

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

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED JULY 31, 2011 AND 2010

RURAL WATER DISTRICT NO. 6,
KAY COUNTY, OKLAHOMA
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Kimberlye R. Mayer, CPA, P.C.

735 West Doolin

Blackwell, OK 74631

(580) 363-1453
Fax (580) 363-0068

Independent Auditor's Report

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

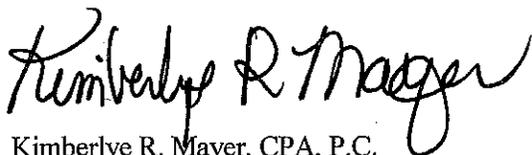
We have audited the accompanying financial statements of the of Rural Water District No. 6, Kay County, Oklahoma as of July 31, 2011 and 2010. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 audits 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 audits provide 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, Kay County, Oklahoma as of July 31, 2011 and 2010, and the changes in net assets and cash flows for the years 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 October 17, 2011 on our consideration of Rural Water District No. 6, Kay County, Oklahoma'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, Kay 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.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
October 17, 2011

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, Kay County, Oklahoma

We have audited the financial statements of Rural Water District No. 6, Kay County, Oklahoma as of and for the year ended July 31, 2011 and have issued our report thereon dated October 17, 2011. 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, Kay 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, we considered Rural Water District No. 6, Kay County Oklahoma'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, Kay County Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Rural Water District No. 6, Kay County, Oklahoma'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 was not designed to 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 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, Kay 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 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, Kay County, Oklahoma'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 that reads "Kimberlye R. Mayer". The signature is written in a cursive style with a large, looped initial 'K'.

Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
October 17, 2011

RURAL WATER DISTRICT NO. 6, KAY COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JULY 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
KAY COUNTY, OKLAHOMA
STATEMENTS OF NET ASSETS
JULY 31, 2011 AND 2010

ASSETS

Current Assets:	2011	2010
Cash and cash equivalents (Note 2)	\$ 71,398	\$ 42,306
Certificates of deposit	212,123	182,019
Accounts receivable	42,084	30,304
Prepaid insurance	8,746	8,835
Inventory	24,703	22,725
Total Current Assets	<u>359,054</u>	<u>286,189</u>
Restricted Assets:		
Restricted accounts	64,934	65,137
Other Assets:		
Loan fees (net of accumulated amortization) (Note 6)	16,778	17,494
Non-current Assets:		
Property and equipment (net of accumulated depreciation) (Note 3)	944,390	941,816
Construction in progress		
Total Assets	<u>\$ 1,385,156</u>	<u>\$ 1,310,636</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 5,431	\$ 5,728
Payroll taxes due	2,331	2,312
Notes payable (current portion) (Note 4)	15,000	15,000
Total Current Liabilities	<u>22,762</u>	<u>23,040</u>
Non-current Liabilities:		
Notes payable, long term (Note 4)	530,000	545,000
Total Liabilities	<u>552,762</u>	<u>568,040</u>
Net Assets:		
Invested in capital assets, net of related debt	399,390	381,816
Restricted for debt service	64,934	65,137
Unrestricted	368,070	295,643
Total Net Assets	<u>832,394</u>	<u>742,596</u>
Total Liabilities and Net Assets	<u>\$ 1,385,156</u>	<u>\$ 1,310,636</u>

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

RURAL WATER DISTRICT NO. 6
 KAY COUNTY, OKLAHOMA
 STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
 YEARS ENDED JULY 31, 2011 AND 2010

Operating Revenue:	2011	2010
Water service	\$ 367,295	\$ 331,986
Late fees	6,378	5,938
Management fees	9,036	10,474
Other revenues	22,252	25,672
Total Operating Revenue	<u>404,961</u>	<u>374,070</u>
 Operating Expense:		
Wages	104,638	110,627
Payroll taxes	8,490	8,893
Employee benefits	20,354	19,170
Water costs	13,562	17,380
Contract services	8,457	16,629
Operating supplies	14,609	12,850
Chemicals	4,988	4,259
Vehicle costs	12,745	10,259
Repairs and maintenance	30,737	16,785
Insurance	11,628	14,472
Dues, memberships and lab fees	4,531	3,940
Professional fees	1,450	2,623
Office supplies and postage	5,503	8,094
Board expenses	4,281	3,176
Utilities and telephone	18,258	20,322
Other expenses	2,269	2,217
Depreciation and amortization	35,388	31,220
Total Operating Expense	<u>301,888</u>	<u>302,916</u>
 Income (Loss) From Operations	 103,073	 71,154
 Non-operating Revenue (Expense):		
Interest income	6,366	6,044
Membership fees	6,750	5,750
Grant income		99,990
Interest expense	(26,391)	(26,915)
Total Non-operating Revenue (Expense)	<u>(13,275)</u>	<u>84,869</u>
 Change in Net Assets	 89,798	 156,023
 Net Assets, beginning of year	 <u>742,596</u>	 <u>586,573</u>
 Net Assets, end of year	 <u>\$ 832,394</u>	 <u>\$ 742,596</u>

