

**MAYES COUNTY RURAL WATER DISTRICT NO. 9**

**SALINA, OKLAHOMA**

**AUDITED FINANCIAL STATEMENTS AND NOTES  
For the year ended March 31, 2015**

**Audited by**

**ROBERT ST. PIERRE CPA, P.C.  
CERTIFIED PUBLIC ACCOUNTANT  
1113 NORTH SECOND ST.  
STILWELL, OK 74960**

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**MAYES COUNTY R.W.D. No. 9  
3134 EAST 523  
SALINA, OK 74365-2367**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of the Mayes County Rural Water District No. 9's financial performance provides an overview of the District's financial activities for the fiscal year ended March 31, 2015. Please read it in conjunction with the Auditor's reports and financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets shows the net assets and liabilities of the District at year-end. The Statement of Activities shows the District's income and expenses for the current year. The Statement of Cash Flows shows the cash position of the District at year-end and reflects the change in cash balances from the beginning of the year to the year-end.

**REQUIRED FINANCIAL STATEMENTS**

The financial statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Activities. This statement measures the success of the District's operations over the past year and can be used to determine profitability, credit worthiness, and whether the District has successfully recovered all of its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting year. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and capital and non-capital financing activities and provides answers to such questions as "from where did cash come?," "for what was cash used?," and "what was the change in cash balances during the reporting period?"

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

One of the most important questions asked about the District's finances is "Is the District, as a whole, better-off or worse-off as a result of the years activities?". The Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets report information about the net assets of the District's activities in a way that will help answer this question. These two statements report the net assets of the District and changes in them. You can think of the District's net assets—the difference between assets and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation that may affect the District.

Our analysis below focuses on the District's net assets (Table 1) and changes in net assets (Table 2) during the year.

Table 1

	March 31, 2015
Current Assets	520,463
Restricted Assets	306,188
Other Assets	29,860
Capital Assets - Net of Depreciation	6,816,318
Total Assets	<u>7,672,829</u>
Total Liabilities	3,745,957
Net Assets, Invested in Capital Assets Net of Debt	3,273,687
Net Assets, Restricted	306,188
Net Assets, Unrestricted	346,997
Total Net Assets	<u>7,672,829</u>

Changes in the District's net assets can be determined by reviewing the following condensed Statement of Revenue, Expenses, and Changes in Net Assets for the year.

Table 2

	March 31, 2015
Total Operating Revenues	632,683
Total Operating Expenses	(549,389)
Other Operating Expenses	(142,335)
Other Non-Operating Income	16,774
Net Income (Loss)	<u>(42,267)</u>
Prior Period Adjustment	(16,049)
Net Assets Beginning of Year	3,985,188
Net Assets End of Year	<u>3,926,872</u>

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

As of March 31, 2015, the District had \$9,243,766 invested in net capital assets with (\$2,427,448) in related depreciation to reflect Net Fixed Assets of 6,816,318.

### **Debt**

The District had outstanding notes payable of \$3,661,813 as of March 31, 2015. The District's total obligation on these notes decreased by \$117,724 during the fiscal year as a result of principal payments. Additional information on the District's long-term debt can be found in Note II to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES**

Water consumption has remained steady over the past several years, though the amount and timing of rainfall affects this consumption. Billing will generally increase in years of less, or non-consistent, rainfall, and decrease in years of more, or more consistent, rainfall. The past two fiscal years have reflected the latter. Also, the District expanded its ability to provide water, by about 200%, beginning the latter part of 2012. As such, its expenses have risen accordingly. New taps are being placed for new customers, but it will take some time before the expansion is better utilized.

