

Indianola Rural Water District No. 18
Pittsburg County, Oklahoma

Financial Statements and
Reports of Independent Auditor

June 30, 2011

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Indianola Rural Water District No. 18
Pittsburg County, Oklahoma
Board of Directors
June 30, 2011

Chairman

Paul Hamilton

Vice Chairman

Tim Miller

Secretary/Treasurer

Joyce Everett

Members

Don Parham
Jerry Prescott

Operator

Jeremy Ward

Bookkeeper

Vivian Moody

Indianola Rural Water District No. 18
Pittsburg County, Oklahoma
Table of Contents
June 30, 2011

	<u>Page</u>
Board of Directors	<i>i</i>
Independent Auditor’s Report	1
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2
Schedule of Audit Results	4
Combined Financial Statements:	
Statement of Net Assets.....	5
Statement of Revenues, Expenses and Changes in Net Assets	6
Statement of Cash Flows	7
Notes to the Financial Statements	8
Other Supplementary Information:	
Balance Sheet	12
Statement of Income and Retained Earnings.....	13



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Indianola Rural Water District No. 18
Pittsburg County, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Indianola Rural Water District No. 18 (the District), Pittsburg County, Oklahoma, as of and for the year ended June 30, 2011, 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. 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 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has elected to omit the Management Discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2013, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

November 25, 2013



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Standards Performed in Accordance with *Government Auditing Standards*

Board of Directors
Indianola Rural Water District No. 18
Pittsburg County, Oklahoma

We have audited the combined financial statements of Indianola Rural Water District No. 18 (the District), Pittsburg County, Oklahoma, as of and for the year ended June 30, 2011, which, except for the omission of the Management Discussion and Analysis, collectively comprise the District's basic financial statements and have issued our report thereon dated November 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States, 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 our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepting accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

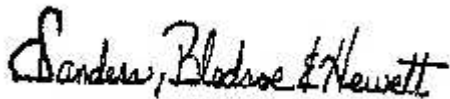
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be 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 the District'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 that are required to be reported under *Government Auditing Standards*.

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



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

November 25, 2013

Indianola Rural Water District No. 18
Pittsburg County, Oklahoma
Schedule of Audit Results
June 30, 2011

Section 1 – Summary of Auditor’s Results

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

NONE

INDIANOLA COUNTY RURAL WATER DISTRICT NO. 18
PITTSBURG COUNTY, OKLAHOMA
Statement of Net Assets
June 30, 2011

ASSETS

Current assets:	
Cash in bank	\$ 163,473
Accounts receivable	28,448
Total current assets	<u>191,921</u>
Noncurrent assets:	
Restricted cash and cash equivalents	42,393
Deposit - ORWA	1,000
Capital assets:	
Land	1,600
Office equipment	11,145
Water system and improvements	1,875,873
Less: accumulated depreciation	<u>(765,799)</u>
Total noncurrent assets	<u>1,166,212</u>
Total Assets	<u>1,358,133</u>

LIABILITIES

Current liabilities:	
Accounts payable	430
Payroll taxes payable	838
Meter deposits	5,817
Current portion of long-term debt	13,368
Total current liabilities	<u>20,453</u>
Noncurrent liabilities:	
Notes payable	<u>917,139</u>
Total Liabilities	<u>937,592</u>

NET ASSETS

Invested in capital assets, net of related debt	192,312
Unrestricted assets	<u>228,229</u>
Total Net Assets	<u>\$ 420,541</u>

The accompanying notes to the financial statements are an integral part of this statement

INDIANOLA COUNTY RURAL WATER DISTRICT NO. 18
PITTSBURG COUNTY, OKLAHOMA
Statement of Activities
For The Year Ended June 30, 2011

