

Rural Water District No. 7
Pittsburg County, Oklahoma

Financial Statements and
Reports of Independent Auditor

October 31, 2014

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Rural Water District No. 7
Pittsburg County, Oklahoma
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SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Independent Auditor's Report

Board of Directors
Rural Water District No. 7
Pittsburg County, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 7 (the District), Pittsburg County, Oklahoma, as of and for the year ended October 31, 2014, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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 respective financial position of the business-type activities of the District as of October 31, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has elected to omit the Management Discussion and Analysis, which is considered required supplementary information that is normally subjected to auditing procedures. Due to this omission, the usefulness and accessibility of the financial statements are limited to the District's management. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP



SANDERS, BLEDSOE & HEWETT

CERTIFIED PUBLIC ACCOUNTANTS, LLP

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Standards Performed in Accordance with Government Auditing Standards

Board of Directors
Rural Water District No. 7
Pittsburg County, Oklahoma

We have audited the combined financial statements of Rural Water District No. 7 (the District), Pittsburg County, Oklahoma, as of and for the year ended October 31, 2014, which, except for the omission of the Management Discussion and Analysis, collectively comprise the District's basic financial statements and have issued our report thereon dated November 3, 2015. 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, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 misstatements on a timely basis. A significant deficiency is a control deficiency, or 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 accepting accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

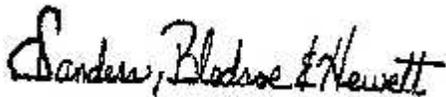
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Sanders, Bledsoe & Hewett". The signature is written in a cursive, flowing style.

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

Rural Water District No. 7
Pittsburg County, Oklahoma
Schedule of Audit Results
October 31, 2014

Section 1 – Summary of Auditor’s Results

1. An unqualified opinion report was issued on the financial statements.
2. The audit disclosed no reportable conditions in the internal controls.
3. The audit disclosed no instances of noncompliance.

Section 2 – Findings relating to the financial statements required to be reported in accordance with GAGAS:

NONE

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
Statement of Net Assets
October 31, 2014

ASSETS

Current assets:	
Cash in bank	\$ 165,711
Investments	193,389
Accounts receivable	35,434
Prepaid insurance	8,169
Total current assets	402,703
Non-current assets:	
Restricted assets:	
Cash in bank	375,069
Capital assets:	
Land	7,422
Building & fixtures	66,361
Vehicles & equipment	243,150
Water system	1,950,285
Less: accumulated depreciation	(1,348,634)
Total non-current assets	1,293,653
Other Assets:	
OWRA deposit	1,000
Total Assets	1,697,356

LIABILITIES

Current liabilities:	
Accounts payable	2,282
Current portion of long-term debt	3,734
Total current liabilities	6,016
Noncurrent liabilities:	
Notes payable - Rural Development	113,606
Total Liabilities	119,622

NET ASSETS

Invested in capital assets, net of related debt	801,244
Unrestricted assets	776,490
Total Net Assets	\$ 1,577,734

The accompanying notes to the financial statements are an integral part of this statement

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
Statement of Activities
For The Year Ended October 31, 2014

Operating Revenues:	
Water sales	\$ 462,446
Other sources	1,100
Total revenues from operations	463,546
Expenses from Operations:	
Water cost	173,134
Operating supplies & materials	34,129
Contract management	40,575
Salaries	73,621
Payroll taxes	21,212
Retirement	8,292
Health insurance	6,572
Insurance	14,098
Professional fees	3,869
Vehicle expense	31,009
Office expenses	9,293
Postage	4,209
Telephone	5,888
Utilities	14,707
Miscellaneous	505
Depreciation	63,824
Total expenses from operations	504,937
Operating Income (Loss)	(41,391)
Non-Operating Revenues (Expenses):	
Interest income	3,406
Interest expense on debt	(5,964)
Total non-operating revenues (expenses)	(2,558)
Change in Net Assets	(43,949)
Total Net Assets, beginning of period	1,621,683
Total Net Assets, end of period	\$ 1,577,734

The accompanying notes to the financial statements are an integral part of this statement

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
Statement of Cash Flows
For the Year Ended October 31, 2014

Cash flows from operating activities:

