

Rural Water District No. 15
Pittsburg County, Oklahoma

Financial Statements and
Reports of Independent Auditor

December 31, 2011

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Rural Water District No. 15
Pittsburg County, Oklahoma
Board of Directors
December 31, 2011

Chairman

Kenneth Eubanks

Vice Chairman

Wendy Smiddy

Secretary/Treasurer

Loren Eubanks

Members

Pat Allen

Eual Epps

Operator

Ermon Russell

Bookkeeper

Vivian Moody

Rural Water District No. 15
Pittsburg County, Oklahoma
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December 31, 2011

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Rural Water District No. 15
Pittsburg County, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 15 (the District), Pittsburg County, Oklahoma, as of and for the year ended December 31, 2011, 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, 2011, 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 April 21, 2014, 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

April 21, 2014



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. 15
Pittsburg County, Oklahoma

We have audited the combined financial statements of Rural Water District No. 15 (the District), Pittsburg County, Oklahoma, as of and for the year ended December 31, 2011, 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 April 21, 2014. 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.

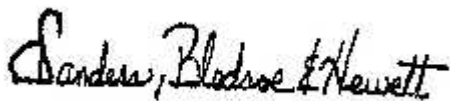
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

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

April 21, 2014

Rural Water District No. 15
Pittsburg County, Oklahoma
Schedule of Audit Results
December 31, 2011

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. 15
Statement of Net Assets
December 31, 2011

ASSETS

Current assets:	
Cash in bank	\$ 2,917
Investments	8,801
Accounts receivable	2,377
Total current assets	14,095
Capital assets:	
Land	37,903
Office furniture & fixtures	2,399
Storage building	3,653
Water system	769,647
Less: accumulated depreciation	(151,963)
Total noncurrent assets	661,639
Total Assets	675,734

LIABILITIES

Current liabilities:	
Accounts payable	1,542
Current portion of long-term debt	3,623
Total current liabilities	5,165
Noncurrent liabilities:	
Notes payable - Rural Development	199,653
Total Liabilities	204,818

NET ASSETS

Invested in capital assets, net of related debt	458,363
Unrestricted assets	12,553
Total Net Assets	\$ 470,916

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

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
Statement of Activities
For The Year Ended December 31, 2011

Operating Revenues:	
Water sales	\$ 25,619
Sewer charges	8,842
Total revenues from operations	34,461
Expenses from Operations:	
Water cost	3,851
Insurance	2,553
Professional fees	950
Operating supplies & materials	1,010
Salaries & contract labor	9,910
Office expenses	368
Telephone	1,718
Utilities	1,308
Miscellaneous	180
Depreciation	15,594
Total expenses from operations	37,442
Operating Income (Loss)	(2,981)
Non-Operating Revenues (Expenses):	
Interest income	96
Interest expense on debt	(9,232)
Total non-operating revenues (expenses)	(9,136)
Change in Net Assets	(12,117)
Total Net Assets, beginning of period	483,033
Total Net Assets, end of period	\$ 470,916

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

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
Statement of Cash Flows
For the Year Ended December 31, 2011

Cash flows from operating activities:	
Receipts from customers	\$ 34,162
Payments to vendors	<u>(21,305)</u>
Net cash (used in) provided by operating activities	<u>12,857</u>
 Cash flows from capital and related financing activities:	
Interest paid on debt	(9,232)
Principal payments on debt	<u>(3,464)</u>
Net cash used in capital and related financing activities	<u>(12,696)</u>
 Cash flows from investing activities:	
Capital assets purchased	-
Interest on investments	<u>96</u>
Net cash used in investing activities	<u>96</u>
 Net increase (decrease) in cash and cash equivalents	 257
Cash & cash equivalents, beginning of period	<u>11,461</u>
Cash & cash equivalents, end of period	<u><u>\$ 11,718</u></u>

Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating Income	\$ (2,981)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	15,594
(Increase) decrease in current assets-	
Accounts receivable, net	(299)
Increase (decrease) in current liabilities-	
Accounts payable	<u>543</u>
Net Cash Provided by Operating Activities	<u><u>\$ 12,857</u></u>

The accompanying notes are an integral part of the financial statements

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2011

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, 2011, and are comprised as follows:

First National Bank, McAlester, OK	
Operation & Maint. Account	\$ 1,314
Reserve Account	2,439
Savings Account	222
Less: Outstanding Checks	<u>(1,058)</u>
Total Cash (plus \$100 cash on hand)	<u>\$ 2,917</u>

Investments

The District had one outstanding investment at December 31, 2011, a certificate of deposit located at The Bank, NA, number 196010, dated 11/9/11, matures 11/9/12, in the amount of \$8,801.

