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**AUDIT REPORT**  
**INDIANOLA RURAL WATER DISTRICT NO. 18**  
**INDIANOLA, OKLAHOMA**  
**FOR THE YEARS ENDED JUNE 30, 2010 & 2009**

**Audited by**

**JACK H. JENKINS**  
**CERTIFIED PUBLIC ACCOUNTANT**  
**A PROFESSIONAL CORPORATION**  
**TULSA, OK**

**INDIANOLA RURAL WATER DISTRICT NO. 18**  
**INDIANOLA, OKLAHOMA**  
**JUNE 30, 2010**

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**INDIANOLA RURAL WATER DISTRICT NO. 18  
BOARD OF DIRECTORS  
JUNE 30, 2010**

BOARD OF DIRECTORS

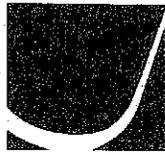
Chairman	Paul Hamilton
Vice Chairman	Tim Miller
Secretary/Treasurer	Joyce Everett
Director	Don Parham
Director	Jerry Prescott

OPERATOR

Jeremiah Ward

MANAGER

Vivian Moody



**Jack H. Jenkins, CPA** A Professional Corporation

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Indianola Rural Water District No. 18  
Indianola, Oklahoma 74442

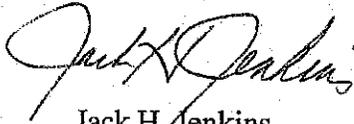
I have audited the accompanying financial statements of the business-type activities of the Indianola Rural Water District No. 18, Indianola, Oklahoma, as of and for the years ended June 30, 2010 and 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my 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 I 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. I believe that my audits provide a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Indianola Rural Water District No. 18, Indianola, Oklahoma, as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

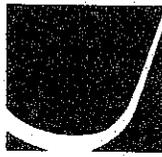
The Management's Discussion and Analysis report, that follows the Schedule of Audit Results, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued a report dated October 13, 2011, on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of my 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 my audit.



Jack H. Jenkins  
Certified Public Accountant, P.C.

October 13, 2011



**Jack H. Jenkins, CPA** *A Professional Corporation*

**REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Indianola Rural Water District No. 18  
Indianola, Oklahoma 74442

I have audited the financial statements of the Indianola Rural Water District No. 18, Indianola, Oklahoma, as of and for the year ended June 30, 2010, and have issued my report thereon dated October 13, 2011. I conducted my 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 my audit, I considered the District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the combined financial statements - regulatory basis, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

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 the regulatory basis mentioned above, 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.

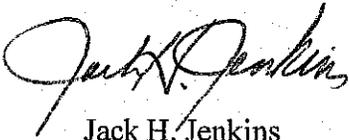
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of internal control was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control that I 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, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings as item 10-01.

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



Jack H. Jenkins  
Certified Public Accountant, P.C.

October 13, 2011

**INDIANOLA RURAL WATER DISTRICT NO. 18**  
**SCHEDULE OF AUDIT RESULTS**  
**JUNE 30, 2010**

**Findings – Financial Statement Audit**

**10-01 – Pre-signed Checks**

**Condition:** Several checks dated before the 2009-10 fiscal year end were observed to have been used to pay expenses after the 2009-10 fiscal year end. An interview with the District Manager confirmed the practice of pre-signing checks with no amounts present. These checks were sometimes printed and recorded several months before they were actually issued to pay expenses.

**Criteria:** Checks should be written for the amount due, dated when issued, and approved by the governing board at an open meeting.

**Effect:** Expenses outside of the current fiscal year could be included or excluded from the current year's financial statements and amounts not approved by the board could be paid without the board's knowledge.

**Recommendation:** That all checks be issued for invoiced amounts and dated when issued or approved by the governing board.

**INDIANOLA RURAL WATER DISTRICT NO. 18  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2010**

Our discussion and analysis of Indianola Rural Water District No. 18's financial performance provides an overview of the financial activities for the fiscal years ended June 30, 2010 and 2009. Please read it in conjunction with the District's financial statements.

**FINANCIAL HIGHLIGHTS**

- The total assets increased by \$14,054 as a result of this year's operations.
- The District's return on total ending assets was 3.3%.
- The total cost of the District's activities was \$354,289 compared to \$359,710 in the prior year.

**USING THE ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statement of Net Assets, and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the District's financial position.

