

**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, 2016**



**Certified Public Accountants, PLLC**

124 S. Main Street, Miami, Oklahoma 74354

22 South Adair, Pryor, Oklahoma 74361

918-542-4401

**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, 2016**

**Board of Directors**

John Myers	Chairman
Bryan Kirkman	Vice Chairman
Harold Woolridge	Secretary/Treasurer
Dale Fritz	Member
Andy Helm	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, 2016**

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, 2016. Please read it in conjunction with the District's financial statements.

**FINANCIAL HIGHLIGHTS**

- The liabilities of the District exceeded its assets, at October 31, 2016, by \$2,682,485.12, representing a decrease in net position of \$225,685.50 for the year.
- Total operating revenues were \$446,159.31 this year, while operating expenses and other net expenses were \$671,844.81, resulting in the decrease in net position of \$225,685.50.
- The District has \$4,967,432.57 (net of accumulated depreciation) invested in capital assets, as of October 31, 2016.

**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, 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?"



**RURAL WATER, SEWER, GAS AND SOLID WASTE  
MANAGEMENT NO. 10  
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MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended October 31, 2016**

**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 \$225,685.50, or about 9.2%. Our analysis below focuses on the District's net position (Table 1), and changes in net position (Table 2), during the year.

**Table 1**

	10/31/16	10/31/15
Current Assets	\$ 171,528.84	\$ 159,466.16
Restricted Assets	76,820.65	49,213.47
Capital Assets	<u>4,967,432.57</u>	<u>5,060,074.89</u>
Total Assets	<u>5,215,782.06</u>	<u>5,268,754.52</u>
Current Liabilities	4,734,930.58	4,159,669.69
Long-term Liabilities	<u>3,163,336.60</u>	<u>3,565,884.44</u>
Total Liabilities	<u>7,898,267.18</u>	<u>7,725,554.13</u>
Unrestricted	<u>(2,682,485.12)</u>	<u>(2,456,799.62)</u>
Total Net Position	<u>\$ (2,682,485.12)</u>	<u>\$ (2,456,799.62)</u>

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, 2016**

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 \$225,685.50 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 Revenues, Expenses, and Changes in Net Position for the year.

**Table 2**

	10/31/16	10/31/15
Total Operating Revenues	\$ 446,159.31	\$ 426,840.96
Operating Expenses	(352,885.52)	(357,438.93)
Depreciation and Amortization Expense	(122,435.72)	(124,802.92)
Other Non-Operating Revenues (Expenses)	(196,523.57)	(184,926.07)
Increase (Decrease) in Net Position	(225,685.50)	(240,326.96)
Net Position, Beginning of Year	(2,456,799.62)	(2,216,472.66)
Net Position, End of Year	\$(2,682,485.12)	\$ (2,456,799.62)

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 \$19,318.35, or 4.5%, from the prior year.

Total operating expenses decreased by \$4,553.41, or 1.3%, from the prior year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of October 31, 2016, the District had \$4,967,432.57 (net of accumulated depreciation) invested in capital assets, including the water storage and distribution system, improvements, machinery, and equipment. The District purchased \$41,214.87 in assets during this fiscal year. The net capital assets decreased by \$92,642.32, or 1.8%, from the prior year. This decrease was due primarily to annual depreciation expense, and some capital asset disposals.

**RURAL WATER, SEWER, GAS AND SOLID WASTE  
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For the Year Ended October 31, 2016**

**Debt**

The District had \$6,265,535.78 in long-term debt outstanding, as of October 31, 2016, with \$3,102,199.18 due and payable within one year. Total long-term obligations did not change during the year. Table 3 summarizes long-term debt obligations outstanding:

**Table 3  
Long-Term Debt**

Customer Deposits	\$ 28,800.00
2003 Revenue Note	1,400,100.00
Oklahoma Water Resources Board	<u>4,836,635.78</u>
Total Long-Term Debt	<u>\$ 6,265,535.78</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 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 2017, 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.





Certified Public Accountants, PLLC  
124 S. Main Street, Miami, Oklahoma 74354  
22 South Adair, Pryor, Oklahoma 74361  
918-542-4401

## **INDEPENDENT AUDITOR'S 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, 2016, 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.

**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, 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.

**EMPHASIS OF MATTER REGARDING GOING CONCERN**

The accompanying financial statements have been prepared with the assumption 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, 2016, 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 April 14, 2017, 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 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

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

A handwritten signature in cursive script that reads "Ober & Littlefield, PLLC".