Receipts from customers	\$ 466,605
Payments To employees	(73,621)
Payments to vendors	(368,179)
	<u>24,805</u>
Net cash (used in) provided by operating activities	<u>24,805</u>

Cash flows from capital and related financing activities:

Interest paid on debt	(5,964)
Principal payments on debt	(3,552)
	<u>(9,516)</u>
Net cash used in capital and related financing activities	<u>(9,516)</u>

Cash flows from investing activities:

Capital assets purchased	(109,284)
Interest on investments	3,406
	<u>(105,878)</u>
Net cash used in investing activities	<u>(105,878)</u>

Net increase (decrease) in cash and cash equivalents (90,589)

Cash & cash equivalents, beginning of period 824,758

Cash & cash equivalents, end of period \$ 734,169

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

Operating Income (loss)	\$ (41,391)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	63,824
(Increase) decrease in current assets-	
Accounts receivable, net	3,059
Prepaid insurance, net	(388)
Increase (decrease) in current liabilities-	
Accounts payable	(299)
	<u>(299)</u>
Net Cash Provided by Operating Activities	<u>\$ 24,805</u>

The accompanying notes are an integral part of the financial statements

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2014

Note 1 – Significant Accounting Policies

Reporting Entity

The District is recognized as a public, not-for-profit rural water district under Oklahoma Statutes, Title 82. The District is an independent, self-contained reporting entity with no associated component units. It is operated in a manner similar to a private business enterprise where the cost of providing water services is financed through user charges.

Basis of Accounting

The accrual basis of accounting is followed for all accounts. Revenues are recorded when earned and expenses are recognized when incurred. This policy is in accordance with generally accepted accounting principles.

Cash

The District's accounts at October 31, 2014, and are comprised as follows:

First National Bank, McAlester, OK	
Operation & Maint. Account	\$ 148,166
Equipment Account	19,082
Fuel Account	1,500
Less: Outstanding Checks	<u>(3,038)</u>
Total Cash	<u>\$ 165,710</u>

Investments

The District had two outstanding investments at October 31, 2014, certificates of deposit located at First National Bank, in the amounts of \$142,282 and \$51,107, totaling \$193,389. The District's cash and investment holdings are entirely covered by FDIC and pledged collateral.

Restricted Cash

The District entered into an agreement with Rural Development and the City of McAlester in March 2006. The agreement called for the District to deposit funds into a capital replacement account an amount equal to the District's monthly water billings from the City of McAlester. Any capital costs paid from this account must be approved by Rural Development. The District keeps these funds in a high yield money market account at First National Bank, and had a balance of \$375,069 at October 31, 2014.

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2014**

Note 1 – Significant Accounting Policies – cont’d

Accounts Receivable

Billings for accounts receivable at October 31, 2014, were \$35,434. No computation was made for allowance for doubtful accounts, which is not considered to be material to the financial statements.

Prior Year Information

Prior year information is shown on the financial statements for comparative purposes only. No assurance is given on prior year amounts.

Federal Income Tax

The District is exempt from federal and state income taxes.

Note 2 – Property and Equipment

Property and equipment is recorded at cost when purchased. Depreciation is recorded using the straight-line method over the estimated useful life of the asset. Water line systems, extensions and improvements are depreciated using a 50-year life. Water system improvements constructed by the District include capitalizing the direct costs of materials and labor. If an asset is permanently impaired in value, the asset cost is written down to market value. The District capitalizes assets with a useful life in excess of one year and a cost over \$250. Line extension costs reimbursed by the customer are not capitalized and, accordingly, not depreciated. The following is a summary of changes in property, plant and equipment:

	Balance October 31, 2013	Acquired	(Disposed)	Balance October 31, 2014
Land	\$ 7,422	-	-	7,422
Building & fixtures	66,361	-	-	66,361
Vehicles & equip.	243,150	-	-	243,150
Water System & Equip.	1,841,001	109,284	-	1,950,285
Sub-Total	2,157,934	109,284	0	2,267,218
Less: Accum. Depr.	(1,284,810)	(63,824)	0	(1,348,634)
Total	<u>\$ 873,124</u>	<u>45,460</u>	<u>0</u>	<u>918,584</u>

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2014**

Note 3 – Retirement Plan

The District has a retirement plan with the Oklahoma Public Employees Retirement System. An employee has to meet three requirements for membership. The employee must be employed full time for at least 1,000 hours, with a salary equal to or greater than state or federal minimum wage. Membership is mandatory for all eligible employees.

