

Independent Auditor's Report

Grady County Rural Water District No. 6

Amber, Oklahoma

June 30, 2012

GRADY COUNTY RURAL WATER DISTRICT NO. 6
AMBER, OKLAHOMA
June 30, 2012

Table of Contents

	Page
Independent Auditor's Report	A – 1

Basic Financial Statements

Statement of Net Assets – Modified Cash Basis – Proprietary Fund Type	B – 1
Statement of Revenues, Expenses, and Changes in Net Assets – Modified Cash Basis - Proprietary Fund Type	B – 2
Statement of Cash Flows – Modified Cash Basis – Proprietary Fund Type	B – 3
Notes to Financial Statements	C – 1

Other Supplementary Information

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>	D – 1
Schedule of Findings and Recommendations	E – 1
Disposition of Prior Year Audit Exceptions	F – 1
Schedule of Insurance Coverage	G – 1

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Grady County Rural Water District No. 6
Amber, Oklahoma

We have audited the accompanying modified cash basis financial statements of the business-type activities of the **Grady County Rural Water District No. 6**, Amber, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these 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 the 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 opinions.

As discussed in Note 1, the District 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the business-type activities of the District as of June 30, 2012, and the respective changes in financial position-modified cash basis and cash flows, thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 27, 2012 on our consideration of the District's internal control over financial reporting and 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.

Angel, Johnston & Blasingame, P.C.
Certified Public Accountants

Chickasha, Oklahoma
December 27, 2012

GRADY COUNTY RURAL WATER DISTRICT NO. 6
AMBER, OKLAHOMA
STATEMENT OF NET ASSETS
-Modified Cash Basis-
Proprietary Fund Types
For the Year Ended June 30, 2012

<u>ASSETS</u>	<u>June 30, 2012</u>
Current Assets	
Gross Revenue Fund - Cash	\$ 584,205
Maintenance and Operation Fund - Cash	9,236
Reserve Fund - MMF - Cash	68,996
Petty Cash Fund	493
Certificates of Deposit - O&M Fund	58,637
Construction Account	7,902
Membership Deposit Cash	59,910
Petty Cash	7
<i>Total Current Assets</i>	<u>789,386</u>
Fixed Assets	
Land	213,521
Construction in Process	14,915
Furniture and Fixtures	20,502
Machinery and Equipment	102,850
Vehicles	70,928
Buildings	70,427
Water System	3,269,944
<i>Total</i>	<u>3,763,087</u>
Less: Accumulated Depreciation	<u>(2,381,494)</u>
<i>Total Fixed Assets</i>	<u>1,381,593</u>
 <i>Total Assets</i>	 <u><u>2,170,979</u></u>
 LIABILITIES	
Current Liabilities	
Prepaid Membership	1,725
Cogar Well Project Membership	52,000
Customer Deposit Liability	54,302
Payroll Taxes Payable	5,020
Current Portion Long-Term Debt	69,516
Notes Payable - FNB	160,000
<i>Total Current Liabilities</i>	<u>342,563</u>
Non Current Liabilities	
Notes Payable - USDA	797,955
<i>Total Liabilities</i>	<u>1,140,518</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	354,123
Restricted	131,199
Unrestricted	545,139
<i>Total Net Assets</i>	<u><u>\$ 1,030,461</u></u>

The accompanying notes are an integral part of the financial statements.

GRADY COUNTY RURAL WATER DISTRICT NO. 6
AMBER, OKLAHOMA
Statement of Revenues, Expenses, and Changes in Net Assets
-Modified Cash Basis-
Proprietary Fund Types
For the Year Ended June 30, 2012