The District is currently not in compliance with its new loan covenants. In its attempt to be in better compliance, the District board recently passed a \$5.00 per month basic fee increase for all customers, beginning July 1, 2015. Also, the board is in discussions with one or more other local water providers, to potentially begin providing the water requirements to their current customers. The board expects an increase of 10-15% in the current fiscal year's revenues from new customers, the basic fee increase and the acquisition of other water providers' customers, with only a marginal increase in associated costs.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board of Directors at Mayes County Rural Water District No. 9, 4802 South Muskogee Ave, Tahlequah, OK 74464. For district operations questions contact them at 3134 East 523 Road Salina, Ok 74365.

**INDEPENDENT  
AUDITOR'S  
REPORTS**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Mayes County RWD #9  
Salina, OK

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

We have audited the accompanying financial statements Mayes County Rural Water District No. 9 as of March 31, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements 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 accounting principals generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 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 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluation 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 financial position of Mayes County Rural Water District No. 9 as of March 31, 2015, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1-3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have issued a report dated July 7th, 2015, on our consideration of Mayes County Rural Water District No. 9, internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 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 Mayes County Rural Water District No. 9 internal control over financial reporting and compliance



Robert St. Pierre, C.P.A., P.C.  
Certified Public Accountant  
July 7th, 2015

**FINANCIAL**

**SECTION**

**MAYES COUNTY RURAL WATER DISTRICT NO. 9**  
**BALANCE SHEET**  
**March 31, 2015**

	<b>ASSETS</b>	<b>2015</b>
<b>CURRENT ASSETS:</b>		
Cash in Bank (Note C)		283,557
Certificates of Deposit (Note C)		178,691
Accounts Receivable (net of allowance) (Note F)		58,215
Prepaid Insurance		29,860
Refinance Costs		-
	<b>TOTAL CURRENT ASSETS</b>	<b>550,323</b>
<b>RESTRICTED ASSETS:</b>		
Restricted Debt Reserve		257,597
Payment Account		48,591
	<b>TOTAL RESTRICTED ASSETS</b>	<b>306,188</b>
<b>FIXED ASSETS:</b>		
Land (Note G)		4,175
Vehicles (Note G)		107,094
Buildings (Note G)		145,000
Office Furniture and Equipment (Note G)		241,854
Water System (Note G)		8,745,643
Accumulated Depreciation (Note G)		(2,427,448)
	<b>NET FIXED ASSETS</b>	<b>6,816,318</b>
	<b>TOTAL ASSETS</b>	<b>7,672,829</b>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable		53,372
Accrued Expenses		28,237
Payroll Taxes Payable		2,535
Current Portion of Long-Term Debt (Note H)		119,182
	<b>TOTAL CURRENT LIABILITIES</b>	<b>203,326</b>
<b>LONG TERM LIABILITIES</b>		
Note Payables (Note H)		3,542,631
	<b>TOTAL LIABILITIES</b>	<b>3,745,957</b>
<b>NET ASSETS</b>		
Invested in Capital Assets Net of Related Debt		3,154,505
Restricted for debt service		306,188
Unrestricted		466,179
	<b>TOTAL NET ASSETS</b>	<b>3,926,872</b>
	<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 7,672,829</b>

**MAYES COUNTY RURAL WATER DISTRICT NO. 9**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN NET ASSETS**  
**March 31, 2015**

