

FINANCIAL STATEMENTS

OF

***SEQUOYAH COUNTY
RURAL WATER DISTRICT NO. 4
SEQUOYAH COUNTY, OKLAHOMA***

December 31, 2012



Clothier & Company CPA's P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Sequoyah County Rural Water District No. 4
Sequoyah County, Oklahoma

Report on the Financial Statements – Modified Cash Basis

We have audited the accompanying statement of financial positions – modified cash basis, of Sequoyah County Rural Water District No. 4, Sequoyah County, Oklahoma (a nonprofit organization), as of December 31, 2012.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting as described in Note 1: this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditor's 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 misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 on 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and net assets of Sequoyah County Rural Water District No. 4, as of December 31, 2012, and for the year then ended in conformity with cash basis 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 cash 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.

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

Clothier & Company, CPA's, P.C.
February 6, 2013

SEQUOYAH CO RWD4
Balance Sheet
December 31, 2012

ASSETS

Current Assets

Cash	\$ 75,663
Petty Cash	252
Certificates of Deposit	150,261
Accounts Receivable	<u>7,524</u>

Total Current Assets	\$	233,700
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Fixed Assets

Water Systems	2,152,289
Equipment	35,479
Building	64,794
Land	28,888
Accum. Deprec - Water Systems	<u>(816,433)</u>

Total Fixed Assets		<u>1,465,017</u>
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Total Assets	\$	<u><u>1,698,717</u></u>
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See accompanying footnotes and independent auditors' report.

SEQUOYAH CO RWD4
Balance Sheet
December 31, 2012

LIABILITIES AND EQUITY

Current Liabilities

Current Maturities \$ 50,721

Total Current Liabilities \$ 50,721

Long Term Liabilities

N/P - OWRB 277,950

Total Long Term Liabilities 277,950

Equity

Invested in Capital Assets 1,132,239

Unrestricted 210,009

Current Income (Loss) 27,798

Total Equity 1,370,046

Total Liabilities & Equity \$ 1,698,717

See accompanying footnotes and independent auditors' report.

SEQUOYAH CO RWD4
Income Statement
For the Period Ended December 31, 2012

Revenue	
Water Revenue	\$ 450,683
Benefit Unit Revenue	8,430
Penalties and Late Charges	9,945
Collected Bad Debt	<u>185</u>
Total Revenue	469,243
Cost of Sales	
Water Purchases	161,401
Repairs and Supplies	33,685
Lab Supplies	<u>3,699</u>
Total Cost of Sales	<u>198,785</u>
Gross Profit	270,458
Operating Expenses	
Contract Labor	82,702
Salaries	18,670
Payroll Taxes	8,147
Insurance	4,076
Accounting	5,968
Misappropriation of Funds	3,966
Bank Charges	1,355
Miscellaneous	55
Office Supplies	5,124
Postage	3,444
Telephone	2,321
Utilities	10,614
Depreciation	84,437
Dues	<u>319</u>
Total Operating Expenses	<u>231,198</u>
Operating Income	39,260
Interest Expense	12,573
Interest Income	<u>1,111</u>
Total Other Income	<u>(11,462)</u>
Net Income (Loss)	\$ <u><u>27,798</u></u>

See accompanying footnotes and independent auditors' report.

SEQUOYAH CO. RURAL WATER DISTRICT No. 4

Statement of Cash Flows

As of October 31, 2012

2012

Cash Flows From Operating Activities:

Cash received from customers	\$	461,719
Cash received from other sources		0
Cash paid to employees		(18,670)
Cash paid to suppliers		(198,785)
Other operating payments		(128,091)
Net Cash Flows from Operating Activities		<u>116,173</u>

Cash Flows From Capital and Related

Financing Activities:

Disposition of Assets		
Payment of debt		(56,464)
Acquisition and construction of capital assets		(36,439)
Payment of Interest		(12,573)
Net Cash (Used) By Capital and Related		<u></u>
Financing Activities		<u>(105,476)</u>

Cash Flows From Investing Activities:

Decrease (Increase) in restricted cash		0
Receipt of interest and dividends		1,111
Net Cash Provided (Used) By Investing Activities		<u>1,111</u>

Net Increase (Decrease) In Cash		11,808
Cash Beginning of Year		214,368
Cash End of Year	\$	<u><u>226,176</u></u>

Reconciliation of Operating Income to Net Cash Flows from Operating Activities:

Operating income (loss)	\$	39,260
Add depreciation expense		84,437
(Increase)/Decrease in Current Assets:		
Accounts receivables, net		(7,524)
Prepaid expenses		0
Inventory		0
Increase/(Decrease) in Current Liabilities:		
Accounts payable		0
Accrued expenses		0
Customer deposits		<u></u>
Net Cash Flows from Operating Activities	\$	<u><u>116,173</u></u>

See accompanying footnotes and auditors' report.

Sequoyah County Rural Water District No. 4
Sequoyah County, Oklahoma

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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

Nature of Business

Sequoyah County Rural Water District #4 (the District) was organized to provide suitable water to customers in Sequoyah County, Oklahoma. Treated water is acquired solely from the City of Sallisaw and transmitted in District water lines to the customers.

