

# AUDIT REPORT

WASHINGTON COUNTY RURAL WATER DISTRICT #7  
COPAN, OKLAHOMA

DECEMBER 31, 2011

## KERSHAW CPA & ASSOCIATES, PC

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WASHINGTON COUNTY RURAL WATER DISTRICT #7  
COPAN, OKLAHOMA  
DECEMBER 31, 2011

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Washington County Rural Water District #7  
Copan, Oklahoma

We have audited the accompanying financial statements of the Washington County Rural Water District #7, as of and for the fiscal year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Washington County Rural Water District #7's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Washington County Rural Water District #7 as of December 31, 2010, were audited by other auditors whose report, dated June 15, 2011, expressed an unqualified opinion on those statements, which are presented for comparison purposes only.

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.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Washington County Rural Water District #7, Copan, Oklahoma, as of December 31, 2011, and the respective changes in modified cash basis financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 1, 2012, on our consideration of the Washington 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

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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.

Washington 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.

*Kershaw CPA & Associates, P.C.*  
Kershaw CPA & Associates, PC

August 1, 2012

WASHINGTON COUNTY RURAL WATER DISTRICT #7  
COPAN, OKLAHOMA  
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS  
DECEMBER 31, 2011

	Total 2011	Total (Memo Only) 2010
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
Cash and Cash Equivalents	\$ 31,018	\$ 36,238
Total Current Assets	31,018	36,238
<b><u>Restricted Assets:</u></b>		
Debt Service Fund	0	41,654
Total Restricted Assets	0	41,654
<b><u>Capital Assets:</u></b>		
Other Capital Assets	976,122	976,121
Less: Accumulated Depreciation	(119,280)	(102,542)
Total Capital Assets	856,842	873,579
<b>TOTAL ASSETS</b>	<b>\$ 887,859</b>	<b>\$ 951,471</b>
<b><u>LIABILITIES</u></b>		
<b><u>Current Liabilities:</u></b>		
Current Portion of Long-Term Debt	\$ -	\$ 5,050
Total Current Liabilities	-	5,050
<b><u>Long-Term Liabilities:</u></b>		
Notes Payable	-	71,150
Less: Current Portion of Long-Term Debt	-	(5,050)
Total Long-Term Liabilities	-	66,100
<b>TOTAL LIABILITIES</b>	-	71,150
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	856,842	802,429
Restricted for debt service	0	41,654
Unrestricted	31,017	36,238
TOTAL NET ASSETS	887,859	880,321
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>\$ 887,859</b>	<b>\$ 951,471</b>

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

WASHINGTON COUNTY RURAL WATER DISTRICT #7  
COPAN, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
- MODIFIED CASH BASIS -  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

	Total 2011	Total (Memo Only) 2010
<b><u>Operating Revenues:</u></b>		
Water Sales	\$ 61,238	\$ 56,942
Penalties	1,992	2,235
Memberships	4,550	2,725
Miscellaneous Income	1,082	-
Total Operating Revenues	68,861	61,902
<b><u>Operating Expenses:</u></b>		
Water Purchases	21,336	17,783
Bookkeeping	3,996	3,668
Insurance	1,847	1,180
Management fees	6,901	5,253
Memberships	487	174
Licenses and fees	-	1,000
Office Expense	1,530	1,297
Professional fees	1,700	1,600
Sample Testing	264	578
Other	16	225
Supplies	4,105	722
Telephone and utilities	850	866
Depreciation	16,738	16,738
Total Operating Expenses	59,769	51,084
Operating Income (Loss)	9,092	10,818
<b><u>Non-Operating Revenues (Expenses):</u></b>		
Interest Income	56	288
Interest Expense	(1,610)	(1,249)
Total Non-operating Revenues (Expenses)	(1,554)	(961)
Change in Net Assets	7,538	9,857
Total Net Assets - Beginning	880,321	870,464
Total Net Assets - Prior Year Adjustment	-	-
Total Net Assets - Ending	\$ 887,859	\$ 880,321