	<b>2015</b>
<b>REVENUE:</b>	
Water Sales	\$ 594,159
Memberships	25,350
Late Charges	13,174
Other Operating Income	-
	-
<b>TOTAL OPERATING REVENUE</b>	<b>632,683</b>
<b>EXPENDITURES:</b>	
Salaries & Wages	90,708
Employee Benefits	10,661
Contract Services	14,202
Bad Debt	3,483
Professional Fees	9,900
Bank Service Charges	3,058
Office Expense	4,767
Postage	4,088
Insurance & Bonds	29,554
Payroll Taxes	7,316
Auto Expense	12,692
Dues & Subscriptions	912
Telephone	4,335
Utilities	39,119
Water Purchased	10,392
Chemicals	64,855
Field Supplies	12,708
Water Testing	12,726
Repairs & Maintenance	6,077
Miscellaneous Expense	5,400
Depreciation Expense	202,436
	202,436
<b>TOTAL OPERATING EXPENDITURES</b>	<b>549,389</b>
<b>NET INCOME FROM OPERATIONS</b>	<b>83,294</b>
<b>OTHER INCOME (EXPENDITURES):</b>	
Interest Income	1,568
Miscellaneous Income	436
Rural Development Grant Funds	14,770
Amortization of Advance Refunding	-
Interest Expense	(142,335)
	(142,335)
<b>TOTAL OTHER INCOME AND EXPENSE</b>	<b>(125,561)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(42,267)</b>
<b>PRIOR PERIOD ADJUSTMENT</b>	<b>(16,049)</b>
<b>NET ASSETS, BEGINNING OF THE YEAR</b>	<b>3,985,188</b>
<b>NET ASSETS, END OF THE YEAR</b>	<b>\$ 3,926,872</b>

**MAYES COUNTY RURAL WATER DISTRICT NO. 9**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED MARCH 31, 2015**

	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash Inflows:	
Payments Received from Customers	638,103
Other cash Received	-
Cash Outflows:	
Payments for Salaries & Wages	(115,569)
Payments to Suppliers for Goods and Services	<u>(161,047)</u>
<b>Net Cash Provided (Used) by Operating Expenses</b>	<u>361,487</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Additions to Capital Assets	(93,226)
Capital Contributions-Grants	14,770
Decrease in Loan Cost	(16,049)
Principal Reduction of Long-Term Debt	(117,724)
Interest Payments on Notes	<u>(142,335)</u>
<b>Net Cash Provided(Used) for Capital &amp; Related Financing Activities</b>	<u>(354,564)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Miscellaneous Income	436
Interest Income	1,568
<b>Net Cash Provided (Used) for Investing Activities</b>	<u>2,004</u>
<b>NET CASH INFLOW (OUTFLOW) FROM ALL ACTIVITIES</b>	8,927
<b>CASH AND CASH EQUIVALENTS BEGINNING OF THE YEAR</b>	<u>274,630</u>
<b>CASH AND CASH EQUIVALENTS END OF THE YEAR</b>	<u><u>\$ 283,557</u></u>
<b>INTEREST EXPENSE</b>	<u><u>142,335</u></u>

**MAYES COUNTY RURAL WATER DISTRICT NO. 9  
STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31, 2015**

	<b>2015</b>
<b>Reconciliation of Operating Income (Loss to Net Cash) Provided by Operating Activities:</b>	
Operating Income	83,294
Depreciation and Amortization	202,436
<b>(Increase) Decrease in:</b>	
Accounts Receivable	4,984
Prepaid Insurance	18,601
<b>(Increase) Decrease in:</b>	
Accounts Payable	52,172
Accrued Expenses	-
Payroll Taxes Payable	-
	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>361,487</b>

**FINANCIAL**

**STATEMENT**

**NOTES**

**MAYES COUNTY RURAL WATER DISTRICT NO. 9**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**MARCH 31, 2015**

**I. Summary of Significant Accounting Policies**

Mayes County Rural Water District No. 9 was incorporated under the Rural Water District Act of Oklahoma, for the purpose of acquiring water rights, and to build and acquire pipelines and other facilities and to operate the same for the purpose of furnishing water to serve the need of owners and occupants of land located within the district. The District is exempt from federal and state income tax.

The more significant of the government's accounting policies are described below.

**A. Reporting Entity**

The District complies with GASB Statement No 14, "The Financial Reporting Entity." This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

**B. Measurement Focus and Basis of Accounting and Basis of Presentation – Fund Accounting**

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. 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 accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net assets. The statement of activities presents increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments which requires the classification of net assets into three components—invested in capital assets, net of related debt, restricted; and unrestricted. 11

## **C. Assets, Liabilities, and Net Assets**

### **1. Deposits and Investments**

Oklahoma statutes authorize the District to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, the District can invest in direct debt securities of the United States unless such investment is expressly prohibited by law.

