

**OSAGE COUNTY, OKLAHOMA  
RURAL WATER DISTRICT #15**

Financial Statements

June 30, 2011 and 2010

(With Auditor's Report Thereon)



# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

June 30, 2011 and 2010

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Osage County, Oklahoma Rural Water District #15:

We have audited the accompanying statements of financial position of Osage County, Oklahoma Rural Water District #15 (District #15) as of June 30, 2011 and 2010, and the related statements of activities, membership equity and cash flows for the years then ended. These financial statements are the responsibility of District #15's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of District #15 as of June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated December 30, 2011, on our consideration of District #15's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 the internal control over financial reporting or on compliance. 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.

*Creason & Associates, P.L.L.C.*

Tulsa, Oklahoma  
December 30, 2011

# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

## Statements of Financial Position

June 30, 2011 and 2010

<b>Assets</b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Current assets:		
Cash	\$ 465,574	\$ 482,513
Certificates of deposit (note 6)	516,000	716,000
Accounts receivable	155,510	157,950
Other receivables	-	46,524
Current portion of notes receivable (note 4)	9,700	9,325
Inventory	37,711	37,711
Prepaid expenses	<u>45,386</u>	<u>44,832</u>
Total current assets	<u>1,229,881</u>	<u>1,494,855</u>
Reserved cash (note 2)	29,773	29,773
Property, plant and equipment:		
Water system	6,573,120	6,540,741
Building	831,631	349,049
Transportation equipment	167,803	161,382
Machinery and equipment	210,449	148,593
Furniture and fixtures	25,558	31,783
Land	100,631	100,631
Construction in progress	<u>-</u>	<u>19,125</u>
	7,909,192	7,351,304
Less accumulated depreciation	<u>1,637,294</u>	<u>1,487,775</u>
Net property, plant and equipment	<u>6,271,898</u>	<u>5,863,529</u>
Notes receivable, less current portion (note 4)	535,423	545,124
Intangible assets (notes 3 and 4)	855,783	855,783
Other assets	<u>1,189</u>	<u>1,189</u>
Total assets	<u>\$ 8,923,947</u>	<u>\$ 8,790,253</u>

*See accompanying notes to financial statements.*

# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

## Statements of Financial Position, Continued

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>Liabilities and Membership Equity</b>		
Current liabilities:		
Accounts payable	\$ 108,095	\$ 55,145
Accrued liabilities	51,249	41,410
Current installments of long-term debt (note 4)	<u>117,641</u>	<u>118,639</u>
Total current liabilities	276,985	215,194
Long-term debt, less current installments (note 4)	<u>3,680,314</u>	<u>3,800,438</u>
Total liabilities	<u>3,957,299</u>	<u>4,015,632</u>
Commitments and contingencies (note 8)		
Membership equity:		
Membership benefit units	2,017,069	1,961,069
Contributed capital	585,997	557,997
Unappropriated fund balance	<u>2,363,582</u>	<u>2,255,555</u>
Total membership equity	<u>4,966,648</u>	<u>4,774,621</u>
Total liabilities and membership equity	<u>\$ 8,923,947</u>	<u>\$ 8,790,253</u>

*See accompanying notes to financial statements.*

# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

## Statements of Activities

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues - water sales	\$ 1,528,110	\$ 1,477,071
Cost of sales	<u>835,843</u>	<u>715,612</u>
Gross profit	<u>692,267</u>	<u>761,459</u>
Expenses:		
Salaries and benefits	176,774	168,887
Depreciation	176,534	164,122
Insurance and bonds	80,255	79,382
Office expense	46,436	45,480
Professional services	24,779	34,630
Repair and maintenance	22,712	3,942
License, fees and permits	16,760	19,890
Payroll taxes	12,437	11,868
Bad debt expense	8,539	5,145
Training	<u>315</u>	<u>1,039</u>
Total expenses	<u>565,541</u>	<u>534,385</u>
Total operating revenues over expenses	<u>126,726</u>	<u>227,074</u>
Other revenues (expenses):		
Capital contributions - water system	70,430	69,866
Other expense	(15,631)	(12,671)
Interest expense	(121,519)	(126,168)
Interest income	42,611	51,191
Gain on disposal of assets (note 7)	<u>5,410</u>	<u>243,009</u>
Total other revenues (expenses)	<u>(18,699)</u>	<u>225,227</u>
Total revenues over expenses	<u>\$ 108,027</u>	<u>\$ 452,301</u>

