

**BRYAN COUNTY RURAL WATER DISTRICT #7**  
**BENNINGTON, OKLAHOMA**  
**FINANCIAL STATEMENTS AND**  
**AUDITOR'S REPORT THEREON**  
**FOR THE YEAR ENDING JUNE 30, 2012**

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## Report of Independent Accountants

To the Board of Trustees  
Bryan County Rural Water District #7  
Bennington, Oklahoma

We have audited the accompanying financial statements of the Bryan County Rural Water District #7 (the District) as of June 30, 2012. 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 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.

The District prepares its annual financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the Bryan County Rural Water District #7 as of June 30, 2012, and the respective changes in modified cash basis financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2012 on our consideration of the District'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 accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has elected to not present a management, discussion, and analysis, a budget to actual comparison and employee pension and retirement plan information as is required by generally accepted accounting principles in the United States of America.



October 2, 2012

**Bryan County Rural Water District #7**  
**Statement of Net Assets-Modified Cash Basis**  
**June 30, 2012**

<b>ASSETS</b>	
Cash in bank-unrestricted	\$ 21,036.06
Cash in bank-restricted	<u>6,671.31</u>
Total current assets	27,707.37
Capital assets, net	<u>1,854.29</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 29,561.66</u></b>
 <b>LIABILITIES AND NET ASSETS</b>	
Customer deposits	3,674.76
Current portion LTD	<u>12,102.52</u>
Total current liabilities	15,777.28
Notes payable FMHA	<u>8,387.13</u>
Total Liabilities	<u>24,164.41</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	(18,635.36)
Restricted for debt service and maintenance	6,671.31
Unrestricted	<u>17,361.30</u>
Total Net Assets	<u>5,397.25</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 29,561.66</u></b>

The accompanying notes are an integral part of these financial statements.

Bryan County Rural Water District #7  
Statement of Revenues Over Expenses and  
Changes in Net Assets-Modified Cash Basis  
For the Year Ended June 30, 2012

<b>OPERATING REVENUES</b>	
Water sales	<u>\$ 88,854.33</u>
<b>TOTAL OPERATING REVENUES</b>	<u>88,854.33</u>
 <b>OPERATING EXPENSES</b>	
Contract labor	3,271.70
Trustee fee	2,680.00
Depreciation	9,805.41
Utilities	6,150.10
Salaries and wages	18,183.58
Maintenance and operations	61,913.51
Legal and accounting	<u>2,500.00</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>104,504.30</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(15,649.97)</u>
 <b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest revenue	60.08
Interest expense	<u>(1,600.79)</u>
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<u>(1,540.71)</u>
<b>NET INCOME</b>	(17,190.68)
 Beginning net assets	 <u>22,587.93</u>
Ending net assets	<u><u>\$ 5,397.25</u></u>

The accompanying notes are an integral part of these financial statements.

Bryan County Rural Water District #7  
Statement of Cash Flows - Modified Cash Basis  
For the Year Ending June 30, 2012

Cash flows from operating activities	
Receipts from customers	\$ 88,914.41
Payments to suppliers	(78,116.10)
Payments to employees	<u>(18,183.58)</u>
Net cash provided by operating activities	(7,385.27)
Cash flows from capital and related financing activities	
Change in meter deposits	-
Principal paid on long term debt	<u>(11,526.21)</u>
Net cash flows from capital and related financing activities	(11,526.21)
Net increase (decrease) in cash	(18,911.48)
Cash, Beginning of the Year	<u>46,618.85</u>
Cash, End of the Year	<u><u>\$ 27,707.37</u></u>

*Reconcilement of change in net assets to net cash provided by operations*

Change in Net Assets	(17,190.68)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	<u>9,805.41</u>
Net cash provided by operating activities	<u><u>\$ (7,385.27)</u></u>

BRYAN COUNTY RURAL WATER DISTRICT #7  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Bryan County Rural Water District #7, Oklahoma (the "District") was created pursuant to the Rural Water, Sewer and Solid Waste Management Districts Act of Oklahoma (82 O.S. Sec. 1301-1324) by an order of the Board of County Commissioners of Bryan County, Oklahoma. The purpose of the District is providing an adequate water supply to meet the needs of rural residents within the territory of the district.

Cash and Cash Equivalents – Items classified as cash equivalents in the financial statements include temporary investments in bank certificates of deposit, as well as other highly liquid short term investments.

Capital Assets – Capital assets are capitalized at cost for items over \$2,500. Waterlines and facilities are depreciated using the straight-line method over the estimated useful lives of forty years. Depreciation of office building and office equipment is computed over the estimated useful lives of five to twenty years.

