

*Financial Statements*

*of*

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

December 31, 2014



***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 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, 2014, 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 the 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 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 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, 2014 and its revenue, and expenses for the years then ended, in accordance with the modified cash basis of accounting as described in Note 1.

## **Other Matters**

### *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.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2015, 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 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. 9's internal control over financial reporting and compliance.



Clothier & Company, CPA's, P.C.  
Muskogee, Oklahoma  
April 30, 2015

**RURAL WATER, SEWER, GAS & SEWAGE WASTE**  
**Statement of Assets, Liabilities**  
**and Fund Balances**  
**December 31, 2014**

**ASSETS**

**Current Assets**

PNB Checking	\$ 67,382
Armstrong CD	69,320
Edward Jones MFS	99,112
Savings	27,814
Petty Cash	130
PNB CD	177,044
Returned Checks	<u>68</u>

<b>Total Current Assets</b>	\$	440,870
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**Fixed Assets**

Land	3,523
Water System & Warehouse	994,147
Office Furniture/Equipment	13,454
Equipment	82,456
Accumulated Depreciation	<u>( 627,982 )</u>

<b>Total Fixed Assets</b>		465,598
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**Other Assets**

<b>Total Assets</b>	\$	<u>906,468</u>
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**LIABILITIES AND FUND BALANCE**

**Current Liabilities**

P/R Taxes Payable	\$ 2,692
Customer Deposits	<u>3,950</u>

<b>Total Current Liabilities</b>	\$	6,642
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**Fund Balance**

Investment In Capital Assets	465,598
Unrestricted Net Assets	419,681
Current Income (Loss)	<u>14,547</u>

<b>Total Fund Balance</b>		<u>899,826</u>
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<b>Total Liabilities and Fund Balance</b>	\$	<u>906,468</u>
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See accompanying notes and auditors' report

**RURAL WATER, SEWER, GAS & SEWAGE WASTE**  
**Statement of Revenues and Expenses**  
**For the Period Ended December 31, 2014**

**Revenue**

Water Sales	\$ 233,629
Transfers/Connections	4,275
Miscellaneous Income	61
Interest Income	3,035
Realized Gain/Loss	( 2,441)

**Total Revenue** 238,559

**Operating Expenses**

Water Purchased	108,611
Salaries	46,528
Bonuses	1,800
Payroll Taxes	6,333
Utilities/Telephone	4,984
Dues, Licenses, Permits	1,159
Insurance-General	6,052
Depreciation Expense	27,924
Office Expenses	1,226
Repairs & Maintenance	5,579
Contract Labor	130
Water Tests	2,870
Truck Expense	1,622
Equipment Maintenance	1,134
Postage	3,898
Security Alarm	475
Miscellaneous Expense	377
Accounting/Audit Fees	3,310

**Total Operating Expenses** 224,012

**Net Income (Loss)** \$ 14,547

See accompanying notes and auditors' report

**RURAL WATER, SEWER, GAS & SEWAGE WASTE  
MANAGEMENT DISTRICT NO. 9  
Statement of Cash Flows  
December 31, 2014**

**Cash Flows From Operating Activities:**

Net income	\$ 14,547
Adjustment to reconcile net income to net cash provided by operations:	
Depreciation	27,924
(Increase) Decrease in:	
Accounts receivable	0
Increase (Decrease) in:	
Customer deposits	500
Accrued liabilities	251
Net Cash Provided By Operations	<u>43,222</u>

**Cash Flows From Capital and Related**

**Financing Activities:**

Proceeds from issuance of debt	
Acquisition and construction of capital assets	(3,077)
Principal paid on notes payable	<u>0</u>
Net Cash (Used) By Capital and Related Financing Activities	<u>(3,077)</u>

**Cash Flows From Investing Activities:**

Decrease (Increase) in reserve funds	<u>0</u>
Net Cash Provided (Used) By Investing Activities	<u>0</u>

Net Increase (Decrease) In Cash	40,145
Cash Beginning of Year	<u>400,725</u>
Cash End of Year	<u><u>\$ 440,870</u></u>

**Supplemental Disclosure of Cash Flow Information:**

Interest Paid	<u><u>\$ 0</u></u>
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See accompanying notes and independent auditors' report.

