

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

Financial Statements and Auditor's Reports

Year Ended December 31, 2014

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, 2014

**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, 2014

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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  
Hannah, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Shell Creek Rural Water District No. 12 (the District), Hannah, Oklahoma, as of and for the year ended December 31, 2014, 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**

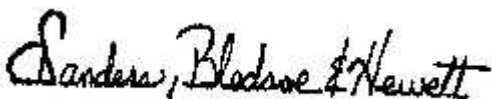
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of December 31, 2014, and the respective changes in financial position and cash flows thereof for the year then ended 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 and 6 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 February 17, 2015 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

**SHELL CREEK RURAL WATER DISTRICT NO. 12**  
**McINTOSH COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2014**

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, 2014. 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 \$20,688. Overall, the District's total net assets increased by \$11,164 in the current fiscal year. These amounts include \$25,400 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 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, 2014, the District had \$681,263 invested in fixed assets, net of depreciation, including land, the water system, pump station and lines. In 2014, \$6,336 of fixed assets were added by the District, in the purchase of 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 \$215,044 to \$210,271 during the 2014 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, 2015, the District's budget is fairly consistent with the 2014 fiscal year.

For the fiscal year 2015, 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

**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, 2014, which omitted the management discussion and analysis, and have issued our report thereon dated February 17, 2015. 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 14-1.



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 cursive script that reads "Sanders, Bledsoe & Hewett".

Sanders, Bledsoe & Hewett  
Certified Public Accountants, LLP

February 17, 2015

**SHELL CREEK RURAL DISTRICT NO. 12**  
**Disposition of Prior Year's Reportable Conditions**  
**December 31, 2014**

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, 2014**

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:

14-1 – 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, 2014

ASSETS

Current assets:	
Cash	\$ 84,471
Current portion of receivables	6,304
Total current assets	<u>90,775</u>
Non-current assets:	
Reserve account	14,560
Capital assets:	
Water system and improvements, net of depreciation	681,263
Total noncurrent assets	<u>695,823</u>
Total Assets	<u>786,598</u>

LIABILITIES

Current liabilities:	
Accounts payable	3,878
Accrued interest	752
Current portion of long-term debt	4,992
Total current liabilities	<u>9,622</u>
Non-current liabilities:	
Long-term debt	<u>205,279</u>
Total Liabilities	<u>214,901</u>

NET ASSETS

Invested in capital assets, net of related debt	470,992
Unrestricted assets	<u>100,705</u>
Total Net Assets	<u>\$ 571,697</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, 2014

Operating Revenues:	
Water sales	\$ 125,685
Operating Expenses:	
Operator expense	25,026
Depreciation	25,400
Water purchases	5,329
Office	1,068
Insurance	5,009
Repairs & maintenance	8,550
Chemicals	6,934
DEQ	5,940
Fees	4,700
Electricity	16,861
Miscellaneous	180
Total expenses from operations	<u>104,997</u>
Operating Income (Loss)	20,688
Non-Operating Revenues (Expenses):	
Interest income	38
Interest expense on debt	<u>(9,562)</u>
Total non-operating revenues (expenses)	<u>(9,524)</u>
Change in Net Assets	11,164
Total Net Assets, beginning of period	<u>560,533</u>
Total Net Assets, end of period	<u><u>\$ 571,697</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, 2014

**Cash Flows from Operating Activities:**

Receipts from customers	\$ 124,676
Payments to vendors	(79,571)
Net Cash Provided by Operating Activities	<u>45,105</u>

**Cash Flows from Financial Activities:**

Fixed assets purchased	(6,336)
Principal paid on debt	(4,773)
Interest paid on debt	(9,579)
Net cash provided by (used in) financial activities	<u>(20,688)</u>

**Cash Flows from Investing Activities:**

Interest revenue	<u>38</u>
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Net Increase (Decrease) in Cash	24,455
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Cash and cash equivalents, beginning of period	<u>74,576</u>
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Cash and cash equivalents, end of period	<u><u>\$ 99,031</u></u>
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Reconciliation of operating income (loss) to net cash provided by operating activities:

Operating Income	\$ 20,688
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	25,400
(Increase) decrease in accounts receivable	(1,009)
Increase (decrease) in accounts payable	<u>26</u>
Net Cash Provided by Operating Activities	<u><u>\$ 45,105</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, 2014**

**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 McCurtain County, 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,	
	2014	2013
Operating Account	\$ 51,774	55,357
Savings Account	32,697	4,674
Project Account	-	-
Total	<u>\$ 84,471</u>	<u>60,031</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 First United Bank, Holdenville, Oklahoma, which is insured by the federal government. At December 31, 2014, the restricted asset-investment reserve had a balance of \$14,560.