Operating Revenue	June 30, 2012
Water Revenue	\$ 1,456,753
Memberships and Meter Installations	37,292
Late Payment Fees	30,994
Reimbursements	22,500
Miscellaneous Fees	6,926
Other Revenue	4,284
Water Line Repair/Other	5,784
Construction	4,587
<i>Total Operating Revenue</i>	<u>\$ 1,569,120</u>
Cost of Goods Sold	
Cost of Goods Sold	(519,181)
<i>Total Gross Income</i>	<u>1,049,939</u>
Operating Expenses	
Accounting and Legal	15,745
Advertising	244
Backhoe Work	2,900
Contract Labor	5,749
Insurance and Bonds	64,317
Maintenance and Operations	74,070
Miscellaneous	9,555
Office Expense and Postage	14,659
Payroll Taxes	13,105
Professional Fees - Engineering	770
Retirement Expense	11,255
Salaries and Wages	164,845
Truck & Auto	26,688
Utilities and Telephone	42,504
<i>Total Operating Expenses</i>	<u>\$ 446,406</u>
<i>Operating Income before Depreciation</i>	\$ 603,533
Depreciation Expense	(69,508)
<i>Operating Income (Loss)</i>	<u>\$ 534,025</u>
Non Operating Revenues (Expense)	
Interest Revenue	1,323
Interest Expense	(51,402)
Gain (Loss) on Sale of Assets	-
<i>Total Non Operating Revenues (Expenses)</i>	<u>\$ (50,079)</u>
<i>Net Income (Loss)</i>	\$ 483,946
<i>Net Assets - Beginning of Year</i>	546,515
<i>Net Assets - End of Year</i>	<u><u>\$ 1,030,461</u></u>

The accompanying notes are an integral part of the financial statements.

GRADY COUNTY RURAL WATER DISTRICT NO. 6
AMBER, OKLAHOMA
Statement of Cash Flows
- Modified Cash Basis -
Proprietary Funds
For the Year Ended June 30, 2012

	<u>June 30, 2012</u>
Cash Flows from Operating Activities	
Cash Receipts from customers	\$ 1,558,236
Other Receipts	4,284
Customer deposits - meter	6,600
Customer deposits - Cogar Well	2,000
Payments to employees	(189,205)
Payments for water purchases	(519,181)
Payments to suppliers	(251,780)
<i>Net Cash Provided by (used for) Operating Activities</i>	<u>610,954</u>
Cash Flows from Capital and Related Financing Activities	
Purchases of capital assets	(132,334)
Principal Payment	(76,137)
Interest Expense	(51,401)
<i>Net Cash Provided by (used for) Capital and Related Financing Activities</i>	<u>(259,872)</u>
Cash Flows from Investing Activities	
Interest Received	1,323
<i>Net Cash Provided by (used for) Investing Activities</i>	<u>1,323</u>
 <i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	 352,405
<i>Cash and Cash Equivalents - Beginning of Year</i>	436,981
<i>Cash and Cash Equivalents - End of Year</i>	<u><u>\$ 789,386</u></u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided by (used for) Operating Activities	
Operating income (loss)	534,025
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation Expense	69,508
Change in payroll taxes payable	1,820
Change in customer deposits - Cogar Well	2,000
Change in customer deposits - Meter	3,601
<i>Net Cash Provided by (used for) Operating Activities</i>	<u><u>\$ 610,954</u></u>

The accompanying notes are an integral part of the financial statements.

GRADY COUNTY RURAL WATER DISTRICT NO. 6
AMBER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1 – Summary of Significant Accounting Policies

The Grady County Rural Water District No. 6 complies with the accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units with a change for the modified cash basis. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent that they are applicable, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this note.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statements should include:
 - a. Management Discussion and Analysis (MD&A) section providing an analysis of the District’s overall financial position and results of operations.
 - b. Financial statements prepared using a full accrual accounting.
2. A change in the fund financial statements to focus on major funds.

However, the District only has a proprietary fund.

A. Financial Reporting Entity

Grady County Rural Water District No. 6, (the “District”), was incorporated under the laws of the State of Oklahoma in accordance with O.S. 82, as a subdivision of the State of Oklahoma. The District operates and maintains a water treatment and distribution system within Grady County, Oklahoma, and provides potable water services to members of the District. The governing board consists of five trustees with one acting as the Chairman. The District retains title to all assets which are acquired or constructed with District debt or other District generated resources.

The accompanying financial statements include all functions and activities over which the District exercises financial accountability. The District is considered a primary government as defined by the Governmental Accounting Standards Board (GASB) and has no other component units within its reporting entity.