## NOTES TO FINANCIAL STATEMENTS

December 31, 2014

### 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 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.

The District's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2012, 2013, and 2014 are subject to examination by the IRS, generally for three years after they were filed.



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/Warehouse	\$994,147	\$0	\$994,147
Office Furniture/Fixture	12,954	500	13,454
Equipment/Trucks	75,131	7,325	82,456
Land	3,523	0	3,523
	<u>\$1,085,755</u>	<u>\$7,825</u>	<u>\$1,093,580</u>
Accumulated Depreciation			<u>(627,982)</u>
Book Value, December 31, 2013			<u><u>\$465,598</u></u>

**3. CONCENTRATION OF CREDIT RISK**

The District maintains cash balances at Peoples National Bank and Armstrong Bank. As of December 31, 2014 the District's deposits and investments were \$341,560. Of the bank balance \$341,560 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, 2014:

	<u>Balance</u>	<u>Insured</u>	<u>Uninsured</u>	<u>Category 2</u>	<u>Category 3</u>
Peoples-Checking	\$67,382	\$67,382	\$0	\$0	\$0
Peoples-CD's	177,044	177,044	0	0	0
Peoples-Savings	27,814	27,814	0	0	0
Armstrong-CD	69,320	69,320	0	0	0
	<u>\$341,560</u>	<u>\$341,560</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

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

#### **4. INVESTMENTS**

Rural Water District No. 9 opened a MFS account with Edward Jones Investments (acct # 555-19714) with a beginning value balance of \$100,000 on 9/29/2014. As of December 31, 2014 the account value is \$99,111.92.

#### **5. 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.

## **SUPPLEMENTAL INFORMATION**

**RURAL WATER, SEWER, GAS, SEWAGE WASTE  
MANAGEMENT DISTRICT NO. 9  
Budget to Actual (Unaudited)  
December 31, 2014**

	<b>ORIGINAL</b>	<b>FINAL</b>	<b>ACTUAL</b>	<b>VARIANCE</b>
<b>REVENUES:</b>				
Connections	\$7,500	\$7,500	\$4,275	(\$3,225)
Interest Income	2,000	2,000	3,035	1,035
Miscellaneous	200	200	61	(139)
Gain / Loss on Investments	0	0	(2,441)	(2,441)
Water Sales	237,000	237,000	233,629	(3,371)
Total Revenue	246,700	246,700	238,559	(8,141)
<b>EXPENDITURES:</b>				
Contract Labor	2,000	2,000	130	(1,870)
Dues/Member/Licen/Permits	200	200	1,159	959
Salary/Bonus Expense	50,000	50,000	48,328	(1,672)
IRA	2,500	2,500	0	(2,500)
Insurance	7,000	7,000	6,052	(948)
Employee Health Insurance	0	0	0	0
Education	150	150	0	(150)
Maintenance&Repairs/Lab Fees	18,500	18,500	9,583	(8,917)
Office/Postage/Security	9,350	9,350	5,976	(3,374)
Truck Expense	2,500	2,500	1,622	(878)
Professional/Audit Fees	25,500	25,500	3,310	(22,190)
Payroll Taxes	4,200	4,200	6,333	2,133
Utilities	6,050	6,050	4,984	(1,066)
Water Purchases	117,500	117,500	108,611	(8,889)
Total Expenditures	245,450	245,450	196,088	(49,362)
Net Income (Loss)	\$1,250	\$1,250	\$42,471	\$41,221
Less: Depreciation per financial statements			(27,924)	
Change in Net Assets per financial statements			\$14,547	

See accompanying notes and independent auditors' report.



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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 & Solid Waste  
Management 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 & Solid 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, 2014, and the related statements of revenues, expenses and changes in net assets- modified cash basis, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated April 30, 2015.

As described in Note 1, the District prepares its financial statements on the modified cash basis, which is a 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.  
April 30, 2015