

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS
AND ACCOMPANYING
INDEPENDENT AUDITOR'S REPORTS**

For the Year Ended October 31, 2014

**OBER & LITTLEFIELD, CPAs, PLLC
124 South Main Street
Miami, Oklahoma 74354**

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA**

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**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA**

**District Officials
October 31, 2014**

Board of Directors

John Myers	Chairman
Ken Noteboom	Vice Chairman
Ronald D. Carder	Secretary/Treasurer
Andy Helms	Member
Harold G. Wooldridge	Member

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended October 31, 2014**

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended October 31, 2014. Please read it in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The liabilities of the District exceeded its assets at October 31, 2014 by \$2,216,472.66, representing a decrease in net position of \$330,200.47 for the year.
- Total operating revenues were \$437,197.33 this year while operating expenses and other net expenses were \$767,397.80, resulting in the decrease in net position of \$330,200.47.
- The District has \$5,184,877.81 (net of accumulated depreciation) invested in capital assets as of October 31, 2014.

DISTRICT HIGHLIGHTS

- Due to a low number of customers the District has been unable to meet its financial obligations.

USING THIS ANNUAL REPORT

This annual report consists of two parts; Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The Financial Statements of the District report information about the District using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine profitability, credit worthiness and whether the District has successfully recovered all its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the District's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and capital and noncapital financing activities

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MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended October 31, 2014**

and provide answers to such questions as “from where did cash come?,” “for what was cash used;” and “what was the change in cash balance during the reporting period?”

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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 and Statement of Revenues, Expenses and Changes in Net Position report information about the District’s activities in a way that will help answer this question. These two statements report the net position of the District and changes in them. You can think of the District’s net position – the difference between assets and liabilities – as one way to measure 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. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth and new or changed legislation.

The District’s total Net Position decreased from last year by \$330,200.47 or about 17.5%. Our analysis below focuses on the District’s net position (Table 1) and changes in net position (Table 2) during the year.

Table 1

	10/31/14	Restated 10/31/13
Current Assets	\$ 69,716.31	\$ 156,756.72
Restricted Assets	83,431.28	43,834.90
Capital Assets	5,184,877.81	5,301,386.45
Total Assets	5,338,025.40	5,501,978.07
Current Liabilities	3,604,055.57	3,081,286.10
Long-term Liabilities	3,950,442.49	4,306,964.16
Total Liabilities	7,554,498.06	7,388,250.26
Restricted	5,940.00	4,098.02
Unrestricted	(2,222,412.66)	(1,890,370.21)
Total Net Position	\$ (2,216,472.66)	\$ (1,886,272.19)

Because the District’s related debt is in excess of its capital assets (e.g. water system, buildings, machinery and equipment) there is no presentation in the net asset section of investment in capital assets. The District uses capital assets to provide services to citizens and consumers; consequently, these assets are not available for future spending.

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For the Year Ended October 31, 2014**

The balance of unrestricted net position, if any, may be used to meet the District's ongoing obligations to citizens, customers and creditors. The District's unrestricted net position decreased \$326,887.29 during the current year, and was unable to meet its financial obligations.

Changes in the District's net position can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Position for the year.

Table 2

	10/31/14	Restated 10/31/13
Total Operating Revenues	\$ 437,197.33	\$ 410,575.99
Operating Expenses	(505,021.18)	(375,837.17)
Depreciation and Amortization Expense	(125,508.60)	(126,154.62)
Other Non-Operating Revenues (Expenses)	(136,868.02)	(184,745.30)
Increase (Decrease) in Net Assets	(330,200.47)	(276,161.10)
Net Position, Beginning of Year	(1,753,626.74)	(1,610,111.09)
Prior Period Adjustment	(132,645.45)	-
Net Position, End of Year	\$ (2,216,472.66)	\$ (1,886,272.19)

The District's primary source of revenue is the sale of water and gas which comprises most of the operating revenues. Operating revenues increased by \$26,621.34 or 6.8% from the prior year.

Total operating expenses increased by \$129,184.01 or 34.3% from the prior year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of October 31, 2014, the District had \$5,184,877.81 (net of accumulated depreciation) invested in capital assets, including the water storage and distribution system, improvements, machinery and equipment. The District purchased additional assets amounting to \$9,000.00 during this fiscal year. The net capital assets decreased by \$116,508.64 or 2.2% from the prior year. This decrease was due primarily to annual depreciation expense.