Operating Revenues:	
Water sales	\$ 367,124
Memberships	4,500
Total revenues from operations	371,624
Operating Expenses:	
Water purchases	130,580
Operating supplies	36,811
Salaries	50,303
Payroll taxes	8,133
Insurance	34,738
Professional fees	150
Vehicles	8,743
Office expenses	9,047
Postage	3,449
Dues & fees	2,077
Telephone	3,537
Utilities	3,879
Equipment rental	2,325
Miscellaneous	1,026
Depreciation	46,040
Total expenses from operations	340,838
Operating Income (Loss)	30,786
Non-Operating Revenues (Expenses):	
Interest income	467
Interest expense on debt	(39,843)
Total non-operating revenues (expenses)	(39,376)
Change in Net Assets	(8,590)
Total Net Assets, beginning of period	429,131
Total Net Assets, end of period	\$ 420,541

The accompanying notes to the financial statements are an integral part of this statement

INDIANOLA COUNTY RURAL WATER DISTRICT NO. 18
PITTSBURG COUNTY, OKLAHOMA
Statement of Cash Flows
For the Year Ended June 30, 2011

Cash flows from operating activities:

Receipts from customers	\$ 376,829
Payments To employees	(50,303)
Payments to vendors	<u>(248,694)</u>
Net cash (used in) provided by operating activities	<u>77,832</u>

Cash flows from capital and related financing activities:

Interest paid on debt	(39,843)
Principal payments on debt	<u>(12,813)</u>
Net cash used in capital and related financing activities	<u>(52,656)</u>

Cash flows from investing activities:

Capital assets purchased	(971)
Interest on investments	<u>467</u>
Net cash used in investing activities	<u>(504)</u>

Net increase (decrease) in cash and cash equivalents 24,672

Cash & cash equivalents, beginning of period 182,194

Cash & cash equivalents, end of period \$ 206,866

Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating Income	\$ 30,786
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	46,040
(Increase) decrease in current assets-	
Accounts receivable, net	5,205
Increase (decrease) in current liabilities-	
Accounts payable	(2,868)
Payroll taxes payable	<u>(1,331)</u>
Net Cash Provided by Operating Activities	<u>\$ 77,832</u>

The accompanying notes are an integral part of the financial statements

INDIANOLA RURAL WATER DISTRICT NO. 18
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2011

Note 1 – Significant Accounting Policies

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts at June 30, 2011, and are comprised as follows:

First National Bank, McAlester, OK	
Revenue Account	<u>\$ 163,473</u>

The District's cash deposits at June 30, 2011, are categorized to give an indication of the level of risk assumed by the district at year-end.

Investments

The District had no outstanding investments at June 30, 2011.

Accounts Receivable

Billings for accounts receivable at June 30, 2011, were \$28,448. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

Restricted Assets

In accordance with prior year loan agreements, the District is required to maintain a reserve account with a balance of no less than \$52,656, which is one year of total debt obligations. The total amount of the restricted assets represents all cash and investments held at First National Bank, McAlester, OK, for the purpose of making future principal and interest payments. The District transfers one-tenth of a monthly payment (\$439) each month into this reserve account. The balance at the end of June 30, 2011 was \$42,393.

**INDIANOLA RURAL WATER DISTRICT NO. 18
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2011**

Note 1 – Significant Accounting Policies – cont’d

Other Assets

The District maintains a \$1,000 deposit with the Oklahoma Water Resources Board Assurance Group in lieu of a membership fee. Interest is paid to the district on this deposit.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

Federal Income Tax

The District is exempt from federal and state income taxes.

Collateral Pledged

Deposit Categories of Credit Risk

- (A) Insured by Federal Deposit Insurance.
- (B) Collateralized with securities held by the pledging financial institution’s trust department or agent in the District’s name.
- (C) Uncollateralized.

Deposit Categories of Credit Risk:

	<u>Category</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>(A)</u>	<u>(B)</u>	<u>(C)</u>		
Cash	\$ 227,679			227,679	205,866
Investments	0			0	0
Totals	\$ 227,679	0	0	227,679	205,866

**INDIANOLA RURAL WATER DISTRICT NO. 18
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2011**

Note 2 – Long-Term Debt

The District has one note payable to Rural Development outstanding as of June 30, 2011. Note 91-20, dated April 29, 2005, with a 40-year maturity, and an interest rate of 4.25%, with an original loan amount of \$1,011,000. The monthly payment on this note is \$4,388.

