



Garvin County Rural Water District #1

Annual Financial Report

For the Fiscal Year Ended October 31, 2015

Garvin County Rural Water District #1
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KRISTI L. DOBBINS

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Rural Water District #1, Garvin County, Oklahoma

Report on the Financial Statements

I have audited the accompanying modified cash basis financial statements and related notes to the financial statement of Rural Water District #1, Garvin County, as of October 31, 2015, and for the year then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting, described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of Rural Water District #1, Garvin County as of October 31, 2015; the changes in modified cash basis financial position; and, cash flows thereof, for the year then ended in accordance with the modified basis of accounting described in Note 1.

Basis of Accounting

I draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Rural Water District #1, Garvin County, Oklahoma's basic financial statements. The schedule of debt service requirement on page 12, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued a report dated August 23, 2016 on my consideration of the Rural Water District #1, Garvin County's internal control over financial reporting and on my 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 my 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* in considering the Rural Water District #1, Garvin County's internal control over financial reporting and compliance.



Pauls Valley, Oklahoma
August 23, 2016

BASIC FINANCIAL STATEMENTS

Garvin County Rural Water District #1
Statement of Assets, Liabilities, and Net Assets – Modified Cash Basis
October 31, 2015

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 130,500
Investments	175,029
Inventory	<u>12,383</u>
Total Current Assets	317,912
Capital Assets:	
Capital assets not being depreciated	124,497
Capital assets, net of depreciation	<u>632,858</u>
Total Assets	<u>\$ 1,075,267</u>

LIABILITIES AND NET ASSETS

Current Liabilities:	
Current portion of long-term debt	\$ 40,782
Noncurrent Liabilities:	
Notes payable	<u>263,688</u>
Total Liabilities	<u>304,470</u>
Net Assets:	
Invested in capital assets, net of debt	452,886
Unrestricted	<u>317,911</u>
Total Net Assets	<u>\$ 770,797</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, 2015

Operating Revenue:	
Water sales	\$ 240,765
Meter benefits	6,500
Late penalties	3,918
Miscellaneous	<u>8,312</u>
Total Operating Revenue	<u>259,495</u>
Operating Expenses:	
Payroll	84,356
Depreciation	56,266
Maintenance, repairs and supplies	29,223
Water purchases	24,029
Employee benefits	12,032
Contract labor	1,105
Utilities	11,519
Accounting and legal	2,100
Insurance	8,998
Vehicle expense	3,516
Office expense	8,067
Annual meeting	4,484
Memberships and water testing	494
Interest Expense	<u>7,192</u>
Total Operating Expenses	<u>253,381</u>
Income from Operations	<u>6,114</u>
Nonoperating Revenue (Expense):	
Interest Revenue	<u>1,256</u>
Net Nonoperating Revenue	<u>1,256</u>
Net Change in Net Assets	7,370
Net Assets, beginning of year	<u>763,427</u>
Net Assets, end of year	<u>\$ 770,797</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, 2015

Cash Flows from Operating Activities:	
Cash received from customers	\$ 259,495
Cash payments to suppliers for goods and services	(92,178)
Cash payments to employees for services	(96,565)
Net Cash Provided by Operating Activities	<u>70,752</u>
Cash Flows from Capital Financing Activities:	
Principal paid on capital debt	(39,898)
Interest paid on capital debt	(7,192)
Purchase of capital assets	(29,200)
Net Cash Used by Capital Financing Activities	<u>(76,290)</u>
Cash Flows from Investing Activities:	
Cash paid to purchase investments	(1,148)
Interest revenue	1,256
Net Cash Provided by Investing Activities	<u>108</u>
Net Decrease in Cash and Cash Equivalents	(5,430)
Cash and Cash Equivalents, beginning of year	<u>135,930</u>
Cash and Cash Equivalents, end of year	<u>\$ 130,500</u>

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

Operating Income	\$ 6,114
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	56,266
Interest on Capital Debt	7,192
Net Cash Provided by Operating Activities	<u>\$ 70,752</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, 2015

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 type that accounts for activities related to the provision of water services to businesses and residents. An enterprise fund is used to account for business-like activities. These activities are financed primarily by user charges, and the measurement of financial activity focuses on net income measurement similar to the private sector.