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT NO. 10
DELAWARE COUNTY, OKLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended October 31, 2014**

Debt

The District had \$6,262,355.78 in long-term debt outstanding as of October 31, 2014, with \$2,311,913.29 due and payable within one year. Total long-term obligations increased by \$120.00 during the year. Table 3 summarizes long-term debt obligations outstanding:

Table 3

Long-Term Debt

Customer Deposits	\$	25,620.00
2003 Revenue Note		1,400,100.00
Oklahoma Water Resources Board		<u>4,836,635.78</u>
Total Long-Term Debt	\$	<u><u>6,262,355.78</u></u>

Additional information on the District's long-term debt can be found in Note 2.D. beginning on page 18.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

A product of an ongoing examination and of how the District does business, our budget emphasizes outcomes or results for the community and allows for longer-term financial planning decisions.

In considering the District's budget for the year 2015, the Board estimates that revenues and expenses in the coming year will approximate actual revenues and expenses for the past year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives.

If you have any questions about this report or need additional financial information, contact the Board of Directors at Rural Water, Sewer, Gas and Solid Waste Management District No. 10, 24451 South 580 Road, Afton, Oklahoma 74331-2869.

OBER & LITTLEFIELD, CPAs, PLLC

124 SOUTH MAIN MIAMI, OK 74354
918-542-4401 OFFICE

INDEPENDENT AUDITORS REPORT

To the Board of Directors
Rural Water, Sewer, Gas and Solid Waste Management District No. 10
Delaware County, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Rural Water, Sewer, Gas and Solid Waste Management District No. 10, Delaware County, Oklahoma as of and for the year ended October 31, 2014, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Accountant'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 includes 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 entity'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 entity'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 audit opinions.

To the Board of Directors
Rural Water, Sewer, Gas and Solid Waste Management District No. 10
Delaware County, Oklahoma

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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 Rural Water, Sewer, Gas and Solid Waste Management District No.10, Delaware County, Oklahoma as of October 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.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 2.D. to the financial statements, as shown in the financial statements, the District is in default on certain covenants of its loan and bond agreements at October 31, 2014, primarily as a result of insufficient customers and revenues to service the debt. These conditions raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 5 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 the 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 supplementary 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 basic 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 September 2, 2015 on our consideration of Rural Water, Sewer, Gas and Solid Waste Management District No. 10, Delaware County, Oklahoma'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

To the Board of Directors
Rural Water, Sewer, Gas and Solid Waste Management District No. 10
Delaware County, Oklahoma

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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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



OBER & LITTLEFIELD, CPAs, PLLC
MIAMI, OKLAHOMA

SEPTEMBER 2, 2015

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA
Statement of Net Position
October 31, 2014**

ASSETS

Current Assets:

Cash and cash equivalents	\$ 31,458.41
Accounts receivable	28,746.47
Accounts receivable - employee	1,129.83
Prepaid expenses	<u>8,381.60</u>
Total Current Assets	<u>69,716.31</u>

Noncurrent Assets:

Restricted assets:

Cash and cash equivalents - customer deposits	25,620.00
Cash and cash equivalents - debt service	57,811.28
Capital assets, net of accumulated depreciation	<u>5,184,877.81</u>
Total Noncurrent Assets	<u>5,268,309.09</u>

Total Assets	<u>5,338,025.40</u>
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LIABILITIES

Current Liabilities:

Accounts payable	7,250.97
Sales tax payable	21.85
Accrued administrative fees	203,622.90
Accrued wages	5,150.85
Accrued payroll taxes	2,866.15
Accrued interest - bonds payable	540,197.02
Accrued interest - notes payable	533,032.54
Current portion of long-term debt, bonds payable	595,900.00
Current portion of long-term debt, notes payable	<u>1,716,013.29</u>
Total Current Liabilities	<u>3,604,055.57</u>

Non-Current Liabilities:

Customer deposits payable from restricted assets	25,620.00
Bonds payable, net of current portion	804,200.00
Notes payable, net of current portion	<u>3,120,622.49</u>
Total Noncurrent Liabilities	<u>3,950,442.49</u>

Total Liabilities	<u>7,554,498.06</u>
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NET POSITION

Restricted	5,940.00
Unrestricted	<u>(2,222,412.66)</u>
Total Net Position	<u>\$ (2,216,472.66)</u>

The accompanying notes are an integral part of these financial statements.