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

RURAL WATER DISTRICT NO. 6
KAY COUNTY, OKLAHOMA
STATEMENTS OF CASH FLOWS
YEARS ENDED JULY 31, 2011 AND 2010

Cash Flows From Operating Activities:	2011	2010
Cash received from customers	\$ 370,929	\$ 350,821
Other operating cash receipts	22,252	25,672
Cash payments to suppliers for goods and services	(164,029)	(158,994)
Cash payments to employees for services	(104,638)	(110,627)
Net cash provided (used) by operating activities	<u>124,514</u>	<u>106,872</u>
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(37,246)	(143,431)
Principal paid on notes and loans	(15,000)	(15,000)
Interest paid on notes and loans	(26,391)	(26,915)
System development fees	6,750	5,750
Grant proceeds		99,990
Net cash provided (used) by financing activities	<u>(71,887)</u>	<u>(79,606)</u>
Cash flows from investing activities:		
Interest on cash and investments	6,366	6,044
Increase in Certificates of Deposit	(30,104)	(10,014)
(Increase) decrease in restricted accounts	203	342
Net cash provided (used) by investing activities	<u>(23,535)</u>	<u>(3,628)</u>
Net increase (decrease) in cash and cash equivalents	29,092	23,638
Beginning cash and cash equivalents	42,306	18,668
Ending cash and cash equivalents	<u>\$ 71,398</u>	<u>\$ 42,306</u>
Reconciliation of income (loss) from operations to		
net cash provided (used) by operating activities:		
Income (Loss) from operations	\$ 103,073	\$ 71,154
Adjustments to reconcile income (loss) from operations		
to net cash provided (used) by operating activities:		
Depreciation and amortization	35,388	31,220
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(11,780)	2,423
(Increase) decrease in prepaids	89	3,731
(Increase) decrease in inventory	(1,978)	(3,607)
Increase (decrease) in payables	(278)	1,951
Net cash provided (used) by operating activities	<u>\$ 124,514</u>	<u>\$ 106,872</u>

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

RURAL WATER DISTRICT NO. 6,
KAY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water District No. 6, Kay 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 a water system.

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, Kay 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.

Restricted Assets

Restricted assets are cash and cash equivalents, whose use is limited by legal requirements. Restricted cash with fiscal agent represents amounts required by debt covenant to be segregated for debt payments and accrued interest on the notes.

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.

RURAL WATER DISTRICT NO. 6
 KAY COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JULY 31, 2011 AND 2010

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 year ended July 31, 2011 was \$34,672. The following is a summary by category of changes in property and equipment:

<u>Category</u>	<u>7/31/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>7/31/11</u>
Land	\$ 59,696	\$	\$	\$ 59,696
Vehicles	38,683			38,683
Buildings and improvements	25,026	995		26,021
Waterline system	928,042	35,631		963,673
Furniture and equipment	13,309	620		13,929
Salt Fork River Crossing	20,000			20,000
Accumulated depreciation	(142,940)	(34,672)		(177,612)
Net	<u>\$ 941,816</u>	<u>\$ 2,574</u>	<u>\$</u>	<u>\$ 944,390</u>

NOTE 4 -- NOTES PAYABLE:

On December 30, 2002 the District entered into a note agreement with the Oklahoma Water Resources Board for \$660,000. The proceeds from this note were used to finance the purchase of the assets of Hunter Rural Water Corporation, to pay loan costs and to set up debt and reserve accounts. In May 2005, this note was converted from a variable rate to a fixed rate. The interest rate is 4.855% and matures on October 1, 2032.

RURAL WATER DISTRICT NO. 6
 KAY COUNTY, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JULY 31, 2011 AND 2010

NOTE 4 – NOTES AND LOANS 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>	<u>Totals</u>
7/31/12	\$ 15,000	\$ 25,839	\$ 40,839
7/31/13	15,000	25,253	40,253
7/31/14	15,000	24,646	39,646
7/31/15	15,000	24,040	39,040
7/31/16	20,000	23,280	43,280
7/31/17-7/31/21	100,000	103,311	203,311
7/31/22-7/31/26	130,000	75,689	205,689
7/31/27-7/31/31	160,000	40,201	200,201
7/31/32-7/31/33	75,000	3,910	78,910
Totals	<u>\$ 545,000</u>	<u>\$ 346,169</u>	<u>\$ 891,169</u>

NOTE 5 – ACCOUNTS RECEIVABLE:

The accounts receivable at July 31, 2011 consist of amounts due from customers for water services. The District uses the charge off method for recording bad debts.

NOTE 6 – AMORTIZATION OF LOAN COSTS:

The loan costs are being amortized over the life of the loan. Total amortization for the years ended July 31, 2011 and 2010 was \$716 and \$716 respectively.

NOTE 7 – 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 year ended July 31, 2011 and 2010 was \$3,139 and \$3,319 respectively.

RURAL WATER DISTRICT NO. 6
KAY COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2011 AND 2010

NOTE 8 – INVESTMENTS:

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.

NOTE 9 – DEPOSITS, INVESTMENTS AND COLLATERAL:

At July 31, 2011 and 2010, all of the District's deposits were covered by Federal Depository Insurance Corporation.

NOTE 10 – 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 11 – 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 12 – CONTINGENCIES:

As of July 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 13 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through October 17, 2011, the date which the financial statements were available to be issued.