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

## EXHIBIT C

WASHINGTON COUNTY RURAL WATER DISTRICT #7  
COPAN, OKLAHOMA  
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

	2011	Memorandum Only 2010
	<u>2011</u>	<u>2010</u>
<b><u>Net Cash Flows from Operating Activities:</u></b>		
Cash Receipts from Customers	\$ 68,861	\$ 61,902
Payments to Suppliers for Goods & Services	(43,031)	(34,346)
	<u>25,830</u>	<u>27,556</u>
<b>Net Cash Provided (Used) by Operating Activities</b>		
<b><u>Net Cash Flows from Capital &amp; Related Financing Activities:</u></b>		
Additions to Capital Assets	-	-
Proceeds from sale of Capital Assets	-	-
Principal paid on Debt	(71,150)	(39,800)
Interest paid on Debt	(1,610)	(1,249)
	<u>(72,760)</u>	<u>(41,049)</u>
<b>Net Cash Provided (Used) by Capital &amp; Related Financing Activities</b>		
<b>Net Cash Flows from Investing Activities:</b>		
Interest Income	56	288
	<u>56</u>	<u>288</u>
<b>Net Cash Provided (Used) by Investing Activities</b>		
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(46,874)	(13,205)
<b>Cash &amp; Cash Equivalents, Beginning of Year</b>	77,892	91,097
<b>Cash &amp; Cash Equivalents, Prior Year Adjustment</b>	-	-
	<u>-</u>	<u>-</u>
<b>Cash &amp; Cash Equivalents, End of Year</b>	<u>\$ 31,018</u>	<u>\$ 77,892</u>
<b><u>Reconciliation of operating income (loss) to net cash provided operating activities:</u></b>		
Operating Income (Loss)	\$ 9,092	\$ 10,818
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	16,738	16,738
(Increase)Decrease in Prepaid Expenses	-	-
Increase(Decrease) in Payroll Tax Payable	-	-
	<u>-</u>	<u>-</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 25,830</u>	<u>\$ 27,556</u>

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

WASHINGTON COUNTY RURAL WATER DISTRICT #7  
COPAN, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization & Reporting Entity

Rural Water District No. 7 (the "District") was created May 20, 1996 by the Board of County Commissioners of Washington County, Oklahoma under the provisions of the Rural Water District Act (Title 82 Oklahoma Statutes 1961, Sections 1301 to 1321). The District is managed by a five member Board of Directors. Members of the board are elected by the membership of the District at its annual meeting. Membership in the District is attained by paying membership dues and receiving services from the District. The activities of the District constitute the entire reporting entity. There are not other component or oversight units. The District is a political subdivision of the state of Oklahoma. The District had water sales beginning in the 2004 fiscal year.

B. Basis of Accounting

The accompanying financial statements have been prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Revenues are recognized when received and expenses are recorded when paid.

C. Assets, Liabilities, & Equity

Cash & Cash Equivalents

For the purpose of financial reporting, "cash & cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with an original maturity of three months or less.

Capital Assets

The District's property, plant, equipment and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously recorded. The District maintains infrastructure assets records consistent with all other capital assets. Donated assets are stated at fair value on the date donated. Capital assets are depreciated using the straight-line method with one-half year depreciation in the year acquired and one-half in the year of disposal. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:



WASHINGTON COUNTY RURAL WATER DISTRICT #7  
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DECEMBER 31, 2011

Buildings	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture, machinery and equipment	3-30
Utility system	5-60

Capitalization Policy - Purchases of capital items in excess of \$2,500.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

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.”

D. 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.

E. Enterprise Fund

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

WASHINGTON COUNTY RURAL WATER DISTRICT #7  
COPAN, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

enterprises where the intent is that costs of providing goods or services be recovered in whole or part through user fees or charges.

F. Estimates

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

G. Memorandum Only

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.