The proprietary fund type utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, net financial position and cash flows. All assets, deferred outflows, liabilities and deferred inflows associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

The District’s financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statement of assets, liabilities and net assets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include the following:

- Investments are recorded as assets when purchased.
- 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.

Garvin County Rural Water District #1
Notes to the Financial Statements
October 31, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

This modified cash basis of accounting differs from GAAP primarily because of primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities and deferred inflows that do not arise from a cash transactions or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

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.

C. *Assets, Liabilities and Net Assets or Equity*

Cash and Cash Equivalents

For purposes of financial reporting, the District includes all demand and savings accounts and certificates of deposit or short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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

Investments

Investments classified in the financial statements consist entirely of certificates of deposit acquired with cash whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

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

The District's modified cash basis of accounting reports capital assets arising from cash transactions or events and reports depreciation when appropriate. 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 actual is unavailable. 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 cash outlays for capital assets and improvements are capitalized as projects are constructed.

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

Long-Term Debt

All long-term notes and other debt arising from cash transactions or events to be repaid from resources are reported as liabilities.

Garvin County Rural Water District #1
Notes to the Financial Statements
October 31, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (continued)

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

Net Assets

Net assets are divided into three 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.
- *Restricted* – consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by external groups, such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – all other net assets are reported in this category.

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.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures (such as estimated useful lives in determining depreciation expense); accordingly, actual results could differ from those estimates.

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, 2015, the bank balance was \$310,184. This entire amount was insured and collateralized.

Garvin County Rural Water District #1
Notes to the Financial Statements
October 31, 2015

II. Deposits & Investments

Investment Custodial Credit Risk

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.

For the year ended October 31, 2015, the District's investments consisted solely of certificates of deposit whose original maturity term exceeds 3 months. For purposes of custodial credit risk, the certificates of deposit are including in the preceding deposits' risk analysis.

Garvin County Rural Water District #1
Notes to the Financial Statements
October 31, 2015

III. Capital Assets

Capital asset activity for the year ended October 31, 2015 was as follows:

	<u>Beginning Balance</u> <u>10/31/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u> <u>10/31/15</u>
Land	\$ 3,500	\$ -	\$ -	\$ 3,500
Water Rights	94,497	26,500	-	120,997
<i>Total Capital Assets, not being depreciated</i>	<u>\$ 97,997</u>	<u>\$ 26,500</u>	<u>\$ -</u>	<u>\$ 124,497</u>
Equipment	\$ 80,987	\$ -	\$ -	\$ 80,987
Building	137,000	-	-	137,000
Building Improvements	18,946	-	-	18,946
Office Equipment	18,117	-	-	18,117
Water System	<u>1,557,222</u>	<u>2,700</u>	<u>-</u>	<u>1,559,922</u>
<i>Total Capital Assets, being depreciated</i>	<u>1,812,272</u>	<u>2,700</u>	<u>-</u>	<u>1,814,972</u>
Less: Accumulated Depreciation	<u>1,125,846</u>	<u>56,268</u>	<u>-</u>	<u>1,182,114</u>
<i>Total Capital Assets, being depreciated net</i>	<u>\$ 686,426</u>	<u>\$ (53,568)</u>	<u>\$ -</u>	<u>\$ 632,858</u>
<i>Total Capital Assets, net</i>	<u>\$ 784,423</u>	<u>\$ (27,068)</u>	<u>\$ -</u>	<u>\$ 757,355</u>

IV. Long-Term Liabilities

A summary of long-term liability activity for the year ended October 31, 2015, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Marcum Building Note Payable	\$ 93,642	\$ -	\$ 12,139	\$ 81,503	\$ 12,761
Pauls Valley National Bank	67,434	-	9,988	57,446	10,312
Oklahoma Water Resources Board	<u>183,291</u>	<u>-</u>	<u>17,770</u>	<u>165,521</u>	<u>17,709</u>
	<u>\$ 344,367</u>	<u>\$ -</u>	<u>\$ 39,897</u>	<u>\$ 304,470</u>	<u>\$ 40,782</u>

