

**RURAL WATER DISTRICT NO. 6
GARFIELD COUNTY, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2016 AND 2015**

RURAL WATER DISTRICT NO. 6,
GARFIELD COUNTY, OKLAHOMA
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying statements of net position of Rural Water District No. 6, Garfield County, Oklahoma as of July 31, 2016 and 2015 and the related statements of revenues, expenses and changes in net position and of cash flows for the years 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 accounting principles generally accepted in the United States of America. 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 opinions, the financial statements referred to above, present fairly, in all material respects, the financial position of Rural Water District No. 6, Garfield County, Oklahoma, as of July 31, 2016 and 2015; the changes in financial position; and, cash flows thereof, for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

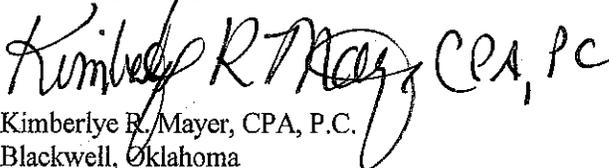
Other Matters

Required Supplementary Information

Rural Water District No. 6, Garfield 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 2, 2016 on our consideration of Rural Water District No. 6, Garfield 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
November 2, 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, Garfield County, Oklahoma

We have audited the financial statements of Rural Water District No. 6, Garfield County, Oklahoma as of and for the year ended July 31, 2016 and have issued our report thereon dated November 2, 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. Rural Water District No. 6, Garfield County, Oklahoma 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 of the financial statements, we considered Rural Water District No. 6, Garfield 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, Garfield County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 6, Garfield 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

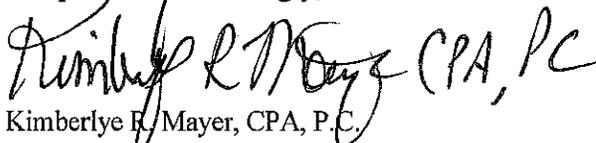
As part of obtaining reasonable assurance about whether Rural Water District No. 6, Garfield County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could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



Kimberly R. Mayer, CPA, P.C.
Blackwell, Oklahoma

November 2, 2016

RURAL WATER DISTRICT NO. 6, GARFIELD COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JULY 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; 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
GARFIELD COUNTY, OKLAHOMA
STATEMENTS OF NET POSITION
JULY 31, 2016 AND 2015

ASSETS

Current Assets:	2016	2015
Operating accounts	\$ 151,371	\$ 83,367
Certificates of deposit	56,714	56,544
Total Cash and Cash Equivalents	<u>208,085</u>	<u>139,911</u>
Accounts receivable	39,473	40,293
Prepaid insurance	10,247	7,319
Inventory	23,931	27,318
Total Current Assets	<u>281,736</u>	<u>214,841</u>
Non-current Assets:		
Property and equipment (net of accumulated depreciation) (Note 3)	1,074,077	1,065,915
Construction in progress	4,000	
Total Assets	<u>\$ 1,359,813</u>	<u>\$ 1,280,756</u>

LIABILITIES AND NET POSITION

Current Liabilities:		
Accounts payable	\$ 5,845	\$ 10,367
Payroll taxes due	2,980	3,015
Total Current Liabilities	<u>8,825</u>	<u>13,382</u>
Total Liabilities	<u>8,825</u>	<u>13,382</u>
Net Position:		
Net investment in capital assets	1,078,077	1,065,915
Unrestricted	272,911	201,459
Total Net Position	<u>1,350,988</u>	<u>1,267,374</u>
Total Liabilities and Net Position	<u>\$ 1,359,813</u>	<u>\$ 1,280,756</u>

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

RURAL WATER DISTRICT NO. 6
GARFIELD COUNTY, OKLAHOMA
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JULY 31, 2016 AND 2015

Operating Revenue:	2016	2015
Water service	\$ 429,434	\$ 413,096
Late fees	7,701	7,205
Management fees	8,611	8,503
Other revenues	3,981	10,533
Total Operating Revenue	<u>449,727</u>	<u>439,337</u>
 Operating Expense:		
Payroll	122,080	120,867
Payroll taxes	9,861	9,976
Employee benefits	23,408	22,301
Water costs	40,803	27,466
Contract services	13,478	10,418
Chemicals	9,588	9,820
Vehicle costs	9,389	8,742
Repairs, maintenance and supplies	62,026	24,616
Insurance	12,559	11,954
Dues, memberships and lab fees	3,060	2,585
Professional fees	4,404	22,270
Office supplies and postage	7,514	5,895
Board expenses	6,848	5,359
Utilities and telephone	17,549	20,408
Other expenses	3,514	2,999
Depreciation	54,408	51,551
Total Operating Expense	<u>400,489</u>	<u>357,227</u>
 Income (Loss) From Operations	 49,238	 82,110
 Non-operating Revenue (Expense):		
Grant income		
Interest income	170	3,128
Membership fees	10,150	11,250
Line extension fees	24,056	19,263
Interest expense		(35,456)
Total Non-operating Revenue (Expense)	<u>34,376</u>	<u>(1,815)</u>
 Change in Net Position	 83,614	 80,295
 Net Position, beginning of year	 <u>1,267,374</u>	 <u>1,187,079</u>
 Net Position, end of year	 <u>\$ 1,350,988</u>	 <u>\$ 1,267,374</u>

