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**AUDIT REPORT**  
**PITTSBURG COUNTY RWD NO. 14**  
**PITTSBURG COUNTY, OKLAHOMA**  
**FOR 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. 14  
PITTSBURG COUNTY, OKLAHOMA  
DECEMBER 31, 2010**

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**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14  
BOARD OF DIRECTORS  
DECEMBER 31, 2010**

BOARD OF DIRECTORS

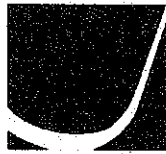
Chairman	Dennis Mason
Vice-Chairman	A.J. Bristow
Secretary/Treasurer	Mike Morgan
Director	Kenneth Gideon
Director	Ronald Collins

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. 14  
Pittsburg County, Oklahoma

I have audited the accompanying financial statements of the business-type activities of the Pittsburg County Rural Water District No. 14, Pittsburg County, Oklahoma, as of and for the years ended December 31, 2010 & 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. 14, 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.

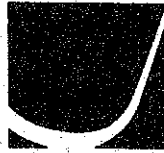
The Management's Discussion and Analysis report, that follows the Schedule of Audit Results, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, 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 December 21, 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.

December 21, 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. 14  
Pittsburg County, Oklahoma

I have audited the financial statements of the Pittsburg County Rural Water District No. 14, Pittsburg County, Oklahoma, as of and for the year ended December 31, 2010, and have issued my report thereon dated December 21, 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.

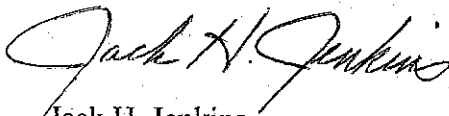
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 December 21, 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.

December 21, 2011

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14**  
**SCHEDULE OF AUDIT RESULTS**  
**DECEMBER 31, 2010**

**Findings – Financial Statement Audit**

10-01 – 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. 14  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED DECEMBER 31, 2010**

Our discussion and analysis of Pittsburg County Rural Water District No. 14's financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2010 and 2009. Please read it in conjunction with the District's financial statements.

**FINANCIAL HIGHLIGHTS**

- The total assets decreased by \$91,892 as a result of this year's operations.
- The District's return on total ending assets was (6.6)%.
- The total cost of the District's activities was \$459,583 compared to \$382,562 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 \$1,495,399 to \$1,403,507.

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14  
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

	<b>Current Year</b>	<b>Prior Year</b>
<b>Working Capital</b>	\$ 107,049	\$ 136,457
<b>Current Ratio</b>	4.62	8.07

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

<b>Return on Assets</b>	-1.50%	-1.46%
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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of the year the District had \$1,962,257 invested in net capital assets.

**Debt**

At year end, the District carried three notes payable from Rural Development in the amounts of \$276,785, \$90,544 and \$315,339, a decrease of \$16,078 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 RWD NO. 14**  
**STATEMENT OF NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009**

	<u>2010</u>	<u>2009</u>
<b><u>ASSETS</u></b>		
Current assets		
Operations & maintenance account	\$ 14,450	31,307
Reserve account	51,478	49,300
Savings account	40,638	49,842
Petty cash	100	100
Accounts receivable	29,943	25,213
Total current assets	136,609	155,762
Noncurrent assets		
Land	9,500	9,500
Water storage	40,090	40,090
Office furniture & fixtures	1,363	1,363
Water System and Equipment	3,174,204	3,174,204
Less accumulated depreciation	(1,262,900)	(1,183,545)
Total noncurrent assets	1,962,257	2,041,612
Total Assets	2,098,866	2,197,374
<b><u>LIABILITIES</u></b>		
Current liabilities		
Accounts payable	11,864	2,389
Accrued interest payable	827	840
Current maturities of long-term debt	16,869	16,076
Total current liabilities	29,560	19,305
Noncurrent liabilities		
Long-Term Debt, less current maturities	665,799	682,670
Total Liabilities	695,359	701,975
<b><u>NET ASSETS</u></b>		
Invested in capital assets, Net related of debt	1,279,589	1,342,866
Unrestricted	123,918	152,533
Total net assets	\$ 1,403,507	1,495,399