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA
Statement of Revenues, Expenses, and Changes in Net Position
October 31, 2014**

Operating Revenues:	
Water revenues	\$ 304,485.37
Gas revenues	132,711.96
Total Operating Revenues	<u>437,197.33</u>
Operating Expenses:	
Accounting and legal	12,300.00
Administration, banking, and trust fees	29,195.92
Bad debts	349.88
Depreciation and amortization	125,508.60
Dues and memberships	2,857.00
Employee benefits	11,365.20
Fuel	20,394.55
Gas purchasing expense	48,658.05
Insurance and bonds	10,737.14
Materials and supplies	115,101.33
Miscellaneous expenses	1,099.47
Operating expenses	1,870.06
Office supplies and expenses	4,243.09
Payroll expenses	130,132.47
Payroll tax expense	10,466.81
Postage	3,159.83
Repairs and maintenance	38,821.67
Truck expense	3,203.62
Utilities and telephone	56,193.82
Water testing	4,871.27
Total Operating Expenses	<u>630,529.78</u>
Operating Income (Loss)	(193,332.45)
Non-Operating Revenues (Expenses):	
Grant revenue	48,145.00
Interest and dividend income	374.72
Tower rental	600.00
Interest expense	(185,987.74)
Total Non-Operating Revenues (Expenses)	<u>(136,868.02)</u>
Change in Net Position	(330,200.47)
Net Position, Beginning of Year	(1,753,626.74)
Prior Period Adjustment	<u>(132,645.45)</u>
Net Position, End of Year	<u>\$ (2,216,472.66)</u>

The accompanying notes are an integral part of these financial statements.

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA
Statement of Cash Flows
October 31, 2014**

Cash flows from operating activities:	
Cash received from customers	\$ 440,507.50
Cash paid for payroll and benefits	(155,253.18)
Cash paid to suppliers for goods and services	<u>(319,162.75)</u>
Net cash provided (used) by operating activities	<u>(33,908.43)</u>
Cash flows from investing activities:	
Interest received from investments	374.72
Cash received from tower rental	<u>600.00</u>
Net cash provided (used) by investing activities	<u>974.72</u>
Cash flows from capital and related financing activities:	
Grant proceeds	48,145.00
Purchases of capital assets	(9,000.00)
Interest paid on capital debt	<u>(50,769.67)</u>
Net cash provided (used) by capital and related financing activities	<u>(11,624.67)</u>
Net increase (decrease) in cash and cash equivalents	(44,558.38)
Beginning cash and cash equivalents	<u>159,448.07</u>
Ending cash and cash equivalents	<u><u>\$ 114,889.69</u></u>
Reconciliation of operating income (loss) to cash provided by operating activities:	
Operating Income (Loss)	\$ (193,332.45)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization	125,508.60
Change in assets and liabilities:	
Decrease in accounts receivable	3,696.00
Increase in accounts receivable - employee	(505.83)
Increase in prepaid insurance	(304.52)
Increase in accounts payable	913.47
Decrease in sales tax payable	(20.32)
Increase in accrued administrative fees	26,847.92
Increase in accrued wages	3,524.08
Decrease in accrued payroll taxes	<u>(235.38)</u>
Net cash provided by operating activities	<u><u>\$ (33,908.43)</u></u>

The accompanying notes are an integral part of these financial statements.

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA
Notes to the Financial Statements
October 31, 2014**

Note 1 - Summary of Significant Accounting Policies

Rural Water, Sewer, Gas and Solid Waste Management District No. 10, Delaware County, Oklahoma (the "District") was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing rural water, sewage facilities, natural gas distribution and solid waste management to the members of the District it serves. Membership in the water, sewer, gas and solid waste district consists of users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The membership consists of approximately 515 users, each entitled one vote. The Board of Directors consists of 5 members serving three-year terms. If a Board seat is vacated in mid-year, it is appointed by the remaining Board members. Otherwise, vacant Board seats for expiring terms are elected at the annual meeting in October, and following, the Board of Directors meet and elect a chairman, vice-chairman and secretary/treasurer. All Board members serve without pay.

