

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

**ANNUAL FINANCIAL STATEMENTS**

**YEARS ENDED JULY 31, 2015 AND 2014**

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, 2015 and 2014 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, 2015 and 2014; 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 October 13, 2015 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.

 CPA, PC

Kimberly R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
October 13, 2015

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, 2015 and have issued our report thereon dated October 13, 2015. 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**

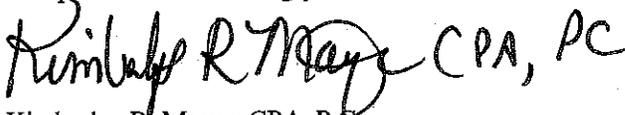
As part of obtaining reasonable assurance about whether Rural Water District No. 6, Garfield County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could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

 Kimberley R. Mayer, CPA, PC

Kimberlye R. Mayer, CPA, P.C.

Blackwell, Oklahoma

October 13, 2015

RURAL WATER DISTRICT NO. 6, GARFIELD COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JULY 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  
GARFIELD COUNTY, OKLAHOMA  
STATEMENTS OF NET POSITION  
JULY 31, 2015 AND 2014

ASSETS

Current Assets:	2015	2014
Operating accounts	\$ 83,367	\$ 180,184
Certificates of deposit	56,544	320,615
Total Cash and Cash Equivalents	139,911	500,799
Accounts receivable	40,293	30,029
Prepaid insurance	7,319	7,884
Inventory	27,318	25,406
Total Current Assets	214,841	564,118
Restricted Assets:		
Restricted accounts		64,340
Non-current Assets:		
Property and equipment (net of accumulated depreciation) (Note 3)	1,065,915	1,071,824
Construction in progress		
Total Assets	\$ 1,280,756	\$ 1,700,282

LIABILITIES AND NET POSITION

Current Liabilities:		
Accounts payable	\$ 10,367	\$ 10,412
Payroll taxes due	3,015	2,791
Notes payable (current portion) (Note 4)		15,000
Total Current Liabilities	13,382	28,203
Non-current Liabilities:		
Notes payable, long term (Note 4)		485,000
Total Liabilities	13,382	513,203
Net Position:		
Net investment in capital assets	1,065,915	571,824
Restricted for debt service		64,340
Unrestricted	201,459	550,915
Total Net Position	1,267,374	1,187,079
Total Liabilities and Net Position	\$ 1,280,756	\$ 1,700,282

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, 2015 AND 2014

	2015	2014
Operating Revenue:		
Water service	\$ 413,096	\$ 384,996
Late fees	7,205	6,562
Management fees	8,503	8,724
Other revenues	10,533	6,722
Total Operating Revenue	439,337	407,004
Operating Expense:		
Wages	120,867	114,107
Payroll taxes	9,976	9,336
Employee benefits	22,301	21,553
Water costs	27,466	21,691
Contract services	10,418	8,282
Chemicals	9,820	5,741
Vehicle costs	8,742	12,231
Repairs, maintenance and supplies	24,616	46,734
Insurance	11,954	13,256
Dues, memberships and lab fees	2,585	5,033
Professional fees	22,270	3,363
Office supplies and postage	5,895	6,699
Board expenses	5,359	4,711
Utilities and telephone	20,408	20,419
Other expenses	2,999	7,543
Depreciation	51,551	46,299
Total Operating Expense	357,227	346,998
Income (Loss) From Operations	82,110	60,006
Non-operating Revenue (Expense):		
Grant income		68,000
Interest income	3,128	5,017
Membership fees	11,250	5,250
Line extension fees	19,263	10,718
Interest expense	(35,456)	(24,646)
Total Non-operating Revenue (Expense)	(1,815)	64,339
Change in Net Position	80,295	124,345
Net Position, beginning of year	1,187,079	1,062,734
Net Position, end of year	\$ 1,267,374	\$ 1,187,079

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, 2015 AND 2014

Cash Flows From Operating Activities:	2015	2014
Cash received from customers	\$ 418,540	\$ 392,156
Other operating cash receipts	10,533	15,946
Cash payments to suppliers for goods and services	(185,977)	(195,301)
Cash payments to employees for services	(120,867)	(114,107)
Net cash provided (used) by operating activities	<u>122,229</u>	<u>98,694</u>
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(45,642)	(107,810)
Principal paid on notes and loans	(500,000)	(15,000)
Interest paid on notes and loans	(35,456)	(24,646)
System development fees	30,513	15,968
Grant income		68,000
Net cash provided (used) by financing activities	<u>(550,585)</u>	<u>(63,488)</u>
Cash flows from investing activities:		
Interest on cash and investments	3,128	5,017
(Increase) decrease in restricted accounts	64,340	199
Net cash provided (used) by investing activities	<u>67,468</u>	<u>5,216</u>
Net increase (decrease) in cash and cash equivalents	(360,888)	40,422
Beginning cash and cash equivalents	500,799	460,377
Ending cash and cash equivalents	<u>\$ 139,911</u>	<u>\$ 500,799</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Income (Loss) from operations	\$ 82,110	\$ 60,006
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	51,551	46,299
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(10,264)	1,098
(Increase) decrease in prepaids	565	40
(Increase) decrease in inventory	(1,912)	(410)
Increase (decrease) in payables	179	(8,339)
Net cash provided (used) by operating activities	<u>\$ 122,229</u>	<u>\$ 98,694</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, 2015 AND 2014

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.

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 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, 2015 AND 2014

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, 2015 was \$51,551. The following is a summary by category of changes in property and equipment:

<u>Category</u>	<u>7/31/14</u>	<u>Additions</u>	<u>Deletions</u>	<u>7/31/15</u>
Land	\$ 59,696	\$	\$	\$ 59,696
Vehicles	36,027			36,027
Buildings and improvements	26,021			26,021
Waterline system	1,100,746	34,535		1,135,281
Furniture and equipment	98,698	11,107		109,805
Salt Fork River Crossing	20,000			20,000
Accumulated depreciation	(269,364)	(51,551)		(320,915)
Net	<u>\$ 1,071,824</u>	<u>\$ (5,909)</u>	<u>\$</u>	<u>\$ 1,065,915</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. This note was paid off during the year ending July 31, 2015

NOTE 5 - ACCOUNTS RECEIVABLE:

The accounts receivable at July 31, 2015 consisted of amounts due from customers for water services. The District uses the charge off method for recording bad debts.

RURAL WATER DISTRICT NO. 6,  
GARFIELD COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JULY 31, 2015 AND 2014

NOTE 6 – 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, 2015 and 2014 was \$2,540 and \$2,419 respectively.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The District's financial instruments include cash and cash equivalents, 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 values 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 8 – 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 9 – 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, 2015.

NOTE 10 – 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, 2015 AND 2014

NOTE 11 – CONTINGENCIES:

As of July 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 12 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through October 13, 2015, the date which the financial statements were available to be issued.