*See accompanying notes to financial statements.*

# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

## Statements of Membership Equity

Years Ended June 30, 2011 and 2010

	<b>Membership Benefit Units</b>	<b>Contributed Capital</b>	<b>Unappropriated Fund Balance</b>	<b>Total Membership Equity</b>
<b>Balances at June 30, 2009</b>	\$ 1,894,569	\$ 542,247	\$ 1,803,254	\$ 4,240,070
Issuance of membership benefit units	82,250	-	-	82,250
Forfeiture of membership benefit units	(15,750)	15,750	-	-
Total revenues under expenses	<u>-</u>	<u>-</u>	<u>452,301</u>	<u>452,301</u>
<b>Balances at June 30, 2010</b>	1,961,069	557,997	2,255,555	4,774,621
Issuance of membership benefit units	84,000	-	-	84,000
Forfeiture of membership benefit units	(28,000)	28,000	-	-
Total revenues over expenses	<u>-</u>	<u>-</u>	<u>108,027</u>	<u>108,027</u>
<b>Balances at June 30, 2011</b>	\$ <u>2,017,069</u>	\$ <u>585,997</u>	\$ <u>2,363,582</u>	\$ <u>4,966,648</u>

*See accompanying notes to financial statements.*

# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

## Statements of Cash Flows

Years Ended June 30, 2011 and 2010

### Increase (Decrease) in Cash

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,568,535	\$ 1,422,198
Cash paid to suppliers and employees	(1,177,887)	(1,118,869)
Interest received	42,611	51,191
Interest paid	<u>(108,517)</u>	<u>(113,097)</u>
Net cash provided by operating activities	<u>324,742</u>	<u>241,423</u>
Cash flows from investing activities:		
Sales (purchases) of investments, net	200,000	(17,000)
Capital expenditures	(525,563)	(183,703)
Proceeds from sale of fixed assets	16,500	-
Principal collected on long-term loans	<u>9,326</u>	<u>8,966</u>
Net cash used by investing activities	<u>(299,737)</u>	<u>(191,737)</u>
Cash flows from financing activities:		
Principal payments on long-term debt	(112,122)	(108,295)
Reserve deposits	(13,822)	(14,650)
Proceeds from issuance of membership benefit units	<u>84,000</u>	<u>82,250</u>
Net cash used by financing activities	<u>(41,944)</u>	<u>(40,695)</u>
Net increase (decrease) in cash	(16,939)	8,991
Cash, beginning of year	<u>482,513</u>	<u>473,522</u>
Cash, end of year	\$ <u><u>465,574</u></u>	\$ <u><u>482,513</u></u>

*See accompanying notes to financial statements.*



# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

## Statements of Cash Flows, Continued

Years Ended June 30, 2011 and 2010

### Reconciliation of Total Revenues Over Expenses to Net Cash Provided by Operating Activities

	<u>2011</u>	<u>2010</u>
Total revenues over expenses	\$ 108,027	\$ 452,301
Adjustments to reconcile total revenues over expenses to net cash provided by operating activities:		
Depreciation	176,534	164,122
Bad debt expense	8,539	5,145
Noncash contributions	(70,430)	(69,866)
Gain on disposal of assets	(5,410)	(243,009)
Interest paid from bond/sinking fund	4,822	6,050
Increase in accounts receivable	(6,099)	(8,349)
(Increase) decrease in other receivables	46,524	(46,524)
(Increase) decrease in prepaid expenses	(554)	2,656
Decrease in other assets	-	5,000
Increase (decrease) in accounts payable	52,950	(35,090)
Increase in accrued expenses	<u>9,839</u>	<u>8,987</u>
Net cash provided by operating activities	\$ <u>324,742</u>	\$ <u>241,423</u>

### Supplemental Schedule of Noncash Investing and Financing Activities

Principal payments from bond/sinking fund on notes payable	\$ <u>9,000</u>	\$ <u>8,600</u>
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*See accompanying notes to financial statements.*

# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

## Notes to Financial Statements

Years Ended June 30, 2011 and 2010

### (1) Summary of Significant Accounting Policies

The financial statements of Osage County, Oklahoma Rural Water District #15 have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

#### (a) Organization

Osage County, Oklahoma Rural Water District #15 (District #15) is a State of Oklahoma chartered, public, not-for-profit water district. Its purpose is to provide a waterworks and distribution system for the use and benefit of its members.