GRADY COUNTY RURAL WATER DISTRICT NO. 6
AMBER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1 – Summary of Significant Accounting Policies (continued)

B. Basis of Presentation

Government Wide Financial Statements

The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. All the activities of the District are business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The funds of the financial reporting entity are described below:

Proprietary Fund Types

Enterprise Funds – These funds are established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. There are three funds within this fund type:

Gross Revenue – Collects the revenue generated by the water service provided by the District. Transfers funds as required to the Maintenance and Operations fund and the Reserve fund.

Maintenance and Operations – Maintained to pay the operating expenses of the District.

Reserve Fund – Required by loan agreement to be maintained to guarantee uninterrupted payments of outstanding loans.

C. Basis of Accounting and Measurement Focus

Basis of accounting refers to when revenues and expenditures/expenses are recognized and reported in the financial statements. This relates to the timing of the revenues, expenditures/expenses regardless of the measurement focus applied. Measurement focus identifies which transactions and events should be recorded.

GRADY COUNTY RURAL WATER DISTRICT NO. 6
AMBER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1 – Summary of Significant Accounting Policies (continued)

C. Basis of Accounting and Measurement Focus, (continued)

The fund financial statements are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures when they result from cash transactions with a provision for depreciation. Also, the unpaid payroll taxes are reflected in the statements since most of the liability is generated from taxes withheld from payroll. This basis is a comprehensive basis of accounting other than accounting principals generally accepted in the United States of America.

If the District used the basis of accounting required by generally accepted accounting principles, the financial statements would use the accrual basis of accounting. Under the modified accrual basis of accounting, revenues would be recognized when susceptible to accrual (i.e. both measurable and available) and expenditures would be recorded when the current liability is incurred. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred.

D. Assets, Liabilities and Equity

Cash & Cash Equivalents

For the purposes of the statement of cash flows, the District considers all cash on hand, demand deposits and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Accounts Receivable

As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

Fixed Assets and Property, Plant and Equipment

Fixed assets acquired by proprietary type funds are capitalized and accounted for as property, plant and equipment within the Enterprise Fund.

Recorded fixed assets are stated at historical cost or estimated historical cost if actual historical cost is not available. Depreciation of exhaustible fixed assets is charged as an expense against their operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated lives using the straight-line method. The estimated lives are as follows:

Buildings	25 – 30 years
Water & Sewer System	30 – 40 years
Machinery & Equipment	3 – 10 years
Furniture & Fixtures	3 – 10 years
Vehicles	5 years

GRADY COUNTY RURAL WATER DISTRICT NO. 6
AMBER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

D. Assets, Liabilities and Equity, (continued)

Long-Term Debt

Long-term debt to be repaid from District resources are reported as liabilities in the balance sheet. The long-term debt is presently comprised of seven USDA notes and one First National Bank Note. See Note 3-C.

Inventories

The District does not maintain inventories. Inventory items are expenses in the year purchased. This method of accounting is not in accordance with generally accepted accounting principles which require inventories to be established and expenses to be incurred only when an inventory item is used.

Restricted Assets

Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to customer deposits.

Equity Classifications

In the government-wide and proprietary fund financial statements, equity is classified as net assets and displayed in three components:

- a. *Invested in capital assets, net of related debt* – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributed to the acquisition, construction, or improvements of those assets.
- b. *Restricted net assets* – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. *Unrestricted net assets* – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

E. Differences from GAAP

For purposes of the operating statement, revenues and expenses are classified by operating expenses. The District reports expenses relating to use of economic resources including depreciation.

GRADY COUNTY RURAL WATER DISTRICT NO. 6
AMBER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1 – Summary of Significant Accounting Policies, (continued)

E. Differences from GAAP, (continued)

Basis of Accounting

As discussed in Note 1.B., the District uses the modified cash basis of accounting, which is a comprehensive basis of accounting other than GAAP.

NOTE 2 – Stewardship, Compliance and Accountability

A. Deposits and Investment Laws and Regulations

In accordance with O. S. Title 62, Section 516.3, all uninsured deposits of municipal funds and other political subdivisions in financial institutions must be secured with acceptable collateral valued at the lower of market or par. *Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of public trust funds in financial institutions. As of June 30, 2012, the District's bank balances of \$791,045.89 were not exposed to custodial credit risk.

