

RURAL WATER DISTRICT NUMBER 13
MCINTOSH COUNTY
HENRYETTA, OKLAHOMA
ANNUAL FINANCIAL REPORT
OCTOBER 31, 2014

RALPH OSBORN
CERTIFIED PUBLIC ACCOUNTANT
500 SOUTH CHESTNUT
P.O. BOX 1015
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INDEPENDENT AUDITORS' REPORT

The Board of Directors
Rural Water District No. 13
McIntosh County
Henryetta, Oklahoma

I have audited the accompanying modified cash basis financial statements of Rural Water District No. 13, McIntosh County as of and for the year ended October 31, 2014, and the related notes to the financial statements, which collectively comprise Rural Water District No. 13, McIntosh County's basic financial statements.

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 A; 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 financial statement that are free from material misstatement, whether due to error or fraud.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on our audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 judgement, 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 the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such 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 opinions.

Opinions

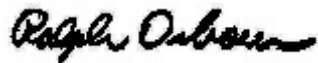
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of Rural Water District No. 13, McIntosh County as of October 31, 2014, and the respective changes in financial position - modified cash basis and cash flows - modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note A.

Basis of Accounting

I draw attention to Note A of the financial statements, which 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 that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated February 18, 2015, on my consideration of Rural Water District No. 13, McIntosh County's internal control over financial reporting and 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 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* in considering Rural Water District No. 13, McIntosh County's internal control over financial reporting and compliance.



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
February 15, 2014

RURAL WATER DISTRICT NUMBER 13
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
OCTOBER 31, 2014

ASSETS

Current assets:	
Cash and cash equivalents	\$ 297,814
Restricted assets:	
Debt service cash and cash equivalents	81,477
Reserve certificates	<u>1,000</u>
Total current assets	<u>380,291</u>
Non-current assets:	
Capital assets:	
Other capital assets, net of accumulated depreciation	<u>1,320,773</u>
Total non-current assets	<u>1,320,773</u>
Total assets	<u>1,701,064</u>

LIABILITIES

Current liabilities:	
Notes payable, current	<u>50,000</u>
Total current liabilities	<u>50,000</u>
Non-current liabilities:	
Notes payable, non-current	<u>545,000</u>
Total non-current liabilities	<u>545,000</u>
Total liabilities	<u>595,000</u>

NET ASSETS

Nonspendable	725,773
Restricted for debt service	81,477
Committed insurance reserve	1,000
Unassigned	<u>297,814</u>
Net assets	<u>\$ 1,106,064</u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NUMBER 13
 MCINTOSH COUNTY, OKLAHOMA
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 MODIFIED CASH BASIS
 FOR THE YEAR ENDED OCTOBER 31, 2014

OPERATING REVENUES

Charges for services:

Water charges	\$ 329,681
Memberships	<u>9,500</u>

Total operating revenues	<u>339,181</u>
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OPERATING EXPENSES

Personal services	129,482
Water purchases	12,841
Insurance	11,008
Repairs and maintenance	32,089
Office expense	10,168
Other	3,238
Professional service	3,550
Telephone and utilities	27,259
Vehicle expense	10,753
Equipment	4,331
Depreciation	<u>77,345</u>

Total operating expenses	<u>322,064</u>
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Operating income (loss)	<u>17,117</u>
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NON-OPERATING REVENUE (EXPENSES)

Investment income	828
Interest and fees on notes payable	<u>(22,909)</u>

Total non-operating revenue (expenses)	<u>(22,081)</u>
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Net income (loss)	(4,964)
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Total net assets, beginning	<u>1,111,028</u>
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Total net assets, ending	<u><u>\$ 1,106,064</u></u>
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See accompanying notes to financial statements.

RURAL WATER DISTRICT NUMBER 13
MCINTOSH COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS-MODIFIED CASH BASIS
FOR THE YEAR ENDED OCTOBER 31, 2014

Cash flows from operating activities	
Cash received from customers	\$ 339,181
Cash payments to employees	(129,482)
Cash payments to suppliers for goods and services	<u>(115,237)</u>
Net cash provided (used) by operating activities	<u>94,462</u>
Cash flows from capital and related financing activities	
Acquisition of fixed assets	(1,545)
Interest paid on notes payable and fiscal fees	(22,909)
Principal paid on notes payable	<u>(50,000)</u>
Net cash used for capital and related financing activities	<u>(74,454)</u>
Cash flows from investing activities	
Interest revenue	<u>828</u>
Net cash used for investing activities	<u>828</u>
Net increase in cash and cash equivalents	20,836
Cash and cash equivalents, beginning	<u>358,455</u>
Cash and cash equivalents, ending	<u><u>\$ 379,291</u></u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities	
Operating income (loss)	\$ 17,117
Adjustments to reconcile operating income to net cash used by operating activities:	
Changes in assets and liabilities:	
Depreciation	<u>77,345</u>
Net cash provided by operating activities	<u><u>\$ 94,462</u></u>

See accompanying notes to financial statements.

