

**RURAL WATER MANAGEMENT DISTRICT
NO. 15, OSAGE COUNTY, OKLAHOMA
d/b/a Osage County Rural Water District #15**

Financial Statements

June 30, 2012 and 2011

(With Auditor's Report Thereon)



**RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA**

June 30, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Rural Water Management District No. 15, Osage County, Oklahoma

d/b/a Osage County Rural Water District #15:

We have audited the accompanying statements of net position of the enterprise fund of Rural Water Management District No. 15, Osage County, Oklahoma (District No. 15) as of June 30, 2012 and 2011, and the related statements of revenues, expenses and changes in fund net position and cash flows for the years then ended. These financial statements are the responsibility of District No. 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 No. 15 as of June 30, 2012 and 2011, and the changes in financial position 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 January 4, 2013, on our consideration of District No. 15'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. 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 considered in assessing the results of our audit.

District No. 15 has not presented Management's Discussion and Analysis or other required supplementary information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

Tulsa, Oklahoma
January 4, 2013

**RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA**

Statements of Net Position

June 30, 2012 and 2011

Assets	<u>2012</u>	<u>2011</u>
Current assets:		
Cash	\$ 561,752	\$ 465,574
Certificates of deposit	616,000	516,000
Accounts receivable	159,044	155,510
Current portion of notes receivable (note 5)	10,089	9,700
Inventory	37,711	37,711
Prepaid expenses	41,550	45,386
	<hr/>	<hr/>
Total current assets	1,426,146	1,229,881
	<hr/>	<hr/>
Reserved cash (note 2)	29,773	29,773
Property, plant and equipment (note 3):		
Water system	6,706,279	6,573,120
Building	831,631	831,631
Transportation equipment	167,803	167,803
Machinery and equipment	235,425	210,449
Furniture and fixtures	27,517	25,558
Land	100,631	100,631
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	8,069,286	7,909,192
Less accumulated depreciation	1,829,633	1,637,294
	<hr/>	<hr/>
Net property, plant and equipment	6,239,653	6,271,898
	<hr/>	<hr/>
Notes receivable, less current portion (note 5)	525,334	535,423
Intangible assets (notes 4 and 5)	855,783	855,783
Other assets	1,189	1,189
	<hr/>	<hr/>
Total assets	\$ <u>9,077,878</u>	\$ <u>8,923,947</u>

See accompanying notes to financial statements.

**RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA**

Statements of Net Position, Continued

June 30, 2012 and 2011

Liabilities and Net Position	<u>2012</u>	<u>2011</u>
Current liabilities:		
Accounts payable	\$ 123,847	\$ 108,095
Accrued liabilities	4,825	11,617
Accrued interest payable	9,112	39,632
Current installments of long-term debt (note 5)	<u>125,125</u>	<u>117,641</u>
Total current liabilities	262,909	276,985
Long-term debt, less current installments (note 5)	<u>3,552,739</u>	<u>3,680,314</u>
Total liabilities	<u>3,815,648</u>	<u>3,957,299</u>
Commitments and contingencies (note 7)		
Net position:		
Invested in capital assets, net of related debt	3,417,572	3,329,726
Restricted for debt service	555,107	565,196
Unrestricted	<u>1,289,551</u>	<u>1,071,726</u>
Total net position	<u>5,262,230</u>	<u>4,966,648</u>
Total liabilities and net position	<u>\$ 9,077,878</u>	<u>\$ 8,923,947</u>

See accompanying notes to financial statements.

**RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA**

Statements of Revenues, Expenses and Changes in Fund Net Position

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues - water sales	\$ 1,612,710	\$ 1,528,110
Cost of sales	<u>864,917</u>	<u>835,843</u>
Gross profit	<u>747,793</u>	<u>692,267</u>
Operating expenses:		
Depreciation	192,568	176,534
Salaries and benefits	162,715	176,774
Insurance and bonds	78,313	80,255
Office expense	51,214	46,436
Repair and maintenance	23,502	22,712
Professional services	22,041	24,779
License, fees and permits	17,846	16,760
Payroll taxes	11,348	12,437
Bad debt expense	5,914	8,539
Training	231	315
Miscellaneous	<u>23,898</u>	<u>15,631</u>
Total operating expenses	<u>589,590</u>	<u>581,172</u>
Total operating income	<u>158,203</u>	<u>111,095</u>
Nonoperating income (loss):		
Memberships	75,250	84,000
Capital contributions - water system	133,159	70,430
Interest expense	(102,292)	(121,519)
Interest income	31,533	42,611
Gain (loss) on disposal of assets	<u>(271)</u>	<u>5,410</u>
Total nonoperating income	<u>137,379</u>	<u>80,932</u>
Increase in net assets	295,582	192,027
Net position, beginning of year	<u>4,966,648</u>	<u>4,774,621</u>
Net position, end of year	\$ <u><u>5,262,230</u></u>	\$ <u><u>4,966,648</u></u>

See accompanying notes to financial statements.

**RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA**

Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Increase (Decrease) in Cash		
Cash flows from operating activities:		
Cash received from customers	\$ 1,603,262	\$ 1,568,535
Cash paid to suppliers and employees	<u>(1,243,229)</u>	<u>(1,177,887)</u>
Net cash provided by operating activities	<u>360,033</u>	<u>390,648</u>
Cash flows from investing activities:		
Sales (purchases) of investments, net	<u>(100,000)</u>	<u>200,000</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(33,809)	(525,563)
Proceeds from sale of fixed assets	6,374	16,500
Principal payments on long-term debt	(110,541)	(112,122)
Interest paid on long-term debt	(128,568)	(108,517)
Reserve deposits	(13,794)	(13,822)
Principal collected on long-term loans	9,700	9,326
Interest received on long-term loans	<u>31,533</u>	<u>42,611</u>
Net cash used by investing activities	<u>(239,105)</u>	<u>(691,587)</u>
Cash flows from noncapital financing activities:		
Membership benefit units	<u>75,250</u>	<u>84,000</u>
Net increase (decrease) in cash	96,178	(16,939)
Cash, beginning of year	<u>465,574</u>	<u>482,513</u>
Cash, end of year	<u><u>\$ 561,752</u></u>	<u><u>\$ 465,574</u></u>

See accompanying notes to financial statements.

**RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA**

Statements of Cash Flows, Continued

Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Total Operating Income to Net Cash Provided by Operating Activities		
Total operating income	\$ 158,203	\$ 111,095
Adjustments to reconcile total revenues over expenses to net cash provided by operating activities:		
Depreciation	192,568	176,534
Bad debt expense	5,914	8,539
Increase in accounts receivable	(9,448)	(6,099)
Decrease in other receivables	-	46,524
(Increase) decrease in prepaid expenses	3,836	(554)
Increase in accounts payable	15,752	52,950
Increase (decrease) in accrued expenses	<u>(6,792)</u>	<u>1,659</u>
Net cash provided by operating activities	\$ <u>360,033</u>	\$ <u>390,648</u>

**Supplemental Schedule of Noncash Investing, Capital
and Financing Activities**

Capital contributions	\$ 133,159	\$ 70,430
Principal payments from bond/sinking fund on notes payable	\$ 9,550	\$ 9,000

See accompanying notes to financial statements.

RURAL WATER MANAGEMENT DISTRICT NO. 15, OSAGE COUNTY, OKLAHOMA

Notes to Financial Statements

Years Ended June 30, 2012 and 2011

(1) Summary of Significant Accounting Policies

The financial statements of Rural Water Management District No. 15, Osage County, Oklahoma d/b/a Osage County 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

Rural Water Management District No. 15, Osage County, Oklahoma (District No. 15) – as a public nonprofit water district – is a body politic and corporate and an agency and legally constituted authority of the State of Oklahoma. Its purpose is to provide a waterworks and distribution system for the use and benefit of its members.

Prior to December 18, 1989, District No. 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 District No. 15, which, by affirmative order of the board of county commissioners, constitutes a rural water district. District No. 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 No. 15 finalized the purchase of Osage County, Oklahoma Rural Water District #11.

(b) Reporting Entity

For financial reporting purposes, a reporting entity's financial statements should include all component units over which another component unit (oversight unit) exercises financial accountability. Financial accountability includes such aspects as appointment of governing body members, designation of management, the ability to significantly influence operations and accountability for fiscal matters.

Based upon the above criteria, there are no component units to be included within District No. 15 as a reporting entity.

RURAL WATER MANAGEMENT DISTRICT NO. 15, OSAGE COUNTY, OKLAHOMA

Notes to Financial Statements, Continued

Years Ended June 30, 2012 and 2011

(1) Summary of Significant Accounting Policies, Continued

(c) Basis of Reporting

The financial statements have been prepared in conformity with the requirements of Governmental Accounting and Financial Reporting Standards issued by the Governmental Accounting Standards Board. The accompanying financial statements have been prepared utilizing the presentation of a proprietary fund.

(d) Cash and Cash Equivalents

District No. 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.

(e) 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.

(f) Investments

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

(g) Inventory

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

(h) 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 No. 15 capitalizes all asset purchases over \$500 with an estimated useful life greater than one year.

(i) Intangible Assets

Intangible assets with indefinite lives are not amortized, but are instead tested at least annually for impairment.

