

Financial Statements

of

**Rural Water, Sewer, Gas & Sewage Waste
Management District No. 9
McIntosh County, Oklahoma**

December 31, 2011



Clothier & Company CPA's P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rural Water, Sewer, Gas & Solid Waste
Management District No. 9
McIntosh County, Oklahoma

We have audited the accompanying statement of financial position - modified cash basis of Rural Water, Sewer, Gas & Solid Waste Management District No. 9 (Rural Water Dist. No. 9), McIntosh County, Oklahoma, (a nonprofit organization) as of December 31, 2011 and the related statements of revenue, expenses and changes in net assets - modified cash basis and cash flows for the year then ended. These financial statements are the responsibility of Rural Water District No. 9's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the District prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rural Water District No. 9 as of December 31, 2011 and the changes in net assets for the year then ended, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2012, on our consideration of Rural Water District No. 9's internal control over financial reporting and on our tests of its compliance with certain provisions of laws,

regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Clothier + Company CPA's

Clothier & Company, CPA's, P.C.

May 7, 2012

**RURAL WATER, SEWER, GAS, SEWAGE WASTE
MANAGEMENT DISTRICT NO. 9
STATEMENT OF FINANCIAL POSITION - MODIFIED CASH BASIS
For the Year Ending December 31, 2011**

ASSETS

Current Assets:

Operating account	\$	42,484
Savings		45,614
Petty cash		130
Certificates of deposit		242,255
Total Current Assets		330,483

Fixed Assets:

Land		3,523
Water system & Warehouse		961,772
Furniture and fixtures		12,205
Equipment		75,131
Total Property and Equipment		1,052,631
Less: Accumulated Depreciation		(546,643)
Total Fixed Assets		505,988

Total Assets	\$	836,471
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LIABILITIES AND NET ASSETS

Current Liabilities:

Accrued payroll taxes	\$	1,663
Customer deposits		2,350
Total Current Liabilities		4,013

Long Term Liabilities:

Total Long Term Liabilities		0
Total Liabilities		4,013

Net Assets:

Invested in Capital Assets		505,988
Restricted		0
Unrestricted		326,470
Net Assets		832,458

Total Liabilities and Net Assets	\$	836,471
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**RURAL WATER, SEWER, GAS, SEWAGE WASTE
MANAGEMENT DISTRICT NO. 9
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET ASSETS - MODIFIED CASH BASIS
For the Year Ending December 31, 2011**

Operating Revenue	
Water Revenue	\$ 232,927
Transfers & Connections	6,575
Miscellaneous Income	165
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Total Sales	239,667
Operating Expenses	
Water Purchased	108,957
Salaries	45,698
Payroll Taxes	2,461
Health Insurance	5,565
IRA Expense	3,341
Utilities/Telephone	4,978
Dues, Licenses, Permits	1,089
Insurance-General	6,117
Office Expenses	3,928
Repairs & Maintenance	8,599
Employee/Board Travel & Training	39
Professional Fees	3,120
Miscellaneous	8
	<hr/>
Total Operating Expenses	193,900
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Revenue Over(Under) Expenses From Operations	45,767
Other Revenue (Expenses)	
Interest Income	2,771
Depreciation Expense	(24,718)
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Total Other Revenue (Expenses)	(21,947)
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Change in Net Assets	23,820
Net Assets, Beginning of Year	<hr/> 808,638
Net Asset, End of Year	<hr/> <u>\$ 832,458</u>

See accompanying notes and auditors' report.

**RURAL WATER, SEWER, GAS & SEWAGE WASTE
MANAGEMENT DISTRICT #9
STATEMENT OF CASH FLOWS
As of December 31, 2011**

Cash Flows From Operating Activities:

Net income	\$ 23,820
Adjustment to reconcile net income to net cash provided by operations:	
Depreciation	24,718
(Increase) Decrease in:	
Accounts receivable	0
Increase (Decrease) in:	
Customer deposits	200
Accrued liabilities	1,668
Net Cash Provided By Operations	50,406

Cash Flows From Capital and Related

Financing Activities:

Proceeds from issuance of debt	0
Acquisition and construction of capital assets	(81,834)
Principal paid on notes payable	0
Net Cash (Used) By Capital and Related Financing Activities	(81,834)

Cash Flows From Investing Activities:

Decrease (Increase) in reserve funds	0
Net Cash Provided (Used) By Investing Activities	0
Net Increase (Decrease) In Cash	(31,428)
Cash Beginning of Year	361,915
Cash End of Year	\$ 330,487

Supplemental Disclosure of Cash Flow Information:

Interest Paid	\$ 0
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See accompanying notes and auditors' report.

Rural Water, Sewer, Gas & Sewage Waste
Management District No. 9
McIntosh County, Oklahoma

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Rural Water, Sewer, Gas & Sewer Waste Management District No. 9 was organized under Title 82, Oklahoma Statutes Annotated, and Section 1301-1322 for the purpose of providing a waterworks and sewer system to serve its members. It is not a component unit as defined by Governmental Accounting Standards Board Statement No. 14.

