

*Financial Statements*

*of*

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

December 31, 2015



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

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**December 31, 2015**

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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 assets, liabilities and net assets-modified cash basis as of December 31, 2015, and the related statement of revenue, expenses and changes in net assets and cash flows-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, 2015 and its revenue, and expenses for the years then ended, in accordance with the modified cash basis of accounting.

## **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion of the financial statements as a whole. The budgetary comparison information on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 2, 2016, 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

May 2, 2016

**RURAL WATER, SEWER, GAS, SEWAGE WASTE  
MANAGEMENT DISTRICT NO. 9  
Statement of Assets, Liabilities and Net Assets-Modified Cash Basis  
For the Year Ending December 31, 2015**

**ASSETS**

<b>Current Assets:</b>	
Cash and cash equivalents	\$ 350,920
Total Current Assets	350,920
<b>Fixed Assets:</b>	
Land	3,523
Water system & Warehouse	994,147
Furniture and fixtures	13,454
Equipment	121,871
Accumulated Depreciation	(664,145)
Total Fixed Assets	468,850
<b>Other Assets</b>	
Investment account	100,065
Total Other Assets	100,065
Total Assets	\$ 919,835

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities:</b>	
Accrued payroll taxes	\$ 2,507
Customer deposits	4,650
Total Current Liabilities	7,157
<b>Long Term Liabilities:</b>	
Total Long Term Liabilities	0
Total Liabilities	7,157
<b>Net Assets:</b>	
Invested in Capital Assets	468,850
Restricted	0
Unrestricted	443,828
Total Net Assets	912,678
<b>Total Liabilities and Net Assets</b>	\$ 919,835

See accompanying notes and independent auditors' report.

**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, 2015**

<b>Operating Revenue</b>	
Water Revenue	\$ 232,395
Transfers & Connections	4,850
Miscellaneous Income	1,022
	238,267
 <b>Total Sales</b>	
 <b>Operating Expenses</b>	
Water Purchased	97,581
Salaries	49,174
Payroll Taxes	4,078
IRA Expense	1,800
Utilities/Telephone	5,589
Dues, Licenses, Permits	1,215
Insurance-General	5,438
Office/ Postage Expenses	6,146
Water Tests	3,778
Truck Expense	2,363
Repairs & Maintenance	10,932
Professional Fees	3,470
Miscellaneous	126
	191,690
 <b>Revenue Over(Under) Expenses From Operations</b>	
	46,577
 <b>Other Revenue (Expenses)</b>	
Interest Income	4,073
Realized Gain/(Loss)	(1,632)
Depreciation Expense	(36,163)
	(33,722)
 <b>Total Other Revenue (Expenses)</b>	
	12,855
 <b>Change in Net Assets</b>	
	12,855
<b>Net Assets, Beginning of Year</b>	899,823
<b>Net Asset, End of Year</b>	\$ 912,678

See accompanying notes and independent auditors' report.

**RURAL WATER, SEWER, GAS & SEWAGE WASTE  
MANAGEMENT DISTRICT NO. 9**

**Statement of Cash Flows**

**December 31, 2015**

**Cash Flows From Operating Activities:**

Net income	\$	12,855
Adjustment to reconcile net income to net cash provided by operations:		
Depreciation		36,163
(Increase) Decrease in:		
Accounts receivable		0
Increase (Decrease) in:		
Customer deposits		700
Accrued liabilities		(188)
Net Cash Provided By Operations		<u>49,530</u>

**Cash Flows From Capital and Related**

**Financing Activities:**

Proceeds from issuance of debt		
Acquisition and construction of capital assets		(39,415)
Principal paid on notes payable		0
Net Cash (Used) By Capital and Related Financing Activities		<u>(39,415)</u>

**Cash Flows From Investing Activities:**

Decrease (Increase) in reserve funds		(953)
Net Cash Provided (Used) By Investing Activities		<u>(953)</u>

Net Increase (Decrease) In Cash		9,162
Cash Beginning of Year		341,758
Cash End of Year	\$	<u><u>350,920</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.