The accompanying notes are an integral part of the financial statements

**PITTSBURG COUNTY RWD NO. 14**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES**  
**IN NET ASSETS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating Revenues:</b>		
Water revenue	\$ 367,558	336,491
Other revenue	-	13,566
Total operating revenues	<u>367,558</u>	<u>350,057</u>
<b>Operating Expenses:</b>		
Operating supplies & maintenance	160,148	127,173
Contract management	79,200	80,670
Insurance & bonds	6,200	5,895
Professional fees	1,250	1,540
Postage	2,662	3,468
Licenses, fess & memberships	3,220	7,404
Office Expense	300	306
Contract labor	54,384	5,169
Utilities	38,858	36,798
Miscellaneous expense	1,041	1,053
Depreciation expense	79,355	79,355
Total operating expenses	<u>426,618</u>	<u>348,831</u>
Operating Income (Loss)	(59,060)	1,226
<b>Non-Operating Revenues (Expenses):</b>		
Interest income	133	372
Interest expense	(32,965)	(33,731)
Total non-operating revenues (expenses)	<u>(32,832)</u>	<u>(33,359)</u>
Change in Net Assets	(91,892)	(32,133)
Total Net Assets, beginning of period	<u>1,495,399</u>	<u>1,527,532</u>
Total Net Assets, end of period	<u>\$ 1,403,507</u>	<u>1,495,399</u>

The accompanying notes are an integral part of the financial statements

**PITTSBURG COUNTY RWD NO. 14**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009**

	<u>2010</u>	<u>2009</u>
<b>Cash Flows from Operating Activities:</b>		
Receipts from customers	\$ 362,828	349,587
Payments to vendors	<u>(337,788)</u>	<u>(271,112)</u>
Net cash flows from operating activities	<u>25,040</u>	<u>78,475</u>
<b>Cash Flows from Investing Activities:</b>		
Interest earned	<u>134</u>	<u>372</u>
Net cash flows from investing activities	<u>134</u>	<u>372</u>
<b>Cash Flows from Financing Activities:</b>		
Interest expense on debt	(32,965)	(32,892)
Principal payments on long-term debt	<u>(16,091)</u>	<u>(16,164)</u>
Net cash flows from financing activities	<u>(49,056)</u>	<u>(49,056)</u>
Net increase (decrease) in cash and cash equivalents	(23,882)	29,791
Cash and cash equivalents, beginning of period	<u>130,548</u>	<u>100,757</u>
Cash and cash equivalents, end of period	<u>\$ 106,666</u>	<u>130,548</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>		
Operating income (loss)	\$ (59,060)	1,226
Add depreciation expense	79,355	79,355
(Increase)/Decrease in Current Assets		
Accounts receivable, net	(4,730)	(470)
Increase/(Decrease) in Current Liabilities		
Accounts payable	9,475	(1,636)
Net cash flows from operating activities	<u>\$ 25,040</u>	<u>78,475</u>

The accompanying notes are an integral part of the financial statements

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009**

**Note 1 – Organization**

Pittsburg County Rural Water District No. 14, 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. 14 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: \$29,943

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14  
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 \$106,566 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. 14 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. 14**  
**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	Additions	Deletions	Balance December 31, 2010
Land	\$ 9,500			\$ 9,500
Office Equipment	1,363			1,363
Water System & Equipment	3,214,294			3,214,294
Less accumulated depreciation	(1,183,545)	(79,355)		(1,262,900)
Net	<u>\$2,041,612</u>	<u>\$ (79,355)</u>	<u>\$ -</u>	<u>\$ 1,962,257</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 three notes payable to Rural Development outstanding as of December 31, 2010. Note 91-01 is dated September 27, 1991, in the amount of \$371,000, and has an interest rate of 5%. Estimated principal and interest for the next five years and thereafter follow:

	Note 91-01		
	Principal	Interest	Total
2011	\$ 8,211	13,653	21,864
2012	8,631	13,233	21,864
2013	9,073	12,791	21,864
2014	9,537	12,327	21,864
2015	10,025	11,839	21,864
Thereafter	231,308	98,575	329,883
Totals	<u>\$276,785</u>	<u>162,418</u>	<u>439,203</u>



**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 14  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 & 2009**

**Note 6 – Long Term Debt - cont'd**

Note 91-03 is dated September 27, 1991, in the amount of \$121,500 and has an interest rate of 5%. Estimated principal and interest for the next five years and thereafter follow:

Note 91-03			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 2,698	4,466	7,164
2012	2,836	4,328	7,164
2013	2,981	4,183	7,164
2014	3,134	4,030	7,164
2015	3,294	3,870	7,164
Thereafter	<u>75,601</u>	<u>32,086</u>	<u>107,687</u>
Totals	<u>\$ 90,544</u>	<u>52,963</u>	<u>143,507</u>

Note 91-06 is dated August 13, 1998, in the amount of \$363,500 and has an interest rate of 4.5%. Estimated principal and interest for the next five years and thereafter follow:

Note 91-06			
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 5,960	14,068	20,028
2012	6,233	13,795	20,028
2013	6,520	13,508	20,028
2014	6,819	13,209	20,028
2015	7,133	12,895	20,028
Thereafter	<u>282,675</u>	<u>166,888</u>	<u>449,563</u>
Totals	<u>\$315,340</u>	<u>234,363</u>	<u>549,703</u>