B. Debt Restrictions and Covenants

The note indenture relating to the seven (7) USDA Rural Development notes of the District contains a loan resolution that requires that certain sums be set aside each month in a Reserve Account. The balance in the reserve account at June 30, 2012 was \$68,996. The total reserve amount should be \$118,716. To catch back up, the District is funding the reserve account at a rate of \$1,000 per month.

Note 3 – Detail Notes-Transaction Classes/Accounts

A. Restricted Assets

The amounts reported as restricted assets of the District on the balance sheet are comprised of amounts held by the District for utility deposits (refunded upon termination of service or applied to final bill), Cogar Well Service Membership Deposits and amounts relating to debt restrictions as listed in Note 2.B. The restricted assets as of June 30, 2012 were as follows:

GRADY COUNTY RURAL WATER DISTRICT NO. 6
AMBER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 3 – Detail Notes-Transaction Classes/Accounts, (continued)

A. Restricted Assets, (continued)

Type of Restricted Asset

	<u>6-30-2012</u>
Customers Meter Deposits	\$ 54,302
USDA Rural Development Reserve	68,995
Cogar Well Membership Deposits	<u>7,902</u>
 Total	 <u>\$ 131,199</u>

Cogar Well Membership Deposit

The District has started efforts to construct their own well located in Cogar, Oklahoma. The District has begun taking deposits from customers whom wish to acquire service from the District's Cogar well once the project is completed. Potential members are required to sign a membership agreement and pay the regular District membership fee of \$2,000 (\$1,500 prior to January 2011). A separate Construction bank account was set up to hold these funds until the project is completed with anticipation that the funds will be refunded to the customers if the project fails completion. Some of the funds have been used to pay for initial legal and professional fees associated with the project. The total Cogar Well Membership Deposit Liability as of June 30, 2012 is \$52,000. Of this amount, \$7,902 remains in the Construction bank account as restricted funds.

B. Property, Plant and Equipment

Fixed assets of the District were comprised of the following:

	<u>Balance</u> <u>6-30-11</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6-30-12</u>
Land	\$ 187,940	\$ 25,581	\$ 0	\$ 213,521
Construction on Process	4,365	10,550	0	14,915
Furniture and Fixtures	20,503	0	0	20,503
Machinery and Equipment	35,918	66,933	0	102,851
Vehicles	56,428	14,500	0	70,928
Buildings	70,427	0	0	70,427
Water System	<u>3,255,174</u>	<u>14,771</u>	<u>0</u>	<u>3,269,945</u>
 Total Capital Assets	 <u>\$ 3,630,755</u>	 <u>\$ 132,335</u>	 <u>\$ 0</u>	 <u>\$ 3,763,090</u>
 Accumulated Depreciation	 <u>\$ 2,311,986</u>	 <u>\$ 69,508</u>	 <u>\$ 0</u>	 <u>\$ 2,381,494</u>
 Net Fixed Assets	 <u>\$ 1,318,769</u>	 <u>\$ 62,827</u>	 <u>\$ 0</u>	 <u>\$ 1,381,596</u>

Depreciation expense for the year was \$69,508 and all was charged to the enterprise fund.

GRADY COUNTY RURAL WATER DISTRICT NO. 6
AMBER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 3 – Detail Notes-Transaction Classes/Accounts, (continued)

C. Long Term Debt

The District has entered into seven notes payable with Rural Economic and Community Development/USDA (formerly FmHA). The notes bear an interest rate of 4.5 to 5%.

	Principal Balance <u>06-30-11</u>	<u>Additions</u>	<u>Retirement</u>	Principal Balance <u>06-30-12</u>
RECD Notes Payable	\$ 943,608	\$ -0-	\$ 76,137	\$ 867,471

Debt service requirements for the next five years are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	69,515.91	41,136.09	110,652.00
2014	56,267.43	37,699.12	93,966.55
2015	35,417.67	34,926.33	70,344.00
2016	31,891.23	33,197.85	65,089.08
2017	26,912.41	31,647.59	58,560.00
2018 – 2022	155,356.09	137,443.91	292,800.00
2023 – 2027	93,753.58	102,993.61	196,747.19
2028 – 2032	82,217.22	85,362.78	167,580.00
2033 – 2037	102,457.62	65,122.38	167,580.00
2038 – 2042	127,680.83	39,899.17	167,580.00
2043 – 2046	86,000.65	9,571.40	95,572.05
<u>Total</u>	<u>\$ 867,470.64</u>	<u>\$ 619,000.23</u>	<u>\$ 1,486,470.87</u>

The District borrowed \$160,000 from First National Bank & Trust Co. on December 4, 2006 at a rate of 7% maturing on November 20, 2007. Notes Payable on this note remains at \$160,000 as of June 30, 2012. Those funds were used to acquire additional property for future well development.

