

Financial Statements

of

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

December 31, 2012



Clothier & Company CPA's P.C.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rural Water District No. 9
McIntosh County, Oklahoma

We have audited the accompanying financial statements of Rural Water, Sewer, Gas & Solid Waste Management District No. 9 (Rural Water Dist. No. 9), McIntosh County, Oklahoma, (a nonprofit organization), which comprise the statement of financial position- modified cash basis as of December 31, 2012, and the related statement of revenue, expenses and changes in net assets- modified cash basis for the years then ended, and the related notes to the 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 as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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. 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 auditors' 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 the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we 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.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Rural Water District No.9, as of December 31, 2012 and its revenue, and expenses for the years then ended, in accordance with the modified cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.



Clothier & Company, CPA's, P.C.
Muskogee, Oklahoma
May 1, 2013

**RURAL WATER, SEWER, GAS, SEWAGE WASTE
MANAGEMENT DISTRICT NO. 9
STATEMENT OF FINANCIAL POSITION - MODIFIED CASH BASIS
For the Year Ending December 31, 2012**

ASSETS

Current Assets:

Cash and cash equivalents:	
Operating account	\$ 60,071
Savings	69,674
Petty cash	130
Certificates of deposit	243,678
Total Current Assets	<u>373,553</u>

Fixed Assets:

Land	3,523
Water system & Warehouse	974,666
Furniture and fixtures	12,954
Equipment	77,304
Total Property and Equipment	<u>1,068,447</u>
Less: Accumulated Depreciation	<u>(573,180)</u>
Total Fixed Assets	<u>495,267</u>
 Total Assets	 <u><u>\$ 868,820</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:

Accrued payroll taxes	\$ 1,881
Customer deposits	3,150
Total Current Liabilities	<u>5,031</u>

Long Term Liabilities:

Total Long Term Liabilities	<u>0</u>
Total Liabilities	5,031

Net Assets:

Invested in Capital Assets	495,267
Restricted	0
Unrestricted	368,522
Net Assets	<u>863,789</u>

Total Liabilities and Net Assets	<u><u>\$ 868,820</u></u>
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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, 2012**

Operating Revenue	
Water Revenue	\$ 233,773
Transfers & Connections	3,700
Miscellaneous Income	338
	<hr/>
Total Sales	237,811
Operating Expenses	
Water Purchased	97,052
Salaries	45,764
Payroll Taxes	3,468
Health Insurance	5,418
IRA Expense	1,800
Utilities/Telephone	5,115
Dues, Licenses, Permits	2,203
Insurance-General	4,685
Office Expenses	4,568
Water Tests	656
Truck Expense	821
Repairs & Maintenance	6,492
Employee/Board Travel & Training	63
Professional Fees	3,335
Miscellaneous	35
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Total Operating Expenses	181,475
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Revenue Over(Under) Expenses From Operations	56,336
Other Revenue (Expenses)	
Interest Income	1,532
Depreciation Expense	(26,537)
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Total Other Revenue (Expenses)	(25,005)
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Change in Net Assets	31,331
Net Assets, Beginning of Year	832,458
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Net Asset, End of Year	<u><u>\$ 863,789</u></u>

See accompanying notes and independent auditors' report.

**RURAL WATER, SEWER, GAS & SEWAGE WASTE
MANAGEMENT DISTRICT #9
STATEMENT OF CASH FLOWS
As of December 31, 2012**

Cash Flows From Operating Activities:

Net income	\$ 31,332
Adjustment to reconcile net income to net cash provided by operations:	
Depreciation	26,537
(Increase) Decrease in:	
Accounts receivable	0
Increase (Decrease) in:	
Customer deposits	800
Accrued liabilities	217
Net Cash Provided By Operations	58,886

Cash Flows From Capital and Related

Financing Activities:

Proceeds from issuance of debt	0
Acquisition and construction of capital assets	(15,816)
Principal paid on notes payable	0
Net Cash (Used) By Capital and Related Financing Activities	(15,816)

Cash Flows From Investing Activities:

