

**PAWNEE COUNTY RURAL WATER DISTRICT NO. 1  
CLEVELAND, OKLAHOMA**

**FINANCIAL STATEMENTS AND AUDITOR'S REPORT**

**YEAR ENDED DECEMBER 31, 2013**

**PAWNEE COUNTY RURAL WATER DISTRICT NO. 1  
BOARD OF DIRECTORS  
DECEMBER 31, 2013**

**BOARD OF DIRECTORS**

**President**

David Smith

**Vice-President**

Jim Dickson

**Secretary**

Todd Weldon

**Treasurer**

Al Nye

**Member**

Bobby Brown

**Member**

Bob Orrell

**Member**

Duane Terry

**GENERAL MANAGER**

Rick Rogers

**BOOKKEEPER**

Michelle Welch

PAWNEE COUNTY RURAL WATER DISTRICT NO. 1  
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Certified Public Accountant  
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Tulsa, OK 74114

**INDENPENDANT AUDITOR'S REPORT**

Board of Directors  
Pawnee County Rural Water District No. 1  
Cleveland, Oklahoma 74020

We have audited the accompanying financial statements of **Pawnee County Rural Water District No. 1**, Cleveland, Oklahoma, for the years ended December 31, 2013 and 2012. These financial statements are the responsibility of **Pawnee County Rural Water District No. 1's**, Cleveland, Oklahoma'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of **Pawnee County Rural Water District No. 1**, Cleveland, Oklahoma, as of December 31, 2013 and 2012 and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 10, 2014, (pages 8-9) on our consideration of **Pawnee County Rural Water District No. 1**, Cleveland, Oklahoma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 important for assessing the results of our audit.

The management's discussion and analysis, on pages 6 and 7 is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose for forming opinions on the basic financial statements of **Pawnee County Rural Water District No. 1**, Cleveland, Oklahoma. The Budgetary Comparison is presented for purposes of additional analysis and are not a required part of the basic financial statements. The Budgetary Comparison has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion.

Russell Cunningham, CPA  
April 10, 2014

PAWNEE COUNTY RURAL WATER DISTRICT NO. 1  
MANAGEMENT DISCUSSION ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2013

For the **Pawnee County Rural Water District No. 1**, this is a presentation of Management's Discussion and Analysis (MD&A). This analysis serves as an introduction to the financial statements for users to facilitate whether our overall financial health has improved or deteriorated as a result of the past year's operations. A required component of MD&A is to briefly describe the reasons for changes in our asset, liability, revenue and expenditure balances to the previous (2012) year.

Business-type-Activities:

In this review, revenue accounts decreased by \$ 59,708 from 2012. This decrease is due primarily because of a much milder summer over the same period a year ago.

As of December 31, 2013, the District will report a loss of \$ 31, 292. This loss includes a reported current depreciation expense amount of \$ 48,334.

For the year ended December 31, 2013, total assets exceeded liabilities by \$ 625, 132. The District has one notes payable at this time and five (5) certificates of deposit totaling \$ 132,600.

Fixed Assets

At December 31, 2013, the District had \$ 509,213 invested in fixed assets, net of depreciation, including land, the water system, vehicles and equipment.

Future Activities

The District needs to make a concerted effort to replace some sections of line within the District.

Additionally, increases in the amount of chemical cost used in the water treatment process is continuing. Our EPA mandated water testing is ongoing and there appears to be no end in sight.

Overall Outlook

The future for the District remains bright. Our water quality remains excellent and we are working to improve the distribution system. The District is financially strong and we are able to improve the system and comply with EPA standards with a minimum of impact on our financial statements.

**Russell Cunningham, CPA**  
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**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***

Board of Directors  
**Pawnee County Rural Water District No. 1**  
Cleveland, Oklahoma 74020

We have audited the financial statements of **Pawnee County Rural Water District No. 1**, as of and for the years ended December 31, 2013 and 2012, and have issued our report thereon dated April 10, 2014. 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

In planning and performing our audit, we considered **Pawnee County Rural Water District No. 1's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

*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. We consider the deficiencies 11-1 and 11-2 described in the accompanying schedule of findings to be material weaknesses.

*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. We consider the deficiency 11-3 described in the accompany schedule of findings to be a significant deficiency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Pawnee County Rural Water District No. 1'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*.

**Pawnee County Rural Water District Number 1's** responses to the findings identified in our audit are disclosed in the accompanying schedule of findings and responses. We did not audit **Pawnee County Rural Water District Number 1's** response and accordingly, we express no opinion on it.