D. Fund Equity

Net Assets

Net Asset restricted at June 30, 2012 relates to meter deposits, cogar well deposits and to promissory note reserve accounts. Balances at June 30, 2012 are as follows:

Restricted Account for	
Customer Meter Deposits	\$ 54,302
Cogar Well Membership Deposits	7,902
USDA Reserve Account	<u>68,995</u>
	<u>\$ 131,199</u>

GRADY COUNTY RURAL WATER DISTRICT NO. 6
AMBER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 4 – Other Notes

A. Income Taxes

The District as a governmental entity is exempt from income taxes under Section 501(C)(12) of the Internal Revenue Code.

B. Compensated Absences

The District does not accrue liability for compensated absences. This is not in accordance with generally accepted accounting principles. However, because of the limited number of people employed by the organization, any liability for compensated absences at June 30, 2012 would not be material to the financial statements taken as a whole.

C. Retirement Contributions

The District participates in The Capital Financial Group American Funds Plan, which is a defined contribution plan. Under this plan, the employer contributes 7% of eligible employees' gross wages. Employees vest after one-year service. The District's retirement fund contributions during the fiscal year 11-12 equaled \$11,255.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Current Water Rates (rates approved 07-01-2011)

\$33.00 Base Rate
\$8.75 per 1,000 gallons

F. Litigation

As of June 30, 2011, the parties had reached a settlement regarding the service area dispute regarding the Grady County District Court Case with the City of Tuttle. In July of 2011 the USDA approved the Settlement Agreement and the Water Purchase Contract. The lawsuits were dismissed with prejudice on September 8, 2011.

As of June 30, 2012 the Grady County Rural Water District No. 6 was not involved in any other litigation proceedings other than as listed above.

GRADY COUNTY RURAL WATER DISTRICT NO. 6
AMBER, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 4 – Other Notes, (continued)

G. Commitments and Contingencies

As of June 30, 2012, the District has begun planning and engineering of the Cogar Well Project. This project is anticipated to cost approximately \$12,579,000. The District has secured construction funding for this project with Rural Economic and Community Development/USDA.

The Rural Development loan(s) appear to have been approved in August 2012 for amount not to exceed \$4,539,000 and \$8,000,000. The loans will be for a period of 40 years at the approved market interest rate. Principal payments will be deferred during the first year of the loans, during which time interest-only payments will be made. The loans will be amortized in equal amortized monthly installments of principal and interest over the remaining 39-year period. For planning purposes use a 4.0% interest rate and a monthly amortization factor of 4.23 per \$1,000, which provides for a monthly payment of \$33,840 and \$19,120 respectively. Because this is a construction loan and full funding has not yet been utilized, a repayment schedule has not yet been developed.

The above loan will contain a resolution that requires a debt service reserve account be established and a deposit equal to 10% of the monthly payments be deposited to the account until the District accumulates on annual installment. In addition, a depreciation reserve for short-lived assets must be established.

**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**

To The Board of Directors
Grady County Rural Water District No. 6
Amber, Oklahoma

We have audited the accompanying modified cash basis financial statements of the business-type activities of the Grady County Rural Water District No. 6, Amber, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon December 27, 2012. The report was a special report on the District's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. 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 Grady County Rural Water District No. 6, Amber, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Grady County Rural Water District No. 6'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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the 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 and other deficiencies that we consider to be significant deficiencies.

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 deficiencies, in internal control such that there is a 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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 12-01.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting: 12-01, 12-02, 12-03, 12-04, 12-05, 12-06, 12-07, 12-08.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grady County Rural Water District No. 6'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*.

Grady County Rural Water District No. 6'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 the board, management, others within the entity, 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.