Income Taxes – The District is a body politic (corporate and an agency) and legally constituted authority of the State of Oklahoma. Based upon this status, the District should be exempt from federal income taxes and from filing requirements of the Internal Revenue Service. As discussed in Note 5, organizations covered by Section 501(c)(12) of the Internal Revenue Code and subject to imposition of income taxes on income from non-members and (2) subject to filing requirements of the Internal Revenue Service.

Revenue and Expense Recognition – Revenue is recognized when it is collected and expenses are recognized when paid.

Risk Management - The District is exposed to various risks of losses 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 from commercial insurance companies.

Restricted Cash – Restricted cash consists of funds reserved for debt service and emergency repairs.

NOTE 2 - DEPOSIT COLLATERAL

The cash accounts of the District are required by state law to be secured by collateral pledged by the financial institution and/or FDIC deposit insurance. In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name. (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

The District's cash accounts would be classified as category 1 for the portion that was insured by FDIC and category 3 for the portion not covered by FDIC.

**NOTE 3 – LONG TERM DEBT**

In 1998, the District incurred three notes payable with Rural Development, a division of the United States Department of Agriculture. These loans were for the construction of a water distribution system.

The first note carries an interest rate of 5.00%. This note calls for annual payments of \$4,742. The note matures in 2013. As of June 30, 2012, the balance on this note was \$7,091. Interest paid on this obligation for the year ending June 30, 2012 was \$551. Collateral for this obligation was the water system and its revenues.

The second note carries an interest rate of 5.00%. This note calls for annual payments of \$5,501. The note matures in 2013. As of June 30, 2012, the balance on this note was \$9,346. Interest paid on this obligation for the year ending June 30, 2012 was \$707. Collateral for this obligation was the water system and its revenues.

The third note carries an interest rate of 5.00%. This note calls for annual payments of \$3,154. The note matures in 2013. As of June 30, 2012, the balance on this note was \$4,053. Interest paid on this obligation for the year ending June 30, 2012 was \$343. Collateral for this obligation was the water system and its revenues.

Principal paid on these obligations for the year ending June 30, 2012 was as follows.

	Note 1	Note 2	Note 3
Balance, Beginning of Year	\$ 11,012	\$ 14,140	\$ 6,864
Principal Paid During Year	(3,921)	(4,794)	(2,811)
Balance, End of Year	<u>\$ 7,091</u>	<u>\$ 9,346</u>	<u>\$ 4,053</u>

Collateral for these obligations is the water system and revenues generated by the system. The estimated funds needed to amortize these obligations for the next five years and till maturity are as follows:

	<u>Principal</u>	<u>Interest</u>
2012/2013	20,490	955
	<u>\$ 20,490</u>	<u>\$ 955</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Water Distribution System	301,362	-	-	301,362
Accumulated Depreciation	(289,702)	(9,805)	-	(299,507)
Net Capital Assets	<u>\$ 11,660</u>			<u>\$ 1,855</u>

NOTE 5 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 2, 2012, which is the date the financial statements were issued.

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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 Trustees  
Bryan County Rural Water District #7  
Bennington, Oklahoma

We have audited the financial statements of Bryan County Rural Water District #7 (the District) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 2, 2012. Our report was a qualified report because of the use of the modified cash basis of accounting. 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.

### Internal Control Over Financial Reporting

Management of the District, is responsible for establishing and maintaining effective 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 opinions 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 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.

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 weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. 2012-1 & 2012-2. 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 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 result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

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

*Casay J. Russell CPA, etc.*

October 2, 2012

## **Schedule of Current Findings and Responses**

### **2012-1 Customer Deposits (Repeat Finding)**

**CONDITION:** During our review of the water metered deposits, we noted that the District was unable to provide a detailed listing of the individual customer deposits that could easily be reconciled to the amount shown on the financial statements.

**CRITERIA:** The liability balance as shown on the financial statements should have a detailed listing supporting the account balance.

**CAUSE OF CONDITION:** The District recently transferred to a computer system listing each customer deposit. Several customer deposits dating back for several years could not be located to enter into the software system.

**EFFECT OF CONDITION:** The account balance is unsupported.

**MANAGEMENT RESPONSE:** The District has made strides toward improved record keeping of account balances. There are additional forms which customers are required to complete which track deposits made as well as additional account information.

### **2012-2 Lack of Segregation of Duties (Repeat Finding)**

**CONDITION:** During our review of the internal control structure, we noted that several procedures lacks the control of having duties segregated. We understand that due to the size of the District and number of personnel, many aspects related to segregation of duties cannot be implemented. However, we noted that certain bank accounts required only one signature.

**CRITERIA:** We believe that internal control procedures would be strengthened by reviewing the individual tasks to determine whether internal control procedures could be improved.

**CAUSE OF CONDITION:** Limited personnel

**EFFECT OF CONDITION:** Unknown

**MANAGEMENT RESPONSE:** All checks now require two signatures whether there are two signature lines or not. In many cases due to our limited resources, controls will be limited.