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

**APRIL 14, 2017**

**RURAL WATER, SEWER, GAS AND SOLID WASTE  
MANAGEMENT DISTRICT NO. 10  
DELAWARE COUNTY, OKLAHOMA  
Statement of Net Position  
October 31, 2016**

**ASSETS**

Current Assets:	
Cash and cash equivalents	\$ 131,718.77
Accounts receivable	30,818.17
Prepaid expenses	8,991.90
Total Current Assets	<u>171,528.84</u>
Noncurrent Assets:	
Restricted assets:	
Cash and cash equivalents - customer deposits	29,055.28
Cash and cash equivalents - debt service	47,765.37
Capital assets, net of accumulated depreciation	4,967,432.57
Total Noncurrent Assets	<u>5,044,253.22</u>
Total Assets	<u>\$ 5,215,782.06</u>

**LIABILITIES**

Current Liabilities:	
Accounts payable	\$ 3,055.13
Sales tax payable	25.48
Accrued administrative fees	252,055.47
Accrued wages	5,066.12
Accrued payroll taxes	3,333.84
Accrued interest - bonds payable	700,100.55
Accrued interest - notes payable	669,094.81
Current portion of long-term debt, bonds payable	796,500.00
Current portion of long-term debt, notes payable	2,305,699.18
Total Current Liabilities	<u>4,734,930.58</u>
Non-Current Liabilities:	
Customer deposits payable from restricted assets	28,800.00
Bonds payable, net of current portion	603,600.00
Notes payable, net of current portion	2,530,936.60
Total Noncurrent Liabilities	<u>3,163,336.60</u>
Total Liabilities	<u>7,898,267.18</u>

**NET POSITION**

Unrestricted	<u>(2,682,485.12)</u>
Total Net Position	<u>\$ (2,682,485.12)</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, 2016**

<b>Operating Revenues:</b>	
Water revenues	\$ 331,067.17
Gas revenues	115,092.14
Total Operating Revenues	<u>446,159.31</u>
<b>Operating Expenses:</b>	
Accounting and legal	7,100.00
Administration, banking, and trust fees	26,562.19
Bad debts	615.99
Chemicals and components	24,876.58
Consulting fees	1,094.54
Depreciation and amortization	122,435.72
Dues and memberships	3,876.72
Employee benefits	9,230.57
Engineering fees	3,500.00
Fuel	7,050.13
Gas purchasing expense	32,388.84
Insurance and bonds	11,421.85
Materials and supplies	8,604.81
Miscellaneous expenses	698.50
Office supplies and expenses	1,997.81
Payroll expenses	101,549.91
Payroll tax expense	8,741.67
Postage	2,506.70
Repairs and maintenance	38,443.23
Training	1,200.00
Truck expense	4,755.40
Utilities and telephone	53,808.96
Water testing	2,861.12
Total Operating Expenses	<u>475,321.24</u>
Operating Income (Loss)	(29,161.93)
<b>Non-Operating Revenues (Expenses):</b>	
Interest and dividend income	732.57
Tower rental	600.00
Gain/(loss) on disposal of assets	(11,411.47)
Interest expense	(186,444.67)
Total Non-Operating Revenues (Expenses)	<u>(196,523.57)</u>
Change in Net Position	(225,685.50)
Net Position, Beginning of Year	<u>(2,456,799.62)</u>
Net Postion, End of Year	<u><u>\$(2,682,485.12)</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  
Statement of Cash Flows  
October 31, 2016**

**Cash flows from operating activities:**

Cash received from customers	\$ 446,402.62
Cash paid for payroll and benefits	(121,788.44)
Cash paid to suppliers for goods and services	(214,959.16)
Net cash provided (used) by operating activities	<u>109,655.02</u>

**Cash flows from investing activities:**

Interest received from investments	732.57
Cash received from tower rental	600.00
Net cash provided (used) by investing activities	<u>1,332.57</u>

**Cash flows from capital and related financing activities:**

Purchases of capital assets	(29,793.00)
Loss on disposal of assets	(11,411.47)
Interest paid on capital debt	(36,943.36)
Net cash provided (used) by capital and related financing activities	<u>(78,147.83)</u>

Net increase (decrease) in cash and cash equivalents 32,839.76

Beginning cash and cash equivalents	<u>175,700.07</u>
Ending cash and cash equivalents	<u>\$ 208,539.83</u>

**Reconciliation of operating income (loss) to cash provided  
by operating activities:**

Operating Income (Loss)	\$ (29,161.93)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization	122,435.72
Change in assets and liabilities:	
(Increase)/decrease in accounts receivable	(1,796.69)
(Increase)/decrease in prepaid insurance and expenses	(5,033.82)
Increase/(decrease) in accounts payable	(817.15)
Increase/(decrease) in sales tax payable	5.77
Increase/(decrease) in accrued administrative fees	24,249.41
Increase/(decrease) in accrued wages	(2,689.68)
Increase/(decrease) in customer deposits	2,040.00
Increase/(decrease) in accrued payroll taxes	423.39
Net cash provided by operating activities	<u>\$ 109,655.02</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, 2016**

**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 558 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.

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Notes to the Financial Statements  
October 31, 2016**

**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  
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Notes to the Financial Statements  
October 31, 2016**

**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, 2016**

**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 \$47,765.37 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, 2016**