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

Russell Cunningham, CPA  
April 10, 2014

**PAWNEE COUNTY RURAL WATER DISTRICT NO. 1**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2013 AND 2012**

<b>ASSETS</b>	<b><u>2013</u></b>	<b><u>2012</u></b>
<b>Current Assets</b>		
Cash on hand	\$ 589	\$ 500
Cash in bank	13,181	19,123
Investments	132,600	131,679
Accounts receivable	35,467	27,038
Prepaid Insurance	<u>10,831</u>	<u>10,204</u>
Total Current Assets	<u>192,668</u>	<u>188,544</u>
<b>Fixed Assets</b>		
Water distribution system	1,058,378	1,048,311
Buildings	149,711	149,711
Office Equipment	25,633	25,633
Vehicles	90,575	90,575
Equipment	113,238	106,708
Water treatment system	<u>20,420</u>	<u>20,420</u>
Total Fixed Assets	1,457,955	1,441,358
Less: accumulated depreciation	<u>(948,742)</u>	<u>(900,408)</u>
Total Fixed Assets (net of depreciation)	<u>509,213</u>	<u>540,950</u>
<b>Total Assets</b>	<b><u>\$ 701,881</u></b>	<b><u>\$ 729,494</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts Payable	\$ 4,372	\$ 5,865
Payroll taxes payable	4,636	3,571
Customer Deposits	46,175	34,375
Notes Payable – Truck	<u>6,306</u>	<u>5,750</u>
Total Current Liabilities	<u>61,489</u>	<u>49,561</u>
<b>Long-Term Liabilities</b>		
Notes Payable – Truck	<u>15,260</u>	<u>23,509</u>
Total Long-Term Liabilities	<u>15,260</u>	<u>23,509</u>
<b>Total Liabilities</b>	<b><u>76,749</u></b>	<b><u>73,070</u></b>
<b>Net Assets</b>		
Memberships	102,600	102,600
Contributed capital	20,097	20,097
Unrestricted Net Assets	<u>502,435</u>	<u>533,727</u>
<b>Total Net Assets</b>	<b>625,132</b>	<b>656,424</b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 701,881</u></b>	<b><u>\$ 729,494</u></b>

*See Accompanying Independent Auditor's Report and Notes to Financial Statements*

**PAWNEE COUNTY RURAL WATER DISTRICT NO. 1**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Revenue from operations		
Water revenue	\$ 422,604	\$ 465,842
Late charges	7,413	7,514
Transfer fees	848	5,332
Miscellaneous Income	6,601	21,179
New taps	7,050	5,000
Collection fees	8,496	7,596
Interest income	926	1,183
Total revenue from operations	<u>453,938</u>	<u>513,646</u>
Expenses from operations		
Accounting Fees	19,250	4,015
Auto & Truck	14,474	22,899
Bank Charges	2,709	2,850
Depreciation	48,334	50,325
Dues & Publications	432	1,799
Donations	250	0
Education	3,009	821
Equipment Expense	0	938
Employee Benefits	27,515	26,828
Employee Theft	0	63,480
Interest Expense	2,386	1,527
Insurance	20,575	22,852
Laundry	2,072	1,886
Legal Expense	507	1,629
License & Permits	351	0
Meals and Entertainment	1,903	2,678
Office Expense	10,281	18,172
Outside Services	17,999	754
Postage	3,939	3,689
Rent	0	150
Repairs and Maintenance	6,587	6,622
Supplies	1,973	0
Taxes – Payroll	13,872	13,231
Telephone	2,370	2,271
Tools	730	158
Travel	1,141	1,244
Utilities	19,328	21,881
Wages	181,326	172,958
Water lease	37,779	39,982
Water Treatment	44,138	52,849
Total expenses from operations	<u>485,230</u>	<u>538,488</u>
Change in Net Assets	(31,292)	(24,842)
Net Assets, beginning of period	<u>533,727</u>	<u>558,569</u>
Net Assets, end of period	<u>\$ 502,435</u>	<u>\$ 533,727</u>

*See Accompanying Independent Auditor's Report and Notes to Financial Statements*