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

## **NOTES TO FINANCIAL STATEMENTS**

December 31, 2015

### **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 2013, 2014, and 2015 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	13,454	0	13,454
Equipment/Trucks	82,456	39,415	121,871
Land	3,523	0	3,523
	<u>\$1,093,580</u>	<u>\$39,415</u>	<u>\$1,132,995</u>
Accumulated Depreciation			<u>(664,145)</u>
Book Value, December 31, 2015			<u>\$468,850</u>

**3. CONCENTRATION OF CREDIT RISK**

The District maintains cash balances at Peoples National Bank and Armstrong Bank. As of December 31, 2015 the District's deposits were \$350,759 and \$161 in cash on hand. All of the \$350,759 deposits were covered by Federal Depository Insurance Corporation and \$0 was collateralized. The investments held by Edward Jones are not insured by FDIC or 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, 2015:

	<u>Balance</u>	<u>Insured</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
Peoples-Checking	\$51,124	\$51,124	\$0	\$0	\$0
Peoples-CD's	178,286	178,286	0	0	0
Peoples-Savings	51,842	51,842	0	0	0
Armstrong-CD	69,507	69,507	0	0	0
Edward Jones-Investment	100,065	0	100,065	0	0
	<u>\$450,824</u>	<u>\$350,759</u>	<u>\$100,065</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, 2015 the fair market value was \$100,065.

Activity for the year ending December 31, 2015:

Beginning Balance	\$99,112
Interest/Dividends	2,585
Realized Gains(Losses)	<u>(1,632)</u>
Balance as of December 31, 2015	<u><u>\$100,065</u></u>

<u>Asset Detail</u>	<u>Amount Invested</u>	<u>FMV 12/31/2015</u>
MFS Municipal Lim Maturity	\$70,000	\$70,293
MFS Total Return Fund Cl A	<u>30,000</u>	<u>29,772</u>
	<u><u>\$100,000</u></u>	<u><u>\$100,065</u></u>

**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.



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**INDEPENDENT AUDITORS' 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 No.9), McIntosh County, Oklahoma, (a nonprofit organization) which comprise the statement of financial position- modified cash basis as of December 31, 2015, 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 May 2, 2016.

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 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 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.



Clothier & Company, CPA's, P.C.  
Muskogee, Oklahoma  
May 2, 2016

*Supplemental Information*

**RURAL WATER, SEWER, GAS, SEWAGE WASTE  
MANAGEMENT DISTRICT NO. 9  
Budget to Actual (Unaudited)  
December 31, 2015**

	<b>ORIGINAL</b>	<b>FINAL</b>	<b>ACTUAL</b>	<b>VARIANCE</b>
<b>REVENUES:</b>				
Connections	\$7,500	\$7,500	\$4,850	(\$2,650)
Interest Income	2,000	2,000	4,073	2,073
Miscellaneous	200	200	1,022	822
Gain / Loss on Investments	0	0	(1,632)	(1,632)
Water Sales	237,000	237,000	232,395	(4,605)
Total Revenue	<u>246,700</u>	<u>246,700</u>	<u>240,708</u>	<u>(5,992)</u>
<b>EXPENDITURES:</b>				
Contract Labor	2,000	2,000	0	(2,000)
Dues/Member/Licen/Permits	3,800	3,800	1,215	(2,585)
Salary/Bonus Expense	50,000	50,000	49,174	(826)
IRA	2,500	2,500	1,800	(700)
Insurance	7,000	7,000	5,438	(1,562)
Education/Misc	150	150	126	(24)
Maintenance&Repairs/Lab Fees	18,500	18,500	14,710	(3,790)
Office/Postage/Security	5,750	5,750	6,446	696
Truck Expense	2,500	2,500	2,363	(137)
Professional/Audit Fees	25,500	25,500	3,470	(22,030)
Payroll Taxes	4,200	4,200	4,078	(122)
Utilities	6,050	6,050	5,289	(761)
Water Purchases	117,500	117,500	97,581	(19,919)
Total Expenditures	<u>245,450</u>	<u>245,450</u>	<u>191,690</u>	<u>(53,760)</u>
Net Income (Loss)	<u>\$1,250</u>	<u>\$1,250</u>	<u>\$49,018</u>	<u>\$47,768</u>
Less: Depreciation per financial statements			<u>(36,163)</u>	
Change in Net Assets per financial statements			<u>\$12,855</u>	

See accompanying notes and independent auditors' report.