

AUDIT REPORT

DELAWARE COUNTY RURAL WATER, SEWER, GAS AND SOLID WASTE MANAGEMENT DISTRICT NO. 7

AUGUST 31, 2012



KERSHAW CPA & ASSOCIATES, PC

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DELAWARE COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 7
AUGUST 31, 2012

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DELAWARE COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 7
AUGUST 31, 2012

BOARD OF DIRECTORS

| <u>NAME</u> | <u>POSITION</u> | <u>TERM EXPIRATION</u> |
|---------------|-----------------|------------------------|
| JO ADAMS | CHAIRMAN | NOVEMBER 2014 |
| JOHN VENNEMAN | CO-CHAIRMAN | NOVEMBER 2012 |
| JOANNE DUNBAR | SECRETARY | NOVEMBER 2013 |
| RYAN BAGBY | TREASURER | NOVEMBER 2013 |
| GENE GREGORY | MEMBER | NOVEMBER 2012 |

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Delaware County Rural Water, Sewer, Gas
and Solid Waste Management District No. 7

We have audited the accompanying financial statements of the Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 7, as of and for the fiscal year ended August 31, 2012, as listed in the table of contents. These financial statements are the responsibility of the Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Oklahoma'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 Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Oklahoma, as of August 31, 2012, 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 May 10, 2013, on our consideration of the Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Oklahoma'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.

The Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 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.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 7's 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 City. Such additional information has not 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

May 10, 2013

DELAWARE COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 7
STATEMENT OF NET ASSETS
AUGUST 31, 2012

| | Total 2012 | Total (Memo Only) 2011 |
|-------------------------------------------------|----------------|------------------------------|
| <u>ASSETS</u> | | |
| <u>Current Assets:</u> | | |
| Cash in Bank | \$ 36,283 | \$ 56,924 |
| Investments | 380,835 | 376,063 |
| Accounts Receivable | 11,468 | 25,026 |
| Accrued Interest Receivable | 203 | 158 |
| Prepaid Insurance | 1,632 | 1,588 |
| Total Current Assets | 430,422 | 459,758 |
| <u>Restricted Assets:</u> | | |
| Investments | 12,504 | 12,504 |
| Total Restricted Assets | 12,504 | 12,504 |
| <u>Capital Assets:</u> | | |
| Water System | 395,158 | 395,158 |
| Equipment | 14,065 | 14,065 |
| Building | 5,448 | 5,448 |
| Less: Accumulated Depreciation | (185,348) | (174,808) |
| Total Capital Assets | 229,323 | 239,863 |
| TOTAL ASSETS | 672,249 | 712,125 |
| <u>LIABILITIES</u> | | |
| <u>Current Liabilities:</u> | | |
| Accounts Payable | 11,649 | 9,095 |
| Meter Deposits | 16,390 | 15,590 |
| Accrued Interest | 40 | 50 |
| Current Portion of Long-Term Debt | 8,205 | 7,806 |
| Total Current Liabilities | 36,284 | 32,540 |
| <u>Long-Term Liabilities:</u> | | |
| Notes Payable | 50,360 | 65,430 |
| TOTAL LIABILITIES | 86,644 | 97,970 |
| <u>NET ASSETS</u> | | |
| Invested in capital assets, net of related debt | 170,759 | 166,627 |
| Restricted for debt service | 12,504 | 12,504 |
| Unrestricted | 402,343 | 435,024 |
| TOTAL NET ASSETS | \$ 585,606 | \$ 614,155 |

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

**DELAWARE COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 7
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2012**

| | <u>Total</u> <u>August 31, 2012</u> | <u>Total</u> <u>(Memo Only)</u> <u>August 31, 2011</u> |
|----------------------------------------------------|----------------------------------------|--------------------------------------------------------------|
| <u>Operating Revenues:</u> | | |
| Water Sales | \$ 128,053 | \$ 137,408 |
| Membership Fees | 5,600 | 3,700 |
| Other Income (Late Charges, Transfer Fees, Etc...) | 929 | 4,612 |
| Total Operating Revenues | 134,582 | 145,720 |
| <u>Operating Expenses:</u> | | |
| Water Purchased | 81,460 | 72,492 |
| Billing Service | - | 450 |
| Maintenance - Labor | 23,769 | 22,452 |
| Maintenance - Materials | 4,001 | 9,014 |
| Director Fees | 2,565 | 2,430 |
| Accounting | 700 | 1,900 |
| Insurance | 2,149 | 2,053 |
| Testing and Permits | 583 | 578 |
| Postage | 1,459 | 1,428 |
| Office Expense | 1,834 | 909 |
| Office - Labor | 17,700 | 17,700 |
| Miscellaneous | 1,166 | 105 |
| Utilities | 329 | 296 |
| Meetings and Training | 215 | 200 |
| Dues | 284 | 290 |
| Depreciation & Amortization | 10,539 | 11,050 |
| Total Operating Expenses | 148,754 | 143,347 |
| Operating Income (Loss) | (14,171) | 2,373 |
| <u>Non-Operating Revenues (Expenses):</u> | | |
| Interest Income | 5,192 | 5,319 |
| Interest Expense | (3,319) | (4,033) |
| Total Non-operating Revenues (Expenses) | 1,873 | 1,286 |
| Net Income (Loss) Before Contributions | (12,298) | 3,659 |
| Capital Contributions | - | - |
| Change in Net Assets | (12,298) | 3,659 |
| Total Net Assets - Beginning | 614,155 | 610,496 |
| Total Net Assets - Prior Year Adjustment | (16,250) | - |
| Total Net Assets - Ending | \$ 585,606 | \$ 614,155 |