All the bank deposits are held at financial institutions and are carried at cost. For purposes of statement of cash flows, the District considers cash and highly liquid investments with an initial maturity of three months or less to be cash equivalents.

#### *Custodial Credit Risk*

At March 31, 2015, the District held deposits of approximately \$768,436 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

#### *Investment Interest Rate*

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

#### *Investment Credit Risk*

The District has no Policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-f.).

The investments held at March 31, 2015 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
Investments				
Cert of Deposit	6	N/A	333,788	333,788
Total Investments			<u>333,788</u>	<u>333,788</u>

*Concentration of Investment Credit Risk*

The District places no limit on the amount it may invest in any one issuer. At year end all the Districts were covered by FDIC insurance, therefore the District has no credit risk related to CD's.

**2. Fair Value of Financial Instruments**

The Districts financial statements include cash and investments. The District's estimates of fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

**3. Estimates**

The preparation of financial statements in conformity with U.S. 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. Accordingly, actual results could differ from those estimates

**4. Inventory**

Inventory consists primarily of distribution repair supplies and is counted annually. The inventory is valued at the lower of cost or market on a first-in-first-out basis, but not in excess of market. At year end the District did not have any inventory on hand.

**5. Accounts Receivable**

Accounts receivable consists primarily of charges for water sales. Management has not established a provision for uncollectible accounts. Such amounts are written off the month in which management determines they are uncollectible.

**6. Restricted Assets**

The terms of the loan agreement with the Rural Development and Oklahoma Water Resource Board require that the District maintain restricted funds for the use of servicing debt in the amount of one year's debt service of the total annual payment. The balance in the restricted cash account is sufficient to fulfill this requirement.

## **7. Capital Assets**

The water storage and delivery system and furniture and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All reported assets are depreciated on the straight-line basis over their estimated useful lives ranging from five to fifty years.

Assets purchased with a value of \$500 or more that benefit more than one period will be depreciated.

## **8. Equity Classifications**

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 mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement 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 or regulations of their governments; or (2) law through constitutional provisions or enabling legislation, or (3) elected restrictions by management concerning cash to be used for capital improvements.
- 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".

## **D. Basis of Presentation**

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or an economic asset is used.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. The District also recognizes as

operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### **E. Use of Estimates**

The preparation of financial statements in conformity with U.S. 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.

#### **F. Accounts Receivable**

Following is an aged schedule of accounts receivable as of March 31, 2015:

0-30 Days	1-30 Days	31-60 Days	Over 60 Days	Prepayments	Total
46,652	11,034	3,072	7,245	(9,788)	58,215

#### **G. Changes in Capital Assets**

Capital asset activity for the year was as follows:

	Beginning of Year	Additions	Deletions	End of Year
Capital Assets				
Distribution System	8,745,644	-		8,745,644
Land	4,175	-		4,175
Fences	4,000	-		4,000
Highway 82 Water District	145,000	-		145,000
Office Equipment	17,361	396		17,757
Equipment & Tools	126,265	92,830		219,095
Trucks	107,095	-		107,095
Trailer	1,000	-		1,000
Total Capital Assets	9,150,540	93,226	-	9,243,766
Less: Accumulated Depreciation	(2,225,012)	(202,436)		(2,427,448)
Net Book Value	6,925,528	(109,210)	-	6,816,318

**H: Long-term Debt**

The following is a summary of Mayes County Rural Water District No. 9's long-term debt at March 31, 2015:

The District has elected to refinance their long-term debt as 04/02/2010 with the Oklahoma Water Resources Board in order to get a fixed as opposed to a variable interest rate. The new note will bear interest at an average rate not to exceed 3.867% per annum and will mature on September 1, 2021. All District assets and income are collateralized on the note.

