

AUDIT REPORT

MCCURTAIN COUNTY RURAL WATER DISTRICT #7
GARVIN, OKLAHOMA

OCTOBER 31, 2011



KERSHAW CPA & ASSOCIATES, PC

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MCCURTAIN COUNTY RURAL WATER DISTRICT #7
GARVIN, OKLAHOMA
OCTOBER 31, 2011

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MCCURTAIN COUNTY RURAL WATER DISTRICT #7
GARVIN, OKLAHOMA
OCTOBER 31, 2011

BOARD OF DIRECTORS

Jerry Byassee

Curtis Wheeler

Greg Lancaster

Kelly Ward

Jeff Spencer

Holly Coffman, Manager

KERSHAW CPA & ASSOCIATES, PC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
McCurtain County Rural Water District #7
Garvin, Oklahoma

We have audited the accompanying financial statements of the McCurtain County Rural Water District #7, as of and for the fiscal year ended October 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the McCurtain County Rural Water District #7'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, and in accordance with Oklahoma Statutes. 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 the McCurtain County Rural Water District #7, McCurtain County, Oklahoma, as of October 31, 2011, and the changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated June 29, 2012, on our consideration of the McCurtain County Rural Water District #7's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and 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 compliance with Government Auditing Standards and should be considered in assessing the results of our audit.

McCurtain County Rural Water District #7 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34. However the District has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The introductory and the other supplementary information sections listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the District. Such additional information has not

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been subjected to the auditing procedures applied in our audit of the basic financial statements, and accordingly, we do not express an opinion thereon.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

June 29, 2012

**MCCURTAIN COUNTY RURAL WATER DISTRICT #7
GARVIN, OKLAHOMA
STATEMENT OF NET ASSETS
OCTOBER 31, 2011**

	2011	Memo Only 2010
<u>ASSETS</u>		
<u>CURRENT ASSETS:</u>		
Cash	\$ 248,599	\$ 198,769
Certificates of Deposit	275,135	273,929
Certificate of Deposit - Restricted	41,676	41,676
Accounts Receivable	44,236	37,421
Prepaid Insurance	5,271	4,121
Total Current Assets	614,917	555,916
<u>CAPITAL ASSETS:</u>		
Land	3,000	3,000
Buildings	62,225	62,225
Vehicles	28,533	28,533
Office Equipment	10,696	10,696
Water Distribution System	1,387,064	1,314,479
Less: Accumulated Depreciation	(772,141)	(730,439)
Net Capital Assets	719,376	688,494
TOTAL ASSETS	\$ 1,334,294	\$ 1,244,410
<u>LIABILITIES & NET ASSETS</u>		
<u>CURRENT LIABILITIES:</u>		
Accounts Payable	\$ 11,867	\$ 10,190
Payroll Taxes Payable	74	424
Refundable Deposits	-	-
Accrued Interest Payable	936	1,033
Current Maturities of Long-Term Debt	28,660	27,265
Total Current Liabilities	41,537	38,913
<u>LONG-TERM LIABILITIES:</u>		
Note Payable	262,767	290,033
Less: Current Maturities of Long-Term Debt	(28,660)	(27,265)
Total Long-Term Liabilities	234,106	262,767
TOTAL LIABILITIES	275,644	301,680
<u>NET ASSETS:</u>		
Invested in capital assets, net of related debt	456,610	398,462
Restricted for debt service	41,676	41,676
Unrestricted	560,365	502,593
TOTAL NET ASSETS	1,058,650	942,731
TOTAL LIABILITIES AND NET ASSETS	\$ 1,334,294	\$ 1,244,410

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**MCCURTAIN COUNTY RURAL WATER DISTRICT #7
GARVIN, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2011**

	<u>2011</u>	<u>Memo Only 2010</u>
<u>OPERATING REVENUES:</u>		
Water Sales	\$ 421,820	\$ 378,977
Other	21,619	21,901
TOTAL OPERATING REVENUES	443,438	400,878
<u>COST OF SALES:</u>		
Water Purchases	(125,312)	(127,576)
GROSS PROFIT	318,126	273,302
<u>OPERATING EXPENSES:</u>		
Salaries	31,200	30,700
Contract Labor	46,991	43,830
Fringe Benefits	5,531	2,500
Payroll Taxes	2,517	2,497
Repairs & Maintenance	1,280	7,437
Materials & Supplies	24,166	16,314
Fuel	3,102	2,558
Insurance	7,144	6,267
Utilities	6,091	6,363
Membership Dues & Licenses	1,746	2,019
Professional Fees	1,800	5,590
Office	7,789	13,560
Training & Meetings	6,355	3,398
Travel	606	620
Other	1,777	3,907
Fire Collection Fees	5,151	5,186
Depreciation	41,702	45,452
TOTAL OPERATING EXPENSES	194,948	198,197
NET OPERATING INCOME (LOSS)	123,178	75,105
<u>OTHER REVENUES (EXPENSES):</u>		
Interest Income	6,250	7,435
Interest Expense	(13,785)	(15,160)
Grant Income	-	-
Gain (Loss) on Sale of Capital Assets	-	-
NET INCOME (LOSS)	115,643	67,380
TOTAL NET ASSETS, Beginning of Year	942,731	875,351
TOTAL NET ASSETS, Prior Year Adjustment	277	-
TOTAL NET ASSETS, End of Year	\$ 1,058,650	\$ 942,731