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

DELAWARE COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 7
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2012

| | 8/31/12 | Memorandum Only 8/31/11 |
|---------------------------------------------------------------------------------------------------------|-------------------|-------------------------------|
| <u>Net Cash Flows from Operating Activities:</u> | | |
| Cash Receipts from Customers | \$ 131,890 | \$ 138,080 |
| Payments to Suppliers for Goods & Services | (94,236) | (90,720) |
| Payments to Employees & Laborers | (41,469) | (40,152) |
| Net Meter Deposits received less Deposits Refunded | 800 | 75 |
| Net Cash Provided (Used) by Operating Activities | (3,014) | 7,282 |
| <u>Net Cash Flows from Capital & Related Financing Activities:</u> | | |
| Additions to Capital Assets | - | - |
| Proceeds from sale of Capital Assets | - | - |
| Principal paid on Debt | (14,671) | (13,957) |
| Interest paid on Debt | (3,329) | (4,043) |
| Net Cash Provided (Used) by Capital & Related Financing Activities | (18,000) | (18,000) |
| Net Cash Flows from Investing Activities: | | |
| Investments in Certificate of Deposit | (4,772) | (5,063) |
| Interest Income | 5,146 | 5,443 |
| Net Cash Provided (Used) by Investing Activities | 374 | 380 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (20,640) | (10,338) |
| Cash & Cash Equivalents, Beginning of Year | 56,924 | 67,262 |
| Cash & Cash Equivalents, Prior Year Adjustment | - | - |
| Cash & Cash Equivalents, End of Year | \$ 36,283 | \$ 56,924 |
| <u>Reconciliation of operating income (loss) to net cash provided</u> | | |
| <u>operating activities:</u> | | |
| Operating Income (Loss) | \$ (14,171) | \$ 2,373 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities | | |
| Depreciation | 10,539 | 11,050 |
| (Increase)Decrease in Accounts Receivable | (2,692) | (7,640) |
| (Increase)Decrease in Prepaid Expenses | (44) | (64) |
| Increase(Decrease) in Accounts Payable | 2,555 | 1,488 |
| Increase(Decrease) in Meter Deposits | 800 | 75 |
| Net Cash Provided (Used) by Operating Activities | \$ (3,014) | \$ 7,282 |

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

DELAWARE COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Delaware County Rural, Water, Sewer, Gas and Solid Waste Management District No. 7 was created August 20, 1990, for the establishment and operation of a water distribution system for an area located northeast of Ketchum, Oklahoma. The activities of the District constitute the entire reporting entity. There are no component or oversight units. The District is a political subdivision of the state of Oklahoma.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The District uses the accrual basis of accounting, which is in accordance with U.S. generally accepted accounting principles. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

D. Budgetary Data

In accordance with the By-laws of the District, an annual budget is prepared for internal bookkeeping purposes.

E. 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.

DELAWARE COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

Investments

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

Capital Assets

The District's fixed assets are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of the assets. Expenditures for major renewals and betterments which extend the useful lives of the fixed assets are capitalized. Expenditures for maintenance and repairs are expensed as incurred. All construction period interest and financing cost were capitalized as part of the construction costs.

| <u>Class of Asset</u> | <u>Estimated Useful Life</u> |
|----------------------------|------------------------------|
| Water Distribution Systems | 40 years |
| Buildings | 40 years |
| Equipment | 7 years |

Capitalization Policy

Purchases of capital items in excess of \$150.00 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.

DELAWARE COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

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.”

F. 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.

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. 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

The reserve requirement for the USDA Note Payable is \$12,504.00, which the District has set aside in a restricted investment (certificate of deposit) account.

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 - DEPOSITS AND INVESTMENTS

Custodial Credit Risk

At August 31, 2012, the District held deposits of approximately \$429,622 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.

DELAWARE COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

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:

- 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 loan agreement with the United States Department of Agriculture Rural Development (USDA) requires the District to set aside into a Reserve Account an accumulated amount equal to the sum of the annual installment (\$12,504), after which deposits may be suspended, except to replace withdrawals. The District cannot withdraw funds from the reserve account without USDA approval. As of August 31, 2012, the District was required to have at least \$12,504.00 set aside in the reserve account; as of that date the account balance for the reserve account was \$12,504.00, which complies with the covenants of the loan agreement.