Due Fiscal Years Ending March 31,

	Principal	Interest	Total
Current	80,000	21,873	101,873
2017	85,000	19,275	104,275
2018	85,000	16,389	101,389
2019	90,000	13,264	103,264
2020	90,000	9,916	99,916
	95,000	6,239	101,239
2021-2022	100,000	2,135	102,135
Total	625,000	89,091	714,091

**RD #91-05**

On August 9, 2011 the District entered into an agreement with USDA Rural Development to borrow \$1,637,000 for the purpose of constructing new water lines and plant upgrades. The note will be amortized over a forty year period and will bear interest at the rate of 4.25 percent per annum. Included in the agreement was a second agreement that the District will also receive grant funds in the amount of \$535,900 for the same purpose. Substantially all fixed assets, accounts receivable and assignment of revenues were pledged as security for the note. A debt service account as part of the loan agreement will be utilized to accumulate funds in sufficient amounts to pay the next installment due on the note. From the remaining funds in the general account, there shall be set aside into an account designated as the Reserve Account the sum of ten percent of the monthly installment each month until the sum of the annual installments is reached. With the prior written approval of the Government, funds may be withdrawn and used for such things as loan installments, emergency maintenance, extensions to facilities and replacement of short-lived assets, subject to conditions established by the Government.

Due Fiscal Years Ending March 31,

	Principal	Interest	Total
Current Portion	18,691	67,361	86,052
2017	19,502	66,550	86,052
2018	20,348	65,704	86,052
2019	21,230	64,822	86,052
2020	22,151	63,901	86,052
2021	23,112	62,940	86,052
2022-2026	131,498	298,762	430,260
2027-2031	162,604	267,656	430,260
2032-2036	201,068	229,192	430,260
2037-2041	248,630	181,630	430,260
2042-2046	307,443	122,817	430,260
2047-2051	380,169	50,091	430,260
2052	35,531	379	35,910
<b>Total</b>	<b>1,591,977</b>	<b>1,541,805</b>	<b>3,133,782</b>

**RD #91-07**

On August 9, 2011 the District entered into an agreement with USDA Rural Development to borrow \$1,495,000 for the purpose of constructing new water lines and plant upgrades. The note will be amortized over a forty year period and will bear interest at the rate of 3.375 percent per annum. Included in the agreement was a second agreement that the District will also receive grant funds in the amount of \$497,500 for the same purpose. Substantially all fixed assets, accounts receivable and assignment of revenues were pledged as security for the note. A debt service account as part of the loan agreement will be utilized to accumulate funds in sufficient amounts to pay the next installment due on the note. From the remaining funds in the general account, there shall be set aside into an account designated as the Reserve Account the sum of ten percent of the monthly installment each month until the sum of the annual installments is reached. With the prior written approval of the Government, funds may be withdrawn and used for such things as loan installments, emergency maintenance, extensions to facilities and replacement of short-lived assets, subject to conditions established by the Government.

Due Fiscal Years Ending March 31,

	Principal	Interest	Total
Current Portion	20,491	48,581	69,072
2017	21,196	47,876	69,072
2018	21,924	47,148	69,072
2019	22,678	46,394	69,072
2020	23,457	45,615	69,072
2021	24,264	44,808	69,072
2022-2026	134,416	210,944	345,360
2027-2031	159,160	186,200	345,360
2032-2036	188,460	156,900	345,360
2037-2041	223,153	122,207	345,360
2042-2046	264,233	81,127	345,360
2047-2051	312,876	32,484	345,360
2052	28,528	242	28,770
<b>Total</b>	<b>1,444,836</b>	<b>1,070,526</b>	<b>2,515,362</b>

## **I. Risk Management**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **J. Compensated Absences**

The organization does not accrue a 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 March 31, 2015 would not be material to the financial statements taken as a whole.

## **K. EVALUATION OF SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through July 7th, 2015 the date which the financial statements were available to be issued.