RURAL WATER MANAGEMENT DISTRICT NO. 15, OSAGE COUNTY, OKLAHOMA

Notes to Financial Statements, Continued

Years Ended June 30, 2012 and 2011

(1) Summary of Significant Accounting Policies, Continued

(j) Operating and Nonoperating Revenues and Expenditures

District No. 15 reports operating revenues and expenses separately from nonoperating items. Operating revenues and expenses generally result from producing and delivering goods in connection with District No. 15's principal ongoing operations. The principal operating revenues of District No. 15 are charges to customers for sale of water. Operating expenses for District No. 15 include the costs of sales, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

(k) Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is District No. 15's policy to use restricted resources first, and then unrestricted resources as they are needed.

(l) Income Taxes

District No. 15 is exempt, by statute, from federal and state income taxes.

(m) 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.

(n) Evaluation of Subsequent Events

In preparing these financial statements, District No. 15 has reviewed and evaluated all events that have occurred after June 30, 2012, through January 4, 2013, the date of the audit report, for potential recognition or disclosure in the financial statements.

RURAL WATER MANAGEMENT DISTRICT NO. 15, OSAGE COUNTY, OKLAHOMA

Notes to Financial Statements, Continued

Years Ended June 30, 2012 and 2011

(2) Reserved Cash

In accordance with the provisions of the Oklahoma Water Resources Board (OWRB) note payable agreement (see note 5), cash is held in reserve funds at June 30, 2012 and 2011, by a local trustee as follows:

	<u>2012</u>	<u>2011</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) Property, Plant and Equipment

Changes in property, plant and equipment for the year ended June 30, 2012, are as follows:

	<u>2011</u>	<u>Additions</u>	<u>Disposals</u>	<u>2012</u>
Water system	\$ 6,573,120	\$ 133,159	\$ -	\$ 6,706,279
Building	831,631	-	-	831,631
Transportation equipment	167,803	-	-	167,803
Machinery and equipment	210,449	31,850	6,874	235,425
Furniture and fixtures	25,558	1,959	-	27,517
Land	100,631	-	-	100,631
	<u>7,909,192</u>	<u>166,968</u>	<u>6,874</u>	<u>8,069,286</u>
Less accumulated depreciation	<u>1,637,294</u>	<u>192,568</u>	<u>229</u>	<u>1,829,633</u>
	<u>\$ 6,271,898</u>			<u>\$ 6,239,653</u>

RURAL WATER MANAGEMENT DISTRICT NO. 15, OSAGE COUNTY, OKLAHOMA

Notes to Financial Statements, Continued

Years Ended June 30, 2012 and 2011

(3) Property, Plant and Equipment, Continued

Changes in property, plant and equipment for the year ended June 30, 2011, are as follows:

	<u>2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>2011</u>
Water system	\$ 6,540,741	32,379	-	\$ 6,573,120
Building	349,049	482,582	-	831,631
Transportation equipment	161,382	34,147	27,726	167,803
Machinery and equipment	148,593	64,249	2,393	210,449
Furniture and fixtures	31,783	1,760	7,985	25,558
Land	100,631	-	-	100,631
Construction in progress	19,125	-	19,125	-
	<u>7,351,304</u>	<u>615,117</u>	<u>57,229</u>	<u>7,909,192</u>
Less accumulated depreciation	<u>1,487,775</u>	<u>176,534</u>	<u>27,015</u>	<u>1,637,294</u>
	<u>\$ 5,863,529</u>			<u>\$ 6,271,898</u>

(4) Intangible Assets

District No. 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 No. 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 No. 15 indefinitely retains the right to the storage space. Prior to the issuance and implementation of applicable changes in accounting pronouncements, accumulated amortization was recognized in the amount of \$183,257.

Conduit Rights – District No. 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 No. 15 indefinitely retains the right to use the conduit. Prior to the issuance and implementation of applicable changes in accounting pronouncements, accumulated amortization was recognized in the amount of \$228,787.

**RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA**

Notes to Financial Statements, Continued

Years Ended June 30, 2012 and 2011

(4) Intangible Assets, Continued

Management has performed its annual evaluation of these intangible assets and has determined that no impairments are necessary as the fair market values exceed the carrying costs as of June 30, 2012 and 2011.

