

***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, 2014

*Rural Water, Sewer, and Solid Waste Management District No. 79-1*  
Creek and Tulsa Counties, Oklahoma  
October 31, 2014

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Report on Internal Control over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed In Accordance With Government Auditing Standards	3-4
Financial Statements	
Statement of Net Assets	5
Statement of Revenues, Expenses, and Changes in Fund Net Assets	6
Statement of Cash Flows	7
Notes to the Financial Statements	8-12
Schedule of Audit Findings	13

# VIOLET F. KIRKENDALL CPA, PC

*Certified Public Accountant*

*323 W. 1st St.*

*Claremore, OK 74017*

*(918) 341-1930*

## *Independent Auditor's Report*

January 7, 2015

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

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information 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, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements 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.

### Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

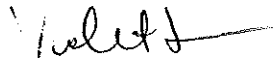
### Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties, as of October 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 7, 2015, on my consideration of the Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties internal control over financial reporting and compliance.

Sincerely,



Violet F. Kirkendall CPA, PC

# VIOLET F. KIRKENDALL CPA, PC

*Certified Public Accountant*

323 W. 1st St..

Claremore, OK 74017

(918) 341-1930

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

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

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information 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, 2014, which collectively comprise the Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties's basic financial statements and have issued my report thereon dated December 22, 2014. I conducted my 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.

Internal Control Over Financial Reporting

Management of the Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Rural Water, Sewer, and Solid Waste Management District No. 79-1, Creek and Tulsa Counties's internal control over financial reporting.

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 a combination of deficiencies in the internal control that is less severe than a material weakness, yet important enough to merit attention by those charged by governance.

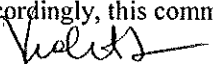
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. Given these limitations,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

Compliance and Other Matters

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, I 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, I do not express such an opinion. The results of my tests disclosed no instances, other than those described above, of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

  
Violet F. Kirkendall CPA, PC

January 7, 2015

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

Statement of Net Assets

October 31, 2014

Assets

*Current Assets:*

Cash and cash equivalents - Unrestricted	\$	26,730.57
Accounts receivable – customers		74,359.06
Prepaid Insurance		<u>780.87</u>
Total Current Assets		101,870.30

Certificates of deposit - Restricted		32,436.00
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*Capital Assets:*

Property and Equipment, net of accumulated depreciation		<u>310,761.06</u>
Total Assets		<u>445,067.36</u>

Liabilities and Fund Net Assets

*Current Liabilities:*

Accounts payable		867.13
Current portion of long-term debt		<u>13,880.46</u>
Total Current Assets		14,747.59

*Non-Current Liabilities:*

Long term debt, net of current portion		<u>164,042.36</u>
Total Liabilities		<u>178,789.95</u>

*Fund Net Assets:*

Investment in Capital Assets, net of debt		132,838.24
Unrestricted		101,003.17
Restricted		<u>32,436.00</u>
Total Net Assets	\$	<u>266,277.41</u>

*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, 2014

**CHANGES IN NET ASSETS:**

**Operating Revenues**

Sewer Receipts	\$ 133,567.20
Miscellaneous Revenues	1,505.00
Total Operating Revenues	135,072.20

**Operating Expenses**

Depreciation	24,523.01
Directors Expense	2,800.00
Insurance	823.60
Miscellaneous	517.35
Office Supplies	1,170.19
Payroll Taxes	1,079.67
Professional Fees	3,250.00
Rent	3,600.00
Salaries	11,996.00
Telephone	1,331.47
Utilities	1,797.31
Total operating expenses	53,715.99
Operating Income (Loss)	81,356.21

**Non-Operating Revenues (Expenses)**

Interest Expense	(6,713.86)
Interest Income	243.94
Total Non-Operating Revenues (Expenses)	(6,469.92)

Change in Net Assets	74,886.29
Net Assets at beginning of the year	191,391.12
Net Assets at end of the year	\$ 266,277.41

*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, 2014

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from customers	\$ 65,738.29
Cash paid for goods, supplies & services	(13,075.67)
Cash paid for wages and benefits	<u>(15,899.58)</u>
Net cash flows from operating activities	<u>36,763.04</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:** 0.00

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Cash payments for the purchase of property	0.00
Cash paid for principal payment on long term debt	(24,837.63)
Interest paid on long term debt	<u>(6,988.14)</u>
Net cash flows from capital and related financing activities	<u>(31,825.77)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Interest and dividends on investments	<u>243.94</u>
Net increase (decrease) in cash	(5,181.21)
Cash and cash equivalents, beginning of year	<u>56,763.39</u>
Cash and cash equivalents, end of year	<u>\$ 59,166.57</u>

**Reconciliation of Operating Income to Net Cash Provided (Used) by**

<b><u>Operating Activities:</u></b>	
Operating income (loss)	\$ 81,356.21
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	24,523.01
Net changes in assets and liabilities:	
Accounts receivable	(69,333.91)
Prepaid Assets	(23.00)
Other accrued liabilities	<u>240.73</u>
Net cash provided (used) by operating activities	<u>\$ 36,763.04</u>

*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, 2014**

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, 2014

**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, 2014

**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, 2014 are as follows:

Debt service reserve	\$ <u>32,436.00</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, 2014

**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**

**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, 2014, none of the District's investments were exposed to custodial credit risk.

**A. 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.

**B. Long-Term Debt**

The District has one loans with the Rural Development Authority. The loan was used to finance the construction of the sewage disposal system. The fund consisted of an installment promissory note 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, 2014, are as follows:

	<u>Interest Rate</u>	<u>Monthly Payment</u>	<u>Balance</u>
a.	5.0%	\$1,866	\$177,922.82

*Rural Water, Sewer, and Solid Waste Management District No. 79-1*  
Notes to Financial Statements  
For the Year Ended October 31, 2014

**II. Detailed Notes Concerning the Funds (Continued)**

**C. Long-Term Debt (Continued)**

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

<u>Year Ending</u>	<u>Amount</u>
10/31/2015	\$ 13,880.46
10/31/2016	14,590.60
10/31/2017	15,337.09
10/31/2018	16,121.76
10/31/2019	16,946.58
Thereafter	<u>101,046.33</u>
Total	<u>\$ 177,922.82</u>

**D. 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, 2013</u>	<u>Advances</u>	<u>Payments</u>	<u>October 31, 2014</u>
<u>\$ 206,092.22</u>	<u>\$ -</u>	<u>\$ 28,169.40</u>	<u>\$ 177,922.82</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, 2014

**PRIOR YEAR AUDIT FINDINGS**

- NONE

**CURRENT YEAR AUDIT FINDINGS**

- NONE