**PAWNEE COUNTY RURAL WATER DISTRICT NO. 1**  
**STATEMENTS OF CASH FLOWS**  
**DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Operating Activities:		
Operating Cash Receipts from Customers	\$ 456,383	\$ 497,336
Cash Payments to Vendors for Goods and Services	<u>(437,951)</u>	<u>(484,052)</u>
Net Cash from Operating Activities	<u>18,432</u>	<u>13,284</u>
Financing Activities:		
Payment of Principle on Note	<u>( 7,693)</u>	<u>( 2,793)</u>
Net Cash from Financing Activities	<u>( 7,693)</u>	<u>( 2,793)</u>
Investing Activities		
Interest Income	926	1,183
Purchase of Fixed Assets	( 16,597)	( 2,240)
Sale of Fixed Assets	<u>1,950</u>	<u>1,950</u>
Net Cash from Investing Activities	<u>( 15,671)</u>	<u>893</u>
Net Change in Cash and Cash Equivalents	<u>( 4,932)</u>	<u>11,384</u>
Cash & Cash Equivalents at Beginning of Year	<u>151,302</u>	<u>139,918</u>
Cash & Cash Equivalents at End of Year	\$ <u>146,370</u>	\$ <u>151,302</u>
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities		
Change in Net Assets	\$ ( 31,292)	\$ ( 24,842)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Depreciation	48,334	50,325
Changes in Certain Assets and Liabilities:		
Prepaid Expenses	( 627)	2,784
Accounts Receivable	( 8,429)	(19,261)
Accounts Payable	( 1,493)	4,700
Payroll Taxes Payable	1,065	( 3,373)
Customer Deposits	11,800	4,134
Interest Income	<u>( 926)</u>	<u>( 1,183)</u>
Net Cash Provided by Operating Activities	\$ <u>18,432</u>	\$ <u>13,284</u>

**PAWNEE COUNTY RURAL WATER DISTRICT NO. 1  
STATEMENTS OF CASH FLOWS  
DECEMBER 31, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
Supplemental Disclosures:		
Cash Consists of:		
Cash On Hand	\$ 589	\$ 500
Cash in Bank	13,181	19,123
Savings in Bank	<u>132,600</u>	<u>131,679</u>
Cash at End of Year	<u>\$ 146,370</u>	<u>\$ 151,302</u>
Interest Paid During the Year	\$ 2,386	\$ 1,527
Income Tax Paid During the Year	0	0

*See Accompanying Independent Auditor's Report and Notes to Financial Statements*

**PAWNEE COUNTY RURAL WATER DISTRICT NO. 1  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2013**

**Note A – Nature of Operations and Summary of Significant Accounting Policies**

**Pawnee County Rural Water District No. 1** is a political subdivision of the State of Oklahoma with its office located in Cleveland, Oklahoma. The District was formed May 31, 1966 to furnish water service to the residents of the district by constructing and maintaining a water system.

**Pawnee County Rural Water District No. 1's** financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB).

For financial purposes, a reporting entity's financial statements should include all component units over which another component unit (oversight unit) exercises financial accountability. Financial accountability includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations and accountability for fiscal matters.

Based upon the above criteria, there are no component units to be included within the District as a reporting entity.

Basis of Accounting

The accrual basis of accounting is utilized in reporting financial information in accordance with U.S. generally accepted accounting principles. The accrual basis of accounting records revenues in the period in which earned rather than when received and records expenses in the period incurred rather than when paid.

Cash

The District's checking and savings accounts at December 31 are detailed as follows:

	<u>2013</u>	<u>2012</u>
Bank of Oklahoma, Sand Springs, Oklahoma Operating Account	\$ 15,371	\$ 19,402
Less: Outstanding checks	<u>2,190</u>	<u>279</u>
Total	<u>\$ 13,181</u>	<u>\$ 19,123</u>

Investments

The District's investments at December 31 are as follows:

	<u>2013</u>	<u>2012</u>
Certificate of Deposits:		
Oklahoma National Bank and Trust (2)	\$ 52,284	\$ 51,947
Stillwater National Bank Stillwater, Oklahoma (3)	<u>80,316</u>	<u>79,732</u>
Total	<u>\$ 132,600</u>	<u>\$ 131,679</u>

Statement of Cash Flows

For the purposes of the statement of cash flows, the District considers all highly liquid investments, such as certificates of deposit and savings accounts, as cash equivalents.

Fixed Assets

Fixed assets are valued at cost, and depreciation is computed by use of the straight line method. The estimated useful lives of these assets are detailed as follows:

Water distribution system	50 years
Office building	39 years
Office equipment	7 years
Vehicles	5 years
Water treatment system	7-10 years

Notes Payable

Notes Payable – Hitachi originated June 14, 2012 for \$ 32,052. The interest rate is 6.95% and the loan is payable for 60 months @ \$ 633.91 per month. It was originated to buy a 2012 Chevrolet truck, which is the collateral on the loan. The amount of principal due on the loan is as follows:

Principle Due:	
FYE: 12/31/2014	\$ 6,306
12/31/2015	6,758
12/31/2016	7,872
12/31/2017	630

Income Tax

As a political subdivision of the State of Oklahoma, the District is exempt from income taxes.

