

Garvin County Rural Water District #1

Annual Financial Report

For the Fiscal Year Ended October 31, 2011

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Garvin County Rural Water District #1
Table of Contents

Introductory Section

List of Officials	1
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Financial Section

Independent Auditor's Report	2
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Basic Financial Statements:

Statement of Assets, Liabilities and Net Assets – Modified Cash Basis	4
Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis	5
Statement of Cash Flows – Modified Cash Basis	6
Notes to the Financial Statements	7

Supplementary Information:

Schedule of Debt Service Requirement	13
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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>	15
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Schedule of Findings and Responses	17
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Garvin County Rural Water District #1

List of Officials

October 31, 2011

Chairman

Jim Campbell

Vice-Chairman

Rick Campbell

Secretary/Treasurer

Delois Crouch

Member

Tim Tate

Member

Mark Gammill



Independent Auditor's Report

Board of Trustees
Garvin County Rural Water District #1
Pauls Valley, Oklahoma

We have audited the accompanying statement of assets, liabilities and net assets – modified cash basis of Garvin County Rural Water District #1 (the District) as of October 31, 2011, and the related statements of revenues, expenses and changes in net assets – modified cash basis and cash flows – modified cash basis for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on those 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 about 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note I, the Garvin County Rural Water District #1 prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position – modified cash basis of the Garvin County Rural Water District #1, as of October 31, 2011, and the changes in financial position and cash flows – modified cash basis for the year then ended in conformity with the basis of accounting described in Note I.

In accordance with *Government Auditing Standards*, we have issued our report dated June 4, 2012, on our consideration of Garvin County Rural Water District #1's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Garvin County Rural Water District #1 as a whole. The accompanying Schedule of Debt Service Requirement is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records use to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma

June 4, 2012

Garvin County Rural Water District #1
Statement of Assets, Liabilities, and Net Assets – Modified Cash Basis
October 31, 2011

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 163,902
Certificates of deposit	70,142
Inventory	<u>15,107</u>
Total Current Assets	249,151
Plant, Property and Equipment:	
Capital assets, net of depreciation	<u>736,598</u>
Total Assets	<u>\$ 985,749</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Current portion of long-term debt	<u>\$ 21,355</u>
Total Current Liabilities	21,355
Noncurrent Liabilities:	
Notes payable	<u>325,274</u>
Total Liabilities	<u>346,629</u>
Net Assets:	
Invested in capital assets, net of debt	389,968
Unrestricted	<u>249,152</u>
Total Net Assets	<u>\$ 639,120</u>

The notes to the financial statements are an integral part of this statement.

Garvin County Rural Water District #1
Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis
For the Year Ended October 31, 2011

Operating Revenue:	
Water sales	\$ 294,962
Meter benefits	18,750
Late penalties	3,394
Miscellaneous	<u>5,111</u>
Total Operating Revenue	<u>322,217</u>
Operating Expenses:	
Payroll	71,097
Depreciation	53,456
Maintenance, repairs and supplies	42,873
Water purchases	29,979
Employee benefits	10,862
Contract labor	11,588
Utilities	11,834
Accounting, legal, and bank	4,010
Insurance	10,625
Rent	3,600
Vehicle expense	5,026
Office expense	10,467
Annual meeting	2,394
Memberships and water testing	3,096
Interest Expense	<u>8,785</u>
Total Operating Expenses	<u>279,692</u>
Income from Operations	<u>42,525</u>
Nonoperating Revenue (Expense):	
Interest Revenue	<u>1,709</u>
Net Nonoperating Revenue	<u>1,709</u>
Net Change in Net Assets	44,234
Net Assets, beginning of year	<u>594,886</u>
Net Assets, end of year	<u><u>\$ 639,120</u></u>

The notes to the financial statements are an integral part of this statement.

Garvin County Rural Water District #1
Statement of Cash Flows – Modified Cash Basis
For the Year Ended October 31, 2011

Cash Flows from Operating Activities:	
Cash received from customers	\$ 322,217
Cash payments to suppliers for goods and services	(137,350)
Cash payments to employees for services	(83,024)
Net Cash Provided by Operating Activities	<u>101,843</u>
Cash Flows from Capital Financing Activities:	
Principal paid on capital debt	(18,849)
Interest paid on capital debt	(8,785)
Purchase of fixed assets	(3,231)
Net Cash Used by Capital Financing Activities	<u>(30,865)</u>
Cash Flows from Investing Activities:	
Cash paid to purchase investments	(1,248)
Interest revenue	1,709
Net Cash Provided by Investing Activities	<u>461</u>
Net Increase in Cash and Cash Equivalents	71,439
Cash and Cash Equivalents, beginning of year	<u>92,463</u>
Cash and Cash Equivalents, end of year	<u>\$ 163,902</u>

***Reconciliation of Operating Income to Net Cash
Provided by Operating Activities:***

Operating Income	\$ 42,525
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	53,455
Interest on Capital Debt	8,785
Change in :	
Inventory	(1,857)
Payroll Liabilities Withheld	<u>(1,065)</u>
Net Cash Provided by Operating Activities	<u>\$ 101,843</u>
Noncash Capital Financing Activities	
Capital assets of \$135,000 were acquired through a note payable.	
Interest paid	<u>\$ 8,785</u>

The notes to the financial statements are an integral part of this statement.

