

Rural Water District No. 14
Pittsburg County, Oklahoma

Financial Statements and
Reports of Independent Auditor

December 31, 2012

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Rural Water District No. 14
Pittsburg County, Oklahoma
Board of Directors
December 31, 2012

Chairman

Dennis Mason

Vice Chairman

A.J. Bristow

Secretary/Treasurer

Michael Morgan

Members

Kenneth Gideon

Ronald Collins

Operator

John Jarrett

Bookkeeper

Vivian Moody

Rural Water District No. 14
Pittsburg County, Oklahoma
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December 31, 2012

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Rural Water District No. 14
Pittsburg County, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 14 (the District), Pittsburg County, Oklahoma, as of and for the year ended December 31, 2012, 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 December 31, 2012, 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 January 29, 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

January 29, 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
Rural Water District No. 14
Pittsburg County, Oklahoma

We have audited the combined financial statements of Rural Water District No. 14 (the District), Pittsburg County, Oklahoma, as of and for the year ended December 31, 2012, 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 January 29, 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.

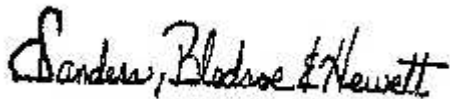
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

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

January 29, 2015

Rural Water District No. 14
Pittsburg County, Oklahoma
Schedule of Audit Results
December 31, 2012

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

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
Statement of Net Assets
December 31, 2012

ASSETS

Current assets:	
Cash in bank	\$ 96,723
Accounts receivable	27,121
Total current assets	<u>123,844</u>
Capital assets:	
Land	9,500
Water storage	40,090
Office furniture & fixtures	1,363
Water system and improvements	3,199,026
Less: accumulated depreciation	<u>(1,423,835)</u>
Total noncurrent assets	<u>1,826,144</u>
Total Assets	<u>1,949,988</u>

LIABILITIES

Current liabilities:	
Accounts payable	10,925
Accrued interest payable	862
Current portion of long-term debt	18,574
Total current liabilities	<u>30,361</u>
Noncurrent liabilities:	
Notes payable - Rural Development	<u>629,526</u>
Total Liabilities	<u>659,887</u>

NET ASSETS

Invested in capital assets, net of related debt	1,178,044
Unrestricted assets	<u>112,057</u>
Total Net Assets	<u>\$ 1,290,101</u>

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

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
Statement of Activities
For The Year Ended December 31, 2012

Operating Revenues:	
Water sales	\$ 366,110
Operating Expenses:	
Operating supplies & maintenance	124,239
Contract management	79,450
Insurance	8,809
Professional fees	12,250
Postage	3,179
Licenses, fees & memberships	11,130
Office expenses	2,150
Contract labor	10,267
Utilities	41,818
Miscellaneous	780
Depreciation	80,663
Total expenses from operations	<u>374,735</u>
Operating Income (Loss)	(8,625)
Non-Operating Revenues (Expenses):	
Interest income	27
Interest expense on debt	<u>(31,336)</u>
Total non-operating revenues (expenses)	<u>(31,309)</u>
Change in Net Assets	(39,934)
Total Net Assets, beginning of period	<u>1,330,035</u>
Total Net Assets, end of period	<u><u>\$ 1,290,101</u></u>

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

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
Statement of Cash Flows
For the Year Ended December 31, 2012

Cash flows from operating activities:

Receipts from customers	\$ 363,507
Payments to vendors	<u>(294,937)</u>
Net cash (used in) provided by operating activities	<u>68,570</u>

Cash flows from capital and related financing activities:

Interest paid on debt	(31,356)
Principal payments on debt	<u>(17,700)</u>
Net cash used in capital and related financing activities	<u>(49,056)</u>

Cash flows from investing activities:

Capital assets purchased	(15,653)
Interest on investments	<u>27</u>
Net cash used in investing activities	<u>(15,626)</u>

Net increase (decrease) in cash and cash equivalents	3,888
Cash & cash equivalents, beginning of period	<u>92,835</u>
Cash & cash equivalents, end of period	<u><u>\$ 96,723</u></u>

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

Operating Income	\$ (8,625)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	80,663
(Increase) decrease in current assets-	
Accounts receivable, net	(2,603)
Increase (decrease) in current liabilities-	
Accounts payable	<u>(865)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 68,570</u></u>

The accompanying notes are an integral part of the financial statements

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2012

Note 1 – Significant Accounting Policies

Reporting Entity

The District is recognized as a public, not-for-profit rural water district under Oklahoma Statutes, Title 82. The District 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.

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 December 31, 2012, and are comprised as follows:

First National Bank, McAlester, OK	
Operation & Maint. Account	\$ 20,530
Reserve Account	51,478
Savings Account	29,164
Less: Outstanding Checks	<u>(4,548)</u>
Total Cash (plus \$100 cash on hand)	<u>\$ 96,624</u>

The District's cash deposits at December 31, 2012, are categorized to give an indication of the level of risk assumed by the district at year-end. Since the total amount of funds is less than the \$250,000 FDIC coverage amount, no additional collateral was required to be pledged.

Investments

The District had no outstanding investments at December 31, 2012.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2012

Note 1 – Significant Accounting Policies – cont'd

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 \$49,056, 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 balance at the end of December 31, 2012 was \$51,478.