Decrease (Increase) in reserve funds	0
Net Cash Provided (Used) By Investing Activities	0
Net Increase (Decrease) In Cash	43,070
Cash Beginning of Year	330,483
Cash End of Year	\$ 373,553

Supplemental Disclosure of Cash Flow Information:

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

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

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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

Rural Water, Sewer, Gas & Sewer Waste Management District No. 9, 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	\$922,227	\$12,894	\$935,121
Warehouse	39,545	0	39,545
Office Furniture/Fixture	12,205	749	12,954
Equipment/Trucks	75,130	2,174	77,304
Land	3,523	0	3,523
	<u>\$1,052,630</u>	<u>\$15,817</u>	<u>\$1,068,447</u>
Accumulated Depreciation			<u>(573,180)</u>
Book Value, December 31, 2012			<u>\$495,267</u>

3. CONCENTRATION OF CREDIT RISK

The District maintains cash balances at Peoples National Bank and Armstrong Bank. As of December 31, 2012 the District's deposits and investments were \$373,423. Of the bank balance \$373,423 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, 2012:

	<u>Balance</u>	<u>Insured</u>	<u>Uninsured</u>	<u>Category 2</u>	<u>Category 3</u>
Peoples-Checking	\$60,071	\$60,071	\$0	\$0	\$0
Peoples-CD's	174,915	174,915	0	0	0
Peoples-Savings	69,674	69,674	0	0	0
Armstrong-CD	68,763	68,763	0	0	0
	<u>\$373,423</u>	<u>\$373,423</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

4. SUBSEQUENT EVENTS

Rural Water District No. 9 has evaluated subsequent events through the date which the financial statements were available to be issued with none found.



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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***

Independent Auditors' Report

To the Board of Directors
Rural Water District No. 9
McIntosh County, Oklahoma

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 Rural Water, Sewer, Gas & Sewage Waste Management District No. 9 (Rural Water District No.9), McIntosh County, Oklahoma, (a nonprofit organization) which comprise the statement of financial position- modified cash basis as of December 31, 2012, and the related statements of revenues, expenses and changes in net assets for the year then ended and the related notes to the financial statements, and have issued our report thereon dated May 1, 2013.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 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 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. 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.

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*.

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.

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

Clothier & Company, CPA's, P.C.
May 1, 2013

SUPPLEMENTAL INFORMATION

**RURAL WATER, SEWER, GAS, SEWAGE WASTE
MANAGEMENT DISTRICT NO. 9
Budget to Actual (Unaudited)
December 31, 2012**

	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
REVENUES:				
Connections	\$7,500	\$7,500	\$3,700	(\$3,800)
Interest Income	2,000	2,000	1,532	(468)
Miscellaneous	200	200	338	138
Water Sales	237,000	237,000	233,773	(3,227)
Total Revenue	<u>246,700</u>	<u>246,700</u>	<u>239,343</u>	<u>(7,357)</u>
EXPENDITURES:				
Contract Labor	2,000	2,000	0	(2,000)
Dues/Permits/Water Tests	800	800	2,859	2,059
Salary Expense	50,000	50,000	45,764	(4,236)
Insurance	12,000	12,000	10,103	(1,897)
Education	150	150	63	(87)
Maintenance & Repairs	16,500	16,500	6,492	(10,008)
IRA	2,500	2,500	1,800	(700)
Office Supplies	5,750	5,750	5,169	(581)
Truck Expense	2,500	2,500	821	(1,679)
Professional Fees	25,500	25,500	3,335	(22,165)
Payroll Taxes	4,200	4,200	3,468	(732)
Utilities	6,050	6,050	4,549	(1,501)
Water Purchases	117,500	117,500	97,052	(20,448)
Total Expenditures	<u>245,450</u>	<u>245,450</u>	<u>181,475</u>	<u>(63,975)</u>
Net Income (Loss)	<u>\$1,250</u>	<u>\$1,250</u>	<u>\$57,868</u>	<u>\$56,618</u>
Less: Depreciation per financial statements			<u>(26,537)</u>	
Change in Net Assets per financial statements			<u>\$31,331</u>	