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

RURAL WATER DISTRICT NO. 6
GARFIELD COUNTY, OKLAHOMA
STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31, 2016 AND 2015

Cash Flows From Operating Activities:	2016	2015
Cash received from customers	\$ 450,547	\$ 418,540
Other operating cash receipts		10,533
Cash payments to suppliers for goods and services	(228,099)	(185,977)
Cash payments to employees for services	(122,080)	(120,867)
Net cash provided (used) by operating activities	<u>100,368</u>	<u>122,229</u>
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(66,570)	(45,642)
Principal paid on notes and loans		(500,000)
Interest paid on notes and loans		(35,456)
System development fees	34,206	30,513
Grant income		
Net cash provided (used) by financing activities	<u>(32,364)</u>	<u>(550,585)</u>
Cash flows from investing activities:		
Interest on cash and investments	170	3,128
(Increase) decrease in restricted accounts		64,340
Net cash provided (used) by investing activities	<u>170</u>	<u>67,468</u>
Net increase (decrease) in cash and cash equivalents	68,174	(360,888)
Beginning cash and cash equivalents	139,911	500,799
Ending cash and cash equivalents	<u>\$ 208,085</u>	<u>\$ 139,911</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Income (Loss) from operations	\$ 49,238	\$ 82,110
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	54,408	51,551
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	820	(10,264)
(Increase) decrease in prepaids	(2,928)	565
(Increase) decrease in inventory	3,387	(1,912)
Increase (decrease) in payables	(4,557)	179
Net cash provided (used) by operating activities	<u>\$ 100,368</u>	<u>\$ 122,229</u>

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

RURAL WATER DISTRICT NO. 6,
GARFIELD COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2016 AND 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water District No. 6, Garfield County, Oklahoma was created on January 9, 2012 under the provisions of Title 82 of the Oklahoma Statutes, Section 1324.1 – 1324.35 and the laws of the State of Oklahoma. On February 9, 2012, the Garfield County Rural Water District No. 6 and the Kay County Rural Water District No. 6 agreed to merge into a single district as the Garfield County Rural Water District No. 6. All assets and liabilities of the Kay County Rural Water District No. 6 were transferred to the new district.

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 five elected board members.

Basis of Accounting

The accounting policies of Rural Water District No. 6, Garfield 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.

Inventory

Inventory consists of pipe, valves, meters and various other supplies needed to maintain and repair the water system. Inventory is recorded at cost.

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.

RURAL WATER DISTRICT NO. 6
GARFIELD COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2016 AND 2015

NOTE 2 – CASH AND CASH EQUIVALENTS:

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

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 years ended July 31, 2016 and 2015 was \$54,408 and \$51,551 respectively. The following is a summary by category of changes in property and equipment:

Category	7/31/15	Additions	Deletions	7/31/16
Land	\$ 59,696	\$	\$	\$ 59,696
Vehicles	36,027			36,027
Buildings and improvements	26,021			26,021
Waterline system	1,135,281	16,436		1,151,717
Furniture and equipment	109,805	46,134	(5,929)	150,010
Salt Fork River Crossing	20,000			20,000
Accumulated depreciation	(320,915)	(54,408)	5,929	(369,394)
Net	<u>\$ 1,065,915</u>	<u>\$ 8,162</u>	<u>\$</u>	<u>\$ 1,074,077</u>

NOTE 4 - ACCOUNTS RECEIVABLE:

The accounts receivable at July 31, 2016 consisted of amounts due from customers for water services. The District uses the charge off method for recording bad debts.

NOTE 5 - RETIREMENT PLAN:

The District maintains a retirement plan for its qualified employees. The District contributes 3% of the employees' gross wages to this plan. The amount contributed by the District during the years ended July 31, 2016 and 2015 was \$2,572 and \$2,540 respectively.

RURAL WATER DISTRICT NO. 6,
GARFIELD COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2016 AND 2015

NOTE 6 – 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, inventory, accounts receivable and accounts 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 7 – 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.

NOTE 8 – 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 July 31, 2016.

NOTE 9 – ESTIMATES:

The preparation of financial statements in conformity with 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.

RURAL WATER DISTRICT NO. 6,
GARFIELD COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2016 AND 2015

NOTE 10 – CONTINGENCIES:

As of July 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 11 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through November 2, 2016, the date which the financial statements were available to be issued.