

Rural Water District No. 7
Pittsburg County, Oklahoma

Financial Statements and
Reports of Independent Auditor

October 31, 2011

Audited by

SANDERS, BLEDSOE & HEWETT
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Broken Arrow, Oklahoma

Rural Water District No. 7
Pittsburg County, Oklahoma
Board of Directors
October 31, 2011

Chairman

Phillip Lalli

Vice Chairman

David Dunham

Secretary/Treasurer

Barbara Donathan

Members

Roy Martin

L.A. Parker

Operator

Larry Crawley

Bookkeeper

Vivian Moody

Rural Water District No. 7
Pittsburg County, Oklahoma
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October 31, 2011

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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, 2011, 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, 2011, 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 April 30, 2014, 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

April 30, 2014



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, 2011, 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 April 30, 2014. 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.

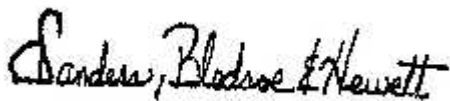
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in a more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

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 cursive script that reads "Sanders, Bledsoe & Hewett".

Sanders, Bledsoe & Hewett
Certified Public Accountants, LLP

April 30, 2014

Rural Water District No. 7
Pittsburg County, Oklahoma
Schedule of Audit Results
October 31, 2011

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, 2011

ASSETS

Current assets:	
Cash in bank	\$ 115,437
Investments	185,844
Accounts receivable	35,165
Prepaid insurance	7,706
Total current assets	<u>344,152</u>
Non-current assets:	
Restricted assets:	
Cash in bank	609,475
Capital assets:	
Land	7,422
Building & fixtures	66,361
Vehicles & equipment	215,750
Water system	1,771,360
Less: accumulated depreciation	(1,163,996)
Total non-current assets	<u>1,506,372</u>
Other Assets:	
OWRA deposit	<u>1,000</u>
Total Assets	<u>1,851,524</u>

LIABILITIES

Current liabilities:	
Accounts payable	829
Payroll taxes payable	642
Current portion of long-term debt	3,215
Total current liabilities	<u>4,686</u>
Noncurrent liabilities:	
Notes payable - Rural Development	<u>124,271</u>
Total Liabilities	<u>128,957</u>

NET ASSETS

Invested in capital assets, net of related debt	769,411
Unrestricted assets	<u>953,156</u>
Total Net Assets	<u>\$ 1,722,567</u>

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, 2011

Operating Revenues:	
Water sales	\$ 484,003
Benefit units	16,342
Total revenues from operations	500,345
Expenses from Operations:	
Water cost	119,313
Operating supplies & materials	54,669
Contract management	37,500
Salaries	57,240
Payroll taxes	16,554
Retirement	8,510
Health insurance	6,157
Insurance	18,463
Professional fees	3,250
Vehicle expense	4,007
Office expenses	26,253
Postage	4,430
Telephone	4,822
Utilities	15,692
Miscellaneous	532
Depreciation	51,018
Total expenses from operations	428,410
Operating Income (Loss)	71,935
Non-Operating Revenues (Expenses):	
Interest income	8,283
Interest expense on debt	(6,458)
Total non-operating revenues (expenses)	1,825
Change in Net Assets	73,760
Total Net Assets, beginning of period	1,648,807
Total Net Assets, end of period	\$ 1,722,567

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, 2011

Cash flows from operating activities:

Receipts from customers	\$ 498,952
Payments To employees	(57,240)
Payments to vendors	(270,923)
	<u>170,789</u>
Net cash (used in) provided by operating activities	<u>170,789</u>

Cash flows from capital and related financing activities:

Interest paid on debt	(6,458)
Principal payments on debt	(3,058)
	<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	(124,641)
Interest on investments	8,283
	<u>(116,358)</u>
Net cash used in investing activities	<u>(116,358)</u>

Net increase (decrease) in cash and cash equivalents 44,915

Cash & cash equivalents, beginning of period 865,841

Cash & cash equivalents, end of period \$ 910,756

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

Operating Income	\$ 71,935
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation Expense	51,018
(Increase) decrease in current assets-	
Accounts receivable, net	(1,393)
Prepaid insurance, net	4,657
Prepaid water, net	46,124
Increase (decrease) in current liabilities-	
Accounts payable	(1,552)
	<u>(1,552)</u>
Net Cash Provided by Operating Activities	\$ 170,789

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, 2011

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, 2011, and are comprised as follows:

First National Bank, McAlester, OK	
Operation & Maint. Account	\$ 50,921
Equipment Account	77,572
Fuel Account	1,500
Less: Outstanding Checks	<u>(14,556)</u>
Total Cash	<u>\$ 115,437</u>

Investments

The District had two outstanding investments at October 31, 2011, certificates of deposit located at First National Bank, in the amounts of \$135,687 and \$50,157, totaling \$185,844. 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 \$609,475 at October 31, 2011.

