

Rural Water, Sewer, and Solid Waste Management District No. 79-1
Creek and Tulsa Counties, Oklahoma

Independent Auditor's Report
and Financial Statements

October 31, 2011

Rural Water, Sewer, and Solid Waste Management District No. 79-1
Creek and Tulsa Counties, Oklahoma
October 31, 2011

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KIRKENDALL & SWINDELL CPAS, PLLC

Certified Public Accountants

405 W. Claremore St.

Claremore, OK 74017

(918) 342-5474

Independent Auditor's Report

January 15, 2012

Board of Directors

Rural Water, Sewer, and Solid Waste Management District No. 79-1

Creek and Tulsa Counties, Oklahoma

We have audited the accompanying Statement of Fund Net Assets of ***Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties, Oklahoma*** as of October 31, 2011, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended. The financial statements are the responsibility of ***Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties, Oklahoma's*** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties, Oklahoma*** as of October 31, 2011, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 7, 2011 on our consideration of the ***Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties, Oklahoma*** internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, and 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 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 conjunction with this report in considering the results of our audit.

Sincerely,

Kirkendall & Swindell CPAs, PLLC

KIRKENDALL & SWINDELL CPAs, PLLC

Certified Public Accountants

405 W. Claremore St.

Claremore, OK 74017

(918) 342-5474

Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards

Board of Directors

Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties

We have audited the financial statements of ***Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties***, as of and for the year ended October 31, 2011 and have issued our report thereon dated January 15, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of your financial statements for the period ending October 31, 2011, we considered your internal control over financial reporting (internal control) as a basis for designing our auditing procedures, in accordance with generally accepted auditing standards (GAAS). We did this for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water District # 3, Creek and Tulsa Counties (Company) internal control. Accordingly, as a part of your audit, we are not expressing an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose of conducting your organization's audit and would not necessarily identify all deficiencies in internal control that might be considered material weaknesses or significant deficiencies. However, we did identify certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies that are discussed below.

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. It is important to note that control deficiencies are problems that you will not necessarily choose to address; however, they do represent potential risks. Our job as your financial statement auditor is to make you aware of and assist you in understanding these material weaknesses and significant deficiencies, assist you in understanding them, and thereby enable you to make informed business decisions about how best to respond to the potential risks. In this year's audit, we identified the following:

Materials Weaknesses

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. We believe that the following deficiencies constitute material weaknesses:

Finding 2011 – 1: We, as auditors, were required to prepare the Company financial statements and propose several year-end adjustments because the Company doesn't have adequate resources or resources with the knowledge required to prepare the Organization's financial statements in accordance with generally accepted accounting principles. Additionally, we, as auditors, were required to make year-end adjustments including: estimate accounts receivable, capitalize fixed assets additions, book depreciation, and accrued liabilities because the Company doesn't have adequate resources or resources with the knowledge required to propose and book the Organization's financial transactions that are not recurring in nature. These entries are necessary, however, to be in accordance with generally accepted accounting principles.

Significant Deficiencies

A *significant deficiency* is a deficiency, or a 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.

This written communication related to the material weaknesses and significant deficiencies identified during this year's audit is intended solely for the information of and use by management of Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties,, those charged with the Company's governance, others you deem appropriate within your organization, and any governmental authorities that require you to submit this information. It is not intended for use by anyone other than these specified parties.

Compliance

As part of obtaining reasonable assurance about whether the ***Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties***, financial statements are free of material misstatement, we performed tests of the 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs.

This written communication related to the material weaknesses and significant deficiencies identified during this year's audit is intended solely for the information of and use by management of Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties,, those charged with the Company's governance, others you deem appropriate within your organization, and any governmental authorities that require you to submit this information. It is not intended for use by anyone other than these specified parties.