Basis of Accounting

The financial statements of the District are prepared using the modified cash basis of accounting where revenues are recognized when received and expenses are recognized when paid. The modified cash basis used includes the deduction for depreciation. This is a comprehensive basis of accounting other than generally accepted accounting principles.

Cash and Cash Equivalents

For the purpose of these financial statements, the District considers cash and cash equivalents to be cash on hand and all demand deposits with banks. There were no non-monetary transactions.

Funds on Deposit

The District maintains the following account for funds deposited with a fully insured bank:

Operating account- Gross revenues of the District are to be deposited to this account. The reasonable and necessary current expenses of operating and maintaining the District for each month are also paid from this account.

Savings and certificates of deposit – A cash reserve is set aside in this account for unforeseen catastrophes, extensions and improvements to the water system.

Property and Equipment

Property and equipment are recorded at cost, with depreciation provided on a straight-line method over the estimated useful lives of the assets.

Income Tax

The District is conducting its affairs as a non-profit organization and is exempt from federal income tax under the Internal Revenue Code 501(c)(12). The District has made no provision for federal income tax.

Rural Water, Sewer, Gas & Sewage Waste
 Management District No. 9
 McIntosh County, Oklahoma

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. PROPERTY AND EQUIPMENT:

	<u>Cost</u>	<u>Additions</u>	<u>Total</u>
Water System	\$840,913	\$81,314	\$922,227
Warehouse	39,545	0	39,545
Office Furniture/Fixture	11,685	520	12,205
Equipment/Trucks	75,130	0	75,130
Land	3,523	0	3,523
	<hr/>	<hr/>	<hr/>
	\$970,796	\$81,834	\$1,052,630
Accumulated Depreciation			<hr/> (546,643) <hr/>
Book Value, December 31, 2011			<hr/> \$505,987 <hr/>

3. CONCENTRATION OF CREDIT RISK

The District maintains cash balances at Peoples National Bank and Armstrong Bank. As of December 31, 2011 the District's deposits and investments were \$361,562. Of the bank balance \$317,708 was covered by Federal Depository Insurance Corporation and \$0 was collateralized. Investments are categorized into three levels of custodial risk:

1. Uncollateralized.
2. Collateralized with securities held by the pledging financial institution.
3. Collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Deposits were categorized as follows at December 31, 2011:

	<u>Balance</u>	<u>Insured</u>	<u>Uninsured</u>	<u>Category 2</u>	<u>Category 3</u>
Peoples-Checking	\$42,484	\$42,484	\$0	\$0	\$0
Peoples-CD's	173,807	173,807	0	0	0
Peoples-Savings	45,614	33,709	11,905	0	0
Armstrong-CD	68,448	68,448	0	0	0
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	\$330,353	\$318,448	\$11,905	\$0	\$0



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**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, Sewer, Gas & Sewage Waste
Management District No. 9
McIntosh County, Oklahoma

We have audited the financial statements- modified cash basis of Rural Water, Sewer, Gas & Sewage Waste Management District No. 9 (Rural Water District No. 9), McIntosh County, Oklahoma, (a nonprofit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated May 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Rural Water District No. 9 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rural Water District No. 9's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our 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 over financial reporting that might be deficiencies, significant deficiencies or

material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Directors, others within the organization, and State of Oklahoma and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Clothier & Company CPA's".

Clothier & Company, CPA's, P.C.

May 7, 2012

SUPPLEMENTAL INFORMATION

**RURAL WATER, SEWER, GAS, SEWAGE WASTE
MANAGEMENT DISTRICT NO. 9
Budget to Actual (Unaudited)
December 31, 2011**

	ORIGINAL	FINAL	ACTUAL	VARIANCE
REVENUES:				
Connections	\$6,000	\$6,000	\$6,575	\$575
Interest Income	4,500	4,500	2,774	(1,726)
Miscellaneous	500	500	165	(335)
Water Sales	220,000	220,000	232,927	12,927
Total Revenue	<u>231,000</u>	<u>231,000</u>	<u>242,441</u>	<u>11,441</u>
EXPENDITURES:				
Contract Labor	2,000	2,000	0	(2,000)
Dues/Permits/Water Tests	950	950	1,089	139
Salary Expense	45,000	45,000	45,698	698
Insurance	11,600	11,600	11,682	82
Education	150	150	39	(111)
Maintenance & Repairs	19,000	19,000	8,599	(10,401)
IRA	1,200	1,200	3,341	2,141
Office Supplies	7,550	7,550	3,939	(3,611)
Truck Expense	2,500	2,500	0	(2,500)
Professional Fees	30,000	30,000	3,120	(26,880)
Payroll Taxes	4,200	4,200	2,461	(1,739)
Utilities	6,050	6,050	4,978	(1,072)
Water Purchases	95,000	95,000	108,957	13,957
Total Expenditures	<u>225,200</u>	<u>225,200</u>	<u>193,903</u>	<u>(31,297)</u>
Net Income (Loss)	<u>\$5,800</u>	<u>\$5,800</u>	<u>\$48,538</u>	<u>\$42,738</u>
Less: Depreciation per financial statements			<u>(24,718)</u>	
Change in Net Assets per financial statements			<u>\$23,820</u>	