The accounting policies of the District conform to generally accepted accounting principles applicable to governmental units. The District complies with generally accepted accounting principles and applies all relevant Government Accounting Standards Board (GASB) pronouncements. In addition, the District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has elected not to follow FASB pronouncements issued since that date.

1.A. Financial Reporting Entity

The District complies with GASB Statement No. 14, "*The Financial Reporting Entity*." This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the District's financial statements.

1.B. Basis of Presentation

The accounts of the District are organized into funds, each of which is considered to be a separate accounting entity. The District uses the following fund types.

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA
Notes to the Financial Statements
October 31, 2014**

Note 1 - Summary of significant Accounting Policies: continued

1.B. Basis of Presentation: continued

Proprietary Funds

Enterprise Funds

The District's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

1.C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The proprietary funds utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.

Basis of Accounting

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for sales and services. The District also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA
Notes to the Financial Statements
October 31, 2014**

Note 1 – Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Net Position

Cash and Cash Equivalents

For the purposes of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Fair Value of Financial Instruments

The District's financial statements include cash and investments. The District's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Accounts Receivable

Accounts receivable consists primarily of charges for water sales. Management has not established a provision for uncollectible accounts. Such amounts are written off in the month in which management determines they are uncollectible.

Inventory of Supplies and Materials

Inventories consist primarily of water and natural gas stored in lines for use in the distribution process. Inventory is expensed when purchased.

Prepaid Expenses

Prepaid expenses represent the unexpired premiums on general liability and workman's compensation insurance policies.

Capital Assets

The water and gas storage and delivery system and equipment are recorded at cost. Construction period interest has been capitalized. Donated capital assets are reported at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**RURAL WATER, SEWER, GAS AND SOLID WASTE
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DELAWARE COUNTY, OKLAHOMA
Notes to the Financial Statements
October 31, 2014**

Note 1 – Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Net Position: continued

Capital Assets: continued

All reported capital assets are depreciated on the straight-line basis over the estimated useful lives ranging from five (5) to sixty (60) years.

The District has no set capitalization threshold for reporting capital assets.

Bond and Loan Costs

The District capitalizes costs associated with obtaining long-term debt and amortizes such costs over the term of the related debt.

Restricted Cash

The District is required by the terms of their 2003 Revenue Note and by Commercial law to establish separate accounts which can only be used for those purposes for which they were intended. Restricted assets include \$57,811.28 in debt service accounts which are funded monthly to accumulate funds in order to make the semi-annual loan payment when due. Currently the restricted cash fund is inadequately funded to meet future debt service payments.

Equity Classification

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted – All other net position that do not meet the definitions of “restricted” or “invested in capital assets, net of related debt”.

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA
Notes to the Financial Statements
October 31, 2014**

Note 1 – Summary of Significant Accounting Policies: continued

1.D. Assets, Liabilities and Net Position: continued

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 – Detailed Notes Concerning Accounts

2.A. Deposits and Investments

State statutes govern the District's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost. Currently the District invests entirely in certificates of deposit.

Credit Risk: The District's investment policy is to apply the "prudent investor" standard. "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

2.A. Deposits and Investments: continued

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's cash deposits, including interest-bearing certificates of deposits, are maintained in financial institutions. The District does not have a deposit policy for custodial credit risk. As of October 31, 2014 none of the District's investments were exposed to custodial risk because they were uninsured or uncollateralized.

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA
Notes to the Financial Statements
October 31, 2014**

Note 2 – Detailed Notes Concerning Accounts: continued

2.B. Accounts Receivable

Aged accounts receivables as of October 31, 2014 are as follows:

Current	\$ 26,751.40
31 - 60 days arrears	755.45
61 - 90 days arrears	141.72
Over 90 days arrears	<u>1,097.90</u>
Total	<u>\$ 28,746.47</u>

2.C. Changes in Capital Assets

Capital asset activity for the fiscal year ended October 31, 2014 was as follows:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Non-depreciable assets				
Land	\$ 43,887.00	\$ -	\$ -	\$ 43,887.00
Total Non-depreciable assets	<u>43,887.00</u>	<u>-</u>	<u>-</u>	<u>43,887.00</u>
Depreciable assets				
Buildings	27,136.33	-	-	27,136.33
Equipment	168,226.15	9,000.00	-	177,226.15
Gas distribution system	1,496,564.91	-	-	1,496,564.91
Water distribution system	<u>4,665,001.20</u>	<u>-</u>	<u>-</u>	<u>4,665,001.20</u>
Total depreciable assets	<u>6,356,928.59</u>	<u>9,000.00</u>	<u>-</u>	<u>6,365,928.59</u>
Total Capital assets, at cost	<u>6,400,815.59</u>	<u>9,000.00</u>	<u>-</u>	<u>6,409,815.59</u>