RURAL WATER DISTRICT NUMBER 13
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rural Water District Number 13 (the "District") was created September 23, 2002 by the Board of County Commissioners of McIntosh County, Oklahoma under the provisions of the Rural Water District Act (Title 82 Oklahoma Statutes, Sections 1324.1 et. seq). The District was previously known as Salem Rural Water Corporation. The District is managed by a five member Board of Directors. Members of the board are elected by the membership of the District at its annual meeting. Membership in the District is attained by paying membership dues and receiving services from the District. The activities of the District constitute the entire reporting entity. There are no other component or oversight units. The District is a political subdivision of the state of Oklahoma.

Government-Wide and Fund Financial Statements

The District is a special purpose governmental entity engaged only in business type activities. The District prepares financial statements required for enterprise funds.

Measurement Focus and Basis of Accounting

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

Measurement Focus

In the financial statements business-like activities are presented using the 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 assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current, financial, or non-financial) associated with their activities are reported. Fund equity is classified as net assets.

Basis of Accounting

In the financial statements, business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are *not recorded* in these financial statements. If the District utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting.

RURAL WATER DISTRICT NUMBER 13
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

FUND TYPES AND MAJOR FUNDS

The District reports all activity within a single fund.

Investments

The District follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The District considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The District did not have investments at year-end. Certificates of deposit were cashed to be used in debt retirement.

Capital Assets, Depreciation, and Amortization

The District's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported. The District maintains infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets with a cost of \$2,500 or more are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture , machinery, and equipment	3-30
Utility system	5-60

Compensated Absences

Full-time, permanent employees are granted personal leave in varying amounts to specified maximums depending on tenure with the District. The District does not record a liability for accrued compensated absences. Using the modified cash basis the amount paid for compensated absences is expenses as paid.

Pension

The District allows employees the option to participate in a SIMPLE IRA retirement plan. None of the District employees are participating at the present time.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

RURAL WATER DISTRICT NUMBER 13
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

Use of Estimates

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

NOTE B - CASH AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the District will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the District, and are held by counterparty or the counterparty's trust department but not in the name of the District. The District's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of October 31, 2014, all of the District's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The District had deposits at financial institutions with a carrying amount of approximately \$380,291 at October 31, 2014. The bank balance of the deposits at October 31, 2014 was approximately \$379,091.

Credit Risk

Fixed-income securities are subject to credit risk. However, the District did not have fixed income securities at October 31, 2014.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitors the investment performance on an ongoing basis to limit the District's interest rate risk. As of October 31, 2014, the District's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - RESERVE CERTIFICATES

The District has purchased reserve certificates totaling \$1,000 from the Oklahoma Rural Water Association Assurance Group (the Group). These certificates are on deposit in the self-insurance reserves of the Group under the Agreement Establishing the Oklahoma Rural Water Association Assurance Group entered into pursuant to the Oklahoma Interlocal Cooperation Act. The District has insurance coverage other than the self-insurance of the group. Reserve certificates may be surrendered and the deposit refunded subject to certain time and notice requirements. The certificates accrue interest at a fluctuating rate on the basis of a 360-day year at the Treasury rate plus two percent per annum. The balance in the self-insurance reserve certificates is considered reserved net assets.

RURAL WATER DISTRICT NUMBER 13
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

NOTE D - RESTRICTED CASH AND CASH EQUIVALENTS

The District reports restricted cash and cash equivalents for use as a debt reserve. These monies are held as a reserve for the Oklahoma Water Resources Board loan.

NOTE E - CAPITAL ASSETS

Changes in capital assets.

The following table provides a summary of changes in capital assets:

	CAPITAL ASSETS, DEPRECIATED			
	Infrastructure & Improvements Other Than Buildings	Furniture, Machinery, And Equipment		Totals
PRIMARY GOVERNMENT				
Business-type activities				
Balance, Oct. 31, 2013	\$ 58,080	\$ 2,727,809	\$ 108,565	\$ 2,894,454
Increases	-	-	1,545	1,545
Decreases	-	-	-	-
Balance, Oct. 31, 2014	<u>58,080</u>	<u>2,727,809</u>	<u>110,110</u>	<u>2,895,999</u>
Accumulated Depreciation				
Balance, Oct. 31, 2013	36,621	1,398,263	62,997	1,497,881
Increase	1,180	67,349	8,816	77,345
Decreases	-	-	-	-
Balance, Oct. 31, 2014	<u>37,801</u>	<u>1,465,612</u>	<u>71,813</u>	<u>1,575,226</u>
Business-type Activities				
Capital Assets, Net	<u>\$ 20,279</u>	<u>\$ 1,262,197</u>	<u>\$ 38,297</u>	<u>\$ 1,320,773</u>