**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."

*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, 2016, 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, 2016**

**Note 2 – Detailed Notes Concerning Accounts:** continued

**2.B. Accounts Receivable**

Aged accounts receivable, as of October 31, 2016, are as follows:

Current	\$ 21,739.74
31 - 60 days arrears	5,593.99
61 - 90 days arrears	2,018.78
Over 90 days arrears	<u>1,465.66</u>
Total	<u>\$ 30,818.17</u>

**2.C. Changes in Capital Assets**

Capital asset activity, for the fiscal year ended October 31, 2016, 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	177,226.15	-	(20,010.24)	157,215.91
Gas distribution system	1,496,564.91	13,755.97	-	1,510,320.88
Water distribution system	4,665,001.20	27,458.90	(29,290.29)	4,663,169.81
Total depreciable assets	<u>6,365,928.59</u>	<u>41,214.87</u>	<u>(49,300.53)</u>	<u>6,357,842.93</u>
Total Capital assets, at cost	<u>\$ 6,409,815.59</u>	<u>\$ 41,214.87</u>	<u>\$ (49,300.53)</u>	<u>\$ 6,401,729.93</u>
Less: accumulated depreciation and amortization				
Buildings	\$ (4,761.28)	\$ (452.28)	\$ -	\$ (5,213.56)
Equipment	(121,738.51)	(8,141.66)	-	(129,880.17)
Gas distribution system	(295,671.84)	(24,942.75)	-	(320,614.59)
Water distribution system	(927,569.08)	(88,899.03)	37,879.07	(978,589.04)
Total accumulated depreciation and amortization	<u>(1,349,740.71)</u>	<u>(122,435.72)</u>	<u>37,879.07</u>	<u>(1,434,297.36)</u>
Capital assets, net	<u>\$ 5,060,074.88</u>	<u>\$ (81,220.85)</u>	<u>\$ (11,421.46)</u>	<u>\$ 4,967,432.57</u>

**RURAL WATER, SEWER, GAS AND SOLID WASTE  
MANAGEMENT DISTRICT NO. 10  
DELAWARE COUNTY, OKLAHOMA  
Notes to the Financial Statements  
October 31, 2016**

**Note 2 – Detailed Notes Concerning Accounts:** continued

**2.D. Long-Term Debt**

Long-term debt consists of customer deposits, bonds payable, and notes payable. During the year ending October 31, 2016, 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, 2016.

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, 2016, are as follows:

<u>Year ending October 31</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 796,500.00	\$ 599,983.26
2018	114,300.00	37,548.50
2019	124,800.00	31,660.75
2020	136,200.00	25,244.00
2021	148,500.00	18,216.00
2022	<u>79,800.00</u>	<u>12,740.75</u>
Totals	<u>\$1,400,100.00</u>	<u>\$ 725,393.26</u>

**RURAL WATER, SEWER, GAS AND SOLID WASTE  
MANAGEMENT DISTRICT NO. 10  
DELAWARE COUNTY, OKLAHOMA  
Notes to the Financial Statements  
October 31, 2016**

**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, 2016, are as follows:

<u>Year ending October 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Administration Fee</u>
2017	\$ 2,305,699.18	\$ 676,521.52	\$ 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	343,884.39	33,820.45	7,508.99
2022-2024	<u>1,223,275.42</u>	<u>51,538.09</u>	<u>11,442.73</u>
Totals	<u>\$ 4,836,635.78</u>	<u>\$ 908,360.92</u>	<u>\$ 65,444.91</u>

The following is a summary of the changes in general long-term debt of the District, for the year ending October 31, 2016, 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	\$ 26,760.00	\$ 2,040.00	\$ -	\$ 28,800.00
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>\$ 6,263,495.78</u>	<u>\$ 2,040.00</u>	<u>\$ -</u>	<u>\$ 6,265,535.78</u>

**RURAL WATER, SEWER, GAS AND SOLID WASTE  
MANAGEMENT DISTRICT NO. 10  
DELAWARE COUNTY, OKLAHOMA  
Notes to the Financial Statements  
October 31, 2016**

**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**

<u>Water Rates and Charges</u>	
Minimum monthly charge on first 2,000 gallons	\$ 36.75
Price per thousand gallons for next 8,000 gallons	6.25
Price per thousand gallons for gallons over 10,000	6.65
<u>Gas Rates and Charges</u>	
Minimum monthly charge for cost of gas	\$ 17.50
Price per decatherm over cost of gas purchased	5.50
<u>Other Fees</u>	
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

**3.C. Evaluation of Subsequent Events**

The District has evaluated subsequent events through April 14, 2017, the date which the financial statements were available to be issued, and no additional disclosures are required.

**REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS**





Certified Public Accountants, PLLC  
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918-542-4401

**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, 2016, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated April 14, 2017. 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  
Page 2

***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**

**APRIL 14, 2017**