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**MCCURTAIN COUNTY RURAL WATER DISTRICT #7
GARVIN, OKLAHOMA
STATEMENT OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2011**

	<u>2011</u>	<u>Memorandum Only 2010</u>
<u>Net Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 436,623	\$ 398,526
Payments to Suppliers for Goods & Services	(278,023)	(280,338)
Customer Deposits Received, Net of Refunded	-	-
Net Cash Provided (Used) by Operating Activities	<u>158,600</u>	<u>118,188</u>
<u>Net Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	(72,584)	(109,322)
Proceeds from sale of Capital Assets	-	-
Grant Income	-	-
Principal Payments on Long-Term Debt	(27,266)	(25,939)
Interest Expense	(13,882)	(15,209)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(113,732)</u>	<u>(150,470)</u>
<u>Net Cash Flows from Investing Activities:</u>		
(Increase)Decrease in Investments	(1,206)	(1,635)
Interest Income	6,250	7,435
Net Cash Provided (Used) by Investing Activities	<u>5,044</u>	<u>5,800</u>
Net Increase (Decrease) in Cash and Cash Equivalents	49,912	(26,482)
Cash & Cash Equivalents, Beginning of Year	198,769	225,251
Cash & Cash Equivalents, Prior Year Adjustment	(82)	-
Cash & Cash Equivalents, End of Year	<u>\$ 248,599</u>	<u>\$ 198,769</u>
<u>Reconciliation of operating income (loss) to net cash provided</u>		
<u>operating activities:</u>		
Net Operating Income (Loss)	\$ 123,178	\$ 75,105
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	41,702	45,452
(Increase)Decrease in Accounts Receivable	(6,815)	(2,352)
(Increase)Decrease in Prepaid Insurance	(1,151)	(193)
Increase(Decrease) in Accounts Payable	1,677	176
Increase(Decrease) in Payroll Taxes Payable	9	-
Increase(Decrease) in Refundable Deposits	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 158,600</u>	<u>\$ 118,188</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

MCCURTAIN COUNTY RURAL WATER DISTRICT #7
GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

McCurtain County Rural Water District No. 7 (the "District") was incorporated under the laws of the State of Oklahoma in accordance with Title Eight-Two of the Oklahoma Statutes, as a subdivision of the State of Oklahoma. The District operates and maintains a water treatment and distribution system within McCurtain County, Oklahoma, and provides potable water services to members of the District.

Basis of Presentation

The Enterprise Fund is used to account for the operations of the District that are financed and operated in a manner similar to private business enterprises where the intent is that costs or providing goods or services be recovered in whole or part through user fees or charges.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The District utilizes the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses when incurred.

Budgetary Data

As required by the loan agreement with the USDA Rural Development, the District prepares an annual budget.

Assets, Liabilities, & Equity

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents consist of cash in the checking and savings accounts. All funds are deposited in institutions insured by FDIC. Deposits are carried at cost.

Accounts Receivable

Accounts receivable represent customer billings for water sales, which were due and owing at the FYE date.

The direct write-off method is used to account for uncollectible receivables. The balance at October 31, 2011 is considered fully collectible.

Property, Plant and Equipment

Purchases of assets with estimated useful lives exceeding one-year are capitalized at cost and depreciated over the estimated useful life of the asset using the straight-line method. Estimated useful lives range from 5 to 40 years. The capitalization threshold has been set at \$1,500.00.

MCCURTAIN COUNTY RURAL WATER DISTRICT #7
GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
2. Restricted net assets—Consists of net assets with constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Governmental Accounting Standards Board Statement No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain of the significant changes in the Statement include the following:

1. For the first time the financial statement should include:
 - a. A Management Discussion and Analysis (MD&A) section providing analysis of the District's overall financial position and results of operations. However, the District has chosen not to present the required MD&A for the current year.
 - b. Financial statements prepared using full accrual accounting for all of the District's activities, except for including the General capital assets or infrastructure (lines, pump stations, etc.).
2. A change in the fund financial statements to focus on major funds.

MCCURTAIN COUNTY RURAL WATER DISTRICT #7
GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The District has elected to implement the general provisions of the Statement in the current year and report infrastructure acquired after October 31, 2003 as provided by GASB standards.

