

Indianola Rural Water District No. 18
Pittsburg County, Oklahoma

Financial Statements and
Reports of Independent Auditor

June 30, 2014

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, 2014

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
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June 30, 2014

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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, 2014, 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, 2014, 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 February 19, 2015, 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

February 19, 2015



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, 2014, 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 February 19, 2015. 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.

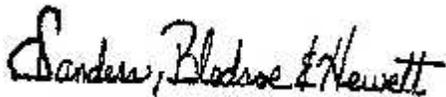
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

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.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

February 19, 2015

Indianola Rural Water District No. 18
Pittsburg County, Oklahoma
Schedule of Audit Results
June 30, 2014

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, 2014

ASSETS

Current assets:	
Cash in bank	\$ 14,810
Accounts receivable	34,471
Total current assets	<u>49,281</u>
Noncurrent assets:	
Restricted cash and cash equivalents	53,450
Deposit - ORWA	1,000
Capital assets:	
Land	4,600
Office equipment	11,145
Water system and improvements	1,969,418
Less: accumulated depreciation	<u>(890,232)</u>
Total noncurrent assets	<u>1,149,381</u>
Total Assets	<u>1,198,662</u>

LIABILITIES

Current liabilities:	
Accounts payable	2,949
Payroll taxes payable	118
Meter deposits	6,000
Current portion of long-term debt	15,182
Total current liabilities	<u>24,249</u>
Noncurrent liabilities:	
Notes payable	<u>873,459</u>
Total Liabilities	<u>897,708</u>

NET ASSETS

Invested in capital assets, net of related debt	206,290
Unrestricted assets	<u>94,664</u>
Total Net Assets	<u>\$ 300,954</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, 2014

Operating Revenues:	
Water sales	<u>\$ 398,985</u>
Operating Expenses:	
Water purchases	178,282
Operating supplies & maintenance	52,710
Salaries	49,371
Payroll taxes	9,824
Insurance	31,560
Professional fees	6,650
Vehicles	6,217
Office expenses	1,795
Postage	3,376
Dues & fees (testing)	12,281
Telephone	5,580
Utilities	3,485
Miscellaneous	503
Depreciation	<u>39,310</u>
Total expenses from operations	<u>400,944</u>
Operating Income (Loss)	(1,959)
Non-Operating Revenues (Expenses):	
Interest income	58
Interest expense on debt	<u>(38,104)</u>
Total non-operating revenues (expenses)	<u>(38,046)</u>
Change in Net Assets	(40,005)
Total Net Assets, beginning of period	<u>340,959</u>
Total Net Assets, end of period	<u><u>\$ 300,954</u></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 Cash Flows
For the Year Ended June 30, 2014

Cash flows from operating activities:

Receipts from customers	\$ 398,341
Payments to employees	(49,371)
Payments to vendors	<u>(312,205)</u>
Net cash (used in) provided by operating activities	<u>36,765</u>

Cash flows from capital and related financing activities:

Interest paid on debt	(38,104)
Principal payments on debt	<u>(14,552)</u>
Net cash used in capital and related financing activities	<u>(52,656)</u>

Cash flows from investing activities:

Interest on investments	<u>58</u>
Net cash used in investing activities	<u>58</u>

Net increase (decrease) in cash and cash equivalents	(15,833)
Cash & cash equivalents, beginning of period	<u>85,093</u>
Cash & cash equivalents, end of period	<u><u>\$ 69,260</u></u>

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

Operating Income	\$ (1,959)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	39,310
(Increase) decrease in current assets-	
Accounts receivable, net	(644)
Increase (decrease) in current liabilities-	
Accounts payable	969
Payroll taxes payable	<u>(911)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 36,765</u></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, 2014

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, 2014, and are comprised as follows:

First National Bank, McAlester, OK	
Revenue Account	<u>\$ 14,810</u>

The District's cash deposits at June 30, 2014, 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, 2014.

Accounts Receivable

Billings for accounts receivable at June 30, 2014 were \$34,471. 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, 2014 was \$53,450, which is held at the First National Bank, McAlester, OK, in a checking/savings account. Since the required reserve balance is met, these funds are used to cover shortfalls in the revenue account for everyday operations.

