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AUDIT REPORT
PITTSBURG COUNTY RWD NO. 15
PITTSBURG COUNTY, OKLAHOMA
FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009

Audited by

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

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
PITTSBURG COUNTY, OKLAHOMA
DECEMBER 31, 2010**

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**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
BOARD OF DIRECTORS
DECEMBER 31, 2010**

BOARD OF DIRECTORS

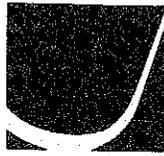
Chairman	Kenneth Eubanks
Secretary/Treasurer	Lorene Eubanks
Director	Pat Allen
Director	Eual Epps
Director	Wendy Smiddy

OPERATOR

Ermon Russell

MANAGER

Vivian Moody



Jack H. Jenkins, CPA *A Professional Corporation*

INDEPENDENT AUDITOR'S REPORT

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

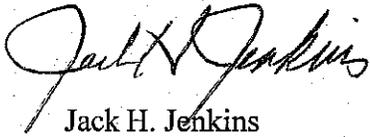
I have audited the accompanying financial statements of the business-type activities of the Pittsburg County Rural Water District No. 15, Pittsburg County, Oklahoma, as of and for the years ended December 31, 2010 and 2009, which collectively comprise the District's basic financial statements as listed 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 audits 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 Pittsburg County Rural Water District No. 15, Pittsburg County, Oklahoma, as of December 31, 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.

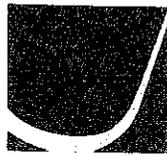
The Management's Discussion and Analysis report, that follows the Schedule of Audit Results, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, 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 14, 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 14, 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
Pittsburg County Rural Water District No. 15
Pittsburg County, Oklahoma

I have audited the financial statements of the Pittsburg County Rural Water District No. 15, Pittsburg County, Oklahoma, as of and for the year ended December 31, 2010, and have issued my report thereon dated October 14, 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.

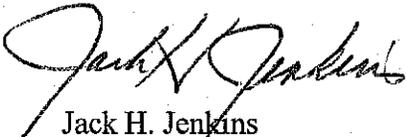
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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. I also reported this matter to District's management, in a separate letter dated October 14, 2011.

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 14, 2011

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
SCHEDULE OF AUDIT RESULTS
DECEMBER 31, 2010

Findings – Financial Statement Audit

09-01 – Pre-signed Checks

Condition: Several checks dated before the December 31, 2010 and 2009 year end were observed to have been used to pay expenses after the December 31, 2010 and 2009 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.

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2010**

Our discussion and analysis of Pittsburg County Rural Water District No. 15's financial performance provides an overview of the financial activities for the fiscal years ended December 31, 2010 and 2009. Please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The total assets decreased by \$20,044 as a result of this year's operations.
- The District's return on total ending assets was (2.4)%.
- The total cost of the District's activities was \$51,464 compared to \$55,436 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, decreasing from \$499,912 to \$483,033.

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 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

	Current Year	Prior Year
Working Capital	\$ 9,076	\$ 14,174
Current Ratio	3.03	4.71

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

Return on Assets	-2.44%	-1.92%
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CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the year the District had \$677,233 invested in net capital assets.

Debt

At year end, the District carried one note payable from Rural Development in the amount of \$206,740, a decrease of \$3,628 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.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
STATEMENT OF NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Current assets:		
Operations and maint account	\$ 92	1,141
Reserve account	2,434	2,424
Savings	222	221
Investments	8,713	11,713
Accounts receivable	2,078	2,491
Total current assets	<u>13,539</u>	<u>17,990</u>
Noncurrent assets:		
Land	37,903	37,903
Office furniture & fixtures	2,399	2,399
Storage building	3,653	3,653
Water system fixed assets	769,647	769,647
Less: accumulated depreciation	<u>(136,369)</u>	<u>(120,776)</u>
Total noncurrent assets	<u>677,233</u>	<u>692,826</u>
Total Assets	<u>690,772</u>	<u>710,816</u>
 <u>LIABILITIES</u>		
Current Liabilities:		
Current maturities of long-term debt (RD)	3,464	3,280
Accounts payable	999	536
Total current liabilities	<u>4,463</u>	<u>3,816</u>
Noncurrent liabilities:		
Long-term debt payable (RD)	<u>203,276</u>	<u>207,088</u>
Total noncurrent liabilities	<u>203,276</u>	<u>207,088</u>
Total Liabilities	<u>207,739</u>	<u>210,904</u>
 <u>NET ASSETS</u>		
Invested in capital assets, net of related debt	470,493	482,458
Unrestricted	<u>12,540</u>	<u>17,454</u>
Total Net Assets	<u>\$ 483,033</u>	<u>499,912</u>

