

**RURAL WATER DISTRICT NO. 9,  
OSAGE COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2012**

RURAL WATER DISTRICT NO. 9, OSAGE COUNTY, OKLAHOMA

TABLE OF CONTENTS

YEAR ENDED DECEMBER 31, 2012

	Page
<b>INTRODUCTORY SECTION:</b>	
Table of Contents	i
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report	1-2
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards.</i>	3-5
Financial Statements:	6
Statement of Assets, Liabilities, and Net Assets -- Modified Cash Basis	7
Statement of Revenues, Expenses and Changes in Net Assets- Modified Cash Basis	8
Statement of Cash Flows -- Modified Cash Basis	9
Notes to Financial Statements	10-12

# Kimberlye R. Mayer, CPA, P.C.

735 West Doolin

Blackwell, OK 74631

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

## Independent Auditor's Report

Board of Directors  
Rural Water District No. 9, Osage County, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying modified cash basis financial statements of Rural Water District No. 9, Osage County, Oklahoma as of December 31, 2012 and for the year then ended. These financial statements are the responsibility of the District's management.

### **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 as described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation 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**

Our responsibility is to express an opinion 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above, present fairly, in all material respects, the modified cash basis financial position of Rural Water District No. 9, Osage County, Oklahoma, as of December 31, 2012 and; the changes in modified cash basis financial position; and, when applicable, cash flows thereof, for the year then ended in conformity with the basis of accounting described in Note 1.

## **Basis of Accounting**

We 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. Our opinions are not modified with respect to this matter.

## **Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated May 21, 2013 on our consideration of Rural Water District No. 9, Osage County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
May 21, 2013

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Rural Water District 9, Osage County, Oklahoma

We have audited the financial statements of Rural Water District No. 9, Osage County, Oklahoma as of and for the year ended December 31, 2012, and have issued our report thereon dated May 21, 2013. 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. The financial statements were prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

Management of Rural Water District No. 9, Osage County, Oklahoma is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered whether Rural Water District No. 9, Osage County, Oklahoma'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 whether Rural Water District No. 9, Osage County, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 9, Osage County, Oklahoma's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control 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 the deficiency described in the accompanying schedule of findings and responses to be a material weakness.

Our consideration of internal control over financial reporting was for the limited purpose described in the first 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 a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District No. 9, Osage County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Rural Water District No. 9, Osage County, Oklahoma'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.

A handwritten signature in black ink, appearing to read "Kimberly R. Mayer". The signature is written in a cursive style with a large, looping initial "K".

Kimberly R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
May 21, 2013

RURAL WATER DISTRICT NO. 9, OSAGE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED DECEMBER 31, 2012

Material Weakness Communicated In Prior Year:

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the water billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The board has concluded that due to the limited number of volunteers, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 9, OSAGE COUNTY, OKLAHOMA  
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS  
MODIFIED CASH BASIS  
DECEMBER 31, 2012

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 121,091
Certificates of deposit	14,447
Total Current Assets	<u>135,538</u>
Capital assets (net of accumulated depreciation) (Note 2)	57,493
Work in progress	<u>14,600</u>
Total Assets	<u><u>\$ 207,631</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	\$
Net Assets:	
Invested in capital assets	72,093
Unrestricted	135,538
Total Net Assets	<u>207,631</u>
Total Liabilities and Net Assets	<u><u>\$ 207,631</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 9, OSAGE COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
MODIFIED CASH BASIS  
YEAR ENDED DECEMBER 31, 2012

Operating Revenues:	
Water service	\$ 83,737
Operating Expenses:	
Water purchases	22,620
Utilities	4,094
Repairs and maintenance	16,457
Office supplies and postage	898
Phone fees	420
Insurance and bonds	989
Professional fees	1,150
Meter reader fees	3,277
Depreciation	6,913
Water samples and fees	943
Other expenses	122
Total Operating Expenses	57,883
Operating Income (Loss)	25,854
Nonoperating Revenue (Expenses):	
Interest income	256
Memberships	2,500
Total Nonoperating Revenues	2,756
Change in Net Assets	28,610
Net Assets, beginning of year	179,021
Net Assets, end of year	\$ 207,631

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 9, OSAGE COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS  
MODIFIED CASH BASIS  
YEAR ENDED DECEMBER 31, 2012

Cash Flows From Operating Activities:	
Cash received from customers	\$ 83,737
Cash payments to suppliers for goods and services	(50,970)
Net cash provided (used) by operating activities	<u>32,767</u>
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(19,190)
Membership fees	2,500
Net cash provided (used) by financing activities	<u>(16,690)</u>
Cash flows from investing activities:	
Interest income	256
(Increase) decrease in CDs	(108)
Net cash provided (used) by investing activities	<u>148</u>
Net increase (decrease) in cash and cash equivalents	16,225
Beginning cash and cash equivalents	104,866
Ending cash and cash equivalents	<u><u>\$ 121,091</u></u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:	
Operating income or loss	\$ 25,854
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	6,913
Net cash provided (used) by operating activities	<u><u>\$ 32,767</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 9, OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 9, Osage County was organized under the Rural Water District Act of the Oklahoma State Statutes, Title 82, 1301-1321, as amended. The purpose of the District is to acquire water and water rights; to build and acquire waterlines and other facilities; and to operate the same for the purpose of furnishing water to serve the needs of owners and occupants of land located within the District, and others as authorized by the Bylaws.

The District is a governed entity governed by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board of Directors is comprised of elected board members.

Basis of Accounting

The District maintains its records and prepares its financial statements on the modified cash basis of accounting. Under the modified cash basis, revenues are recognized when received, rather than when earned, and expenditures are recognized when paid, rather than when incurred. Fixed assets are recorded at cost when purchased. Annual depreciation is calculated on a straight-line basis. Total depreciation for the year ended December 31, 2012 was \$6,913.

Cash and Deposits

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates or county, municipal or school district direct debt.

Cash is maintained in financial institutions, which provide coverage to depositors through the Federal Deposit Insurance Corporation.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the District considers all accounts (excluding restricted reserves), with a maturity of three months or less to be cash equivalents.

Budget

The District is not legally required to adopt a budget.

RURAL WATER DISTRICT NO. 9, OSAGE COUNTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2012

NOTE 2 – PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are expendable. Annual depreciation is calculated on a straight-line basis. The balances for depreciable assets by major category are as follows:

	12/31/11	Additions	12/31/12
Land	\$ 2,570	\$	\$ 2,570
Waterline system	240,716	14,790	255,506
	243,286	14,790	258,076
Accumulated depreciation	(193,670)	(6,913)	(200,583)
Net	<u>\$ 49,616</u>	<u>\$ 7,877</u>	<u>\$ 57,493</u>

NOTE 3 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probably that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There were no claims during the year ended December 31, 2012.

NOTE 4 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

RURAL WATER DISTRICT NO. 9, OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2012

NOTE 5 – CONTINGENCIES:

As of December 31, 2012 the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

NOTE 6 – WATER SYSTEM UPGRADE:

In April 2009, the District was approved for a loan of \$397,700 through the American Recovery and Reinvestment Act 2009 to upgrade the water system. At December 31, 2012, the District had not received any funds on this loan.

NOTE 7 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through May 21, 2013, the date which the financial statements were available to be issued.