Note 4 – Long-Term Debt

The District has two notes payable to Rural Development outstanding as of October 31, 2013:

Notes 91-01 and 91-03 both dated June 15, 1994, with a 40-year maturity, and an interest rate of 5.0%, with original loan amounts of \$102,500 and \$60,000, respectively. The monthly payments on these notes are \$500 and \$293. The principal balances at October 31, 2014 were \$74,093 and \$43,247, respectively.

The estimated maturities for the next four (4) years and thereafter are as follows:

October 31,	Note 91-01		Note 91-03		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 2,349	3,651	1,385	2,131	3,734	5,782
2016	2,469	3,531	1,456	2,060	3,925	5,591
2017	2,595	3,405	1,530	1,986	4,125	5,391
2018	2,728	3,272	1,609	1,907	4,337	5,179
2018-23	15,883	14,117	9,366	8,213	25,249	22,330
2023-28	20,382	9,618	12,019	5,560	32,401	15,178
2028+	27,687	3,854	15,882	2,158	43,569	6,012
Totals	\$ 74,093	41,448	43,247	24,015	117,340	65,463

Note 5 – Subsequent Events

Management has evaluated subsequent events through November 3, 2015, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

PITTSBURG RURAL WATER DISTRICT NO. 7
Balance Sheet
October 31, 2014

	October 31,	
	2014	(Memo only) 2013
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents-		
Operations & maintenance account	\$ 145,129	111,828
Equipment account	19,082	17,963
Fuel account	1,500	1,500
Investments - CDs	193,389	191,566
Accounts receivable	35,434	38,493
Prepaid insurance	8,169	7,781
Total current assets	402,703	369,131
Restricted Assets:		
Bldg, maint & cap impv acct	375,069	501,901
Fixed Assets:		
Land	7,422	7,422
Building & fixtures	66,361	66,361
Vehicles & equipment	243,150	243,150
Water system	1,950,285	1,841,001
Less: accumulated depreciation	(1,348,634)	(1,284,810)
Total fixed assets (net)	918,584	873,124
Other Assets:		
ORWA deposit	1,000	1,000
Total Assets	\$ 1,697,356	1,745,156
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 2,282	1,163
Payroll taxes payable	0	1,418
Current maturities of long-term debt	3,734	3,552
Total current liabilities	6,016	6,133
Long-Term Debt, less current maturities:		
Notes payable - Rural Development	113,606	117,340
Total Liabilities	119,622	123,473
Fund Equity:		
Retained earnings - unrestricted	1,577,734	1,621,683
Total Liabilities and Fund Equity	\$ 1,697,356	1,745,156

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended October 31, 2014

	2013-14	(Memo only) 2012-13
Revenue from Operations:		
Water sales	\$ 462,446	507,697
Other sources	1,100	12,816
Total revenue from operations	<u>463,546</u>	<u>520,513</u>
Expenses from Operations:		
Water cost	173,134	200,642
Operating supplies & materials	34,129	60,000
Contract management	40,575	35,000
Salaries	73,621	71,208
Payroll taxes	21,212	28,792
Retirement	8,292	5,959
Health insurance	6,572	5,415
Insurance	14,098	14,616
Professional fees	3,869	9,485
Vehicle expense	31,009	34,642
Office expenses	9,293	9,312
Postage	4,209	5,798
Telephone	5,888	3,814
Utilities	14,707	14,116
Miscellaneous	505	723
Depreciation	63,824	61,092
Total expenses from operations	<u>504,937</u>	<u>560,614</u>
Net Income (Loss) from Operations	(41,391)	(40,101)
Other Income:		
Interest earnings	<u>3,406</u>	<u>6,581</u>
Other Expenses:		
Interest on debt	<u>(5,964)</u>	<u>(6,137)</u>
Net Income (Loss)	(43,949)	(39,657)
Retained earnings, beginning of period	<u>1,621,683</u>	<u>1,661,340</u>
Retained earnings, end of period	<u>\$ 1,577,734</u>	<u>1,621,683</u>