

**Shell Creek Rural Water District No. 12
McIntosh County
Hanna, Oklahoma**

Financial Statements and Auditor's Reports

Year Ended December 31, 2015

Audited by

**SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP**

BROKEN ARROW, OK

Shell Creek Rural Water District No. 12
Hanna, Oklahoma
Board of Directors
December 31, 2015

BOARD OF DIRECTORS

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Paul Maxey

Vice-chairman

Mike VanEaton

Secretary/Treasurer

Lynn Kaler

Members

Ray Free

Frank Shurden

Barbara Armstrong

OPERATOR

Norman Jones

Shell Creek Rural Water District No. 12
Hanna, Oklahoma
December 31, 2015

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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Shell Creek Rural Water District No. 12
Hanna, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Shell Creek Rural Water District No. 12 (the District), Hanna, Oklahoma, as of and for the year ended December 31, 2015, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Opinions

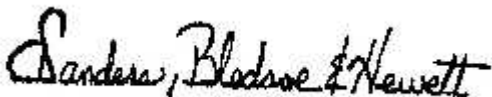
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

October 7, 2016

SHELL CREEK RURAL WATER DISTRICT NO. 12
McINTOSH COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

Our discussion and analysis of the Shell Creek Rural Water District No. 12 (the District), McIntosh County's financial performance provides an overview of the District's financial activities for the fiscal year ended December 31, 2015. Please read it in conjunction with the District's financial statements that begin on page 13.

FINANCIAL HIGHLIGHTS:

- The District's total operating expenses exceeded total operating revenues by \$21,502. Overall, the District's total net assets decreased by \$30,803 in the current fiscal year. These amounts include \$25,924 in depreciation expenses.
- The District continued to pay on their two existing Rural Development notes.

Using This Report

This report is presented in a format consistent with the presentation requirements of the Governmental Accounting Standards Board (GASB) Statement No. 34, as applicable to the District's basis of accounting.

Basis of Accounting

The District has elected to present its financial statements in the accrual basis of accounting. According to the accrual basis, revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

The Financial Statements

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows report information about the District and about its activities in a way that helps answer this question.

These three statements report the District's net position and the changes in them. You can think of the District's net position – the difference between assets and liabilities – as one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors,

however, such as changes in water rates paid or charged and the condition of the District's water system, to assess the overall health of the District.

The District has only one type of fund or activity, which is defined as *Business-type activities*. This is considered a proprietary fund. This means the District charges a fee to customers to help it cover all or most of the cost of certain services it provides.

Net Position, and Changes in Net Position

The District's Net Position were lower in 2015, decreasing from \$571,697 to \$540,894. Last year net assets decreased by \$30,803. Looking at the Net Position and Net Expenses of business-type activities separately, however, two different stories can emerge. Our analysis below focuses on the Net Position (Table 1) and Changes in Net Position (Table 2) of the District's business-type activities.

Table 1 – Net Position:

	2015	2014	Variances
Current and other assets	\$ 80,760	105,335	(24,575)
Capital assets, net	670,180	681,263	(11,083)
Total Assets	<u>\$ 750,940</u>	<u>786,598</u>	<u>(35,658)</u>
Current liabilities	\$ 9,989	9,622	(367)
Long-term liabilities	200,057	205,279	5,222
Total Liabilities	<u>\$ 210,046</u>	<u>214,901</u>	<u>4,855</u>
Invest. In capital assets, net of related debt	\$ 464,902	470,992	(6,090)
Unrestricted	75,992	100,705	(24,713)
Total Net Position	<u>\$ 540,894</u>	<u>571,697</u>	<u>(30,803)</u>

Net Position of the District decreased by 5.7 percent (\$571,697 compared to \$540,894). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from \$100,705 to \$75,992.

