current Liabilities:

Notes payable, long term	1,082,379
Total Non-current Liabilities	1,082,379
Total Liabilities	1,273,505

Net Position:

Net investment in capital assets	1,782,565
Unrestricted	506,251
Total Net Position	2,288,816
Total Liabilities and Net Position	\$ 3,562,321

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 POSITION
YEAR ENDED DECEMBER 31, 2015

Operating Revenue:	
Water service	\$ 769,173
Installation and reconnect fees	39,756
Late penalties	13,577
Other income	2,982
Total Operating Revenue	<u>825,488</u>
Operating Expense:	
Wages	282,394
Payroll taxes	23,248
Employee benefits	31,095
Water costs	72,126
Chemicals	2,966
Dues, fees and licenses	14,569
Repairs and maintenance	118,129
Insurance	30,092
Meetings, training and travel	4,585
Professional fees	7,470
Office supplies and postage	11,994
Utilities	5,022
Telephone	5,930
Bad debts	3,484
Other expenses	871
Depreciation	118,345
Total Operating Expense	<u>732,320</u>
Income (Loss) From Operations	<u>93,168</u>
Non-operating Revenue (Expense):	
Interest income	947
Lease income	8,900
ODOT reimbursements	13,595
County grant funds	99,821
Benefit units	29,400
Interest expense	(39,551)
Total Non-operating Revenue (Expense)	<u>113,112</u>
Change in Net Position	206,280
Net Position, beginning of year	<u>2,082,536</u>
Net Position, end of year	<u>\$ 2,288,816</u>

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, 2015

Cash Flows From Operating Activities:	
Cash received from customers	\$ 844,417
Cash payments to suppliers for goods and services	(331,838)
Cash payments to employees for services	(282,394)
Net cash provided (used) by operating activities	230,185
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(233,670)
Principal paid on notes and loans	(108,287)
New borrowings	
Interest paid on notes and loans	(39,551)
Grant income	113,416
Benefit units	29,400
Net cash provided (used) by financing activities	(238,692)
Cash flows from investing activities:	
Interest on cash and investments	947
Lease income	8,900
(Increase) decrease in restricted accounts	(3)
Net cash provided (used) by investing activities	9,844
Net increase (decrease) in cash and cash equivalents	
	1,337
Beginning cash and cash equivalents	
	347,320
Ending cash and cash equivalents	
	\$ 348,657
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Income (Loss) from operations	\$ 93,168
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	118,345
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	18,929
(Increase) decrease in prepaids	(1,052)
Increase (decrease) in deposits	
Increase (decrease) in payables	795
Net cash provided (used) by operating activities	\$ 230,185

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, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water District No. 6, Garvin County, Oklahoma 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 County, Oklahoma 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 Position

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets is reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is 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, 2015

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, 2015 was \$118,345. The following is a summary by category of changes in property and equipment:

<u>Category</u>	<u>12/31/14</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/15</u>
Land and water rights	\$ 598,112	\$	\$	\$ 598,112
Machinery and equipment	258,638			258,638
Buildings and improvements	411,502			411,502
Waterline system	4,199,893	20,881		4,220,774
Accumulated depreciation	(2,539,953)	(118,345)		(2,658,298)
Net	<u>\$ 2,928,192</u>	<u>\$ (97,464)</u>	<u>\$</u>	<u>\$ 2,830,728</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 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, 2015 were \$41,619, and the principle balance was \$171,734.

The District has a line of credit through a local bank in the amount of \$75,035. This line of credit carries an interest rate of 3.85% and expires February 13, 2016. The balance of this line of credit at December 31, 2015 is \$20,996.

On February 6, 2013, the District borrowed \$1.2 million to construct a water storage facility. The note carries an interest rate of 2.94% for ten years and then is adjusted annually to 1% over the ten year treasury bill rate not to exceed 4.94%. The monthly payments for ten years are \$6,653. The note matures on February 23, 2033. Principle payments made during 2015 were \$48,069 and the principle balance at December 31, 2015 was \$1,068,352.

RURAL WATER DISTRICT NO. 6
GARVIN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

NOTE 4 – NOTES PAYABLE (continued):

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

<u>Year Ending</u>	<u>Principle</u>	<u>Interest</u>
12/31/16	\$ 137,798	\$ 35,036
12/31/17	120,645	52,189
12/31/18	59,393	28,445
12/31/19	53,092	26,746
12/31/20	54,624	25,214
12/31/21 - 12/31/25	299,230	99,960
12/31/26 - 12/31/30	347,271	51,919
12/31/31 - 12/31/33	189,029	63,791
	<u>\$ 1,261,082</u>	<u>\$ 383,300</u>

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, 2015, 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, 2015 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, 2015, all of the District's deposits were covered by Federal Depository Insurance Corporation.

RURAL WATER DISTRICT NO. 6,
GARVIN COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015

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. 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 – 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).

The District's financial instruments include cash and cash equivalents, certificates of deposit, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value 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 12 – CONTINGENCIES:

As of December 31, 2015, 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 13 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through May 5, 2016, the date which the financial statements were available to be issued.