

AUDIT REPORT
PITTSBURG COUNTY RWD NO. 9
MCALESTER, OKLAHOMA
FOR YEARS ENDED NOVEMBER 30, 2013 & 2012

Audited by

JACK H. JENKINS
CERTIFIED PUBLIC ACCOUNTANT
A PROFESSIONAL CORPORATION
TULSA, OK

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 9
MCALESTER, OKLAHOMA
NOVEMBER 30, 2013**

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| Table of Contents | 1 |
| Board of Directors | 2 |
| Independent Auditor's Report | 3-4 |
| Independent Auditor's Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 5-6 |
| Schedule of Audit Results | 7 |
| Management's Discussion and Analysis (Unaudited) | 8-9 |
| COMBINED FINANCIAL STATEMENTS: | |
| Statement of Net Assets | 10 |
| Statement of Revenues, Expenses and Changes in Net Assets | 11 |
| Statement of Cash Flows | 12 |
| Notes to Financial Statements | 13-15 |

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 9
BOARD OF DIRECTORS
NOVEMBER 30, 2013**

BOARD OF DIRECTORS

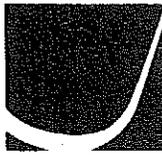
| | |
|---------------------|-----------------|
| Chairman | Millard Harp |
| Vice-Chairman | Harold Hearod |
| Secretary/Treasurer | Jeff Vaughn |
| Member | Janet Dalton |
| Member | Michelle Mercer |

OPERATOR

Lynn Ellis

MANAGER

Debbie Fuller



Jack H. Jenkins, CPA *A Professional Corporation*

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Pittsburg County Rural Water District No. 9
McAlester, Oklahoma 74501

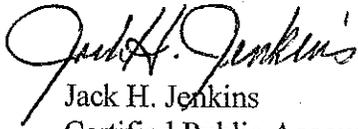
I have audited the accompanying financial statements of the business-type activities of the Pittsburg County Rural Water District No. 9, McAlester, Oklahoma, as of and for the years ended November 30, 2013 & 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Pittsburg County Rural Water District No. 9, McAlester, Oklahoma, as of November 30, 2013 & 2012, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

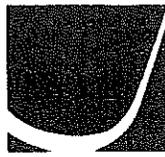
The Management's Discussion and Analysis report, that follows the Schedule of Audit Results, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued a report dated May 2, 2014, on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my 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 considered in assessing the results of my audit.



Jack H. Jenkins
Certified Public Accountant, P.C.

May 2, 2014



Jack H. Jenkins, CPA *A Professional Corporation*

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

Board of Directors
Pittsburg County Rural Water District No. 9
McAlester, Oklahoma 74501

I have audited the financial statements of the Pittsburg County Rural Water District No. 9, McAlester, Oklahoma, as May 2, 2014. I conducted my 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 my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the combined financial statements - regulatory basis, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I 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 misstatements 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.

My 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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*. Findings number 13-01 is listed on the following page under the schedule of audit results.

This report is intended for the information of the board of directors and management, and is not intended and should not be used by anyone other than these specified parties.



Jack H. Jenkins
Certified Public Accountant, P.C.

May 2, 2014

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 9
SCHEDULE OF AUDIT RESULTS
NOVEMBER 30, 2013

Findings – Financial Statement Audit

13-01 – Questionable Activities

Condition: Irregular and unauthorized payroll activity and evidence of “pay advances” paid to employees were observed in the 2012 fiscal year and appeared to have continued in the 2013 fiscal year. At the end of fiscal year 2012, the total balance of unpaid advances in the amount of \$4,299.20 was set up on the balance sheet as an “employee receivable”. This amount increased by \$5,667.80, or four (4) additional extra payments to an employee.

Criteria: Financial statements provided by management should be reviewed and checked for accuracy.

Effect: Falsification of records was observed to cover up these transactions that did not appear to be monitored in the financial statements. Employee advances were not approved at the board meetings and were “hidden” in the financial statements so the board of directors would not know that this happened.

Recommendation: All financial transactions should be made available to the board of directors for review. Falsification of records and misrepresentation of data is prohibited.

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 9
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED NOVEMBER 30, 2013 & 2012**

Our discussion and analysis of Pittsburg County Rural Water District No. 9's financial performance provides an overview of the financial activities for the fiscal year ended November 30, 2012 and 2013. Please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The total assets decreased by \$23,402 as a result of this year's operations.
- The District's return on total ending assets was -5.76%.
- The total cost of the District's activities was \$273,691 compared to \$236,804 in the prior year.

