

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

Financial Statements and Auditor's Reports

Year Ended December 31, 2011

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, 2011

BOARD OF DIRECTORS

Chairman

Paul Maxey

Vice-chairman

Mike VanEaton

Secretary/Treasurer

Lynn Kaler

Members

Ray Free

Frank Shurden

Joe VanNice

OPERATOR

Norman Jones

Shell Creek Rural Water District No. 12
Hanna, Oklahoma
December 31, 2011

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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
McIntosh County
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, 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 the 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 the basis of accounting generally accepted in the United States of America.

The Management Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We 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, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2012, 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, grants and other matters. The purpose of that report is to describe the scope of our 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.

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 A.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

September 27, 2012

SHELL CREEK RURAL WATER DISTRICT NO. 12
McINTOSH COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

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, 2011. Please read it in conjunction with the District's financial statements that begin on page 11.

FINANCIAL HIGHLIGHTS:

- The District's total operating revenues exceeded total operating expenses by \$35,426. Overall, the District's total net assets increased by \$25,295 in the current fiscal year. These amounts include \$24,459 in depreciation expenses.
- The District opened a project account in 2011 and transferred \$30,000 into this account from the operating account.
- 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 Assets, the Statement of Activities, 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 assets and the changes in them. You can think of the District's net assets – 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 assets 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.

Fixed Assets

At December 31, 2011, the District had \$733,597 invested in fixed assets, net of depreciation, including land, the water system, pump station and lines. An additional fixed asset was added during the 2011 fiscal year in the form of the Dustin Water Project.

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 \$228,143 to \$223,972 during the 2011 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, 2012, the District's budget is fairly consistent with the 2011 fiscal year.

For the fiscal year 2012, 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.

The District is attempting to obtain a \$13,000 grant from the Oklahoma Department of Commerce to extend the water lines to potential customers.

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

**Report on Compliance and on Internal Control Over
Financial Reporting 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, 2011, which omitted the management discussion and analysis, and have issued our report thereon dated September 27, 2012. 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 11-1.

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.



Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

September 27, 2012

SHELL CREEK RURAL DISTRICT NO. 12
Disposition of Prior Year's Reportable Conditions
December 31, 2011

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, 2011

Section 1 – Summary of Auditor’s Results:

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed a reportable condition 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:

11-1 – 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 Assets
December 31, 2011

ASSETS

Current assets:	
Cash	\$ 32,076
Current portion of receivables	3,211
Total current assets	<u>35,287</u>
Non-current assets:	
Reserve account	13,318
Capital assets:	
Water system and improvements, net of depreciation	733,597
Total noncurrent assets	<u>746,915</u>
Total Assets	<u>782,202</u>

LIABILITIES

Current liabilities:	
Accounts payable	3,431
Accrued interest	801
Current portion of long-term debt	4,362
Total current liabilities	<u>8,594</u>
Non-current liabilities:	
Long-term debt	<u>219,610</u>
Total Liabilities	<u>228,204</u>

NET ASSETS

Invested in capital assets, net of related debt	509,625
Unrestricted assets	44,373
Total Net Assets	<u>\$ 553,998</u>

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

SHELL CREEK RURAL WATER DISTRICT NO. 12
Statement of Activities
For The Year Ended December 31, 2011

Operating Revenues:	
Water sales	\$ 106,543
Operating Expenses:	
Operator expense	10,266
Billing clerk	4,800
Depreciation	24,459
Water purchases	2,946
Office	71
Insurance	2,437
Repairs & maintenance	12,590
Chemicals	1,168
DEQ	1,530
Fees	96
Electricity	10,525
Miscellaneous	229
Total expenses from operations	<u>71,117</u>
Operating Income (Loss)	35,426
Non-Operating Revenues (Expenses):	
Interest income	35
Interest expense on debt	(10,166)
Total non-operating revenues (expenses)	<u>(10,131)</u>
Change in Net Assets	25,295
Total Net Assets, beginning of period	<u>528,703</u>
Total Net Assets, end of period	<u><u>\$ 553,998</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, 2011

Cash Flows from Operating Activities:	
Receipts from customers	\$ 106,471
Payments to vendors	<u>(73,692)</u>
Net Cash Provided by Operating Activities	<u>32,779</u>
 Cash Flows from Financial Activities:	
Principal paid on debt	(4,171)
Interest paid on debt	<u>(10,181)</u>
Net cash provided by (used in) financial activities	<u>(14,352)</u>
 Cash Flows from Investing Activities:	
Interest revenue	<u>35</u>
Net Increase (Decrease) in Cash	18,462
Cash and cash equivalents, beginning of period	<u>26,932</u>
Cash and cash equivalents, end of period	<u><u>\$ 45,394</u></u>
<u>Reconciliation of operating income (loss) to net cash provided by operating activities:</u>	
Operating Income	\$ 35,426
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	24,459
(Increase) decrease in accounts receivable	(72)
(Increase) decrease in property, plant and equipment	(28,580)
Increase (decrease) in accounts payable	<u>1,546</u>
Net Cash Provided by Operating Activities	<u><u>\$ 32,779</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, 2011

Note A – Significant Accounting Policies

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.