Kirkendall & Swindell CPAs, PLLC
Certified Public Accountants

January 15, 2012

Rural Water, Sewer, and Solid Waste Management District No. 79-1

Statement of Net Assets

October 31, 2011

Assets

Current Assets:

Cash and cash equivalents - Unrestricted	\$	20,901.95
Accounts receivable – customers		14,210.55
Prepaid Insurance		479.17
Total Current Assets		<u>35,591.67</u>

Certificates of deposit - Restricted		32,436.00
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Capital Assets:

Property and Equipment, net of accumulated depreciation		383,811.90
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Total Assets		<u><u>451,839.57</u></u>
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Liabilities and Fund Net Assets

Current Liabilities:

Accrued Liabilities		6,532.25
Current portion of long-term debt		18,565.57
Total Current Liabilities		<u>25,097.82</u>

Non-Current Liabilities:

Long term debt, net of current portion		241,778.44
Total Non-Current Liabilities		<u>241,778.44</u>
Total Liabilities		<u><u>266,876.26</u></u>

Fund Net Assets:

Net Assets	\$	<u><u>184,963.31</u></u>
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The accompanying notes are an Integral part of the financial statements.

Rural Water, Sewer, and Solid Waste Management District No. 79-1
Statement of Revenue, Expenses & Changes in Fund Net Assets
For the Year Ended October 31, 2011

CHANGES IN NET ASSETS:

Operating Revenues:

Sewer system revenue	\$	58,823.64
		58,823.64

Operating Expenses:

Wages expense		16,123.60
Professional fees		3,325.00
Rent		3,600.00
Board of director expense		700.00
Office expense		1,094.53
Telephone expense		1,106.61
Insurance expense		1,602.83
Payroll tax expense		1,579.59
Mileage expense		1,586.68
Miscellaneous expense		201.30
Total Operating Expenses	\$	30,920.14

Operating Income (Loss)	\$	27,903.50
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Non-Operating Revenues (Expenses)

Interest Income		1,155.04
Depreciation		(24,816.00)
Interest expense		(18,849.39)
Total Non-Operating Revenues (Expenses)	\$	(42,510.35)

Change in Net Assets		(14,606.85)
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Prior period adjustment		(4,472.93)
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Net Assets at beginning of the year		204,043.09
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Net Assets at end of the year	\$	184,963.31
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The accompanying notes are an Integral part of the financial statement.

Rural Water, Sewer, and Solid Waste Management District No. 79-1

Statement of Cash Flows

For the Year Ended October 31, 2011

Cash Flows from Operating Activities

Cash Inflows:

Payments received from customers \$ 58,855.64

Other operating revenue 0.00

Total cash received 58,855.64

Cash outflows:

Payments for salaries and benefits 17,485.30

Payments to supplies for goods and services 7,599.86

Total cash used \$ 25,085.16

Net Cash Provided (Used) by Operating Activities \$ 33,770.48

Cash Flows from Non-Capital Financing Activities 0.00

\$ 0.00

Cash Flows from Capital and Related Financing Activities

Payment on long-term debt (56,642.58)

Interest expense (18,849.39)

Net Cash Provided (Used) by Capital and Related Financing Activities \$ (75,491.97)

Cash Flows from Investing Activities

Interest Income received 1,155.04

Total cash received from investing activities \$ 1,155.04

Prior period Adjustment (4,472.93)

Increase (decrease) in cash & cash equivalents \$ (45,039.38)

Cash and cash equivalents, beginning of year 98,377.33

Cash and cash equivalents, end of year \$ 53,337.95

Reconciliation of Operating Income (Loss) to Net Cash

Provided by Operating Activities:

Operating Income (Loss) \$ 27,903.50

(Increase) decrease in current assets:

Accounts receivable 32.00

Prepaid Insurance 620.83

Increase (decrease) in current liabilities:

Accounts payable 5,214.15

Net cash provided (used) by operating activities \$ 33,770.48

Supplemental Disclosure of Cash Flow Information:

Interest Expense \$ 18,849.39

The accompanying notes are an Integral part of the financial statement.