The estimated maturities for the next five (5) years are as follows:

2011-12	\$ 13,368
2012-13	13,947
2013-14	14,552
2014-15	15,182
2015-16	15,840
2016-21	90,112
2021-26	111,406
2026-31	137,732
2031-36	170,278
2036-41	210,515
2041-46	<u>137,575</u>
Totals	<u>\$ 930,507</u>

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At June 30, 2011, no determination of the aggregate dollar value of vacation and sick pay had been made.

Note 4 – Property and Equipment

Property and equipment is recorded at cost when purchased. Depreciation is recorded using the straight-line method over the estimated useful life of the asset. Water line systems, extensions and improvements are depreciated using a 50-year life. Water system improvements constructed by the District include capitalizing the direct costs 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 and a cost over \$250. Line extension costs reimbursed by the customer are not capitalized and, accordingly, not depreciated.

INDIANOLA RURAL WATER DISTRICT NO. 18
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2011

Note 4 – Property and Equipment – cont’d

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

	Balance June 30, 2010	Acquired	(Disposed)	Balance June 30, 2011
Land	\$ 1,600	-	-	1,600
Office Equipment	10,174	971	-	11,145
Water Sysytem	1,875,873	-	-	1,875,873
Sub-Total	1,887,647	971	0	1,888,618
Less: Accum. Depr.	(719,759)	(46,040)	0	(765,799)
Total	<u>\$ 1,167,888</u>	<u>(45,069)</u>	<u>0</u>	<u>1,122,819</u>

INDIANOLA RURAL WATER DISTRICT NO. 18
PITTSBURG COUNTY, OKLAHOMA
Balance Sheet
June 30, 2011

	June 30,	
	2011	(Memo only) 2010
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 163,473	144,099
Accounts receivable	28,448	33,653
Total current assets	191,921	177,752
Fixed Assets:		
Land	1,600	1,600
Office equipment	11,145	10,174
Water system	1,875,873	1,875,873
Less: accumulated depreciation	(765,799)	(719,759)
Total fixed assets (net)	1,122,819	1,167,888
Restricted Assets:		
Cash and investments	42,393	37,095
Other Assets:		
ORWA deposit	1,000	1,000
Total Assets	\$ 1,358,133	1,383,735
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 430	3,298
Payroll taxes payable	838	2,169
Meter deposits	5,817	5,817
Current maturities of long-term debt	13,368	12,813
Total current liabilities	20,453	24,097
Long-Term Debt, less current maturities:		
Notes payable - Rural Development	917,139	930,507
Total Liabilities	937,592	954,604
Fund Equity:		
Retained earnings - unrestricted	420,541	429,131
Total Liabilities and Fund Equity	\$ 1,358,133	1,383,735

INDIANOLA COUNTY RURAL WATER DISTRICT NO. 18
PITTSBURG COUNTY, OKLAHOMA
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended June 30, 2011

	2011	(Memo only) 2010
	<u>2011</u>	<u>2010</u>
Revenue from Operations:		
Water sales	\$ 367,124	363,998
Memberships	4,500	4,000
Total revenue from operations	<u>371,624</u>	<u>367,998</u>
Expenses from Operations:		
Water purchases	130,580	104,717
Operating supplies	36,811	41,342
Salaries	50,303	51,760
Payroll taxes	8,133	10,195
Insurance	34,738	31,693
Professional fees	150	300
Vehicles	8,743	8,080
Office expenses	9,047	720
Postage	3,449	4,507
Dues & fees	2,077	5,697
Telephone	3,537	3,280
Utilities	3,879	4,710
Equipment rental	2,325	525
Miscellaneous	1,026	446
Depreciation	46,040	45,941
Total expenses from operations	<u>340,838</u>	<u>313,913</u>
Net Income (Loss) from Operations	30,786	54,085
Other Income:		
Interest earnings	<u>467</u>	<u>345</u>
Other Expenses:		
Interest on debt	<u>(39,843)</u>	<u>(40,376)</u>
Net Income (Loss)	(8,590)	14,054
Retained earnings, beginning of period	<u>429,131</u>	<u>415,077</u>
Retained earnings, end of period	<u>\$ 420,541</u>	<u>429,131</u>