## **L: COMMITMENTS AND CONTINGENCIES**

Mayes County Rural Water District No. 9 currently participates in various grant programs. These grants are subject to audit by the grantor agency or their representatives. Such audits could lead to requests for reimbursement to the grantor agency for services disallowed under the terms of the contract. Presently Mayes County Rural Water District No. 9 is not aware of any pending requests, and in the opinion of management, any such amounts would not be considered material.

## **M: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

## **N: FINANCE- RELATED LEGAL AND CONTRACTUAL PROVISIONS**

The terms of the loan agreements require Reserve Accounts as shown in Note H. All of the requirements have been met. The District was however not in compliance with Net Income requirements of these loans, see finding 2015-2.

## **O: DEFICIT FUND BALANCE OR RETAINED EARNINGS**

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

**P: Prior Period Adjustment**

Prior period adjustments are used to correct errors in previously issued financial statements that are considered to be material in nature and amount. For the year ended March 31, 2015 a prior period adjustment was needed due to a GASB pronouncement as described below.

New GASB pronouncement No. 65 requires debt issuance costs to be expensed in the period incurred rather than deferred and amortized with retroactive application. This amounted of this prior period adjustment related to GASB 65 was (16,049).

**SUPPLEMENTARY**

**INFORMATION**

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL 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  
Mayes County Rural Water District No. 9  
Salina, OK

We 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 Mayes County Rural Water District No. 9 as of and for the year ended March 31, 2015, and the related notes to the financial statements, which collectively comprise Mayes County Rural Water District No. 9's basic financial statements and have issued our report thereon dated July 7th, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Mayes County Rural Water District No. 9'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Mayes County Rural Water District No. 9's internal control. Accordingly, we do not express an opinion on the effectiveness of Mayes County Rural Water District No. 9'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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned cost that we consider to be significant deficiencies. 2015-1

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mayes County Rural Water District No. 9's financial statements are free from 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 one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards. 2015-2

### **Mayes County Rural Water District No. 9's Response to Findings**

Mayes County Rural Water District No. 9's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Mayes County Rural Water District No. 9's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Robert St. Pierre C.P.A., P.C.  
Certified Public Accountant  
July 7th, 2015

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### 2015-1

The inherent limitation resulting from a small number of employees performing functions that would normally be divided among several employees were a larger number available presents a proper segregation of accounting functions deficiency. A much larger staff would be necessary in order to assure adequate internal accounting controls. This deficiency requires the board to remain actively involved in the day to day activities of the water district.

#### Management's Response

Management's response to the lack of segregation of duties is to use to the services of a local CPA Firm to help ensure that financial statements are free or material errors or fraud. Management also remains committed to staying actively involved in the financial matters of the district and consulting with the local CPA firm whenever needed.

### 2015-2

Debt covenants with the ORWB require that the district maintain revenues equal to at least 125% of maximum annual amount required for debt service on all obligations. During the fiscal year ended March 31, 2015 the district did not meet these requirements. The district was approximately 33,552 short on of net income to meet this requirement.

#### Management's Response

In January 2015 management increased commercial rates from \$72.00 to \$95.00 and raised the commercial minimum from \$162.00 to \$225.00. In March of 2015 the board voted to increase the residential rates from \$34.50 to \$39.50, management estimates this will raised approximately \$60,000 per year and put the district back in compliance with ORWB debt covenants.

**MAYES COUNTY RURAL WATER DISTRICT NO. 9  
SCHEDULE OF FEDERAL ASSISTANCE  
FOR THE YEAR ENDED MARCH 31, 2015**

Grantor / Pass- Through Grantor/ Program Title	CFDA Number	Contract Amount	Contract Revenue	Contract Expenditures	Net Assets at 03/31/15
United States Department of Agriculture					
Water and Waste System	10.760	535,900	14,770	14,770	-
<b>TOTAL FEDERAL ASSISTANCE</b>		<b>535,900</b>	<b>14,770</b>	<b>14,770</b>	<b>-</b>