Garvin County Rural Water District #1
Notes to the Financial Statements
October 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The Garvin County Rural Water District #1 (“District”) is a rural water district created and existing under Title 82 Oklahoma statutes 1981, Section 1324.1-1324.26 as amended. As a numbered water district, it is considered to be a governmental unit.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The District is a proprietary fund that accounts for activities related to the provision of water services to businesses and residents.

The District’s proprietary fund is accounted for using the modified cash basis of accounting modified as follows:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Inventory is recorded as an asset when purchased.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first, then unrestricted resources as they are needed.

Garvin County Rural Water District #1
Notes to the Financial Statements
October 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

C. Assets, Liabilities and Net Assets or Equity

Deposits and Investments

For purposes of the statement of cash flows, the District considers short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents

The District's investment activities are governed by the Oklahoma State Statute Title 62 Section 348.1. The statute defines the types of securities authorized as appropriate investments as follows:

- I. Direct obligations of the United State Government, its agencies or instrumentalities to the payment of which the full faith and credit of Government of the United States is pledged, or obligations to the payments of which the full faith and credit of the State of Oklahoma is pledged;
- II. Collateralized or insured certificate of deposits of savings and loan associations, banks, savings banks and credit unions locating in the state when properly collateralized as provided in Section 516.3 of Title 62 or fully insured certificates of deposit at banks, savings banks, savings and loan associations and credit unions located out of state.
- III. Savings accounts or saving certificates of savings and loan associations, banks, and credit unions, to the extent that the accounting or certificates are fully insured by the Federal Deposit Insurance Corporation.
- IV. Bonds of cities, school districts or counties within the State of Oklahoma.

Inventories

All inventories are valued at cost using the first-in / first-out (FIFO) method. Inventories are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets, which include equipment, buildings, building improvements and water system assets are defined by the District as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Garvin County Rural Water District #1

Notes to the Financial Statements

October 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

C. Assets, Liabilities and Net Assets or Equity – (continued)

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives of five to thirty years.

Net Assets

Net assets are divided into two components:

- *Invested in Capital Assets, net of related debt* – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- *Unrestricted Net Assets* – all other net assets are reported in this category.

II. Deposits & Investments

Deposit Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District policy regarding custodial credit risk requires collateral for all deposits in excess of Federal Deposit Insurance Corporation. At October 31, 2011, the bank balance was \$171,019. This entire amount was insured and collateralized. The City held \$70,142 in a certificate of deposit at the bank at year end, and was insured.

III. Capital Assets

Capital asset activity for the year ended October 31, 2011 was as follows:

	<i>Beginning</i>			<i>Ending</i>
	<i>Balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Balance</i>
Equipment	\$ 63,728	\$ -	\$ -	\$ 63,728
Building	-	135,000	-	135,000
Building Improvements	-	2,204	-	2,204
Office Equipment	11,787	-	-	11,787
Water System	1,473,617	1,025	-	1,474,642
<i>Total Capital Assets, being depreciated</i>	1,549,132	138,229	-	1,687,361
Less: Accumulated Depreciation	897,308	53,455	-	950,763
<i>Total Capital Assets, net</i>	<u>\$ 651,824</u>	<u>\$ 84,774</u>	<u>\$ -</u>	<u>\$ 736,598</u>

Garvin County Rural Water District #1

Notes to the Financial Statements

October 31, 2011

IV. Long-Term Liabilities

A summary of long-term liability activity for the year ended October 31, 2011, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Marcum Building Note Payable	\$ -	\$ 135,000	\$ 8,370	\$ 126,630	\$ 10,452
Oklahoma Water Resources Board	230,478	-	10,479	219,999	10,903
	<u>\$ 230,478</u>	<u>\$ 135,000</u>	<u>\$ 18,849</u>	<u>\$ 346,629</u>	<u>\$ 21,355</u>

Long-term liabilities at October 31, 2011, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at October 31, 2011
Oklahoma Water Resources Board Note Payable (financed construction of new water tower)	March, 2028	3.05%	Variable	\$ 264,587	\$ 219,999
Marcum Building Note Payable (purchase of buildings)	July 2021	5.00%		135,000	126,630

As of October 31, 2011, annual debt service requirements to maturity are as follows:

Year Ending	Principal	Interest
June 30		
2012	21,355	13,741
2013	22,275	12,824
2014	23,235	11,865
2015	24,239	10,864
2016	25,287	9,819
2017-2021	138,320	31,421
2022-2026	82,767	9,765
2027	9,151	159
	<u>\$ 346,629</u>	<u>\$ 100,458</u>

The loan agreement provides, among other things, that annual net revenues (gross revenues less operating and maintenance expenses excluding interest expense, depreciation, capital expenditures and reserve replacement) received by the District are pledged for the payment of the interest and timely retirement of debt. The District at all times will maintain schedules of rates and charges for services rendered through the mortgaged property which will provide annual net revenues available for debt service equal to not less than one and one-quarter (1.25) times the maximum annual amount required for the debt service.