(5) Long-term Debt

Long-term debt consists of the following:

	<u>2012</u>	<u>2011</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 No. 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	535,423	545,123
Note payable to OWRB for distribution system projects with variable interest rate set by OWRB (1.230% at June 30, 2012), 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 No. 15 and the water system	311,750	321,300

**RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA**

Notes to Financial Statements, Continued

Years Ended June 30, 2012 and 2011

(5) Long-term Debt, Continued

	<u>2012</u>	<u>2011</u>
Note payable to OWRB for distribution system projects with interest and fees at 3.780%, payable in semi-annual installments of approximately \$95,441, including interest and fees with a final payment due March 2028, secured by revenues generated by District No. 15 and the water system	\$ 2,266,824	\$ 2,367,665
Total long-term debt	3,677,864	3,797,955
Less current installments	<u>125,125</u>	<u>117,641</u>
Long-term debt, less current installments	<u><u>\$ 3,552,739</u></u>	<u><u>\$ 3,680,314</u></u>

Maturities of long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 125,125	\$ 111,165	\$ 236,290
2014	146,634	129,194	275,828
2015	152,534	123,760	276,294
2016	158,443	118,310	276,753
2017	165,054	112,250	277,304
2018 – 2022	930,295	464,928	1,395,223
2023 – 2027	1,133,816	279,265	1,413,081
2028 – 2032	522,956	107,426	630,382
2033 – 2037	228,416	46,625	275,041
2038 – 2041	<u>114,591</u>	<u>11,722</u>	<u>126,313</u>
	<u><u>\$ 3,677,864</u></u>	<u><u>\$ 1,504,645</u></u>	<u><u>\$ 5,182,509</u></u>

RURAL WATER MANAGEMENT DISTRICT NO. 15, OSAGE COUNTY, OKLAHOMA

Notes to Financial Statements, Continued

Years Ended June 30, 2012 and 2011

(5) Long-term Debt, Continued

As of June 30, 2012, payments have not commenced on the note payable for water storage space. For purposes of the preceding schedule, payments are projected as commencing one year from the date of the audit report.

Also, for notes payable with variable interest rates, interest due in future periods was estimated based on the applicable rates at June 30, 2012.

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

Storage Space Usage – Under a contract assumed from S.A.R., District No. 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, November 1, 1984. In accordance with these terms, District No. 15 began making interest-only payments to the Corps in 1995. At June 30, 2012 and 2011, the entire note balance is classified as long-term as District No. 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 No. 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 No. 15 assumed annual payments of \$31,570 with a final payment due in September 2040.

In connection with this conduit contract, District No. 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 No. 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 No. 15.

RURAL WATER MANAGEMENT DISTRICT NO. 15, OSAGE COUNTY, OKLAHOMA

Notes to Financial Statements, Continued

Years Ended June 30, 2012 and 2011

(5) Long-term Debt, Continued

OWRB, 2002 – In November 2002, District No. 15 entered into a \$435,000 note payable agreement with the OWRB for projects originated by District No. 15. The interest rate is variable and periodically adjusted by the OWRB until District No. 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 No. 15 entered into a revolving loan agreement with the OWRB to finance projects originated by District No. 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 \$95,441 over a 20-year term at an interest rate of 3.780%, which includes an administrative fee of .500% per annum.

(6) Retirement Plan

District No. 15's defined contribution retirement plan covers all employees meeting the age and length of service eligibility requirements. District No. 15 makes semi-monthly contributions equal to three percent of each eligible employee's gross wages. The retirement plan expenses for the years ending June 30, 2012 and 2011, are approximately \$8,500 and \$8,250, respectively.

(7) Concentrations

District No. 15 purchases all of its water from the cities of Tulsa and Skiatook. Changes in the availability or the cost of water from these suppliers could significantly affect District No. 15's ability to serve its members.

During 2012 and 2011, District No. 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 No. 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.

**RURAL WATER MANAGEMENT DISTRICT NO. 15,
OSAGE COUNTY, OKLAHOMA**

Notes to Financial Statements, Continued

Years Ended June 30, 2012 and 2011

(8) Correction of an Error

For the year ended June 30, 2012, District No. 15 determined that the financial statements and accompanying notes would be more accurately presented under guidance and requirements applicable as a proprietary fund of a governmental entity. For years ended June 30, 2011 and earlier, District No. 15's financial statements and accompanying notes had been presented under guidance and requirements applicable for a not-for-profit organization.

This change in presentation resulted in certain reclassifications to net position on the statements of net position. This change also resulted in a modification in the treatment of memberships revenue on the statements of revenue, expenses and changes in fund net position. Further, the change in reporting presentation also resulted in the addition of certain notes to the financial statements in order to satisfy applicable disclosure requirements.



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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

Rural Water Management District No. 15, Osage County, Oklahoma:

We have audited the financial statements of Rural Water Management District No. 15, Osage County, Oklahoma (District No. 15) as of and for the year ended June 30, 2012, and have issued our report thereon dated January 4, 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 District No. 15 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered District No. 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 No. 15's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of District No. 15's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

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 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.

We consider the deficiency described below to be a material weakness:

Due to the limited number of employees, District No. 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 No. 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 No. 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 No. 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 No. 15's response to the finding identified in our audit is described above. We did not audit District No. 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 No. 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.

Cresson & Associates, P.L.L.C.

Tulsa, Oklahoma
January 4, 2013