Accounts Receivable

Billings for accounts receivable at December 31, 2012, were \$27,121. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

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.

Note 2 – 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.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2012

Note 2 – Property and Equipment – cont'd

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

	Balance December 31, 2011	Acquired	(Disposed)	Balance December 31, 2012
Land	\$ 9,500	-	-	9,500
Office Equipment	1,363	-	-	1,363
Water System & Equip.	3,223,463	15,653	-	3,239,116
Sub-Total	3,234,326	15,653	0	3,249,979
Less: Accum. Depr.	(1,343,172)	(80,663)	0	(1,423,835)
Total	<u>\$ 1,891,154</u>	<u>(65,010)</u>	<u>0</u>	<u>1,826,144</u>

Note 3 – Accumulated Unpaid Vacation and Sick Pay

There was no formal employees of the District, thus no accumulated unpaid vacation and sick pay exists at December 31, 2012.

Note 4 – Long-Term Debt

The District has three notes payable to Rural Development outstanding as of December 31, 2012:

Note 91-01, dated September 27, 1991, with a 40-year maturity, and an interest rate of 5.00%, with an original loan amount of \$371,000. The monthly payment on this note is \$1,822. The principal balance at December 31, 2012 was \$259,943.

Note 91-03, dated September 27, 1991, with a 40-year maturity, and an interest rate of 5.00%, with an original loan amount of \$121,500. The monthly payment on this note is \$597. The principal balance at December 31, 2012 was \$85,010.

Note 91-06, dated August 13, 1998, with a 40-year maturity, and an interest rate of 4.50%, with an original loan amount of \$363,500. The monthly payment on this note is \$1,669. The principal balance at December 31, 2012 was \$303,147.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2012

Note 4 – Long-Term Debt – cont’d

The estimated maturities for the next four years and thereafter are as follows:

<u>December 31,</u>	<u>Totals</u>	<u>91-01</u>	<u>91-03</u>	<u>91-06</u>
2013	\$ 18,574	9,073	2,981	6,520
2014	19,490	9,537	3,134	6,819
2015	20,451	10,025	3,294	7,132
2016	21,461	10,538	3,463	7,460
2017-21	124,277	61,350	20,159	42,768
2022-24	124,274	44,867	25,871	53,536
2025+	<u>319,573</u>	<u>114,553</u>	<u>26,108</u>	<u>178,912</u>
Totals	<u>\$ 648,100</u>	<u>259,943</u>	<u>85,010</u>	<u>303,147</u>

Note 5 – Subsequent Events

Management has evaluated subsequent events through January 29, 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.

PITTSBURG RURAL WATER DISTRICT NO. 14
Balance Sheet
December 31, 2012

	December 31,	
	2012	(Memo only) 2011
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents-		
Operations & maintenance account	\$ 16,163	7,751
Reserve account	51,478	51,478
Savings account	29,082	33,606
Accounts receivable	27,121	24,518
Total current assets	<u>123,844</u>	<u>117,353</u>
Fixed Assets:		
Land	9,500	9,500
Water storage	40,090	40,090
Office furniture & fixtures	1,363	1,363
Water system	3,199,026	3,183,373
Less: accumulated depreciation	(1,423,835)	(1,343,172)
Total fixed assets (net)	<u>1,826,144</u>	<u>1,891,154</u>
Total Assets	<u>\$ 1,949,988</u>	<u>2,008,507</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 10,925	11,790
Accrued interest payable	862	882
Current maturities of long-term debt	18,574	17,700
Total current liabilities	<u>30,361</u>	<u>30,372</u>
Long-Term Debt, less current maturities:		
Notes payable - Rural Development	<u>629,526</u>	<u>648,100</u>
Total Liabilities	<u>659,887</u>	<u>678,472</u>
Fund Equity:		
Retained earnings - unrestricted	<u>1,290,101</u>	<u>1,330,035</u>
Total Liabilities and Fund Equity	<u>\$ 1,949,988</u>	<u>2,008,507</u>

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended December 31, 2012

	2012	(Memo only) 2011
Revenue from Operations:		
Water sales	\$ 366,110	344,687
Expenses from Operations:		
Operating supplies & maintenance	124,239	136,113
Contract management	79,450	82,548
Insurance	8,809	15,396
Professional fees	12,250	11,500
Postage	3,179	3,612
Licenses, fees & memberships	11,130	2,325
Office expenses	2,150	325
Contract labor	10,267	8,673
Utilities	41,818	44,797
Miscellaneous	780	459
Depreciation	80,663	80,272
Total expenses from operations	<u>374,735</u>	<u>386,020</u>
Net Income (Loss) from Operations	(8,625)	(41,333)
Other Income:		
Interest earnings	<u>27</u>	<u>104</u>
Other Expenses:		
Interest on debt	<u>(31,336)</u>	<u>(32,243)</u>
Net Income (Loss)	(39,934)	(73,472)
Retained earnings, beginning of period	<u>1,330,035</u>	<u>1,403,507</u>
Retained earnings, end of period	<u><u>\$ 1,290,101</u></u>	<u><u>1,330,035</u></u>