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA
Notes to the Financial Statements
October 31, 2014**

Note 2 – Detailed Notes Concerning Accounts: continued

2.C. Changes in Capital Assets: continued

Less: accumulated depreciation and amortization

Buildings	3,856.71	408.01	-	4,264.72
Equipment	92,597.69	15,610.40	-	108,208.09
Gas distribution system	245,786.34	24,942.75	-	270,729.09
Water distribution system	757,188.40	84,547.48	-	841,735.88
Total accumulated depreciation and amortization	<u>1,099,429.14</u>	<u>125,508.64</u>	<u>-</u>	<u>1,224,937.78</u>
Capital assets, net	<u>\$ 5,301,386.45</u>	<u>\$ (116,508.64)</u>	<u>\$ -</u>	<u>\$ 5,184,877.81</u>

2.D. Long-Term Debt

Long-term debt consists of customer deposits, bonds payable, and notes payable. During the year ending October 31, 2014 the District was unable to meet its current debt obligations on its bond and notes payable according to the service agreement and loan amortization schedule. Only partial interest payments were made on the bonds and notes payable during the year ended October 31, 2014.

The District is currently under a parity agreement with National Loan Investors, L.P (formerly J.P. Morgan Trust Company, National Association) (the “Trustee) and the Oklahoma Water Resources Board (the “Board”). Under this agreement all water and gas revenues are collected by the Trustee in an established lock box. The District then submits budgets to the Trustee to acquire funds to meet current operating expenses. All other funds are divided between the Trustee and the Board pursuant to a proportionate sharing formula.

Bonds Payable

The District issued its Revenue Note, Series 2003, dated February 1, 2003 in the amount of \$1,450,000.00. The bonds pay interest at a rate of 5.5% semi-annually.

The annual debt service requirements to maturity for the bonds as of October 31, 2014 are as follows:

<u>Year ending October 31</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 595,900.00	\$ 540,197.02
2016	95,900.00	42,941.25
2017	104,700.00	37,548.50
2018	114,300.00	31,660.75
2019	124,800.00	25,244.00
2020-2022	<u>364,500.00</u>	<u>30,956.75</u>
Totals	<u>\$ 1,400,100.00</u>	<u>\$ 708,548.27</u>

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA
Notes to the Financial Statements
October 31, 2014**

Note 2 – Detailed Notes Concerning Accounts: continued

2.D. Long-Term Debt: continued

Notes Payable

The District entered into a loan agreement with the Oklahoma Water Resources Board to finance the cost of making water system improvements. The note (Drinking Water SRF Loan Agreement) for the principal amount of \$4,845,604.35 bears interest at a rate of 2.252% per annum plus an administrative fee of 0.5% per annum, payable in semi-annual installments commencing on March 15, 2003 continuing each March 15 and September 15 thereafter for the term of the loan. Principal repayments shall commence on the earlier of (1) the March 15 or September 15 next following the date construction of the project is completed or (2) March 15, 2007, and shall continue semi-annually for the term of the note, not to exceed twenty years.

The annual debt service requirements to maturity for long-term debt as of October 31, 2014 are as follows:

<u>Year ending October 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Administration Fee</u>
2015	\$ 1,724,981.86	\$ 533,032.54	\$ 203,622.90
2016	289,798.05	69,794.14	15,496.03
2017	299,887.84	62,924.47	13,970.80
2018	310,328.93	56,017.62	12,437.30
2019	321,133.53	48,870.29	10,850.42
2020	332,314.33	41,592.95	9,234.67
2021-2024	<u>1,567,159.81</u>	<u>85,358.54</u>	<u>18,951.72</u>
Totals	<u>\$ 4,845,604.35</u>	<u>\$ 897,590.55</u>	<u>\$ 284,563.84</u>

The following is a summary of the changes in general long-term debt of the District for the year ending October 31, 2014 and detailed notes concerning bonds payable, notes payable and capital lease obligations.