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.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

At December 31, 2011, the District held deposits of approximately \$31,018 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 District has no policy that limits its investment choices other than the limitation of state law as follows:

WASHINGTON COUNTY RURAL WATER DISTRICT #7  
COPAN, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

- 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

The District has reported as restricted assets cash held by a trustee bank for use in relation to the note payable with OWRB. The cash reported in the Statement of Net Assets is restricted as indicated. This cash is not available for other purposes. The OWRB loan was paid in full in December 2011, which removes these restrictions.

NOTE 5 - CAPITAL ASSETS

Capital asset activity, resulting from the modified cash basis transactions, for the fiscal year ended December 31, 2011, was as follows:

	Balance at Dec. 31, 2010	Additions	Deductions	Balance at Dec. 31, 2011
Water System	\$ 976,122	\$ -	\$ -	\$ 976,122
Subtotal	976,122	-	-	976,122
Less: Accum. Depr.	(102,542)	(16,738)	-	(119,280)
Total Capital Assets (Net of Depreciation)	<u>\$ 873,580</u>	<u>\$ (16,738)</u>	<u>\$ -</u>	<u>\$ 856,842</u>

NOTE 6 - LONG-TERM DEBT

The District obtained a loan from the Oklahoma Water Resources Board in the amount of \$250,000 on January 1, 2004. The loan is to be used for extending the system. The District was to make semi-annual principal and interest payments with the final

WASHINGTON COUNTY RURAL WATER DISTRICT #7  
COPAN, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

payment due September 15, 2033. The interest rate on the loan is variable. It is set every six months by the Oklahoma Water Resources Board.

The District made a payment of \$117,000 on the principal balance March 13, 2009. On March 27, 2009, OWRB changed the payment schedule from semi-annual to quarterly and the variable interest rate is set every three months instead of every six months. The District made a payment of \$35,000 on the principal balance of March 10, 2010. The maturity date of the loan changed to September 15, 2021.

The District paid this loan off in December 2011.

Changes in Long-Term Debt

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

	Balance at Dec. 31, 2010	Additions	Deductions	Balance at Dec. 31, 2011
Notes Payable - OWRB	\$ 71,150.00	\$ -	\$ 71,150.00	\$ -
Total Long-Term Debt	<u>\$ 71,150.00</u>	<u>\$ -</u>	<u>\$ 71,150.00</u>	<u>\$ -</u>

Debt Services Requirements to Maturity

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

Year Ended December 31,	Principal	Interest	Total
2012	\$ -	\$ -	\$ -
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017-2021	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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
3. Unrestricted net assets

The restricted net assets include those related to Note 4 above.

WASHINGTON COUNTY RURAL WATER DISTRICT #7  
COPAN, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

NOTE 8 - CONTINGENCIES

Litigation

According to the District's management, there is no pending litigation.

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 - RETIREMENT AND DEFERRED COMPENSATION PLAN

The District does not have employees.

NOTE 10 - 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; and natural disasters. The District carries commercial insurance for risk of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal year.

NOTE 11 - CONTRACTS

The District purchases water for resale from Copan Public Works Authority, Copan, Oklahoma, under the terms of a Water Purchase Agreement dated August 26, 2003. The contract extends for an initial term of one year and thereafter is to be reviewed annually for successive one year terms until terminated. The price paid by the District is determined based on costs incurred by the Authority in producing the water purchased. The contract contains terms defining the costs to be considered.

NOTE 12 - SUBSEQUENT EVENTS

The District did not have any subsequent events through August 1, 2012, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 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  
Washington County Rural Water District #7  
Copan, Oklahoma

We have audited the financial statements of the Washington County Rural Water District #7, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles, as of December 31, 2011 and have issued our report thereon dated August 1, 2012. The financial statements of Washington County Rural Water District #7 as of December 31, 2010, were audited by other auditors whose report, dated June 15, 2011, expressed an unqualified opinion on those statements, which are presented for comparison purposes only. The Washington 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 Washington County Rural Water District #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 Washington County Rural Water District #7's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Washington County Rural Water District #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.

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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.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Washington 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 my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management of the Washington 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

August 1, 2012