Garvin County Rural Water District #1

Notes to the Financial Statements

October 31, 2011

V. Risk Management

The District is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

General Liability, Physical Property and Automobile Liability/Physical Damage

General liability, physical property and automobile liability/physical damage are insured through the Oklahoma Rural Water Association Assurance Group risk entity pool. Deductibles range from \$250. Risk of loss retained is limited to the excess of insurance liability coverage limits set by ORWA.

Worker's Compensation

Workers' compensation is insured through Rural Water Association Assurance Group. Risk of loss retained is limited to the excess of insurance liability coverage limits set by Rural Water Association Assurance Group.

VI. Subsequent Events

After year end, the District purchased additional water rights, wells and land for approximately \$100,000.

***SUPPLEMENTARY
INFORMATION***

Garvin County Rural Water District #1
 Supplemental Schedule I - Schedule of Debt Service Requirement
 For the Year Ended October 31, 2011

Below is an analysis of revenue maintenance requirement for the year ended October 31, 2011:

Maximum Annual Debt Service Requirments	\$ 35,096	
		<u>125.00%</u>
Net Revenues Requirement	\$ 43,870	<u> </u>
Operating Revenue	322,217	
Operating Expenses	(279,692)	
Add Back:		
Depreciation	53,456	
Interest Expense	8,785	<u> </u>
Net Revenue Available for Debt Service		<u>104,766</u>
Excess of Net Revenue over Maximum Annual Debt Service Requirements		<u><u>\$ 60,896</u></u>

***INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL
AND COMPLIANCE***



**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 Trustees
Garvin County Rural Water District #1
Pauls Valley, Oklahoma

We have audited the financial statements of Garvin County Rural Water District #1 as of and for the year ended October 31, 2011, and have issued our report thereon dated June 4, 2012. Our report on the financial statements disclosed that, as described in Note I to the financial statements, the District prepares its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. 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.

Internal Control Over Financial Reporting

Management of Garvin County Rural Water District #1 is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered Garvin County Rural Water District #1's internal control over financial reporting as a basis for 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 Garvin County Rural Water District #1's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Garvin County Rural Water District #1'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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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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 a combination of 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 deficiencies 2011-1 and 2011-2 described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Garvin County Rural Water District #1's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

Garvin County Rural Water District #1's response to findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Trustees, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma

June 4, 2012

Garvin County Rural Water District #1
Schedule of Findings and Responses
October 31, 2011

2011-1 Financial Reporting

Condition – The internal control structure of the District has focused primarily on operations. As part of the audit, management has engaged the auditors to assist in the preparation of the financial statements. However, the District does not currently have a control system in place to detect and correct misstatements in the financial statements or for determining the appropriate financial statement disclosures.

Criteria – Effective internal control over financial reporting includes the identification and analysis of the risk of material misstatements in the financial statements. Management of the District is responsible for designing a system to manage the risks over preparation of the financial statements. The responsibility for the financial statements remains with management even when the preparation of the financial statements is transferred to a service provider. A competent individual with sufficient awareness of or experience in accounting principles and disclosure requirements should be designated to oversee the preparation of the financial statements. The Board of Trustees must weigh the costs and benefits of having an individual available, whether internally or externally, to allow for an appropriately designed system.

Context – Beginning net assets did not agree to the prior year audited amount. Material adjustments were made to properly state long term debt activity and capital assets. Staff does not have the background to determine disclosures are appropriate.

Effect – Material Adjustment was necessary.

Cause – Staff has not been trained in the year-end reporting process as it relates to entries needed. In addition, staff focus on daily operations and do not have the training to be in a position to be aware of disclosure requirements.

Recommendation – We recommend that the District evaluate the cost of engaging a third party or hiring an employee with sufficient awareness of or experience in accounting principles to allow for the design of an adequate financial reporting internal control system.

Management Response – It would not be economically feasible to provide additional resources to resolve this issue.

Garvin County Rural Water District #1
Schedule of Findings and Responses
October 31, 2011

2011-2 Segregation of Duties

Condition – The District does not have enough employees to provide segregation of accounting duties.

Criteria – Segregation of duties is necessary to ensure internal accounting controls.

Context – Internal Control

Effect – Internal controls may be compromised by the lack of segregation of duties.

Cause – Small number of employees.

Recommendation – The District should consider ways to segregate accounting functions to establish adequate internal controls including adding staff or having board members involved in approval process.

Management Response – It would not be cost effective to hire additional administrative employees to achieve adequate segregation of accounting functions.