Reporting Standard

In June 1999, the GASB issued Statement No. 34 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Government.” This statement establishes new financial reporting requirements for state and local governments throughout the United States. It creates new information and restructures much of the information that governments have presented in the past. The District complied with this requirement.

Cash

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

	December 31,	
	2011	2010
Operating Account	\$ 22,774	10,066
Savings Account	4,662	5,002
Project Account	4,640	0
	\$ 32,076	15,068

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 First United Bank, Holdenville, Oklahoma, which is insured by the federal government. At December 31, 2011, the restricted asset-investment reserve had a balance of \$13,318.

SHELL CREEK RURAL WATER DISTRICT NO. 12
Notes to Financial Statements
December 31, 2011

Note A – Significant Accounting Policies – cont’d

Accounts Receivable

Billings for accounts receivable at December 31, 2011 were \$3,211. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Fixed Assets

The same 2.5% provision for depreciation used in previous years continues to be used. The fixed asset information for the District is shown below:

	12/31/2010 Amount	Additions	Deletions	12/31/2011 Amount
Water system	\$ 964,068	28,580	-	992,648
Less: Accumulated Depreciation	<u>(234,592)</u>	<u>(24,459)</u>	<u>-</u>	<u>(259,051)</u>
Total	<u>\$ 729,476</u>	<u>(24,459)</u>	<u>-</u>	<u>733,597</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, 2011. Combined cash and investment balances did not exceed \$250,000 at any time during the 2011 fiscal year.

SHELL CREEK RURAL WATER DISTRICT NO. 12
Notes to Financial Statements
December 31, 2011

Note B – Long-Term Debt

Long-term debt as December 31, 2011 is summarized as follows:

Note 91-05, 4.5% mortgage payable to Office of Rural Development, Required monthly installments of \$480	\$ 89,914
Note 91-06, 4.5% mortgage payable to Office of Rural Development, Required monthly installments of \$716	<u>134,058</u>
Total	223,972
Less: current maturities	<u>(4,362)</u>
Total	<u><u>\$ 219,610</u></u>

Future principal amounts to be paid are as follows:

Year Ended	Note 91-05	Note 91-06	Total
2012	\$ 1,750	2,613	4,363
2013	1,830	2,733	4,563
2014	1,914	2,858	4,772
2015	2,002	2,990	4,992
2016	2,094	3,127	5,221
Thereafter	80,324	119,737	200,061
Total	\$ 89,914	134,058	223,972

SHELL CREEK RURAL WATER DISTRICT NO. 12
Balance Sheet
December 31, 2011

	DECEMBER 31,	
	2011	(memo only) 2010
<u>ASSETS</u>		
Current Assets:		
Cash - Operating account	\$ 22,774	10,066
Cash - Reserve account	13,318	11,864
Cash - Savings account	4,662	5,002
Cash - Project account	4,640	0
Accounts receivable	3,211	3,139
Total current assets	48,605	30,071
Fixed Assets:		
Water system and improvements	992,648	964,068
Less: accumulated depreciation	(259,051)	(234,592)
Total fixed assets (net)	733,597	729,476
Total Assets	\$ 782,202	759,547
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 3,431	1,885
Accrued interest	801	816
Current maturities of long-term debt	4,362	4,171
Total current liabilities	8,594	6,872
Long-Term Debt, less current maturities-		
Notes payable	219,610	223,972
Total Liabilities	228,204	230,844
Fund Equity:		
Retained earnings	553,998	528,703
Total Liabilities and Fund Equity	\$ 782,202	759,547

SHELL CREEK RURAL WATER DISTRICT NO. 12
Statement of Revenue, Expenses and Changes in Retained Earnings
For Year Ended December 31, 2011

	<u>2011</u>	<u>(memo only)</u> <u>2010</u>
Revenue from Operations:		
Water sales	<u>\$ 106,543</u>	<u>57,121</u>
Expenses from Operations:		
Operator expense	10,266	4,800
Billing clerk	4,800	4,800
Depreciation	24,459	24,102
Water purchases	2,946	1,901
Office	71	1,502
Insurance	2,437	2,444
Repairs & maintenance	12,590	8,097
Chemicals	1,168	520
DEQ	1,530	0
Mileage	0	2,918
Fees	96	2,343
Electricity	10,525	5,995
Miscellaneous	229	94
Total expenses from operations	<u>71,117</u>	<u>59,516</u>
Net Income (Loss) from Operations	35,426	(2,395)
Other Income:		
Interest earnings	<u>35</u>	<u>33</u>
Other Expenses:		
Interest on debt	<u>(10,166)</u>	<u>(10,351)</u>
Net Income (Loss)	25,295	(12,713)
Retained earnings, beginning of period	<u>528,703</u>	<u>541,416</u>
Retained earnings, end of period	<u><u>\$ 553,998</u></u>	<u><u>528,703</u></u>