Rural Water, Sewer, and Solid Waste Management District No. 79-1

Notes to Financial Statements

For the Year Ended October 31, 2011

The following notes to the financial statements are an Integral part of Rural Water, Sewer, and Solid Waste Management District No. 79-1's financial statements.

I. Summary of Significant Accounting Policies

Rural Water, Sewer, and Solid Waste Management District No. 79-1, (the "District"), Creek and Tulsa Counties, Oklahoma, is a not-for-profit Oklahoma corporation created pursuant to the "Oklahoma Rural Water, Sewer, and Solid Waste Management District Act" in 1979. The District is also known as the Oakridge Area Sewer District No. 79-1, Creek and Tulsa Counties Oklahoma.

The District was organized for the purpose of developing a sewage disposal facility and solid waste management system to serve and meet the needs of businesses and residents within the district. The funds to develop the system were provided by members and loans from the Farmers Home Administration.

By an agreement with the City of Tulsa, The City of Tulsa operates and maintains the sewer system. The City of Tulsa also bills and collects the monthly sewer service charges and such other charges that may be imposed by the District. The charges collected by the City of Tulsa are remitted monthly, less a fee, directly to the District's general bank account.

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.

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 Districts for which the elected officials of the primary government are financially accountable and other Districts 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 is not a component unit as defined by Governmental Accounting Standards Board Statement No. 14.

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

Rural Water, Sewer, and Solid Waste Management District No. 79-1

Notes to Financial Statements

For the Year Ended October 31, 2011

I. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation

The District distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with the District's principal on-going activities.

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.

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

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 *no operating* Items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues 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 non-operating revenues and expenses.

D. Concentrations of Credit and Market Risk

Financial instruments that potentially expose the District to concentrations of credit and market risk consist primarily of cash equivalents and investments. Cash equivalents are maintained at high quality financial institutions and credit exposure is limited at any one Institution. The District has not experienced any losses on its cash equivalents.

E. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

For purposes of the statement 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.

2. 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 balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Rural Water, Sewer, and Solid Waste Management District No. 79-1

Notes to Financial Statements

For the Year Ended October 31, 2011

I. Summary of Significant Accounting Policies (continued)

E. Assets, Liabilities and Net Assets (continued)

3. Accounts Receivable

Accounts receivable consists primarily of charges for sewer services. The City of Tulsa bills the monthly sewer service charges and also collects the customer receipts. Monthly, the City of Tulsa transfers the monies collected to the District's operating bank account.

4. Capital Assets

Additions and improvements that significantly extend the useful life of an asset are capitalized, whereas costs incurred for repairs and maintenance are expensed as incurred. Property and equipment purchases are reported at cost. Capital assets are defined by the District as assets with an initial, individual cost equal to or greater than \$300.

Depreciation of capital assets is calculated using the straight-line method over the following estimated useful lives:

	<u>Estimated Service Life</u>
Sewer System	40 years
Office Furniture and Equipment	5-7 years

5. Restricted Cash/Assets-Certificates of Deposit

The District maintains two certificates of deposit. One is restricted to provide a reserve for debt service on its loans from the Farmers Home Administration. The other is from unexpended construction funds restricted for the potential purchase of an office. The balances as of October 31, 2011 are as follows:

Debt service reserve	<u>\$ 32,436</u>
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6. 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.

Rural Water, Sewer, and Solid Waste Management District No. 79-1

Notes to Financial Statements

For the Year Ended October 31, 2011

I. Summary of Significant Accounting Policies (continued)

F. Income Tax Status

The District is conducting its affairs as a non-profit organization and has made no provisions for federal income tax.

II. Detailed Notes Concerning the Funds

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. The District invests entirely in certificates of deposit.

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, 2011, none of the District's investments were exposed to custodial credit risk.