The District has funds in a restricted account as required by their loan resolutions as follows:

| | | |
|----------------------------------|------------------------|------------------------|
| | <u>August 31, 2012</u> | <u>August 31, 2011</u> |
| Certificate of deposit - reserve | \$ 12,504 | \$ 12,504 |
| | ===== | ===== |

DELAWARE COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

NOTE 5 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended August 31, 2012, was as follows:

| | Balance at 8/31/11 | Additions | Deductions | Balance at 8/31/12 |
|-----------------------------------------------|-----------------------|--------------------|-------------|-----------------------|
| Water System | \$ 395,158 | \$ - | \$ - | \$ 395,158 |
| Equipment | 14,065 | - | - | 14,065 |
| Building | 5,448 | - | - | 5,448 |
| Subtotal | 414,671 | - | - | 414,671 |
| Less: Accum. Depr. | (174,808) | (10,539) | - | (185,348) |
| Total Capital Assets (Net of Depreciation) | <u>\$ 239,863</u> | <u>\$ (10,539)</u> | <u>\$ -</u> | <u>\$ 229,323</u> |

NOTE 6 - LONG-TERM DEBT

The District has a note payable with an original balance of \$212,100, to the United States Department of Agriculture Rural Development (USDA), payable in monthly installments of \$1,042 until maturity, including interest at 5.00%. The final payment is scheduled for January 26, 2035. The note is secured by the water system. The District has been making monthly payments of \$1,500 and has significantly reduced the expected maturity date for the loan.

Changes in Long-Term Debt

The following is a summary of changes in long-term debt for the year ended August 31, 2012:

| | Balance at 8/31/11 | Additions | Deductions | Balance at 8/31/12 |
|------------------------|-----------------------|-------------|---------------------|-----------------------|
| Rural Development Loan | \$ 73,235.57 | \$ - | \$ 14,671.10 | \$ 58,564.47 |
| Total Long-Term Debt | <u>\$ 73,235.57</u> | <u>\$ -</u> | <u>\$ 14,671.10</u> | <u>\$ 58,564.47</u> |

Debt Services Requirements to Maturity

The annual debt service requirements to maturity, including principal and interest, for long-term debt, as of August 31, 2012, are as follows:

| Year Ended August 31, | Principal | Interest | Annual Payment |
|--------------------------|------------------|------------------|-------------------|
| 2013 | \$ 8,205 | \$ 4,299 | \$ 12,504 |
| 2014 | 9,625 | 2,879 | 12,504 |
| 2015 | 9,066 | 3,438 | 12,504 |
| 2016 | 9,530 | 2,974 | 12,504 |
| 2017 | 10,017 | 2,487 | 12,504 |
| 2018-2019 | 12,122 | 1,424 | 13,546 |
| Total | <u>\$ 58,564</u> | <u>\$ 17,502</u> | <u>\$ 76,066</u> |

DELAWARE COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 7
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2012

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 assets related to Note 4 above.

NOTE 8 - CONTINGENCIES

Litigation

The District currently has 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 - SUBSEQUENT EVENTS

The District did not have any subsequent events through May 10, 2013, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending August 31, 2012.

NOTE 10 - PRIOR YEAR ADJUSTMENT

Two old customer accounts have been accruing large amounts of late charges for several years. These accounts should have been removed from accounts receivable in a prior year.

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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
Delaware County Rural Water, Sewer, Gas
and Solid Waste Management District No. 7

We have audited the financial statements of the Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 7, as of August 31, 2012, and have issued our report thereon dated May 10, 2013. The Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 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

Management of the Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 7 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 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 Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 7's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 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

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internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting. Those deficiencies are listed as Item 12-01. 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 Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 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*.

Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 7's response to the findings identified in our audit is described in the accompanying Schedule of Findings. We did not audit Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 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 trustees and management of the Delaware County Rural Water, Sewer, Gas and Solid Waste Management District No. 7, Delaware County, Oklahoma 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

May 10, 2013

DELAWARE COUNTY RURAL WATER, SEWER, GAS
AND SOLID WASTE MANAGEMENT DISTRICT NO. 7
SCHEDULE OF FINDINGS
AUGUST 31, 2012

Item 12-01: Meter Deposits

Criteria: It is the responsibility of the District to properly report and account for the financial information.

Condition: The Meter Deposit Control Account has not been accurately posted with all transactions during the year.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's balance sheet could be incorrect with respect to the deposit account.

Recommendation: All deposit refunds and final bills should be accurately posted to reconcile the account at yearend. A Meter Deposit Ledger should be maintained so that an accurate liability amount can be reported. The District should also maintain a reserved bank account to be used for refunding meter deposits.

Response: The District is aware of the situation.