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2011

Note 1 – Significant Accounting Policies – cont’d

Accounts Receivable

Billings for accounts receivable at October 31, 2011, were \$35,165. 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, 2010	Acquired	(Disposed)	Balance October 31, 2011
Land	\$ 7,422	-	-	7,422
Building & fixtures	66,361	-	-	66,361
Vehicles & equip.	186,309	29,441	-	215,750
Water System & Equip.	1,676,160	95,200	-	1,771,360
Sub-Total	1,936,252	124,641	0	2,060,893
Less: Accum. Depr.	(1,112,978)	(51,018)	0	(1,163,996)
Total	<u>\$ 823,274</u>	<u>73,623</u>	<u>0</u>	<u>896,897</u>

**PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
FOR YEAR ENDED OCTOBER 31, 2011**

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, 2011:

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, 2011 was \$80,474 and \$47,012, respectively.

The estimated maturities for the next five (5) years and thereafter are as follows:

October 31,	Note 91-01		Note 91-03		Note 91-03	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 2,022	3,978	1,193	2,323	3,215	6,301
2013	2,126	3,874	1,253	2,263	3,379	6,137
2014	2,234	3,766	1,318	2,198	3,552	5,964
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
2016-21	14,373	15,627	8,475	9,105	22,848	24,732
2021-26	18,446	11,554	10,877	6,703	29,323	18,257
2026+	36,455	9,020	21,055	5,137	57,510	14,157
Totals	\$ 80,474	55,001	47,012	31,920	127,486	86,921

Note 5 – Subsequent Events

Management has evaluated subsequent events through April 30, 2014, 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, 2011

	October 31,	
<u>ASSETS</u>	2011	(Memo only) 2010
Current Assets:		
Cash and cash equivalents-		
Operations & maintenance account	\$ 36,365	103,092
Equipment account	77,572	61,176
Fuel account	1,500	1,500
Investments - CDs	185,844	132,413
Accounts receivable	35,165	33,772
Prepaid insurance	7,706	12,363
Total current assets	344,152	344,316
Restricted Assets:		
Bldg, maint & cap impv acct	609,475	567,660
Fixed Assets:		
Land	7,422	7,422
Building & fixtures	66,361	66,361
Vehicles & equipment	215,750	186,309
Water system	1,771,360	1,676,160
Less: accumulated depreciation	(1,163,996)	(1,112,978)
Total fixed assets (net)	896,897	823,274
Other Assets:		
Prepaid water	-	46,124
ORWA deposit	1,000	1,000
Total other assets	1,000	47,124
Total Assets	\$ 1,851,524	1,782,374
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities:		
Accounts payable	\$ 829	278
Payroll taxes payable	642	2,745
Current maturities of long-term debt	3,215	3,058
Total current liabilities	4,686	6,081
Long-Term Debt, less current maturities:		
Notes payable - Rural Development	124,271	127,486
Total Liabilities	128,957	133,567
Fund Equity:		
Retained earnings - unrestricted	1,722,567	1,648,807
Total Liabilities and Fund Equity	\$ 1,851,524	1,782,374

PITTSBURG COUNTY RURAL WATER DISTRICT NO. 7
Statement of Revenue, Expenses and Changes in Retained Earnings
For the Year Ended October 31, 2011

	2010-11	(Memo only) 2009-10
Revenue from Operations:		
Water sales	\$ 484,003	406,841
Benefit units	16,342	8,708
Total revenue from operations	500,345	415,549
Expenses from Operations:		
Water cost	119,313	173,272
Operating supplies & materials	54,669	54,804
Contract management	37,500	38,230
Salaries	57,240	56,862
Payroll taxes	16,554	19,449
Retirement	8,510	6,751
Health insurance	6,157	3,816
Insurance	18,463	15,565
Professional fees	3,250	3,880
Vehicle expense	4,007	14,194
Office expenses	26,253	16,323
Postage	4,430	3,117
Telephone	4,822	1,448
Utilities	15,692	12,954
Miscellaneous	532	539
Depreciation	51,018	47,166
Total expenses from operations	428,410	468,370
Net Income (Loss) from Operations	71,935	(52,821)
Other Income:		
Interest earnings	8,283	8,739
Other Expenses:		
Interest on debt	(6,458)	(6,606)
Net Income (Loss)	73,760	(50,688)
Retained earnings, beginning of period	1,648,807	1,699,495
Retained earnings, end of period	\$ 1,722,567	1,648,807