Financial Reporting

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. Expenditures for maintenance, repairs and renewals of relatively minor items are charged to expense as incurred. The estimated useful lives of the assets are as follows:

Building	20 years
Equipment	3-10 years
Water System and towers	10-40 years

It is the District's policy to capitalize assets purchased for \$500 or more and to expense assets purchased for less than \$500.

Sequoyah County Rural Water District No. 4
Sequoyah County, Oklahoma

Income Tax

The District is exempt from income taxes as a governmental agency.

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.

Reclassification

Certain accounts in the prior year have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

2. PROPERTY AND EQUIPMENT:

	Cost	Additions	Total
Water System	2,124,277	28,012	2,152,289
Equipment	27,052	8,427	35,479
Building	64,794	0	64,794
Land	28,888	0	28,888
	<u>2,245,011</u>	<u>36,439</u>	<u>2,281,450</u>
Accumulated Depreciation			<u>(816,433)</u>
Book Value, December 31, 2012			<u>1,465,017</u>

3. CONCENTRATION OF CREDIT RISK

The District maintains cash balances at FirstStar Bank in Sallisaw, Oklahoma. As of December 31, 2012 the District's deposits were \$75,663. The bank balance was covered completely by Federal Depository Insurance Corporation and \$0 was collateralized. Investments are certificates of deposit \$150,261 which are also completely covered by FDIC.

Sequoyah County Rural Water District No. 4
Sequoyah County, Oklahoma

4. LONG TERM DEBT

The District maintains a note payable with Government Capital Corporation – monthly payments are made in the amount of \$5,311 and include interest of 4.26%. The note is secured by the revenues and property of the District. The note will be paid in full in 2018.

Schedule of debt service payments due	Memo Only		
	Principal	Interest	Total
Dec 31, 2013.....	50,721	13,006	\$63,727
Dec 31, 2014.....	52,923	10,804	63,727
Dec 31, 2015.....	55,221	8,506	63,727
Dec 31, 2016.....	57,600	6,127	63,727
Dec 31, 2017.....	60,119	3,608	63,727
Year ending 2018.....	52,088	1,018	53,106
Total	<u>\$328,672</u>	<u>\$43,069</u>	<u>\$372,946</u>

5. SUBSEQUENT EVENTS

Subsequent Events have been evaluated through February 6, 2012, which is the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements



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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
Sequoyah County Rural Water District No. 4
Sequoyah County, Oklahoma

We have audited the financial statements- modified cash basis of Sequoyah County Rural Water District No. 4, Sequoyah County, Oklahoma, (a nonprofit organization) as of and for the year ended December 31, 2012, and have issued our report thereon dated February 6, 2013. 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

Management of Sequoyah County Rural Water District No. 4 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Sequoyah County Rural Water District No. 4's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we 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 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.

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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Sequoyah County Rural Water District No. 4'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*.

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

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

Clothier & Company, CPA's, P.C.
February 6, 2013

SEQUOYAH COUNTY RURAL WATER DISTRICT NO. 4
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Period Ended December 31, 2012

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued. – Qualified

Internal control over financial reporting:

- Material weaknesses identified? ☒ Yes ☐ No
- Control deficiencies identified that are not considered to be material weaknesses? ☐ Yes ☒ No

Noncompliance material to financial statements noted? ☒ Yes ☐ No

Section II – Financial Statement Findings

2012-1 – BANK RECONCILIATION

Condition – The client does not have a policy in place to maintain a general ledger balance that reflects the true balance of cash

Effect – The District is exposed to the risk of a misstatement of cash due to outstanding deposits that will never clear, outstanding checks that will never clear, error and fraud.

Cause – The bank account on the general ledger is used to maintain outstanding deposits that are actually a restitution receivable, and outstanding checks are held open past an appropriate timeframe to write off. Reconciliation of the bank statement to the general ledger is not completed in a manner consistent with generally accepted accounting principals.

Recommendation – Implement a District Policy where the office manager reconciles the bank statement to the general ledger and adjusts balances off of cash which are no longer a part of cash. Implement a policy in which the Treasurer of the District reviews adherence to District policies concerning handling of financial records including the bank reconciliation.

Entity's Response – Office manager will perform the bank reconciliation to reflect current transactions and outstanding items and maintain accurate and timely reconciliation of the bank statement to the general ledger.

2012-2 – NOTES PAYABLE

Condition – The client does not have a policy for maintaining a sub-ledger for notes payable, or determine financial obligations and debts by name, amount, including payment schedules.

Effect – The District is exposed to the risk of not knowing the amount of debt liability or interest liability incurred, debt retired or compliance with covenants and fiduciary responsibilities as a Not-For Profit entity in the state of Oklahoma.

SEQUOYAH COUNTY RURAL WATER DISTRICT NO. 4

Cause – A District Policy is not in effect requiring the accounting manager to maintain a ledger to reflect Notes Payable, payments or proceeds by date as they occur.

Recommendation – Implement a District Policy where the office manager records significant and long term debt in a sub-ledger to reflect all relevant activity to determine the compliance of the District with rights and responsibilities that come with each debt. Treasurer of the District reviews adherence to District policies concerning handling of financial records including the annual inventory.

Entity's Response – The office manager will maintain accurate reporting on the general ledger to reflect the current balances and interest expenses related to notes payable.