Table 2 – Changes in Net Position:

	2015	2014	Variances
Revenues:			
Charges for services	\$ 112,225	125,685	(13,460)
Interest	40	38	2
Total Revenues	<u>\$ 112,265</u>	<u>125,723</u>	<u>(13,458)</u>
Expenses:			
Maintenance and repairs	\$ 64,071	44,845	(19,226)
Other expenses	43,732	34,752	(8,980)
Depreciation	25,924	25,400	(524)
Interest on debt	9,341	9,562	221
Total Expenses	<u>\$ 143,068</u>	<u>114,559</u>	<u>(28,509)</u>
Changes in Net Position	(30,803)	11,164	(41,967)
Net Position, Beginning	<u>571,697</u>	<u>560,533</u>	<u>11,164</u>
Net Position, Ending	<u>\$ 540,894</u>	<u>571,697</u>	<u>(30,803)</u>

The District's total revenues decreased by 12 percent (\$56,459). The total cost of all services increased by 24.9 percent (28,509).

Fixed Assets

At December 31, 2015, the District had \$670,180 invested in fixed assets, net of depreciation, including land, the water system, pump station and lines. In 2015, \$14,841 of fixed assets were added by the District, in the purchase of a building, pumps and other equipment.

Long-Term Debt

The District is indebted to the Office of Rural Development for two 4.5% loans obtained in 2004 to finance construction of the water system, one for \$101,376 and another for \$151,174. The outstanding principal balance owed on the notes decreased from \$210,271 to \$205,278 during the 2015 fiscal year. The required monthly payment on these notes was \$1,196. The notes are scheduled to be paid in full in 2039.

Economic Factors and Next Year's Budget and Rates

For the upcoming fiscal year ending December 31, 2016, the District's budget is fairly consistent with the 2015 fiscal year.

For the fiscal year 2016, the District may have to increase rates to users to meet the demands of the District if the cost of goods and services purchased continues to increase.

Contacting the District's Management

This report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District Office at Rt. 1 Box 11, Hanna, OK 74845 or call (918) 657-2225.



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

**Independent Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters Based on
an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

Board of Directors
Shell Creek Rural Water District No. 12
McIntosh County
Hanna, Oklahoma

We have audited the financial statements of the Shell Creek Rural Water District No. 12 (the District), Hanna, Oklahoma, as of and for the year ended December 31, 2015, which omitted the management discussion and analysis, and have issued our report thereon dated October 7, 2016. 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.

Compliance

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 grants, noncompliance with which could have a direct and material effect on the determination of financial 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 auditing standards generally accepted in the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the district's ability to record, process summarize and report financial data consistent with the assertions of management in the

financial statements. This reportable condition is described in the accompanying schedule of audit results as item 15-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management and the Board of Directors, 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

October 7, 2016

SHELL CREEK RURAL DISTRICT NO. 12
Disposition of Prior Year's Significant Deficiencies
December 31, 2015

The exception of the District lacking proper segregation of accounting functions with additional personnel continued in the current fiscal year.

SHELL CREEK RURAL WATER DISTRICT NO. 12
Schedule of Audit Results
December 31, 2015

Section 1 – Summary of Auditor’s Results:

1. An unmodified opinion report was issued on the financial statements.
2. The audit disclosed a significant deficiency in the internal controls which was not considered a material weakness.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

15-1 – Lack of Segregation of Duties

Criteria-

An organization should ensure that there is a proper segregation of duties regarding cash collections and the payment of expenses.

Cause-

The District is not large enough to justify the hiring of additional personnel.

Effect-

There is always the possibility that not all collections are actually receipted or deposited, and the possibility that funds expended are not used for actual District obligations.

Recommendation-

The current procedures should not be changed. However, there should be additional personnel instilled into the collection, receipt, deposit, reconciliation and payment procedures when this becomes economically possible.

Response-

Additional personnel will be hired when the actual funds are available.

SHELL CREEK RURAL WATER DISTRICT NO. 12
Statement of Net Position
December 31, 2015

ASSETS

Current assets:	
Cash	\$ 58,573
Current portion of receivables	7,627
Total current assets	<u>66,200</u>
Non-current assets:	
Reserve account	14,560
Capital assets:	
Water system and improvements, net of depreciation	670,180
Total noncurrent assets	<u>684,740</u>
Total Assets	<u>750,940</u>

LIABILITIES

Current liabilities:	
Accounts payable	4,034
Accrued interest	734
Current portion of long-term debt	5,221
Total current liabilities	<u>9,989</u>
Non-current liabilities:	
Long-term debt	<u>200,057</u>
Total Liabilities	<u>210,046</u>