Angel, Johnston & Blasingame, P.C.
Certified Public Accountants

Chickasha, Oklahoma
December 27, 2012

GRADY COUNTY RURAL WATER DISTRICT NO. 6

AMBER, OKLAHOMA

Schedule of Findings and Recommendations

June 30, 2012

12-01 Criteria – A good system of internal controls provides for a proper segregation of the accounting functions.

Condition – The District has a small number of employees that perform the duties that would normally be divided among a large number of employees.

Effect – This could result in more than a low risk that errors or irregularities may occur and not be detected within a timely period.

Recommendation – It may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities.

Management's Response – Management agrees.

12-02 Criteria – A policy/procedure manual should be available with information detailing payroll, benefits, retirement contributions, sick/personal leave and vacation.

Condition – During payroll testing, we noted that the District does not have any type of documented policy/procedure manual relating to payroll & benefits with information regarding payroll procedures, retirement contributions, paid sick/personal leave and vacation.

Cause – A personnel policy has not been established by management.

Effect – Without a personnel policy, there is not a direct explanation of rules and/or restrictions for personnel regarding payroll, retirement, leave and vacation time. This provides a risk that the district could be introduced to unexpected liabilities.

Recommendation – The District should establish a personnel policy regarding rules and/or restrictions on payroll, retirement contributions, paid sick/personal leave and vacation.

Management's Response – Management agrees with this recommendation, however they have not had sufficient time to implement this recommendation.

GRADY COUNTY RURAL WATER DISTRICT NO. 6

AMBER, OKLAHOMA

Schedule of Findings and Recommendations

June 30, 2012

- 12-03 Criteria – The District should have a process in place to track and accumulate sick and personal leave time.

Condition – Through inquiry with management, we noted that paid sick/personal leave accrues from year to year, however, it is not being regularly tracked by management. Total time available is only figured upon request by an employee using the leave approval forms that have been submitted and retained on file.

Cause – Leave documentation forms are not periodically accumulated to provide a total of time remaining at year-end for paid sick/personal leave.

Effect – When paid/personal leave is not tracked, it could result in a liability in the future. There is also risk that leave documentation could be lost from year to year providing no grounds to research past time available.

Recommendation – We recommend that the District establish a procedure to adequately track sick/personal leave available and used during the year for all employees. Total time remaining should be documented at least yearly for all employees.

Management's Response – Management agrees with this recommendation.

- 12-04 Criteria – Board minutes should be signed by board members at the time of approval.

Condition – 8 of the 15 board meeting minutes available for the year were not signed for approval by any of the board members.

Cause – Lack of internal control surrounding approval procedures.

Effect – Potential for changes and alterations without proper approval.

Recommendation – The board members should sign the board minutes when they are approved at the subsequent meeting to indicate that they are accurate and true.

Management's Response – Management agrees.

GRADY COUNTY RURAL WATER DISTRICT NO. 6

AMBER, OKLAHOMA

Schedule of Findings and Recommendations

June 30, 2012

12-05 Criteria – Detailed general ledger reports should be prepared and maintained including dates, payee name/source, check number and amounts to support revenues and expenditures reported on the financial statements.

Condition – The general ledger does not provide any detail to support the revenues and expenditures of the District.

Cause – Lack of appropriately designed reporting procedures.

Effect – There is more than a low risk that error or irregularities may occur and not be detected within a timely period.

Recommendation – We recommend that the District ensure that the general ledger is prepared with detailed information including dates, payee name/source, check number and amounts in order to support the revenue and expenditures reported on other financial statements.

Management's Response – Management agrees.

12-06 Criteria – Per the Fair Labor Standards Act, all state or local government employees may receive compensatory time at a rate of not less than one & one half hours for each overtime hour worked instead of cash overtime pay.

Condition – Per Management, employees only earn straight time for any overtime hours worked.

Cause – Lack of internal compliance with FLSA standards.

Effect – Employees are not being compensated the correct amount of time for overtime hours.

Recommendation – We recommend employees that are not exempt, be compensated at one and one half times overtime hours worked. Management should also familiarize themselves with the FLSA standards.

Management's Response – Management agrees.

