

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

Financial Statements and Auditor's Reports

Year Ended December 31, 2016

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, 2016

BOARD OF DIRECTORS

Chairman

Paul Maxey

Vice-chairman

Mike Van Eaton

Secretary/Treasurer

Lynn Kaler

Members

Ray Free

Frank Shurden

Barbara Armstrong

OPERATOR

Robert Jones

Shell Creek Rural Water District No. 12
Hanna, Oklahoma
December 31, 2016

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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, 2016, 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, 2016, 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

The District has not presented the Management's Discussion and Analysis that governmental accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2018 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

April 11, 2018



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, 2016, which omitted the management discussion and analysis, and have issued our report thereon dated April 11, 2018. 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.

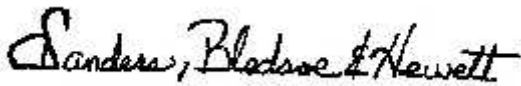
Internal Control Over Financial Reporting

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 16-1.

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

April 11, 2018

SHELL CREEK RURAL DISTRICT NO. 12
Disposition of Prior Year's Significant Deficiencies
December 31, 2016

- 15-1 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, 2016

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:

16-1 – 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, 2016

	2016	-Memorandum- -Only- 2015
<u>ASSETS</u>		
Current assets:		
Cash	\$ 56,756	58,573
Current portion of receivables	8,750	7,627
Total current assets	<u>65,506</u>	<u>66,200</u>
Non-current assets:		
Reserve account	14,574	14,560
Capital assets:		
Water system and improvements, net of depreciation	648,603	670,180
Total noncurrent assets	<u>663,177</u>	<u>684,740</u>
TOTAL ASSETS	<u>\$ 728,683</u>	<u>750,940</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	\$ 6,639	4,034
Accrued interest	715	734
Current portion of long-term debt	5,461	5,221
Total current liabilities	<u>12,815</u>	<u>9,989</u>
Non-current liabilities:		
Long-term debt	194,596	200,057
Total Liabilities	<u>207,411</u>	<u>210,046</u>
<u>NET POSITION</u>		
Invested in capital assets, net of related debt	448,546	464,902
Unrestricted assets	72,726	75,992
Total Net Position	<u>521,272</u>	<u>540,894</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 728,683</u>	<u>750,940</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, 2016

	2016	-Memorandum- -Only- 2015
Operating Revenues:		
Water sales	\$ 125,519	112,225
Operating Expenses:		
Operator expense	39,368	24,448
Depreciation	26,145	25,924
Water purchases	9,490	5,247
Office	6,600	1,723
Insurance	5,079	5,150
Repairs & maintenance	23,319	31,899
Chemicals	1,693	1,624
DEQ	2,383	2,477
Dues/Fees	2,029	13,666
Electricity	17,101	19,812
Miscellaneous	2,878	1,757
Total expenses from operations	136,085	133,727
Operating Income (Loss)	(10,566)	(21,502)
Non-Operating Revenues (Expenses):		
Interest income	56	40
Interest expense on debt	(9,112)	(9,341)
Total non-operating revenues (expenses)	(9,056)	(9,301)
Change in Net Position	(19,622)	(30,803)
Total Net Position, beginning of period	540,894	571,697
Total Net Position, end of period	\$ 521,272	540,894

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, 2016

	2016	-Memorandum- -Only- 2015
Cash Flows from Operating Activities:		
Receipts from customers	\$ 124,731	110,902
Payments to vendors	(107,670)	(107,647)
Net Cash Provided by Operating Activities	<u>17,061</u>	<u>3,255</u>
Cash Flows from Financial Activities:		
Fixed assets purchased	(4,568)	(14,841)
Principal paid on debt	(5,222)	(4,992)
Interest paid on debt	(9,130)	(9,360)
Net cash provided by (used in) financial activities	<u>(18,920)</u>	<u>(29,193)</u>
Cash Flows from Investing Activities:		
Interest revenue	<u>56</u>	<u>40</u>
Net Increase (Decrease) in Cash	(1,803)	(25,898)
Cash and cash equivalents, beginning of period	<u>73,133</u>	<u>99,031</u>
Cash and cash equivalents, end of period	<u><u>\$ 71,330</u></u>	<u><u>73,133</u></u>
 Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating Income	\$ (10,566)	(21,502)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation Expense	26,145	25,924
(Increase) decrease in accounts receivable	(1,123)	(1,323)
Increase (decrease) in accounts payable	<u>2,605</u>	<u>156</u>
Net Cash Provided by Operating Activities	<u><u>\$ 17,061</u></u>	<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, 2016

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,	
	2016	2015
Operating Account	\$ 18,551	21,059
Savings Account	38,205	37,514
Project Account	-	-
Total	<u>\$ 56,756</u>	<u>58,573</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, 2016, the restricted asset-investment reserve had a balance of \$14,574.

SHELL CREEK RURAL WATER DISTRICT NO. 12
Notes to Financial Statements
December 31, 2016

Note A – Significant Accounting Policies – cont'd

Accounts Receivable

Billings for accounts receivable at December 31, 2016 were \$8,750. Allowance for doubtful accounts was not computed on this balance because uncollectibles do not have a material effect on the balance sheet.

Memorandum Totals

The “Memorandum Only” captions above the total columns mean that amounts are presented for overview information purposes only.

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:

	12/31/2015 Amount	Additions	Deletions	12/31/2016 Amount
Water system	\$ 1,030,825	4,568	-	1,035,393
Less: Accumulated Depreciation	<u>(360,645)</u>	<u>(26,145)</u>	<u>-</u>	<u>(386,790)</u>
Total	<u>\$ 670,180</u>	<u>(26,145)</u>	<u>-</u>	<u>648,603</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, 2016. Combined cash and investment balances did not exceed \$250,000 at any time during the 2016 fiscal year.

SHELL CREEK RURAL WATER DISTRICT NO. 12
Notes to Financial Statements
December 31, 2016

Note B – Long-Term Debt

Long-term debt as December 31, 2016 is summarized as follows:

Note 91-05, 4.5% mortgage payable to Office of Rural Development, Required monthly installments of \$480	\$ 80,323
Note 91-06, 4.5% mortgage payable to Office of Rural Development, Required monthly installments of \$716	<u>119,734</u>
Total	200,057
Less: current maturities	<u>(5,461)</u>
Total	<u><u>\$ 194,596</u></u>

Future principal amounts to be paid are as follows:

Year Ended	Note 91-05	Note 91-06	Total
2017	\$ 2,190	3,271	5,461
2018	2,291	3,421	5,712
2019	2,396	3,578	5,974
2020	2,506	3,743	6,249
2021	2,621	3,914	6,535
2022-26	15,027	22,440	37,467
2027-31	18,811	28,091	46,902
2032-36	23,547	35,163	58,710
2037-38	<u>10,934</u>	<u>16,113</u>	<u>27,047</u>
Total	<u><u>\$ 80,323</u></u>	<u><u>119,734</u></u>	<u><u>200,057</u></u>

Note C - Subsequent Events

Management has evaluated subsequent events through April 11, 2018 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 DISTRICT NO. 12
Schedule of Water Rates and Customers
-Unaudited Information-
December 31, 2016

Water Rates

\$18.00 Minimum bill plus \$6.00 per thousand gallons

Water Loss

Total gallons produced	20,827,000
Total gallons sold to District customers	(16,131,866)
Total 2016 water loss	<u>4,695,134</u>
Percentage of water loss	<u>22.54%</u>

Customers

The District had 83 active customers at the close of the fiscal year.

The cost of a new benefit unit/tap fee is \$600.