USING THE ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the District's financial position.

One of the most important questions asked about the District's finances is "Is the District as a whole better or worse off as a result of this year's activities?" The financial statements report information about the assets and liabilities using the accrual basis of accounting.

These financial statements report the District's assets and changes in them. You can think of the District's Equity as the difference between assets the members own, and liabilities, what the members owe, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's equity are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non financial factors such as the condition of the District's capital assets to assess the overall health of the District.

The District's equity changed from a year ago, decreasing from \$402,164 to \$379,795.

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 9
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED NOVEMBER 30, 2013 & 2012**

FINANCIAL RATIOS

Working Capital is the amount by which current assets exceed current liabilities. The Current Ratio, which compares current assets to the current liabilities, is an indicator of the ability to pay current obligations. A ratio of less than one would indicate the District would have difficulty satisfying its' current obligations with current assets.

| | Current Year | Prior Year |
|------------------------|---------------------|-------------------|
| Working Capital | \$ 122,345 | \$ 149,437 |
| Current Ratio | 14.97 | 16.26 |

Return on assets measures earnings in relation to all of the resources available for use.

| | | |
|-------------------------|--------|-------|
| Return on Assets | -5.76% | 5.93% |
|-------------------------|--------|-------|

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the year the District had \$257,450 invested in net capital assets.

Debt

At year end, the District had no outstanding debt.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide our members, 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 District Manager.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 9
STATEMENT OF NET ASSETS
FOR YEARS ENDED NOVEMBER 30, 2013 & 2012

| <u>ASSETS</u> | <u>2013</u> | <u>2012</u> |
|---|-------------------|------------------|
| Current assets: | | |
| Cash in bank | \$ 58,669 | 89,453 |
| Certificates of deposit | 51,468 | 51,231 |
| Accounts receivable | 8,278 | 11,759 |
| Employee receivable | 9,967 | 4,299 |
| Prepaid insurance | 2,721 | 2,486 |
| Total current assets | <u>131,103</u> | <u>159,228</u> |
| Noncurrent assets: | | |
| Capital assets: | | |
| Water system and equipment | 579,833 | 560,851 |
| Less: accumulated depreciation | <u>(322,383)</u> | <u>(308,124)</u> |
| Total noncurrent assets | <u>257,450</u> | <u>252,727</u> |
| Total Assets | <u>388,553</u> | <u>411,955</u> |
| <u>LIABILITIES</u> | | |
| Current Liabilities: | | |
| Accounts payable | <u>8,758</u> | <u>9,791</u> |
| Total current liabilities | <u>8,758</u> | <u>9,791</u> |
| <u>NET ASSETS</u> | | |
| Invested in capital assets, net of related debt | 257,450 | 252,727 |
| Unrestricted | <u>122,345</u> | <u>149,437</u> |
| Total Net Assets | <u>\$ 379,795</u> | <u>402,164</u> |

The accompanying notes are an integral part of the financial statements

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 9
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR YEARS ENDED NOVEMBER 30, 2013 & 2012

| | 2013 | 2012 |
|---|------------|------------|
| Operating Revenues: | | |
| Water revenue | \$ 247,530 | 253,256 |
| Transfer fees | 250 | 500 |
| Meter sales | 2,000 | 7,000 |
| Other income | 1,236 | |
| Total operating revenues | 251,016 | 260,756 |
| Operating Expenses: | | |
| Water purchased | 122,485 | 121,715 |
| Operating supplies & maintenance | 33,964 | 11,161 |
| Backhoe expense | 8,380 | 2,580 |
| Salaries and payroll tax | 64,608 | 63,553 |
| Professional fees | 8,790 | 5,200 |
| Office expense | 6,620 | 5,240 |
| Utilities | 6,996 | 6,802 |
| Meeting expense | 850 | 1,000 |
| Insurance | 5,562 | 4,922 |
| Miscellaneous | 1,177 | 610 |
| Depreciation | 14,259 | 14,021 |
| Total operating expenses | 273,691 | 236,804 |
| Operating Income (Loss) | (22,675) | 23,952 |
| Non-Operating Revenues (Expenses): | | |
| Interest income | 306 | 457 |
| Dividends received | - | 11 |
| Total non-operating revenues (expenses) | 306 | 468 |
| Changes in Net Assets | (22,369) | 24,420 |
| Total Net Assets, beginning of period | 402,164 | 377,744 |
| Total Net Assets, end of period | \$ 379,795 | \$ 402,164 |