**SHELL CREEK RURAL WATER DISTRICT NO. 12**  
**Notes to Financial Statements**  
**December 31, 2014**

**Note A – Significant Accounting Policies – cont'd**

Accounts Receivable

Billings for accounts receivable at December 31, 2014 were \$6,304. 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:

	12/31/2013 Amount	Additions	Deletions	12/31/2014 Amount
Water system	\$ 1,009,648	6,336	-	1,015,984
Less: Accumulated Depreciation	<u>(309,321)</u>	<u>(25,400)</u>	<u>-</u>	<u>(334,721)</u>
Total	<u>\$ 700,327</u>	<u>(25,400)</u>	<u>-</u>	<u>681,263</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, 2014. Combined cash and investment balances did not exceed \$250,000 at any time during the 2014 fiscal year.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.



**SHELL CREEK RURAL WATER DISTRICT NO. 12**  
**Notes to Financial Statements**  
**December 31, 2014**

**Note B – Long-Term Debt**

Long-term debt as December 31, 2014 is summarized as follows:

Note 91-05, 4.5% mortgage payable to Office of Rural Development, Required monthly installments of \$480	\$ 84,419
Note 91-06, 4.5% mortgage payable to Office of Rural Development, Required monthly installments of \$716	<u>125,852</u>
Total	210,271
Less: current maturities	<u>( 4,992)</u>
Total	<u><u>\$ 205,279</u></u>

Future principal amounts to be paid are as follows:

Year Ended	Note 91-05	Note 91-06	Total
2015	\$ 2,002	2,990	4,992
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+	25,691	31,131	56,822
Total	<u><u>\$ 84,419</u></u>	<u><u>125,852</u></u>	<u><u>210,271</u></u>

**Note C - Subsequent Events**

Management has evaluated subsequent events through February 17, 2015, 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, 2014

	DECEMBER 31,	
	2014	(memo only) 2013
<u>ASSETS</u>		
Current Assets:		
Cash - Operating account	\$ 51,774	55,357
Cash - Reserve account	14,560	14,545
Cash - Savings account	32,697	4,674
Accounts receivable	6,304	5,295
Total current assets	<u>105,335</u>	<u>79,871</u>
Fixed Assets:		
Water system and improvements	1,015,984	1,009,648
Less: accumulated depreciation	(334,721)	(309,321)
Total fixed assets (net)	<u>681,263</u>	<u>700,327</u>
Total Assets	<u>\$ 786,598</u>	<u>780,198</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 3,878	3,852
Accrued interest	752	769
Current maturities of long-term debt	4,992	4,772
Total current liabilities	<u>9,622</u>	<u>9,393</u>
Long-Term Debt, less current maturities-		
Notes payable	<u>205,279</u>	<u>210,272</u>
Total Liabilities	<u>214,901</u>	<u>219,665</u>
Fund Equity:		
Retained earnings	<u>571,697</u>	<u>560,533</u>
Total Liabilities and Fund Equity	<u>\$ 786,598</u>	<u>780,198</u>

SHELL CREEK RURAL WATER DISTRICT NO. 12  
Statement of Revenue, Expenses and Changes in Retained Earnings  
For Year Ended December 31, 2014

	2014	(memo only) 2013
Revenue from Operations:		
Water sales	\$ 125,685	108,650
Expenses from Operations:		
Operator expense	25,026	26,598
Depreciation	25,400	25,241
Water purchases	5,329	5,145
Office	1,068	692
Insurance	5,009	4,802
Repairs & maintenance	8,550	12,211
Chemicals	6,934	1,061
DEQ	5,940	3,017
Fees	4,700	1,500
Electricity	16,861	12,911
Miscellaneous	180	251
Total expenses from operations	<u>104,997</u>	<u>93,429</u>
Net Income (Loss) from Operations	20,688	15,221
Other Income:		
Interest earnings	<u>38</u>	<u>19</u>
Other Expenses:		
Interest on debt	<u>(9,562)</u>	<u>(9,773)</u>
Net Income (Loss)	11,164	5,467
Retained earnings, beginning of period	<u>560,533</u>	<u>555,066</u>
Retained earnings, end of period	<u><u>\$ 571,697</u></u>	<u><u>560,533</u></u>