Income Taxes

The District is exempt from income taxes under Section 501(c)(12) of the Internal Revenue Code.

Compensated Absences

The organization does not accrue a liability for compensated absences. This is not in accordance with generally accepted accounting principles. However, because of the limited number of people employed by the organization, any liability for compensated absences at October 31, 2011 would not be material to the financial statements taken as a whole.

Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Memorandum Totals

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the District is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the District's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Finance-related Legal & Contractual Provisions

As described in Note 4, the District was in compliance with the reserve requirement of the Rural Development loan agreement.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

MCCURTAIN COUNTY RURAL WATER DISTRICT #7
GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At October 31, 2011, the District held deposits of approximately \$565,410 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The City has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOTE 4 - RESTRICTED ASSETS

Debt service for the note is secured with a certificate of deposit from Idabel National Bank. The certificate of deposit had a balance of \$41,676 at October 31, 2011.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended October 31, 2011, was as follows:

MCCURTAIN COUNTY RURAL WATER DISTRICT #7
GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011

	Balance at Oct. 31, 2010	Additions	Deductions	Balance at Oct. 31, 2011
Land	\$ 3,000	\$ -	\$ -	\$ 3,000
Buildings	62,225	-	-	62,225
Vehicles	28,533	-	-	28,533
Office Equipment	10,696	-	-	10,696
Water Distribution System	1,314,479	72,584	-	1,387,063
Subtotal	1,418,933	72,584	-	1,491,517
Less: Accum. Depr.	(730,439)	(41,702)	-	(772,141)
Total Capital Assets (Net of Depreciation)	<u>\$ 688,494</u>	<u>\$ 30,882</u>	<u>\$ -</u>	<u>\$ 719,376</u>

During the year, the District expended \$72,584 for system improvements.

NOTE 6 - LONG-TERM DEBT

The District's long-term debt consists of a note payable to the USDA Rural Development. The note was obtained September 5, 1979, at an interest rate of 5%, with monthly payments of \$3,429. The note is secured by cash, investments and property of the District, including all real and personal property.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended October 31, 2011:

	Balance at October 31, 2010	Additions	Deductions	Balance at October 31, 2011
Note Payable - USDA RD	\$ 290,033	\$ -	\$ (27,266)	\$ 262,767
Total Long-Term Debt	<u>\$ 290,033</u>	<u>\$ -</u>	<u>\$ (27,266)</u>	<u>\$ 262,767</u>

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of October 31, 2011, are as follows:

Year Ending October 31,	Principal	Interest	Total
2012	\$ 28,660	\$ 12,488	\$ 41,148
2013	30,127	11,021	41,148
2014	31,668	9,480	41,148
2015	33,288	7,860	41,148
2016	34,991	6,157	41,148
2017-2020	104,032	21,140	125,172
Total	<u>\$ 262,767</u>	<u>\$ 68,145</u>	<u>\$ 330,912</u>

NOTE 7 - FUND EQUITY

As described in Note 1 above, equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt
2. Restricted net assets

MCCURTAIN COUNTY RURAL WATER DISTRICT #7
GARVIN, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2011

3. Unrestricted net assets

The restrictions on net assets are described in Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at October 31, 2011, which would have a material effect on the financial statements.

Federally Assisted Programs

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 9 - SUBSEQUENT EVENTS

The District did not have any subsequent events through June 29, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending October 31, 2011.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
McCurtain County Rural Water District #7
Garvin, Oklahoma

We have audited the financial statements of the McCurtain County Rural Water District #7, as of October 31, 2011 and have issued our report thereon dated June 29, 2012. The McCurtain County Rural Water District #7 has implemented the general provisions of the Governmental Accounting Standards Board (GASB) Statement No. 34, except that the District did not present the required MD&A. We conducted our audit in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCurtain Co. RWD #7'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 McCurtain Co. RWD #7's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the McCurtain Co. RWD #7'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 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.

Our consideration of internal control over financial reporting 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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weakness, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial

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reporting. Those deficiencies are listed as Item 11-01. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the McCurtain County Rural Water District #7's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

McCurtain Co. RWD #7's response to the findings identified in my audit is described in the accompanying Schedule of Findings. We did not audit McCurtain Co. RWD #7's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors and management of the McCurtain County Rural Water District #7 and is not intended to be and should not be used by anyone other than these specified parties.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

June 29, 2012

MCCURTAIN COUNTY RURAL WATER DISTRICT #7
SCHEDULE OF FINDINGS
OCTOBER 31, 2011

INTERNAL CONTROL FINDINGS:

Item 11-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of the Manager, who is responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: Some compensating controls have been implemented by requiring the Boards approval and signature for all expenditures. The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the District.