Prior to December 18, 1989, District #15 operated under the name S.A.R. Water Corp. (S.A.R.). On December 18, 1989, S.A.R. was dissolved. All assets, easements and titles to real or personal property, as well as debts, liabilities and obligations held by S.A.R. were transferred to Osage County, Oklahoma Rural Water District #15, which, by affirmative order of the board of county commissioners, constitutes a rural water district. District #15 is required to comply with the provisions of the Rural Water, Sewer, Gas and Solid Waste Management Districts Act.

On March 31, 1998, District #15 finalized the purchase of Osage County, Oklahoma Rural Water District #11.

#### (b) Cash and Cash Equivalents

District #15 considers all cash on hand, deposits in banks and liquid investments with original maturities of three months or less to be cash and cash equivalents, except cash held in reserved accounts.

#### (c) Accounts Receivable

Accounts receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual receivables.

#### (d) Investments

Investments in certificates of deposit are reported at fair value which approximates cost.

# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

Notes to Financial Statements, Continued

Years Ended June 30, 2011 and 2010

## (1) Summary of Significant Accounting Policies, Continued

### (e) Inventory

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

### (f) Property, Plant and Equipment

Owned property, plant and equipment is stated at cost if purchased or at fair market value if donated and depreciated using the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 50 years. Generally, District #15 capitalizes all asset purchases over \$500 with an estimated useful life greater than one year.

### (g) Intangible Assets

Intangible assets are accounted for in accordance with FASB ASC 350-30, "General Intangibles Other Than Goodwill." Under FASB ASC 350-30, intangible assets with indefinite lives are no longer amortized, but are instead tested at least annually for impairment.

### (h) Membership Benefit Units and Contributed Capital

Membership benefit units represent one-time, nonrefundable membership fees paid by holders of membership certificates. In the event a member becomes ineligible to hold a membership, District #15, through authorization of the Board of Directors, may elect to terminate the membership certificate. Fees for forfeited certificates are removed from the membership benefit units account and transferred to the contributed capital account.

### (i) Income Taxes

District #15 is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. District #15 is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code.

At June 30, 2011, District #15 had no accrued interest or penalties relating to any tax contingencies. District #15 has no federal or state examination in progress; however, the 2007 through current years are subject to such examination.

# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

Notes to Financial Statements, Continued

Years Ended June 30, 2011 and 2010

## (1) Summary of Significant Accounting Policies, Continued

### (j) Fair Value Measurements

District #15 uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the "Fair Value Measurements and Disclosures" topic of FASB ASC 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for District #15's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value, a reasonable point within the range, is most representative of fair value under current market conditions.

In accordance with this guidance, District #15 groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

Notes to Financial Statements, Continued

Years Ended June 30, 2011 and 2010

## (1) Summary of Significant Accounting Policies, Continued

### (j) Fair Value Measurements, Continued

**Level 1** - Valuation is based on quoted prices in active markets for identical assets or liabilities that District #15 has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

**Level 2** - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

**Level 3** - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial statements whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

### (k) Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

Notes to Financial Statements, Continued

Years Ended June 30, 2011 and 2010

## (1) Summary of Significant Accounting Policies, Continued

### (i) Evaluation of Subsequent Events

In preparing these financial statements, District #15 has reviewed and evaluated all events that have occurred after June 30, 2011, through December 30, 2011, for potential recognition or disclosure in the financial statements.

### (2) Reserved Cash

In accordance with the provisions of the Oklahoma Water Resources Board (OWRB) note payable agreement (see note 4), cash is held in reserve funds at June 30, 2011 and 2010, by a local trustee as follows:

	<u>2011</u>	<u>2010</u>
Bond/sinking fund	\$ 1	\$ 1
Reserve fund	<u>29,772</u>	<u>29,772</u>
Total cash held in reserve	<u>\$ 29,773</u>	<u>\$ 29,773</u>

### (3) Intangible Assets

District #15 acquired certain rights with the Corps of Engineers (the Corps) as part of the assets assumed upon the dissolution of S.A.R. as described above. These rights consist of the following:

Storage Space Rights - District #15 has the right to utilize a fixed percentage of the usable storage space in Skiatook Lake, or approximately 2,000 acre-feet, to impound water for anticipated future demand or need and to withdraw this water from the lake. An associated note payable was assumed from S.A.R. in the amount of \$563,867. During and upon repayment of the note, District #15 indefinitely retains the right to the storage space. Prior to the issuance and implementation of FASB ASC 350-30, accumulated depreciation was recognized in the amount of \$183,257.

# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

Notes to Financial Statements, Continued

Years Ended June 30, 2011 and 2010

### (3) Intangible Assets, Continued

Conduit Rights - District #15 has the right to use a conduit constructed by the Corps for the withdrawal of water from Skiatook Lake. An associated note payable was assumed from S.A.R. in the amount of \$703,960. During and upon repayment of the note, District #15 indefinitely retains the right to use the conduit. Prior to the issuance and implementation of FASB ASC 350-30, accumulated amortization was recognized in the amount of \$228,787.

Management has performed its annual impairment evaluation of these intangible assets and has determined that no write-downs are necessary as the fair market values exceed the carrying costs as of June 30, 2011 and 2010.

### (4) Long-term Debt

Long-term debt consists of the following:

	<u>2011</u>	<u>2010</u>
Note payable to the Corps for water storage space with interest at 4.012%, annual interest only payments until usage of the storage space by District #15, with outstanding principal due by October 2034, unsecured	\$ 563,867	\$ 563,867
Note payable to the Corps for conduit at Skiatook Lake with interest at 4.012%, payable in annual installments of \$31,570, including interest, with a final payment due September 2040, unsecured	545,123	554,449
Note payable to OWRB for distribution system projects with variable interest rate set by OWRB (1.45% at June 30, 2011), payable in monthly installments to a local trustee as administrator of the funds, with a final payment due September 2032, secured by revenues generated by District #15 and the water system	321,300	330,482

# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

Notes to Financial Statements, Continued

Years Ended June 30, 2011 and 2010

## (4) Long-term Debt, Continued

	<u>2011</u>	<u>2010</u>
Note payable to OWRB for distribution system projects with interest and fees at 3.280%, payable in semi-annual installments of approximately \$91,402, including interest and fees with a final payment due March 2028, secured by revenues generated by District #15 and the water system	\$ <u>2,367,665</u>	\$ <u>2,470,279</u>
Total long-term debt	3,797,955	3,919,077
Less current installments	<u>117,641</u>	<u>118,639</u>
Long-term debt, less current installments	\$ <u>3,680,314</u>	\$ <u>3,800,438</u>

Maturities of long-term debt are as follows:

For the year ended June 30,	
2012	\$ 117,641
2013	135,009
2014	140,478
2015	146,138
2016	151,796
2017 and thereafter	<u>3,106,893</u>
	<u>\$ 3,797,955</u>

Additional details of the significant long-term debt agreements are as follows:

Storage Space Usage - Under a contract assumed from S.A.R., District #15 is to reimburse the Corps for costs of \$563,867 to construct water storage space in Skiatook Lake. No principal was due or interest accrued during the first ten years of the contract; annual interest-only payments at 4.012% were due thereafter until usage of the storage space. Principal payments will commence upon this usage, with the full contract to be repaid on or before the 50th anniversary of the project's in-service date,



# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

Notes to Financial Statements, Continued

Years Ended June 30, 2011 and 2010

## (4) Long-term Debt, Continued

November 1, 1984. In accordance with these terms, District #15 began making interest-only payments to the Corps in 1995. At June 30, 2011 and 2010, the entire note balance is classified as long-term as District #15 has not finalized plans to begin using the storage. Management is evaluating the future use of the storage space as well as possible alternatives.

Conduit Usage - Under a contract assumed from S.A.R., District #15 is to reimburse the Corps for costs of \$703,960 to construct a conduit at Skiatook Lake. No principal was due or interest accrued during the first ten years of the contract; interest would accrue annually thereafter at 4.012% until usage of the conduit. Payments of principal and accrued interest would commence upon this usage, with the full contract to be repaid through 50 consecutive annual installments. Due to usage of the conduit by S.A.R., District #15 assumed annual payments of \$31,570 with a final payment due in September 2040.

In connection with this conduit contract, District #15 entered into contracts with the cities of Skiatook, Sand Springs and Sapulpa, which allow these cities to use the conduit on Skiatook Lake. District #15 allocates its annual payment to the Corps between these three cities based on their respective usage. Notes receivable bearing an interest rate of 4.012% and a 50-year term have been recognized by District #15.

OWRB, 2002 - In November 2002, District #15 entered into a \$435,000 note payable agreement with the OWRB for projects originated by District #15. The interest rate is variable and periodically adjusted by the OWRB until District #15 agrees to a fixed interest rate. Monthly payments are to be made to a local trustee, which administers the funds. The local trustee is to make, at a minimum, semi-annual payments over a 30-year term on the note in amounts dependent upon interest.