**INDIANOLA RURAL WATER DISTRICT NO. 18
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2014**

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:

	Category			Bank Balance	Carrying Amount
	(A)	(B)	(C)		
Cash	\$ 68,260			68,260	68,260
Investments	0			0	0
Totals	\$ 68,260	0	0	68,260	68,260

INDIANOLA RURAL WATER DISTRICT NO. 18
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED JUNE 30, 2014

Note 2 – Long-Term Debt

The District has one note payable to Rural Development outstanding as of June 30, 2014. 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 loan balance at June 30, 2014 was \$888,641.

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

2014-15	\$ 15,182
2015-16	15,840
2016-17	16,527
2017-18	17,243
2018-19	17,990
2019-24	102,343
2024-29	126,528
2029-34	156,425
2034-39	193,369
2039-44	<u>227,194</u>
Totals	<u>\$ 888,641</u>

Note 3 – Accumulated Unpaid Vacation and Sick Pay

At June 30, 2014 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, 2014**

Note 4 – Property and Equipment – cont’d

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

	Balance June 30, 2013	Acquired	(Disposed)	Balance June 30, 2014
Land	\$ 4,600	-	-	4,600
Office Equipment	11,145	-	-	11,145
Water Sysytem	1,969,418	-	-	1,969,418
Sub-Total	1,985,163	-	-	1,985,163
Less: Accum. Depr.	(850,922)	(39,310)	-	(890,232)
Total	<u>\$ 1,134,241</u>	<u>(39,310)</u>	<u>-</u>	<u>1,094,931</u>

Note 5 – Subsequent Events

Management has evaluated subsequent events through February 19, 2015, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

INDIANOLA RURAL WATER DISTRICT NO. 18
PITTSBURG COUNTY, OKLAHOMA
Balance Sheet
June 30, 2014

	June 30,	
<u>ASSETS</u>	2014	(Memo only) 2013
Current Assets:		
Cash and cash equivalents	\$ 14,810	(7,950)
Accounts receivable	34,471	33,827
Total current assets	49,281	25,877
Fixed Assets:		
Land	4,600	4,600
Office equipment	11,145	11,145
Water system	1,969,418	1,969,418
Less: accumulated depreciation	(890,232)	(850,922)
Total fixed assets (net)	1,094,931	1,134,241
Restricted Assets:		
Cash and investments	53,450	92,043
Other Assets:		
ORWA deposit	1,000	1,000
Total Assets	\$ 1,198,662	1,253,161
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 2,949	1,980
Payroll taxes payable	118	1,029
Meter deposits	6,000	6,000
Current maturities of long-term debt	15,182	14,552
Total current liabilities	24,249	23,561
Long-Term Debt, less current maturities:		
Notes payable - Rural Development	873,459	888,641
Total Liabilities	897,708	912,202
Fund Equity:		
Retained earnings - unrestricted	300,954	340,959
Total Liabilities and Fund Equity	\$ 1,198,662	1,253,161

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, 2014

	2013-14	(Memo only) 2012-13
	<u> </u>	<u> </u>
Revenue from Operations:		
Water sales	\$ 398,985	386,563
	<u> </u>	<u> </u>
Expenses from Operations:		
Water purchases	178,282	173,271
Operating supplies & maintenance	52,710	36,814
Salaries	49,371	60,671
Payroll taxes	9,824	18,047
Insurance	31,560	41,467
Professional fees	6,650	325
Vehicles	6,217	8,126
Office expenses	1,795	6,381
Postage	3,376	4,521
Dues & fees (testing)	12,281	931
Telephone	5,580	3,823
Utilities	3,485	2,812
Equipment rental/Backhoe	0	3,500
Miscellaneous	503	2,241
Depreciation	39,310	37,804
Total expenses from operations	<u>400,944</u>	<u>400,734</u>
Net Income (Loss) from Operations	(1,959)	(14,171)
Other Income:		
Interest earnings	<u>58</u>	<u>147</u>
Other Expenses:		
Interest on debt	<u>(38,104)</u>	<u>(38,709)</u>
Net Income (Loss)	(40,005)	(52,733)
Retained earnings, beginning of period	<u>340,959</u>	<u>393,692</u>
Retained earnings, end of period	<u><u>\$ 300,954</u></u>	<u><u>340,959</u></u>