Garvin County Rural Water District #1
Notes to the Financial Statements
October 31, 2015

IV. Long-Term Liabilities

Long-term liabilities at October 31, 2015, consisted of the following:

Type of Indebtedness(purpose)	<u>Maturity</u>	<u>Interest Rates</u>	<u>Original Issue Amount</u>	<u>Outstanding at October 31, 2015</u>
Oklahoma Water Resources Board Note Payable (financed construction of new water tower)	March, 2028	3.05%	\$ 264,587	\$ 165,521
Pauls Valley National Bank (purchase of water rights)	February, 2021	3.20%	90,047	57,446
Marcum Building Note Payable (purchase of buildings)	June, 2021	5.00%	135,000	81,503

The Pauls Valley National Bank is collateralized by \$100,000 of the District's certificates of deposit.

As of October 31, 2015, annual debt service requirements to maturity are as follows:

<u>Year Ending October 31</u>	<u>Principal</u>	<u>Interest</u>
2016	40,781	5,473
2017	41,836	4,486
2018	42,934	3,453
2019	44,081	2,375
2020-2024	131,217	1,464
2025-2028	3,621	-
	<u>\$ 304,470</u>	<u>\$ 17,251</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, 2015

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 Event

On December 3, 2015, the District completed a purchase of groundwater rights in Garvin County for a total \$240,143 (\$266,643 less a down payment of \$26,500 paid during the year ended October 31, 2015).

***SUPPLEMENTARY
INFORMATION***

Garvin County Rural Water District #1
 Supplemental Schedule I - Schedule of Debt Service Requirement
 For the Year Ended October 31, 2015

Below is an analysis of revenue maintenance requirement for the year ended October 31, 2015:

Maximum Annual Debt Service Requirments	\$	46,316
		125.00%
Net Revenues Requirement	\$	<u>57,895</u>
Operating Revenue		259,495
Operating Expenses		(253,381)
Add Back:		
Depreciation		56,266
Interest Expense		<u>7,192</u>
Net Revenue Available for Debt Service		<u>69,572</u>
Excess of Net Revenue over Maximum Annual Debt Service Requirements	\$	<u><u>11,677</u></u>

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



KRISTI L. DOBBINS

Certified Public Accountant

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

106 E. McClure Ave PO Box 38 Pauls Valley, OK 73075 405.238.6447 Fax: 405.207.9411 kristidobbins1@hotmail.com

August 23, 2016

Board of Directors
Rural Water District No. 1
Garvin County, Oklahoma

I have audited in accordance with the 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, the financial statements of Rural Water District #1, Garvin County (the District) as of and for the year ended October 31, 2015 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon August 23, 2016. My report on the financial statements disclosed, that as described in Note 1 to the financial statements, the District prepares its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District'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 District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

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. 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.

My 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 below, I identified a deficiency in internal control that I consider to be a material weakness.

Rural Water District #1, Garvin Co., Oklahoma
August 23, 2016

An adequate internal control structure does not exist because of the small size of the entity, nor is there adequate segregation of duties. A good internal control system would provide for separation of duties and responsibilities in financial matters between various employees. The individual receiving payments for utility billings would not be the same as the individual doing the billing, making the deposits and maintaining accounts receivable. The individual writing checks would not be the same as the individual recording those checks and reconciling bank accounts. However, because of the very limited number of administrative employees and the small size of the District budget, it is generally not financially efficient to have enough employees for proper segregation of duties. The best protection is to maintain sufficient bond on those handling cash to cover losses should they occur. This condition has been discussed with management, and management has concluded that the cost to correct this condition would exceed the benefit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



Kristi L. Dobbins, CPA

Garvin County Rural Water District #1
Schedule of Findings and Responses
October 31, 2015

No findings.