GRADY COUNTY RURAL WATER DISTRICT NO. 6

AMBER, OKLAHOMA

Schedule of Findings and Recommendations

June 30, 2012

12-07 Criteria – Documentation that goods/services were adequately received should be obtained prior to payment being issued.

Condition – During expenditure testing, we noted 12 of 41 invoices tested were not signed to indicate receipt of the goods/services by the District prior to payment being made.

Cause – Lack of implementation of purchasing procedures.

Effect – Increased risk that fraud or irregularities could occur during purchasing.

Recommendation – We recommend a signature of the purchasing officer be obtained on all invoices to indicate that satisfactory receipt of the goods/services prior to payment being issued .

Management's Response – Management agrees.

12-08 Criteria – Per management's adjustment policy, all account utility bill adjustments are to be documented by a work order signed and approved by the manager.

Condition – During utility billing adjustment testing, we noted 3 of 3 approved adjustment work orders could not be located.

Cause – Lack of retention and/or preparation of required adjustment documentation.

Effect – Increased risk that account adjustments may be performed without proper approval.

Recommendation – We recommend a work order be obtained, approved and retained for all account adjustments.

Management's Response – Management agrees.

GRADY COUNTY RURAL WATER DISTRICT NO. 6

AMBER, OKLAHOMA

Disposition of Prior Year Audit Exceptions

June 30, 2012

11-01 **Finding** – A good system of internal control provides for a proper segregation of the accounting functions. The District has a small number of employees that perform the duties that would normally be divided among a large number of employees.

Recommendation – It may not be cost effective to hire the additional administrative staff that would be necessary in order to adequately segregate the responsibilities.

Disposition – **This continues to be a finding.*

11-02 **Finding** –The District does not have any type of policy/procedure manual relating to payroll & benefits with information regarding payroll procedures, retirement contributions, paid sick/personal leave and vacation. There is no direct explanation of rules and/or restrictions for personnel regarding payroll, retirement, leave and vacation time.

Recommendation – The District should establish a personnel policy regarding rules and/or restrictions on payroll, retirement contributions, paid sick/personal leave and vacation.

Disposition – **This continues to be a finding.*

11-03 **Finding** –Yearly accrual of paid sick/personal leave is not being track by the District.

Recommendation – The District should establish a procedure to adequately track and approve sick/personal leave available and used during the year for all employees.

Disposition – **This continues to be a finding.*

11-04 **Finding** – 6 of 17 board minutes available for the year were not signed for Approval by any of the board members.

Recommendation – The board members should sign the board minutes when they are approved at the subsequent meeting to indicate that they are accurate and true.

Disposition – **This continues to be a finding.*

GRADY COUNTY RURAL WATER DISTRICT NO. 6

AMBER, OKLAHOMA

Disposition of Prior Year Audit Exceptions

June 30, 2012

- 11-05 **Finding** – The general ledger does not provide any detail to support the revenues and expenditures of the District.

Recommendation – We recommend that the District ensure that the general ledger is prepared with detailed information including dates, payee name/source, check number and amounts in order to support the revenues and expenditures reported on other financial statements.

Disposition – **This continues to be a finding.*

- 11-06 **Finding** –A new construction bank account was opened at the banking institution without proper documentation of approval by the District’s board.

Recommendation – Board approval should be obtained and documented prior to any District bank accounts and/or investments being opened or closed.

Disposition – This appears to have been corrected and is no longer a finding.

GRADY COUNTY RURAL WATER DISTRICT NO. 6
Amber, Oklahoma
Schedule of Insurance Coverage

For the Year Ended June 30, 2012

<u>Company</u>	<u>Coverage</u>	<u>Amount</u>	<u>Policy Number</u>	<u>Expiration Date</u>
Oklahoma Rural Water Assurance Group	General Liability	\$1,000,000 (Aggregate)	101-70	6/1/2013
	Building and Personal Property	756,391		
	Automobile - Bodily Injury and Property Damage	Limited by Law to 1,000,000		
	Directors and Officers Liability	*****		
	BONDS:			
	Blanket	10,000		
CompSource Oklahoma	Employee Dishonsety	123,822 each	360434	11/1/2012
	Crime	10,000		
	Worker's Compensation	*****		