

**RURAL WATER DISTRICT NO. 6
GARFIELD COUNTY, OKLAHOMA
ANNUAL FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2014 AND 2013**

RURAL WATER DISTRICT NO. 6,
GARFIELD COUNTY, OKLAHOMA
TABLE OF CONTENTS
YEARS ENDED JULY 31, 2014 AND 2013

	Page
INTRODUCTORY SECTION:	
Table of Contents	i
FINANCIAL SECTION:	
Independent Auditor's Report	1-2
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 <i>Government Auditing Standards</i>	3-5
Financial Statements:	6
Statements of Net Position	7
Statements of Revenues and Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial statements	10-13

Kimberlye R. Mayer, CPA, P.C.

723 West Doolin

Blackwell, OK 74631

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

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, 2014 and 2013 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, 2014 and 2013; 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.

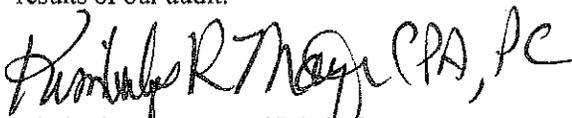
Other Matters

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 23, 2014 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 L. Mayer, CPA, PC.

Blackwell, Oklahoma

October 23, 2014

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, 2014 and have issued our report thereon dated October 23, 2014. 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

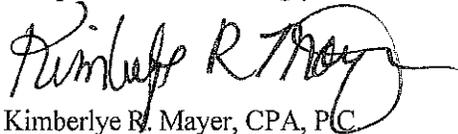
As part of obtaining reasonable assurance about whether Rural Water District No. 6, Garfield County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could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



Kimberlye R. Mayer, CPA, PC

Blackwell, Oklahoma

October 23, 2014

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

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, 2014 AND 2013

ASSETS

	2014	2013
Current Assets:		
Operating accounts	\$ 180,184	\$ 168,002
Certificates of deposit	320,615	292,375
Total Cash and Cash Equivalents	<u>500,799</u>	<u>460,377</u>
Accounts receivable	30,029	31,127
Prepaid insurance	7,884	7,924
Inventory	25,406	24,996
Total Current Assets	<u>564,118</u>	<u>524,424</u>
Restricted Assets:		
Restricted accounts	64,340	64,540
Non-current Assets:		
Property and equipment (net of accumulated depreciation) (Note 3)	1,071,824	1,010,313
Construction in progress	<u> </u>	<u> </u>
Total Assets	<u><u>\$ 1,700,282</u></u>	<u><u>\$ 1,599,277</u></u>

LIABILITIES AND NET POSITION

Current Liabilities:		
Accounts payable	\$ 10,412	\$ 18,738
Payroll taxes due	2,791	2,805
Notes payable (current portion) (Note 4)	15,000	15,000
Total Current Liabilities	<u>28,203</u>	<u>36,543</u>
Non-current Liabilities:		
Notes payable, long term (Note 4)	<u>485,000</u>	<u>500,000</u>
Total Liabilities	513,203	536,543
Net Position:		
Net investment in capital assets	571,824	495,313
Restricted for debt service	64,340	64,540
Unrestricted	550,915	502,881
Total Net Position	<u>1,187,079</u>	<u>1,062,734</u>
Total Liabilities and Net Position	<u><u>\$ 1,700,282</u></u>	<u><u>\$ 1,599,277</u></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, 2014 AND 2013

	2014	2013
Cash Flows From Operating Activities:		
Cash received from customers	\$ 392,156	\$ 443,698
Other operating cash receipts	15,946	9,058
Cash payments to suppliers for goods and services	(195,301)	(156,050)
Cash payments to employees for services	(114,107)	(110,657)
Net cash provided (used) by operating activities	98,694	186,049
 Cash flows from non-capital financing activities:		
 Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(107,810)	(76,761)
Principal paid on notes and loans	(15,000)	(15,000)
Interest paid on notes and loans	(24,646)	(25,253)
System development fees	15,968	24,595
Grant income	68,000	
Net cash provided (used) by financing activities	(63,488)	(92,419)
 Cash flows from investing activities:		
Interest on cash and investments	5,017	9,588
(Increase) decrease in restricted accounts	199	(194)
Net cash provided (used) by investing activities	5,216	9,394
 Net increase (decrease) in cash and cash equivalents	40,422	103,024
Beginning cash and cash equivalents	460,377	357,353
Ending cash and cash equivalents	\$ 500,799	\$ 460,377
 Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Income (Loss) from operations	\$ 60,006	\$ 121,647
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation	46,299	38,988
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	1,098	9,282
(Increase) decrease in prepaids	40	5
(Increase) decrease in inventory	(410)	1,121
Increase (decrease) in payables	(8,339)	15,006
Net cash provided (used) by operating activities	\$ 98,694	\$ 186,049

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, 2014 AND 2013

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, 2014 AND 2013

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, 2014 was \$46,299. The following is a summary by category of changes in property and equipment:

<u>Category</u>	<u>7/31/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>7/31/14</u>
Land	\$ 59,696	\$	\$	\$ 59,696
Vehicles	36,027			36,027
Buildings and improvements	26,021			26,021
Waterline system	1,005,995	94,751		1,100,746
Furniture and equipment	85,639	13,059		98,698
Salt Fork River Crossing	20,000			20,000
Accumulated depreciation	(223,065)	(46,299)		(269,364)
Net	<u>\$ 1,010,313</u>	<u>\$ 61,511</u>	<u>\$</u>	<u>\$ 1,071,824</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
GARFIELD COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2014 AND 2013

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>
7/31/15	\$ 15,000	\$ 24,040	\$ 39,040
7/31/16	20,000	23,280	43,280
7/31/17	20,000	22,406	42,406
7/31/18	20,000	21,506	41,506
7/31/19	20,000	20,615	40,615
7/31/20-7/31/24	115,000	87,954	202,954
7/31/25-7/31/29	145,000	55,425	200,425
7/31/30-7/31/33	145,000	14,196	159,196
Totals	<u>\$ 500,000</u>	<u>\$ 269,422</u>	<u>\$ 769,422</u>

NOTE 5 – ACCOUNTS RECEIVABLE:

The accounts receivable at July 31, 2014 consist of amounts due from customers for water services. The District uses the charge off method for recording bad debts.

NOTE 6 – LOAN COSTS:

Prior to July 31, 2014, the loan costs were being amortized over the life of the loan. GASB Statement 65 was issued which states that debt issuance costs should be expensed in the period incurred. Because Statement 65 is retroactive, a restatement of the financial statements for the year ended July 31, 2013 was required to remove any unamortized debt issuance costs off the balance sheet.

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, 2014 and 2013 was \$2,419 and \$2,400 respectively.

NOTE 8 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The District's financial instruments include cash and cash equivalents, inventory, 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 values of its financial instruments recorded in the accompanying statement of net assets. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

RURAL WATER DISTRICT NO. 6
GARFIELD COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JULY 31, 2014 AND 2013

NOTE 9 – 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 10 – DEPOSITS, INVESTMENTS AND COLLATERAL:

At July 31, 2014 and 2013, all of the District's deposits were covered by Federal Depository Insurance Corporation.

NOTE 11 – 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 12 – 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 13 – CONTINGENCIES:

As of July 31, 2014, 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 14 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through October 23, 2014, the date which the financial statements were available to be issued.