NOTE F - NOTES PAYABLE PROPRIETARY FUND

The District obtained a loan from Oklahoma Water Resources Board (OWRB) to expand the water and sewer system and to acquire other assets. During the year-ended October 31, 2005 the District borrowed money from Oklahoma Water Resources Board to refinance existing debt and complete a system up-grade. Following is a summary of the notes payable activity for the year ended October 31, 2014.

	Balance Oct. 31, 2013	Added/ (Retired)	Balance Oct. 31, 2014
OWRB	\$ 645,000	\$ (50,000)	\$ 595,000
Totals	<u>\$ 645,000</u>	<u>\$ (50,000)</u>	<u>\$ 595,000</u>

The notes payable are summarized as follows:

<u>Outstanding</u>	<u>Amount</u>
\$835,000 Series 2009 Promissory Note to Oklahoma Water Resources Board, dated November 24, 2009, payable in semi-annual payments with a fixed interest rate.	<u>\$ 595,000</u>

RURAL WATER DISTRICT NUMBER 13
MCINTOSH COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014

Following is the annual debt service principal amounts. Interest rates are fixed on a schedule changing every twelve months. The interest rate at October 31, 2014 was 1.145%.

<u>Year Ended October 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 50,000	\$ 21,637	\$ 71,637
2016	55,000	20,164	75,164
2017	55,000	18,434	73,434
2018	55,000	16,567	71,567
2019	60,000	14,631	74,631
2020-2024	320,000	39,033	359,033
Total	<u>\$ 595,000</u>	<u>\$ 130,466</u>	<u>\$ 725,466</u>

NOTE G - RATE COVENANT

Under the terms of the Oklahoma Water Resources Board loan, the Authority is required to maintain a schedule of rates or changes for services sufficient to provide funds which together with other revenues pledged under the Local Act, will provide net revenues available for debt service equal to at least 125% of the maximum annual debt service requirement. The ratio for the current year is calculated as follows:

Revenues	\$ 339,181
Expenses	<u>244,719</u>
Revenues available for debt service	<u>\$ 94,462</u>
Debt service requirement	<u>\$ 75,502</u>
Ratio	<u>1.25 to 1.00</u>

NOTE H - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE I - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the audit report, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

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

To the Board of Directors
Rural Water District Number 13
McIntosh County
Henryetta, 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 modified cash basis financial statements of the business-type activities of Rural Water District Number 13, McIntosh County, Henryetta, Oklahoma, as of and for the year ended October 31, 2014, and the related notes to the financial statements, which collectively comprise Rural Water District Number 13, McIntosh County's basic financial statements and have issued my report thereon dated February 18, 2015.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Rural Water District Number 13, McIntosh County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District Number 13, McIntosh County's internal control. Accordingly, I do not express an opinion of the effectiveness of Rural Water District Number 13, McIntosh County's internal control.

My consideration of internal control over financial reporting 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 are not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. I consider the deficiencies described in the accompanying schedule of findings as 14-01 and 14-02 to be material weaknesses.

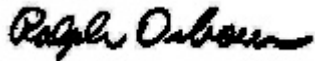
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rural Water District Number 13, McIntosh County, Henryetta, Oklahoma'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 the 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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
February 18, 2015

RURAL WATER DISTRICT NUMBER 13
MCINTOSH COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
OCTOBER 31, 2014

14-01 Bank Deposits

Criteria - Bank deposits should be made on a daily basis.

Condition - Bank deposits were not made in a timely manner. This occurred during several months during the year culminating in deposits \$26,731 above revenue in December 2014.

Effect - Failure to make bank deposits in a timely manner increases the risk of loss through misplacement or misappropriation.

Recommendation - The District should insure the deposits are made on a timely basis. An employee other than the one responsible for accounting should make the deposit.

14-02 Bank Reconciliations

Criteria - Bank reconciliations should be completed by an employee who does not have responsibility for accounting and depositing money received.

Condition - Bank reconciliations were completed by the employee who has responsibility for accounting and depositing money received.

Effect - As noted in 14-01, bank deposits were not made in a timely manner. The employee who failed to make timely deposits was able to cover this by completing the bank reconciliation with large outstanding deposits. If another employee completed the bank reconciliation, the Board would have become aware of the problem earlier.

Recommendation - The District should require the bank reconciliation be completed by an employee who does not have control over deposits or checks written.