The accompanying notes are an integral part of the financial statement

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 9
STATEMENT OF CASH FLOWS
FOR YEARS ENDED NOVEMBER 30, 2013 & 2012

| | 2013 | 2012 |
|--|-------------|-----------|
| Cash Flows from Operating Activities: | | |
| Cash received from customers | \$ 254,497 | 255,336 |
| Cash paid to employees | (64,608) | (63,553) |
| Cash paid to suppliers | (201,760) | (164,194) |
| Net cash flows from operating activities | (11,871) | 27,589 |
| Cash Flows from Investing Activities: | | |
| Capital assets purchased | (18,982) | - |
| Receipt of interest | 306 | 457 |
| Dividends received | - | 11 |
| Net cash flows from investing activities | (18,676) | 468 |
| Cash Flows from Financing Activities: | | |
| Net cash flows from financing activities | - | - |
| Net increase (decrease) in cash and cash equivalents | (30,547) | 28,057 |
| Cash and cash equivalents, beginning of period | 140,684 | 112,627 |
| Cash and cash equivalents, end of period | \$ 110,137 | 140,684 |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | |
| Operating income (loss) | \$ (22,675) | 23,952 |
| Add depreciation expense | 14,259 | 14,021 |
| (Increase)/Decrease in Current Assets | | |
| Accounts receivable, net | 3,481 | (5,420) |
| Employee receivable | (5,668) | (2,882) |
| Prepaid expenses | (235) | 39 |
| Increase/(Decrease) in Current Liabilities | | |
| Accounts payable | (1,033) | (2,121) |
| Net cash flows from operating activities | \$ (11,871) | 27,589 |

The accompanying notes are an integral part of the financial statements

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 9
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2013 & 2012**

Note 1 – Organization

Pittsburg County Rural Water District No. 9, McAlester, Oklahoma, is recognized as a public not for profit rural water district under Oklahoma Statutes, Title 82. The purpose of this organization is to provide water to residential and commercial customers who are members of the District.

Note 2 – Summary of significant accounting policies

Reporting Entity

Pittsburg County Rural Water District No. 9 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost of providing water services is financed through user charges. The District purchases water primarily from the city of McAlester

Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles 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 balance sheet. The operating statements present increases and decreases 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.

Accounts Receivable

All accounts greater than thirty days are considered past due. Receivables greater than ninety days are carried at the original billed amount. No provision is made for bad-debt expense as it is deemed to be of an immaterial amount. An aging of accounts receivable as of November 30, 2013 & 2012 is as follows:

| | | |
|------------|-----------------|---------------|
| | <u>2013</u> | <u>2012</u> |
| 0-30 days: | \$ <u>8,278</u> | <u>11,759</u> |

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 9
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2013 & 2012

Inventory

Inventory is expensed when purchased and capitalized when used for improvements to the water system. Inventory on hand is not recorded as the amount is deemed to be immaterial to the financial statements.

Property and Equipment

Property and equipment is recorded at cost when purchased. Depreciation expense is recorded using the straight-line method over the estimated useful life of the asset. Water line extensions and improvements are depreciated using a 40-year life. Water system improvements constructed by the District include capitalizing the direct cost of materials and labor. If an asset is permanently impaired in value, the asset cost is written down to market value. The District capitalizes assets with a useful life in excess of one year with a cost of \$250 or more. Line extension costs reimbursed by the customer will be capitalized and accordingly depreciated.

Cash and Cash Equivalents

Cash and cash equivalents, shown in the financial statements, are amounts that are not subject to fluctuations in principal value due to changing market conditions and have a maturity of less than three months.

Custodial Credit Risk

At November 30, 2013 & 2012, the District held deposits of approximately \$110,137 and \$140,684, respectively at financial institutions. The District's cash deposits are entirely covered by Federal Depository Insurance.

Note 3 – Risk Management

Pittsburg County Rural Water District No. 9 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 continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 9
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2013 & 2012

Note 4 – Capital Assets

The following is a summary of changes in property, plant and equipment:

| | Balance November 30, 2012 | Additions | Deletions | Balance November 30, 2013 |
|----------------------------------|---------------------------------|-----------------|-------------|---------------------------------|
| Water System & Equipment | 560,851 | 18,982 | | 579,833 |
| Less accumulated depreciation | (308,124) | (14,259) | | (322,383) |
| Net | <u>\$ 252,727</u> | <u>\$ 4,723</u> | <u>\$ -</u> | <u>\$ 257,450</u> |

Note 5 – Income Tax Status

The District is not subject to state or federal income taxes as a non-profit organization.