The District's cash and investment deposits at December 31, 2011, 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.

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2011**

Note 1 – Significant Accounting Policies – cont’d

Accounts Receivable

Billings for accounts receivable at December 31, 2011, were \$2,377. 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. The following is a summary of changes in property, plant and equipment:

	Balance December 31, 2010	Acquired	(Disposed)	Balance December 31, 2011
Land	\$ 37,903	-	-	37,903
Office Equipment	6,052	-	-	6,052
Water System & Equip.	769,647	-	-	769,647
Sub-Total	813,602	0	0	813,602
Less: Accum. Depr.	(136,369)	(15,594)	0	(151,963)
Total	<u>\$ 677,233</u>	<u>(15,594)</u>	<u>0</u>	<u>661,639</u>

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED DECEMBER 31, 2011**

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, 2011.

Note 4 – Long-Term Debt

The District has one note payable to Rural Development outstanding as of December 31, 2011:

Note 91-03, dated July 13, 2000, with a 40-year maturity, and an interest rate of 4.50%, with an original loan amount of \$230,400. The monthly payment on this note is \$1,508. The principal balance at December 31, 2011 was \$203,276.

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

	<u>December 31,</u>	<u>Totals</u>	<u>Principal</u>	<u>Interest</u>		
	2012	\$ 12,696	3,623	9,073		
	2013	12,696	3,789	8,907		
	2014	12,696	3,963	8,733		
	2015	12,696	4,145	8,551		
	2016	12,696	4,336	8,360		
	2017-21	224,412	183,420	40,992		
	Totals	\$ 287,892	203,276	84,616		

Note 5 – Subsequent Events

Management has evaluated subsequent events through April 21, 2014, 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. 15
Balance Sheet
December 31, 2011

	December 31,	
	2011	(Memo only) 2010
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents-		
Operations & maintenance account	\$ 256	92
Reserve account	2,439	2,434
Savings account	222	222
Investments	8,801	8,713
Accounts receivable	2,377	2,078
Total current assets	14,095	13,539
Fixed Assets:		
Land	37,903	37,903
Office furniture & fixtures	2,399	2,399
Storage building	3,653	3,653
Water system	769,647	769,647
Less: accumulated depreciation	(151,963)	(136,369)
Total fixed assets (net)	661,639	677,233
Total Assets	\$ 675,734	690,772
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 1,542	999
Current maturities of long-term debt	3,623	3,464
Total current liabilities	5,165	4,463
Long-Term Debt, less current maturities:		
Notes payable - Rural Development	199,653	203,276
Total Liabilities	204,818	207,739
Fund Equity:		
Retained earnings - unrestricted	470,916	483,033
Total Liabilities and Fund Equity	\$ 675,734	690,772

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended December 31, 2011

	2011	(Memo only) 2010
Revenue from Operations:		
Water sales	\$ 25,619	25,166
Sewer charges	8,842	9,406
Total revenue from operations	34,461	34,572
Expenses from Operations:		
Water cost	3,851	4,100
Insurance	2,553	1,932
Professional fees	950	-
Operating supplies & materials	1,010	6,322
Salaries & contract labor	9,910	10,150
Office expenses	368	61
Telephone	1,718	1,958
Utilities	1,308	1,481
Miscellaneous	180	799
Depreciation	15,594	15,593
Total expenses from operations	37,442	42,396
Net Income (Loss) from Operations	(2,981)	(7,824)
Other Income:		
Interest earnings	96	13
Other Expenses:		
Interest on debt	(9,232)	(9,068)
Net Income (Loss)	(12,117)	(16,879)
Retained earnings, beginning of period	483,033	499,912
Retained earnings, end of period	\$ 470,916	483,033