B. Accounts Receivable

Accounts receivable consists primarily of charges for sewer services. By an agreement with the City of Tulsa, The City of Tulsa operates and maintains the sewer system. The City of Tulsa also bills and collects the monthly sewer service charges and such other charges that may be imposed by the District. The charges collected by the City of Tulsa are remitted monthly, less a fee, directly to the District's general bank account.

C. Long-Term Debt

The District has two loans with the Farmers Home Administration. These loans were used to finance the construction of the sewage disposal system. The funds consisted of two installment promissory notes that were originated December 10, 1985 with the final year of payments in 2025. The terms and balances of the notes as of October 31, 2011, are as follows:

	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Balance</u>
a.	5.0%	\$1,866	\$224,472.49
b.	9.0%	\$ 837	\$ 35,511.12

Rural Water, Sewer, and Solid Waste Management District No. 79-1

Notes to Financial Statements

For the Year Ended October 31, 2011

II. Detailed Notes Concerning the Funds (Continued)

D. Long-Term Debt (Continued)

The principal maturities for the notes over the next five years are approximately:

<u>Year Ending</u>	<u>Amount</u>
10/31/2012	18,565.57
10/31/2013	19,819.80
10/31/2014	21,166.76
10/31/2015	22,613.86
10/31/2016	16,638.25
Thereafter	<u>161,539.77</u>
Total	<u>\$ 260,344.01</u>

E. Changes In General Long-Term Debt

Long-term debt consists of notes payable. The following is a summary of the changes in general long-term debt of the District for the fiscal year.

<u>October 31, 2010</u>	<u>Advances</u>	<u>Payments</u>	<u>October 31, 2011</u>
<u>\$ 316,986.59</u>	<u>\$ -</u>	<u>\$ 56,642.58</u>	<u>\$ 260,344.01</u>

III. Other Information

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 are 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.

Rural Water, Sewer, and Solid Waste Management District No. 79-1

Schedule of Audit Findings

For the Year Ended October 31, 2011

PRIOR YEAR AUDIT FINDINGS

Internal Control Over Financial Reporting

2010 – 1: SAS 115

Finding:

A control deficiency 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 on a timely basis misstatements or noncompliance with applicable requirements of a governmental entity. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that (a) a material misstatement of the entity's financial statements, or (b) noncompliance with applicable governmental entities, that is more than inconsequential will not be prevented or detected. We consider the deficiencies describe below to be significant deficiencies:

Rural Water, Sewer, and Solid Waste Management District No. 79-1 currently does not have the capability report their financial data reliably in accordance with generally accepted accounting principles. According to SAS No. 115, the inability to produce materially accurate financial statements is a significant control deficiency. Thus, there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. The key areas where a misstatement of the entities financial statements is more than inconsequential include the following:

- Fixed Assets – The District does not currently maintain a fixed asset detail schedule, nor does the District calculate or book depreciation expense.
- Audit Adjustments – The District does not consistently book audit adjustments. Therefore, adjustments from many years are included in the audit schedules.

CURRENT YEAR AUDIT FINDINGS

Internal Control Over Financial Reporting

2011 – 1: SAS 115

Finding:

A control deficiency 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 on a timely basis misstatements or noncompliance with applicable requirements of a governmental entity. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that (a) a material misstatement of the entity's financial statements, or (b) noncompliance with applicable governmental entities, that is more than inconsequential will not be prevented or detected. We consider the deficiencies describe below to be significant deficiencies:

Rural Water, Sewer, and Solid Waste Management District No. 79-1 currently does not have the capability report their financial data reliably in accordance with generally accepted accounting principles. According to SAS No. 115, the inability to produce materially accurate financial statements is a significant control deficiency. Thus, there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. The key areas where a misstatement of the entities financial statements is more than inconsequential include the following:

- Fixed Assets – The District does not currently maintain a fixed asset detail schedule, nor does the District calculate or book depreciation expense.