One of the most important questions asked about the District's finances is "Is the District as a whole better or worse off as a result of this year's activities?" The financial statements report information about the assets and liabilities using the accrual basis of accounting.

These financial statements report the District's assets and changes in them. You can think of the District's Equity as the difference between assets the members own, and liabilities, what the members owe, as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's equity are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non financial factors such as the condition of the District's capital assets to assess the overall health of the District.

The District's equity changed from a year ago, increasing from \$415,077 to \$429,131.

**INDIANOLA COUNTY RURAL WATER DISTRICT NO. 7  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED JUNE 30, 2010**

**FINANCIAL RATIOS**

Working Capital is the amount by which current assets exceed current liabilities. The Current Ratio, which compares current assets to the current liabilities, is an indicator of the ability to pay current obligations. A ratio of less than one would indicate

	<b>Current Year</b>	<b>Prior Year</b>
<b>Working Capital</b>	\$ 191,750	\$ 144,567
<b>Current Ratio</b>	8.96	6.12

Return on assets measures earnings in relation to all of the resources available for use.

	<b>Current Year</b>	<b>Prior Year</b>
<b>Return on Assets</b>	1.02%	1.56%

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of the year the District had \$1,167,888 invested in net capital assets.

**Debt**

At year end, the District carried one note payable from Rural Development in the amount of \$943,320, a decrease of \$12,280 from the previous year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

The financial report is designed to provide our members, customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Manager.

**INDIANOLA RURAL WATER DISTRICT NO. 18**  
**STATEMENT OF NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2010 & 2009**

	<u>2010</u>	<u>2009</u>
<b><u>ASSETS</u></b>		
Current assets		
Cash and cash equivalents	\$ 181,194	144,426
Accounts receivable	33,653	27,359
ORWA Certificate	1,000	1,000
Total current assets	215,847	172,785
Noncurrent assets		
Land	1,600	1,600
Office equipment	10,174	10,174
Water system and equipment	1,875,873	1,875,873
Less accumulated depreciation	(719,759)	(673,818)
Total noncurrent assets	1,167,888	1,213,829
Total Assets	1,383,735	1,386,614
<b><u>LIABILITIES</u></b>		
Current liabilities		
Accounts payable	3,298	9,285
Payroll taxes payable	2,169	836
Meter deposits	5,817	5,817
Current maturities of long-term debt	12,813	12,280
Total current liabilities	24,097	28,218
Noncurrent liabilities		
Notes payable - Rural Development	930,507	943,319
Total Liabilities	954,604	971,537
<b><u>NET ASSETS</u></b>		
Invested in capital assets, Net related of debt	224,568	258,230
Unrestricted	204,563	156,847
Total net assets	\$ 429,131	415,077

The accompanying notes are an integral part of the financial statements

**INDIANOLA RURAL WATER DISTRICT NO. 18**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2010 & 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues:</b>		
Water revenue	\$ 363,998	368,756
Memberships	4,000	10,950
Miscellaneous income	-	1,260
Total operating revenues	367,998	380,966
<b>Operating Expenses:</b>		
Water purchases	104,717	106,410
Operating supplies & materials	41,342	46,306
Salaries	51,760	45,412
Payroll taxes	10,195	7,469
Insurance & bonds	31,693	30,902
Professional fees	300	2,050
Vehicle expense	8,080	4,595
Office expense	720	8,893
Postage	4,507	4,286
Licenses, fees & memberships	5,697	1,669
Telephone	3,280	4,518
Utilities	4,710	5,408
Equipment rental	525	2,935
Miscellaneous	446	3,128
Depreciation	45,941	44,842
Total operating expenses	313,913	318,823
Operating Income (Loss)	54,085	62,143
<b>Non-Operating Revenues (Expenses):</b>		
Interest income	345	411
Interest expense	(40,376)	(40,887)
Total non-operating revenues (expenses)	(40,031)	(40,476)
Change in Net Assets	14,054	21,667
Total Net Assets, beginning of period	415,077	393,410
Total Net Assets, end of period	\$ 429,131	415,077