	<u>Beginning of Year</u>	<u>Advances</u>	<u>Payments</u>	<u>End of Year</u>
Customer deposits	\$ 25,500.00	\$ 120.00	\$ -	\$ 25,620.00
Bonds payable	1,400,100.00	-	-	1,400,100.00
Notes payable	<u>4,836,635.78</u>	<u>-</u>	<u>-</u>	<u>4,836,635.78</u>
	<u>\$ 6,262,235.78</u>	<u>\$ 120.00</u>	<u>\$ -</u>	<u>\$ 6,262,355.78</u>

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA
Notes to the Financial Statements
October 31, 2014**

Note 2 – Detailed Notes Concerning Accounts: continued

2.E. Temporarily Restricted Net Position

Temporarily restricted net position is \$5,940.00 as of October 31, 2014. A grant was received by the District from the Cherokee Nation in the amount of \$48,145.00 for the purpose of existing water well perforation and acid treatment and engineering for an additional well. As of October 31, 2014, \$5,940.00 was remaining to be spent for the purpose of engineering for an additional well.

Note 3 – Other Information

3.A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

3.B. Rates and Fees

Water Rates and Charges

Minimum monthly charge on first 2,000 gallons	\$	36.75
Price per thousand gallons for next 8,000 gallons		6.05
Price per thousand gallons for gallons over 10,000		6.15

Gas Rates and Charges

Minimum monthly charge for cost of gas	\$	17.50
Price per decatherm over cost of gas purchased		5.00

Other Fees

Initial Cost of Benefit Unit	\$	1,500.00
Water Meter Deposit		35.00
Natural Gas Meter Deposit		35.00
Returned Check Charge		25.00
Re-Connect Charge		75.00
After Hours Re-Connect Charge		150.00
Meter Testing (if found to be accurate)		75.00

**RURAL WATER, SEWER, GAS AND SOLID WASTE
MANAGEMENT DISTRICT NO. 10
DELAWARE COUNTY, OKLAHOMA
Notes to the Financial Statements
October 31, 2014**

3.C. Prior Period Adjustment

In accordance with the recent GASB 65 pronouncement, debt issuance costs do not meet the definition of either (a) an asset or a liability or (b) a deferred outflow of resources or a deferred inflow of resources. The Board decided the recognition of debt issuance costs as an outflow (expenses/expenditures) is more appropriate. Per this pronouncement debt issuance costs have been retroactively adjusted in the prior.

	As reported October 31, 2013	Adjustments	As Restated at October 31, 2013
Debt issuance costs, net of accumulated amortization	132,645.45	(132,645.45)	-
Unrestricted net assets	1,753,626.74	132,645.45	1,886,272.19

3.D. Evaluation of Subsequent Events

The District has evaluated subsequent events through September 2, 2015, the date which the financial statements were available to be issued.

REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS

OBER & LITTLEFIELD, CPAS, PLLC

124 SOUTH MAIN MIAMI, OK 74354
918-542-4401 OFFICE

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

To the Board of Directors
Rural Water, Sewer, Gas and Solid Waste Management District No. 10
Delaware County, Oklahoma

We have audited, in accordance with the 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, the financial statements of the business-type activities of Rural Water, Sewer, Gas and Solid Waste Management District No. 10, Delaware County, Oklahoma, as of and for the year ended October 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 2, 2015. In our report we included an emphasis of matter paragraph stating that the District will continue as a going concern because they are in default on certain covenants of its loan and bond agreements

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rural Water, Sewer, Gas and Solid Waste Management District No. 10, Delaware County, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water, Sewer, Gas and Solid Waste Management District No. 10, Delaware County's internal control. Accordingly, we do not express an opinion on the Rural Water, Sewer, Gas and Solid Waste Management District No. 10, Delaware County's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

To the Board of Directors
Rural Water, Sewer, Gas and Solid Waste Management District No. 10
Delaware County, Oklahoma

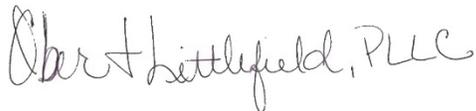
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water, Sewer, Gas and Solid Waste Management District No. 10, Delaware County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**OBER & LITTLEFIELD, CPAS, PLLC
MIAMI, OKLAHOMA**

SEPTEMBER 2, 2015