NET POSITION

Invested in capital assets, net of related debt	464,902
Unrestricted assets	75,992
Total Net Position	<u>\$ 540,894</u>

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

SHELL CREEK RURAL WATER DISTRICT NO. 12
Statement of Revenues, Expenses and Changes in Net Position
For The Year Ended December 31, 2015

Operating Revenues:	
Water sales	\$ 112,225
Operating Expenses:	
Operator expense	24,448
Depreciation	25,924
Water purchases	5,247
Office	1,723
Insurance	5,150
Repairs & maintenance	31,899
Chemicals	1,624
DEQ	2,477
Fees	13,666
Electricity	19,812
Miscellaneous	1,757
Total expenses from operations	<u>133,727</u>
Operating Income (Loss)	(21,502)
Non-Operating Revenues (Expenses):	
Interest income	40
Interest expense on debt	(9,341)
Total non-operating revenues (expenses)	<u>(9,301)</u>
Change in Net Position	(30,803)
Total Net Position, beginning of period	<u>571,697</u>
Total Net Position, end of period	<u><u>\$ 540,894</u></u>

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

SHELL CREEK RURAL WATER DISTRICT NO. 12
Statement of Cash Flows
For Year Ended December 31, 2015

Cash Flows from Operating Activities:

Receipts from customers	\$ 110,902
Payments to vendors	(107,647)
Net Cash Provided by Operating Activities	<u>3,255</u>

Cash Flows from Financial Activities:

Fixed assets purchased	(14,841)
Principal paid on debt	(4,992)
Interest paid on debt	(9,360)
Net cash provided by (used in) financial activities	<u>(29,193)</u>

Cash Flows from Investing Activities:

Interest revenue	<u>40</u>
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Net Increase (Decrease) in Cash	(25,898)
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Cash and cash equivalents, beginning of period	<u>99,031</u>
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Cash and cash equivalents, end of period	<u><u>\$ 73,133</u></u>
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Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating Income	\$ (21,502)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	25,924
(Increase) decrease in accounts receivable	(1,323)
Increase (decrease) in accounts payable	<u>156</u>
Net Cash Provided by Operating Activities	<u><u>\$ 3,255</u></u>

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

SHELL CREEK RURAL WATER DISTRICT NO. 12
Notes to Financial Statements
December 31, 2015

Note A – Significant Accounting Policies

Organization

Shell Creek Rural Water District No. 12 (the District) is an Oklahoma non-profit water district organized under Title 82 of Oklahoma Statutes to provide water service to rural residents of McIntosh and Hughes Counties, Oklahoma. The District is considered a political subdivision of the State of Oklahoma

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and accrued liabilities are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts are with the First United Bank, Holdenville, Oklahoma, and are detailed as follows:

	December 31,	
	2015	2014
Operating Account	\$ 21,059	51,774
Savings Account	37,514	32,697
Project Account	-	-
Total	<u>\$ 58,573</u>	<u>84,471</u>

Restricted Asset – Investments Reserves

In compliance with Rural Economic and Community Development regulations, cash reserves have been established to collect up to one year's payments on the notes payable #91-05 and 91-06, or \$14,352, at which time deposits in the reserve can be suspended. When necessary, funds may be utilized with proper approval of the Rural Economic and Community Development. The reserve account funds have been deposited in an interest bearing savings account at Arvest Bank, Lowell, Arkansas, which is insured by the federal government. At December 31, 2015, the restricted asset-investment reserve had a balance of \$14,560.

SHELL CREEK RURAL WATER DISTRICT NO. 12
Notes to Financial Statements
December 31, 2015

Note A – Significant Accounting Policies – cont'd

Accounts Receivable

Billings for accounts receivable at December 31, 2015 were \$7,627. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Fixed Assets

Any items purchased or constructed in excess of \$1,000 and a useful life of over two years is considered a fixed asset by the District, and will be depreciated over a specific time. The fixed asset information for the District is shown below:

	12/31/2014 Amount	Additions	Deletions	12/31/2015 Amount
Water system	\$ 1,015,984	14,841	-	1,030,825
Less: Accumulated Depreciation	(334,721)	(25,924)	-	(360,645)
Total	<u>\$ 681,263</u>	<u>(25,924)</u>	<u>-</u>	<u>670,180</u>

Federal Income Tax

The District is exempt from Federal and State income taxes.