The accompanying notes are an integral part of the financial statements

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues:		
Water sales	\$ 25,166	31,157
Sewer charges	9,406	10,260
Total operating revenues	<u>34,572</u>	<u>41,417</u>
 Operating Expenses:		
Water cost	4,100	4,486
Insurance	1,932	2,489
Audit	-	900
Operating supplies & maintenance	6,322	3,582
Salaries & contract labor	10,150	11,300
Office expense	61	1,303
Telephone	1,958	1,739
Utilities	1,481	1,252
Miscellaneous	799	3,257
Depreciation	15,593	15,594
Total operating expenses	<u>42,396</u>	<u>45,902</u>
 Operating Income (Loss)	 (7,824)	 (4,485)
 Non-Operating Revenues (Expenses):		
Interest income	13	342
Interest paid on long-term debt	(9,068)	(9,534)
Total non-operating revenues (expenses)	<u>(9,055)</u>	<u>(9,192)</u>
 Changes in Net Assets	 (16,879)	 (13,677)
 Total Net Assets, beginning of period	 <u>499,912</u>	 <u>513,589</u>
 Total Net Assets, end of period	 <u>\$ 483,033</u>	 <u>499,912</u>

The accompanying notes are an integral part of the financial statement

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Cash received from customers	\$ 34,985	41,758
Cash paid to suppliers	<u>(26,340)</u>	<u>(30,261)</u>
Net cash flows from operating activities	<u>8,645</u>	<u>11,497</u>
Cash Flows from Investing Activities:		
Receipt of interest	<u>13</u>	<u>342</u>
Net cash flows from investing activities	<u>13</u>	<u>342</u>
Cash Flows from Financing Activities:		
Interest expenses on debt	(9,068)	(9,534)
Principal payments on long-term debt	<u>(3,628)</u>	<u>(3,162)</u>
Net cash flows from financing activities	<u>(12,696)</u>	<u>(12,696)</u>
Net increase (decrease) in cash and cash equivalents	(4,038)	(857)
Cash and cash equivalents, beginning of period	<u>15,499</u>	<u>16,356</u>
Cash and cash equivalents, end of period	<u>\$ 11,461</u>	<u>15,499</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ (7,824)	(4,485)
Add depreciation expense	15,593	15,594
(Increase)/Decrease in Current Assets		
Accounts receivable, net	413	341
Increase/(Decrease) in Current Liabilities		
Accounts payable	463	47
Net cash flows from operating activities	<u>\$ 8,645</u>	<u>11,497</u>

The accompanying notes are an integral part of the financial statements

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009**

Note 1 – Organization

Pittsburg County Rural Water District No. 15, Pittsburg County, 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

Pittsburg County Rural Water District No. 15 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 produces its own water supply.

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 December 31, 2010 is as follows:

0-30 days: \$2,078

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 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 40-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 December 31, 2010, the District held deposits of approximately \$11,461 at financial institutions. The District's cash deposits are entirely covered by Federal Depository Insurance.

Note 3 – Risk Management

Pittsburg County Rural Water District No. 15 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.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 15
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009

Note 4 – Capital Assets

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

	Balance December 31, 2009	<u>Additions</u>	<u>Deletions</u>	Balance December 31, 2010
Land	\$ 37,903			\$ 37,903
Office Equipment	6,052			6,052
Water System & Equipment	769,647			769,647
Less accumulated depreciation	<u>(120,776)</u>	<u>(15,593)</u>		<u>(136,369)</u>
Net	<u>\$ 692,826</u>	<u>\$ (15,593)</u>	<u>\$ -</u>	<u>\$ 677,233</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 December 31, 2010. Note 93-01 is dated July 13, 2000, in the amount of \$230,400, and has an interest rate of 4.5%. Estimated principal and interest for the next five years and thereafter follow:

	Note 93-01		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 3,464	9,232	12,696
2012	3,623	9,073	12,696
2013	3,789	8,607	12,396
2014	3,963	8,733	12,696
2015	4,145	8,551	12,696
Thereafter	<u>187,756</u>	<u>122,292</u>	<u>310,048</u>
Totals	<u>\$206,740</u>	<u>166,488</u>	<u>373,228</u>