Credit Risk

The District’s receivables consist primarily of uncollateralized customer obligations for water consumed. If these customers were to leave the District prior to paying off their account, collectability could be difficult.

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.

**Note B – Cash and Investments**

The District’s investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and agencies; certificates of deposit of savings and loan associations, banks and trust companies; savings accounts or savings certificates of savings and loan associations, banks and trust companies; and warrants, bonds or judgments of the district.

The District’s cash deposits at December 31, 2013 are categorized to give an indication of the level of risk assumed by the District at year-end.

Deposit Categories of Credit Risk

(A) Insured by Federal Deposit Insurance.

(B) Collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name.

(C) Uncollateralized.

	Category			Bank	Carrying
	(A)	(B)	(C)	Balance	Amount
Cash	\$ 15,371			\$ 15,371	\$ 13,770
Investments	<u>132,600</u>			<u>132,600</u>	<u>132,600</u>
Total	<u>\$ 147,971</u>	<u>0</u>	<u>0</u>	<u>\$ 147,971</u>	<u>\$ 146,370</u>

**Note C – Accounts Receivable**

Accounts receivable consist of amounts billed to residents within the District’s area of operation for water used, but not yet paid. No allowance for doubtful accounts was established because it does not have a material effect on the balance sheet.

**Note D – Unclaimed Debenture Payments**

Upon creation of the District, individual patrons contributed funds to assist in the start-up and operation of the water distribution system. These funds were subsequently invested to provide additional return for the District. Since inception, the District has attempted to refund this contribution to as many individuals as possible. Some contributors cannot be located, and there is no determination as to when these payments will be made in future years, if at all. As of December 31, 2013, all unclaimed debenture payments were written off due to inability to accurately identify the contributors and amount owed to each person.

**Note E – Insurance**

It appears the District has current insurance coverage for all major perils.

**Note F – Contingent Liabilities**

Per the District's legal counsel, there were no known contingent liabilities at December 31, 2013 which would have material effect on the financial statements.

**Note G – Employee Theft**

In April 2013, an office employee admitted to stealing money from **Pawnee County Rural Water District No. 1**. The amount of theft is estimated to be \$ 98,625. \$ 48,500 was repaid by the Cleveland County Court System in March 2014. The employee no longer works for the Water District. It is probable that some or all of the monies will be recovered through restitution in future years.

**Note H – Current Liabilities**

Accounts payable consists of amounts payable to vendors for supplies related to operations in the amount of \$ 4,372.

**Note I – Fair Value**

The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

**Note J – Subsequent Events**

Subsequent events have been evaluated through the financial statement release date of April 10, 2014, with no items noted for reporting.

**PAWNEE COUNTY RURAL WATER DISTRICT NO. 1**  
**SCHEDULE OF FINDINGS**  
**DECEMBER 31, 2013**

Control Deficiencies

*Material Weakness*

11-1. Segregation of Duties

*Condition:* The District has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas because of a lack of segregation of duties.

*Criteria:* A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

*Effect:* Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

*Recommendation:* While we recognize that your office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective system of internal control, it is important that you be aware of this condition. In situations like this, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

*Response:* At the present time, the District has segregated the duties in the most efficient manner possible, given its limited staff. Due to cost constraints, there will be no further administrative employees added.

11-2. Significant Journal Entries

*Condition:* During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the Districts existing internal controls, and therefore could have resulted in a material misstatement of the District's financial statements.

*Criteria:* A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

*Effect:* Inadequate controls could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements.

*Recommendation:* While we recognize that your office staff is limited, it is important that you be aware of this condition. In situations like this, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

*Response:* Due to the limited office staff, the District is aware of the deficiency in internal control. The District accepts the risk and due to cost constraints, there will be no further administrative employees added.

*Significant Deficiency*

11-3 Preparation of Financial Statements

*Condition:* The Organization does not have an internal control system designed to provide for the preparations of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.

*Criteria:* A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

*Effect:* This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

*Recommendation:* This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other consideration.

*Response:* The District is aware of the deficiency in internal control. The District accepts the risk and will not add additional administrative employees due to cost constraints.