The accompanying notes are an integral part of the financial statements

**INDIANOLA RURAL WATER DISTRICT NO. 18**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2010 & 2009**

	<u>2010</u>	<u>2009</u>
<b>Cash Flows from Operating Activities:</b>		
Receipts from customers	\$ 361,704	385,270
Payments to employees	(51,760)	(45,412)
Payments to vendors	<u>(220,866)</u>	<u>(233,199)</u>
Net cash flows from operating activities	<u>89,078</u>	<u>106,659</u>
<b>Cash Flows from Investing Activities:</b>		
Interest earned	345	411
Capital assets purchased, net	-	(11,000)
Net cash flows from investing activities	<u>345</u>	<u>(10,589)</u>
<b>Cash Flows from Financing Activities:</b>		
Interest expense on debt	(40,376)	(40,887)
Principal payments on long-term debt	<u>(12,280)</u>	<u>(11,769)</u>
Net cash flows from financing activities	<u>(52,656)</u>	<u>(52,656)</u>
Net increase (decrease) in cash and cash equivalents	36,767	43,414
Cash and cash equivalents, beginning of period	<u>145,426</u>	<u>102,012</u>
Cash and cash equivalents, end of period	<u>\$ 182,193</u>	<u>145,426</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ 54,085	62,143
Add depreciation expense	45,941	44,842
(Increase)/Decrease in Current Assets		
Accounts receivable, net	(6,294)	4,304
Increase/(Decrease) in Current Liabilities		
Accounts payable	(5,987)	(1,721)
Payroll taxes payable	1,333	(2,909)
Net cash flows from operating activities	<u>\$ 89,078</u>	<u>106,659</u>

The accompanying notes are an integral part of the financial statements

**INDIANOLA RURAL WATER DISTRICT NO. 18**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2010 & 2009**

**Note 1 – Organization**

Indianola Rural Water District No. 18, Indianola, Oklahoma, is recognized as a public not for profit rural water district under Oklahoma Statutes, Title 82. The purpose of the organization is to provide water and sewer to residential and commercial customers who are members of the District.

**Note 2 – Summary of significant accounting policies**

**Reporting Entity**

Indianola Rural Water District No. 18 is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost of providing water services is financed through user charges. The District purchases water primarily from the city of McAlester.

**Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the balance sheet. The operating statements present increases and decreases in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**Accounts Receivable**

All accounts greater than thirty days are considered past due. Receivables greater than ninety days are carried at the original billed amount. No provision is made for bad-debt expense as it is deemed to be of an immaterial amount. An aging of accounts receivable as of June 30, 2010 is as follows:

0-30 days: \$33,653

**INDIANOLA RURAL WATER DISTRICT NO. 18**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2010 & 2009**

**Inventory**

Inventory is expensed when purchased and capitalized when used for improvements to the water or sewer system. Inventory on hand is not recorded as the amount is deemed to be immaterial to the financial statements.

**Property and Equipment**

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

**Cash and Cash Equivalents**

Cash and cash equivalents, shown in the financial statements, are amounts that are not subject to fluctuations in principal value due to changing market conditions and have a maturity of less than three months.

**Custodial Credit Risk**

At June 30, 2010, the District held deposits of approximately \$181,194 at financial institutions. The District's cash deposits are entirely covered by Federal Depository Insurance.

**Note 3 – Risk Management**

Indianola Rural Water District No. 18 is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District continues to carry commercial insurance for these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

**INDIANOLA RURAL WATER DISTRICT NO. 18**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED JUNE 30, 2010 & 2009**

**Note 4 – Capital Assets**

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

	Balance June 30,	<u>Additions</u>	<u>Deletions</u>	Balance June 30,
Land	\$ 1,600			\$ 1,600
Office Equipment	10,174			10,174
Water System & Equipment	1,875,873			1,875,873
Less accumulated depreciation	(673,818)	(45,941)		(719,759)
Net	<u>\$1,213,829</u>	<u>\$ (45,941)</u>	<u>\$ -</u>	<u>\$1,167,888</u>

**Note 5 – Income Tax Status**

The District is not subject to state or federal income taxes as a non-profit organization.

**Note 6 – Long Term Debt**

The District has one note payable to Rural Development outstanding as of June 30, 2010. Note 91-20, dated April 29, 2005, with a forty-year maturity, and interest rate of 4.25%, with an original amount of \$1,011,000. Estimated principal and interest for the next five years and thereafter follow:

	Note 91-20	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 12,813	40,376
2012	13,368	39,843
2013	13,947	39,288
2014	14,552	38,709
2015	15,182	38,104
Thereafter	873,458	641,682
Totals	<u>\$943,320</u>	<u>838,002</u>