OWRB, 2007 - In May 2007, District #15 entered into a revolving loan agreement with the OWRB to finance projects originated by District #15. During the year ended June 30, 2009, the projects were completed at a total cost of \$2,665,758. The outstanding balance of disbursed loan proceeds shall be paid in semi-annual installments of approximately \$91,402 over a 20-year term at an interest rate of 3.280%, which includes an administrative fee of .500% per annum.

# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

Notes to Financial Statements, Continued

Years Ended June 30, 2011 and 2010

**(5) Pension Plan**

District #15's defined contribution pension plan covers all employees meeting the age and length of service eligibility requirements. District #15 makes semi-monthly contributions equal to three percent of each eligible employee's gross wages. The pension cost for the years ending June 30, 2011 and 2010, is approximately \$8,245 and \$7,083, respectively.

**(6) Fair Value of Assets and Liabilities**

Assets and liabilities measured at fair value on a recurring basis are summarized in the following table according to FASB ASC 820 pricing levels:

		<b>Fair Value Measurement Using</b>		
	<b>Recorded Value</b>	<b>Quoted Prices in Active Markets of Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>2011</b>				
Assets:				
Certificates of deposit	\$ <u>516,000</u>	\$ <u>-</u>	\$ <u>516,000</u>	\$ <u>-</u>
<b>2010</b>				
Assets:				
Certificates of deposit	\$ <u>716,000</u>	\$ <u>-</u>	\$ <u>716,000</u>	\$ <u>-</u>

The fair values of Level 2 certificates of deposit are provided by District #15's investment broker and include both various pricing services' values and values generated by a matrix system taking various factors into consideration due to the generally illiquid secondary market for certificates of deposit.

# OSAGE COUNTY, OKLAHOMA RURAL WATER DISTRICT #15

Notes to Financial Statements, Continued

Years Ended June 30, 2011 and 2010

## **(7) Real Property Exchange**

In November 2009, District #15 entered into an agreement with an unrelated third party whereby the two parties exchanged land and other real property as an even trade. This agreement was finalized in April 2010. District #15 surrendered land and buildings with a net book value of approximately \$184,000 in exchange for land and buildings with a fair value of \$485,000. In accordance with FASB ASC 845, "Nonmonetary Transactions," the new land and buildings were recorded at \$435,000, the fair value of the surrendered property, and an associated gain of approximately \$251,000 was recognized on the exchange.

As part of the agreement, the unrelated third party agreed to permit District #15 to continue to occupy its previous office space at no cost until District #15 completed construction of new space on the new property.

## **(8) Concentration of Credit Risk**

During 2011 and 2010, District #15 periodically maintained cash balances in a financial institution which exceeded the insured limits of the Federal Depository Insurance Corporation (FDIC). However, the District has received notice from its primary financial institution of collateralization of amounts in excess of FDIC insured limits. District #15 also maintains an agreement with their primary financial institution to establish a deposit and investment account, whereas funds are transferred to a securities account carried and administered by a third-party investment company.



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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**

Board of Directors  
Osage County, Oklahoma Rural Water District #15:

We have audited the financial statements of Osage County, Oklahoma Rural Water District #15 (District #15) as of and for the year ended June 30, 2011, and have issued our report thereon dated December 30, 2011. 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**

In planning and performing our audit, we considered District #15'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 District #15's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of District #15'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 misstatements on a timely basis. A material weakness is a deficiency, or a 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 the 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 deficiencies, significant deficiencies or material weaknesses. However, we consider the following deficiency to be a material weakness in internal control over financial reporting:

Due to the limited number of employees, District #15 is unable to segregate all noncompatible duties. Segregation of noncompatible duties prevents one person from having significant control over the initiation, authorization and recording of transactions. This condition is characteristic of all organizations, except those with large numbers of personnel. It is neither practical nor cost efficient for District #15 to establish an internal control system comparable to larger companies. A mitigating control is the personal involvement of the members of the Board of Directors in the analysis and review of internal financial data.

Management understands that due to limited employees and resources, District #15 is unable to segregate all noncompatible duties. However, duties will be monitored by management, board members, and an outside accountant through an annual audit.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether District #15'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.

District #15's response to the finding identified in our audit is described above. We did not audit District #15's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, others within District #15, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Creason & Associates, P.L.L.C.*

Tulsa, Oklahoma  
December 30, 2011