Collateral Pledged

All District funds were adequately insured by FDIC as of December 31, 2015. Combined cash and investment balances did not exceed \$250,000 at any time during the 2015 fiscal year.

SHELL CREEK RURAL WATER DISTRICT NO. 12
Notes to Financial Statements
December 31, 2015

Note B – Long-Term Debt

Long-term debt as December 31, 2015 is summarized as follows:

Note 91-05, 4.5% mortgage payable to Office of Rural Development, Required monthly installments of \$480	\$ 82,417
Note 91-06, 4.5% mortgage payable to Office of Rural Development, Required monthly installments of \$716	<u>122,861</u>
Total	205,278
Less: current maturities	<u>(5,221)</u>
Total	<u><u>\$ 200,057</u></u>

Future principal amounts to be paid are as follows:

Year Ended	Note 91-05	Note 91-06	Total
2016	\$ 2,094	3,127	5,221
2017	2,190	3,271	5,461
2018	2,291	3,421	5,712
2019	2,396	3,578	5,974
2020-24	10,737	20,512	31,249
2025-29	16,439	25,678	42,117
2030-34	20,579	32,144	52,723
2035+	<u>25,691</u>	<u>31,131</u>	<u>56,822</u>
Total	<u><u>\$ 82,417</u></u>	<u><u>122,862</u></u>	<u><u>205,279</u></u>

Note C - Subsequent Events

Management has evaluated subsequent events through October 7, 2016, 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.

SHELL CREEK RURAL WATER DISTRICT NO. 12
Balance Sheet
December 31, 2015

	DECEMBER 31,	
	2015	(memo only) 2014
<u>ASSETS</u>		
Current Assets:		
Cash - Operating account	\$ 21,059	51,774
Cash - Reserve account	14,560	14,560
Cash - Savings account	37,514	32,697
Accounts receivable	7,627	6,304
Total current assets	<u>80,760</u>	<u>105,335</u>
Fixed Assets:		
Water system and improvements	1,030,825	1,015,984
Less: accumulated depreciation	(360,645)	(334,721)
Total fixed assets (net)	<u>670,180</u>	<u>681,263</u>
Total Assets	<u><u>\$ 750,940</u></u>	<u><u>786,598</u></u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 4,034	3,878
Accrued interest	734	752
Current maturities of long-term debt	5,221	4,992
Total current liabilities	<u>9,989</u>	<u>9,622</u>
Long-Term Debt, less current maturities-		
Notes payable	<u>200,057</u>	<u>205,279</u>
Total Liabilities	<u>210,046</u>	<u>214,901</u>
Fund Equity:		
Retained earnings	<u>540,894</u>	<u>571,697</u>
Total Liabilities and Fund Equity	<u><u>\$ 750,940</u></u>	<u><u>786,598</u></u>

SHELL CREEK RURAL WATER DISTRICT NO. 12
Statement of Revenue, Expenses and Changes in Retained Earnings
For Year Ended December 31, 2015

	2015	(memo only) 2014
Revenue from Operations:		
Water sales	\$ 112,225	125,685
Expenses from Operations:		
Operator expense	24,448	25,026
Depreciation	25,924	25,400
Water purchases	5,247	5,329
Office	1,723	1,068
Insurance	5,150	5,009
Repairs & maintenance	31,899	8,550
Chemicals	1,624	6,934
DEQ	2,477	5,940
Fees	13,666	4,700
Electricity	19,812	16,861
Miscellaneous	1,757	180
Total expenses from operations	<u>133,727</u>	<u>104,997</u>
Net Income (Loss) from Operations	(21,502)	20,688
Other Income:		
Interest earnings	<u>40</u>	<u>38</u>
Other Expenses:		
Interest on debt	<u>(9,341)</u>	<u>(9,562)</u>
Net Income (Loss)	(30,803)	11,164
Retained earnings, beginning of period	<u>571,697</u>	<u>560,533</u>
Retained earnings, end of period	<u><u>\$ 540,894</u></u>	<u><u>571,697</u></u>